ALLIED CAPITAL CORP
Form 10-Q
May 11, 2009

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For The Quarterly Period
Ended March 31, 2009

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number:
0-22832

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

Maryland	**52-1081052**
(State or Jurisdiction of Incorporation or Organization)	*(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) 721-6100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

On May 8, 2009, there were 178,691,875 shares outstanding of the Registrant s common stock, $0.0001 par value.

ALLIED CAPITAL CORPORATION

FORM 10-Q TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share amounts)	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2009-$2,147,724; 2008-$2,167,020)	$ 1,039,191	$ 1,187,722
Companies 5% to 25% owned (cost: 2009-$267,235; 2008-$392,516)	196,460	352,760
Companies less than 5% owned (cost: 2009-$2,234,718; 2008-$2,317,856)	1,594,387	1,858,581
Total private finance (cost: 2009-$4,649,677; 2008-$4,877,392)	2,830,038	3,399,063
Commercial real estate finance (cost: 2009-$82,341; 2008-$85,503)	79,030	93,887
Total portfolio at value (cost: 2009-$4,732,018; 2008-$4,962,895)	2,909,068	3,492,950
Accrued interest and dividends receivable	52,347	55,638
Other assets	135,939	122,909
Investments in money market and other securities	5	287
Cash	290,227	50,402
Total assets	$ 3,387,586	$ 3,722,186
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2009-$1,015,000; 2008-$1,015,000)	$ 1,892,500	$ 1,895,000
Revolving line of credit	50,000	50,000
Accounts payable and other liabilities	75,333	58,786
Total liabilities	2,017,833	2,003,786
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.0001 par value, 400,000 shares authorized; 178,692 shares issued and outstanding at March 31, 2009, and December 31, 2008	18	18
Additional paid-in capital	3,036,236	3,037,845
Notes receivable from sale of common stock	(457)	(1,089)
Net unrealized appreciation (depreciation)	(1,853,159)	(1,503,089)
Undistributed earnings	187,115	184,715

Total shareholders equity		1,369,753		1,718,400
Total liabilities and shareholders equity	$	3,387,586	$	3,722,186
Net asset value per common share	$	7.67	$	9.62

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2009	2008
	(unaudited)	
Interest and Related Portfolio Income:		
Interest and dividends		
Companies more than 25% owned	$ 25,353	$ 28,624
Companies 5% to 25% owned	11,136	12,674
Companies less than 5% owned	52,241	93,362
Total interest and dividends	88,730	134,660
Fees and other income		
Companies more than 25% owned	5,276	5,465
Companies 5% to 25% owned	17	53
Companies less than 5% owned	1,159	4,766
Total fees and other income	6,452	10,284
Total interest and related portfolio income	95,182	144,944
Expenses:		
Interest	43,485	37,560
Employee	11,070	22,652
Employee stock options	773	4,195
Administrative	9,845	9,019
Impairment of long-lived asset	2,873	
Total operating expenses	68,046	73,426
Gain on repurchase of debt	1,995	
Net investment income before income taxes	29,131	71,518
Income tax expense (benefit), including excise tax	(378)	1,969
Net investment income	29,509	69,549
Net Realized and Unrealized Gains (Losses):		
Net realized gains (losses)		
Companies more than 25% owned	(4,050)	(303)
Companies 5% to 25% owned	(30,095)	1,243

Companies less than 5% owned	7,036	2,203
Total net realized gains (losses)	(27,109)	3,143
Net change in unrealized appreciation or depreciation	(350,070)	(113,404)
Total net gains (losses)	(377,179)	(110,261)
Net increase (decrease) in net assets resulting from operations	$ (347,670)	$ (40,712)
Basic earnings (loss) per common share	$ (1.95)	$ (0.25)
Diluted earnings (loss) per common share	$ (1.95)	$ (0.25)
Weighted average common shares outstanding basic	178,692	161,507
Weighted average common shares outstanding diluted	178,692	161,507

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2009 (unaudited)	2008
Operations:		
Net investment income	$ 29,509	$ 69,549
Net realized gains (losses)	(27,109)	3,143
Net change in unrealized appreciation or depreciation	(350,070)	(113,404)
Net increase (decrease) in net assets resulting from operations	(347,670)	(40,712)
Shareholder distributions:		
Common stock dividends		(108,081)
Net decrease in net assets resulting from shareholder distributions		(108,081)
Capital share transactions:		
Sale of common stock		170,883
Issuance of common stock in lieu of cash distributions		3,751
Stock option expense	773	4,195
Net decrease in notes receivable from sale of common stock	632	143
Purchase of common stock held in deferred compensation trusts		(943)
Distribution of common stock held in deferred compensation trusts		27,335
Other	(2,382)	
Net increase (decrease) in net assets resulting from capital share transactions	(977)	205,364
Total increase (decrease) in net assets	(348,647)	56,571
Net assets at beginning of period	1,718,400	2,771,847
Net assets at end of period	$ 1,369,753	$ 2,828,418
Net asset value per common share	$ 7.67	$ 16.99
Common shares outstanding at end of period	178,692	166,472

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	For the Three Months Ended March 31, 2009	2008
	(unaudited)	
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ (347,670)	$ (40,712)
Adjustments:		
Portfolio investments	(39,917)	(275,130)
Principal collections related to investment repayments or sales	109,524	264,777
Collections of notes and other consideration received from sale of investments	132,246	4,901
Realized gains from the receipt of notes and other consideration from sale of investments	(4,058)	(5,466)
Realized losses	39,874	29,597
Payment-in-kind interest and dividends, net of cash collections	(7,659)	(13,392)
Change in accrued interest and dividends	1,554	(2,280)
Net collection (amortization) of discounts and fees	(4,697)	(3,748)
Redemption of (investments in) U.S. Treasury bills, money market and other securities	282	80,834
Stock option expense	773	4,195
Impairment of long-lived asset	2,873	
Changes in other assets and liabilities	8,498	(46,218)
Depreciation and amortization	398	528
Gain on repurchase of debt	(1,995)	
Net change in unrealized (appreciation) or depreciation	350,070	113,404
Net cash provided by operating activities	240,096	111,290
Cash flows from financing activities:		
Sale of common stock		170,883
Collections of notes receivable from sale of common stock	258	143
Repurchase of notes payable	(529)	
Net borrowings under (repayments on) revolving line of credit		(98,500)
Purchase of common stock held in deferred compensation trusts		(943)
Other financing activities		(916)
Common stock dividends and distributions paid		(104,330)
Net cash provided by (used in) financing activities	(271)	(33,663)
Net increase (decrease) in cash	239,825	77,627
Cash at beginning of period	50,402	3,540
Cash at end of period	$ 290,227	$ 81,167

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[(1)(2)]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Companies More Than 25% Owned				
AGILE Fund I, LLC[(5)]	Equity Interests		$ 679	$ 416
(Private Equity Fund)	**Total Investment**		**679**	**416**
AllBridge Financial, LLC	Equity Interests		34,967	11,071
(Asset Management)	**Total Investment**		**34,967**	**11,071**
	Standby Letter of Credit ($15,000)			
Allied Capital Senior Debt Fund, L.P.[(5)]	Equity Interests (See Note 3)		31,800	32,877
(Private Debt Fund)	**Total Investment**		**31,800**	**32,877**
Avborne, Inc.[(7)]	Preferred Stock (12,500 shares)			938
(Business Services)	Common Stock (27,500 shares)			
	Total Investment			**938**
Avborne Heavy Maintenance, Inc.[(7)]	Common Stock (2,750 shares)			660
(Business Services)	**Total Investment**			**660**
Aviation Properties Corporation	Common Stock (100 shares)		93	
(Business Services)	**Total Investment**		**93**	
	Standby Letters of Credit ($1,000)			
Border Foods, Inc.	Senior Loan (12.8%, Due 3/12)	$ 33,900	27,962	33,900
(Consumer Products)	Preferred Stock (100,000 shares)		12,721	9,215

	Common Stock (260,467 shares)		3,847	
	Total Investment		**44,530**	**43,115**
Calder Capital Partners, LLC(5)	Senior Loan (10.5%, Due 5/09)(6)	4,496	4,496	881
(Asset Management)	Equity Interests		2,453	
	Total Investment		**6,949**	**881**
Callidus Capital Corporation	Subordinated Debt (18.0%, Due 8/13)	16,203	16,203	16,203
(Asset Management)	Common Stock (100 shares)			27,705
	Total Investment		**16,203**	**43,908**
	Guaranty ($6,447)			

(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

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

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment(1)(2)**	**March 31, 2009 (unaudited) Principal**	**Cost**	**Value**
Ciena Capital LLC	Senior Loan (5.5%, Due 3/09)(6)	$ 319,031	$ 319,031	$ 64,088
(Financial Services)	Class B Equity Interests		119,436	
	Class C Equity Interests		112,601	
	Total Investment		**551,068**	**64,088**
	Guaranty ($5,000 See Note 3)			
	Standby Letters of Credit ($94,100 See Note 3)			
CitiPostal Inc.	Senior Loan (4.0%, Due 12/13)	692	682	682
(Business Services)	Unitranche Debt (12.0%, Due 12/13)	51,892	51,692	51,692
	Subordinated Debt (16.0%, Due 12/15)	9,491	9,491	9,491
	Common Stock (37,024 shares)		12,726	
	Total Investment		**74,591**	**61,865**
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	32,035	31,956	31,956
(Business Services)	Subordinated Debt (15.0%, Due 7/11)	5,563	5,550	5,550
	Common Stock (763,333 shares)		14,362	19,011
	Total Investment		**51,868**	**56,517**
CR Holding, Inc.	Subordinated Debt (16.6%, Due 2/13)(6)	39,307	39,193	9,992
(Consumer Products)	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**67,937**	**9,992**

Crescent Equity Corp.[8]	Senior Loan (10.0%, Due 1/09)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 6/17)	2,092	2,084	
	Subordinated Debt (12.0%, Due 12/10 6/17)[6]	30,276	30,194	6,213
	Common Stock (174 shares)		82,596	39
	Total Investment		**115,307**	**6,685**
	Guaranty ($900)			
Direct Capital Corporation	Senior Loan (8.0%, Due 1/14)[6]	8,175	8,175	8,240
(Financial Services)	Subordinated Debt (16.0%, Due 3/13)[6]	55,671	55,496	12,390
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**89,403**	**20,630**
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,850	57,562
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,498**	**57,562**

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(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
ForeSite Towers, LLC	Equity Interest		$	$ 895
(Tower Leasing)	**Total Investment**			**895**
Global Communications, LLC	Senior Loan (10.0%, Due 9/02)[6]	$ 1,335	1,335	1,335
(Business Services)	**Total Investment**		**1,335**	**1,335**
Hot Light Brands, Inc.	Senior Loan (9.0%, Due 2/11)[6]	30,572	30,572	13,443
(Retail)	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,723**	**13,443**
	Standby Letter of Credit ($70)			
Hot Stuff Foods, LLC	Senior Loan (4.0%, Due 2/11-2/12)	52,387	52,257	50,112
(Consumer Products)	Subordinated Debt (12.5%, Due 8/12-2/13)[6]	83,692	83,387	
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**191,831**	**50,112**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/12)	57,683	57,517	57,517
(Retail)	Common Stock (358,428 shares)		35,828	17,455
	Total Investment		**93,345**	**74,972**
IAT Equity, LLC and Affiliates	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
d/b/a Industrial Air Tool	Equity Interests		7,500	9,078
(Industrial Products)	**Total Investment**		**13,500**	**15,078**

Impact Innovations Group, LLC	Equity Interests in Affiliate			322
(Business Services)	**Total Investment**			**322**
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	46,064	45,982	46,064
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12)(6)	16,775	16,724	17,532
	Preferred Stock (25,000 shares)		25,000	5,458
	Common Stock (620,000 shares)		6,325	
	Total Investment		**94,031**	**69,054**
Jakel, Inc.	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	374
(Industrial Products)	**Total Investment**		**748**	**374**
Knightsbridge CLO 2007-1 Ltd.(4)	Class E Notes (10.4%, Due 1/22)	18,700	18,700	14,984
(CLO)	Income Notes (0.0%)(11)		41,747	20,431
	Total Investment		**60,447**	**35,415**

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(4) Non-U.S. company or principal place of business outside the U.S.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Knightsbridge CLO 2008-1 Ltd.[4]	Class C Notes (8.8%, Due 6/18)	$ 12,800	$ 12,800	$ 12,181
(CLO)	Class D Notes (9.8%, Due 6/18)	8,000	8,000	7,046
	Class E Notes (6.3%, Due 6/18)	13,200	10,635	9,195
	Income Notes (20.6%)[11]		20,876	19,468
	Total Investment		**52,311**	**47,890**
MHF Logistical Solutions, Inc.	Subordinated Debt (13.0%, Due 6/12 6/13)[6]	49,841	49,633	
(Business Services)	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		**70,575**	
MVL Group, Inc.	Senior Loan (12.0%, Due 6/09 7/09)	30,170	30,164	30,164
(Business Services)	Subordinated Debt (14.5%, Due 6/09 7/09)	41,337	41,296	31,956
	Subordinated Debt (3.0%, Due 6/09)[6]	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		**72,154**	**62,120**
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	38,269	38,160	38,160
(Business Services)	Equity Interests		18,873	20,191
	Total Investment		**57,033**	**58,351**
Service Champ, Inc.		27,223	27,162	27,162

	Subordinated Debt (15.5%, Due 4/12)			
(Business Services)	Common Stock (55,112 shares)		11,785	22,829
	Total Investment		**38,947**	**49,991**
Stag-Parkway, Inc.	Subordinated Debt (10.0%, Due 7/12)	18,574	18,524	18,524
(Business Services)	Common Stock (25,000 shares)		32,686	5,581
	Total Investment		**51,210**	**24,105**
Startec Equity, LLC	Equity Interests		211	7
(Telecommunications)	**Total Investment**		**211**	**7**
Unitranche Fund LLC	Subordinated Certificates (9.1%)		124,521	124,521
(Private Debt Fund)	Equity Interests		1	1
	Total Investment		**124,522**	**124,522**
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14)(6)	2,823	2,680	
(Business Services)	Equity Interests		11,084	
	Warrants		144	
	Total Investment		**13,908**	
Total companies more than 25% owned			**$ 2,147,724**	**$ 1,039,191**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	$ 21,657	$ 21,552	$ 21,657
(Business Services)	Equity Interests		422	511
	Option		25	25
	Total Investment		**21,999**	**22,193**
Air Medical Group Holdings LLC	Senior Loan (4.5%, Due 3/11)	2,220	2,190	2,078
(Healthcare Services)	Equity Interests		2,993	12,100
	Total Investment		**5,183**	**14,178**
Alpine ESP Holdings, Inc.	Preferred Stock (701 shares)		701	
(Business Services)	Common Stock (11,657 shares)		13	
	Total Investment		**714**	
Amerex Group, LLC	Subordinated Debt (12.3%, Due 1/13)	8,789	8,785	8,785
(Consumer Products)	Equity Interests		3,508	10,505
	Total Investment		**12,293**	**19,290**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC[5]	Equity Interests		11,789	10,832
(Private Equity Fund)	**Total Investment**		**11,789**	**10,832**
Drew Foam Companies, Inc.	Preferred Stock (622,555 shares)		623	434
(Business Services)	Common Stock (6,286 shares)		6	
	Total Investment		**629**	**434**
Driven Brands, Inc.		85,872	85,480	83,568

	Subordinated Debt (16.5%, Due 7/15)			
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	2,500
	Total Investment		**94,996**	**86,068**
Hilden America, Inc.	Common Stock (19 shares)		454	
(Consumer Products)	**Total Investment**		**454**	
Lydall Transport, Ltd.	Equity Interests		432	364
(Business Services)	**Total Investment**		**432**	**364**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	2,524	2,503	2,471
(Business Services)	Equity Interests		1,737	2,185
	Total Investment		**4,240**	**4,656**
Pendum Acquisition, Inc.	Common Stock (8,872 shares)			
(Business Services)	**Total Investment**			

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Postle Aluminum Company, LLC	Senior Loan (6.0%, Due 10/12)[6]	$ 35,000	$ 34,876	$ 13,634
(Industrial Products)	Subordinated Debt (3.0%, Due 10/12)[6]	23,953	23,868	
	Equity Interests		2,174	
	Total Investment		**60,918**	**13,634**
Progressive International Corporation	Preferred Stock (500 shares)		500	1,147
(Consumer Products)	Common Stock (197 shares)		13	3,700
	Warrants			
	Total Investment		**513**	**4,847**
Regency Healthcare Group, LLC	Senior Loan (11.1%, Due 6/12)	2,000	1,989	1,906
(Healthcare Services)	Unitranche Debt (11.1%, Due 6/12)	10,901	10,869	10,522
	Equity Interests		1,302	1,955
	Total Investment		**14,160**	**14,383**
SGT India Private Limited[4]	Common Stock (150,596 shares)		4,140	
(Business Services)	**Total Investment**		**4,140**	
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	4,250	4,180	4,071
(Healthcare Services)	Equity Interests		1,881	1,510
	Total Investment		**6,061**	**5,581**
Triax Holdings, LLC	Subordinated Debt (21.0%, Due 2/12)[6]	10,625	10,587	
(Consumer Products)	Equity Interests		16,528	

	Total Investment		**27,115**	
Universal Environmental Services, LLC	Equity Interests		1,599	
(Business Services)	**Total Investment**		**1,599**	
Total companies 5% to 25% owned			**$ 267,235**	**$ 196,460**
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (14.0%, Due 8/13)	$ 20,500	$ 20,440	$ 18,442
	Subordinated Debt (16.0%, Due 8/13)(6)	9,048	9,030	3,189
(Consumer Products)	**Total Investment**		**29,470**	**21,631**
Abraxas Corporation	Subordinated Debt (14.6%, Due 4/13)	36,644	36,493	35,323
(Business Services)	**Total Investment**		**36,493**	**35,323**
Advantage Sales & Marketing, Inc.	Equity Interests			9,300
(Business Services)	**Total Investment**			**9,300**
Augusta Sportswear Group, Inc.	Subordinated Debt (13.0%, Due 1/15)	53,000	52,833	51,638
(Consumer Products)	Common Stock (2,500 shares)		2,500	1,500
	Total Investment		**55,333**	**53,138**
Axium Healthcare Pharmacy, Inc.	Senior Loan (14.0%, Due 12/12)	3,750	3,726	3,749
(Healthcare Services)	Unitranche Debt (14.0%, Due 12/12)	8,500	8,472	8,477
	Common Stock (22,860 shares)		2,286	155
	Total Investment		**14,484**	**12,381**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Baird Capital Partners IV Limited[5]	Limited Partnership Interest		$ 3,636	$ 2,828
(Private Equity Fund)	**Total Investment**		**3,636**	**2,828**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	$ 40,326	40,242	40,242
(Business Services)	Common Stock (39,274,290 shares)[12]		39,274	79,523
	Warrants[12]			
	Total Investment		**79,516**	**119,765**
Broadcast Electronics, Inc.	Senior Loan (8.8%, Due 11/11)[6]	4,890	4,862	625
(Business Services)	Preferred Stock (2,044 shares)			
	Total Investment		**4,862**	**625**
Bushnell, Inc.	Subordinated Debt (7.7%, Due 2/14)	41,325	40,053	33,836
(Consumer Products)	**Total Investment**		**40,053**	**33,836**
Callidus Debt Partners	Class C Notes (12.9%, Due 12/13)[6]	18,800	18,907	11,108
CDO Fund I, Ltd.[4][10]	Class D Notes (17.0%, Due 12/13)[6]	9,400	9,454	
(CDO)				
	Total Investment		**28,361**	**11,108**
Callidus Debt Partners	Preferred Shares (23,600,000 shares)		20,138	6,360
CLO Fund III, Ltd.[4][10]				
(CLO)	**Total Investment**		**20,138**	**6,360**

Callidus Debt Partners	Class D Notes (5.7%, Due 4/20)	3,000	2,074	1,607
CLO Fund IV, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		15,040	5,487
	Total Investment		**17,114**	**7,094**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10)	Income Notes (6.2%)(11)		13,631	6,924
(CLO)	**Total Investment**		**13,631**	**6,924**
Callidus Debt Partners	Class D Notes (7.1%, Due 10/21)	9,000	7,180	4,004
CLO Fund VI, Ltd.(4)(10) (CLO)	Income Notes (2.6%)(11)		28,954	8,708
	Total Investment		**36,134**	**12,712**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10)	Income Notes (2.2%)(11)		24,688	10,520
(CLO)	**Total Investment**		**24,688**	**10,520**

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(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Callidus MAPS CLO Fund I LLC[10]	Class E Notes (6.7%, Due 12/17)	$ 17,000	$ 17,000	$ 11,120
(CLO)	Income Notes (0.0%)[11]		43,814	13,428
	Total Investment		**60,814**	**24,548**
Callidus MAPS CLO Fund II, Ltd.[4][10]	Class D Notes (5.4%, Due 7/22)	7,700	3,615	3,005
	Income Notes (0.0%)[11]		18,804	4,401
(CLO)	**Total Investment**		**22,419**	**7,406**
Carlisle Wide Plank Floors, Inc.	Senior Loan (6.1%, Due 6/11)	500	498	454
(Consumer Products)	Unitranche Debt (12.8%, Due 6/11)	3,161	3,141	2,894
	Preferred Stock (345,056 Shares)		345	93
	Total Investment		**3,984**	**3,441**
Catterton Partners VI, L.P.[5]	Limited Partnership Interest		2,951	1,773
(Private Equity Fund)	**Total Investment**		**2,951**	**1,773**
Centre Capital Investors V, L.P.[5]	Limited Partnership Interest		2,767	1,934
(Private Equity Fund)	**Total Investment**		**2,767**	**1,934**
CK Franchising, Inc. (Consumer Services)	Senior Loan (5.5%, Due 7/12)	1,600	1,585	1,585
	Subordinated Debt (12.3%, Due 7/12 7/17)	21,115	21,048	21,048
	Preferred Stock (1,281,887 shares)		1,282	1,651
	Common Stock (7,585,549 shares)		7,586	11,100
	Total Investment		**31,501**	**35,384**

Commercial Credit Group, Inc.	Subordinated Debt (15.0%, Due 6/15)	19,000	18,970	18,970
(Financial Services)	Preferred Stock (64,679 shares) Warrants		15,543	9,074
	Total Investment		**34,513**	**28,044**
Community Education Centers, Inc.	Subordinated Debt (14.5%, Due 11/13)	35,749	35,690	33,260
(Education Services)	**Total Investment**		**35,690**	**33,260**
Component Hardware Group, Inc.	Subordinated Debt (13.5%, Due 1/13)	18,780	18,728	17,919
(Industrial Products)	**Total Investment**		**18,728**	**17,919**
Cook Inlet Alternative Risk, LLC	Unitranche Debt (10.8%, Due 4/13)	87,800	87,442	69,000
(Business Services)	Equity Interests		552	
	Total Investment		**87,994**	**69,000**
Cortec Group Fund IV, L.P.[5]	Limited Partnership Interest		4,727	2,941
(Private Equity)	**Total Investment**		**4,727**	**2,941**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**March 31, 2009 (unaudited) Principal**	**Cost**	**Value**
Diversified Mercury	Senior Loan (4.5%, Due 3/13)	$ 2,966	$ 2,953	$ 2,688
Communications, LLC	**Total Investment**		**2,953**	**2,688**
(Business Services)				
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	14,133	14,073	13,934
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,659	4,647	4,647
	Total Investment		**18,720**	**18,581**
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	76,384	76,100	65,015
(Consumer Products)	Equity Interests		8,000	560
	Total Investment		**84,100**	**65,575**
Distant Lands Trading Co.	Senior Loan (7.5%, Due 11/11)	10,000	9,977	9,437
(Consumer Products)	Unitranche Debt (12.3%, Due 11/11)	43,337	43,236	42,361
	Common Stock (3,451 shares)		3,451	623
	Total Investment		**56,664**	**52,421**
Dryden XVIII Leveraged Loan 2007 Limited[4]	Class B Notes (5.7%, Due 10/19)	9,000	7,780	3,093
	Income Notes (8.2%)[11]		22,694	8,671
(CLO)	**Total Investment**		**30,474**	**11,764**
Dynamic India Fund IV[4][5]	Equity Interests		9,350	8,842
(Private Equity Fund)	**Total Investment**		**9,350**	**8,842**

EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)[6]	123,819	123,385	
(Business Services)	Common Stock (63,438 shares)[12]		63,438	
	Warrants[12]			
	Total Investment		**186,823**	
eCentury Capital Partners, L.P.[5]	Limited Partnership Interest		7,274	308
(Private Equity Fund)	**Total Investment**		**7,274**	**308**
eInstruction Corporation	Subordinated Debt (12.7%, Due 7/14-1/15)	34,631	34,500	31,799
(Education Services)	Common Stock (2,406 shares)		2,500	1,100
	Total Investment		**37,000**	**32,899**
Farley s & Sathers Candy Company, Inc.	Subordinated Debt (8.5%, Due 3/11)	2,500	2,494	2,374
(Consumer Products)	**Total Investment**		**2,494**	**2,374**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**March 31, 2009 (unaudited) Principal**	**Cost**	**Value**
FCP-BHI Holdings, LLC	Subordinated Debt (12.0%, Due 9/13)	$ 28,116	$ 28,028	$ 26,081
d/b/a Bojangles	Equity Interests		1,029	1,800
(Retail)	**Total Investment**		**29,057**	**27,881**
Fidus Mezzanine Capital, L.P.[5]	Limited Partnership Interest		12,828	7,653
(Private Equity Fund)	**Total Investment**		**12,828**	**7,653**
Freedom Financial Network, LLC	Subordinated Debt (13.5%, Due 2/14)	13,000	12,947	13,168
(Financial Services)	**Total Investment**		**12,947**	**13,168**
Geotrace Technologies, Inc.	Warrants		2,027	3,000
(Energy Services)	**Total Investment**		**2,027**	**3,000**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,800	25,667	23,807
	Total Investment		**25,667**	**23,807**
Havco Wood Products LLC	Equity Interests		910	
(Industrial Products)	**Total Investment**		**910**	
Higginbotham Insurance Agency, Inc.	Subordinated Debt (13.7%, Due 8/13 8/14)	53,305	53,098	53,098
(Business Services)	Common Stock (23,695 shares)[12]		23,695	15,881
	Warrant[12]			
	Total Investment		**76,793**	**68,979**

The Hillman Companies, Inc.[3]	Subordinated Debt (10.0%, Due 9/11)	44,580	44,499	43,867
(Consumer Products)	**Total Investment**		**44,499**	**43,867**
The Homax Group, Inc.	Senior Loan (6.7%, Due 10/12)	11,203	11,159	10,013
(Consumer Products)	Subordinated Debt (14.5%, Due 4/14)	14,158	13,558	9,282
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**25,752**	**19,295**
Ideal Snacks Corporation	Senior Loan (7.3%, Due 6/10)	1,333	1,333	1,286
(Consumer Products)	**Total Investment**		**1,333**	**1,286**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**March 31, 2009 (unaudited) Principal**	**Cost**	**Value**
Kodiak Fund LP[5]	Equity Interests		$ 9,368	$ 900
(Private Equity Fund)	**Total Investment**		**9,368**	**900**
Market Track Holdings, LLC	Senior Loan (8.0%, Due 6/14)	$ 2,500	2,450	2,352
(Business Services)	Subordinated Debt (15.9%, Due 6/14)	24,600	24,493	23,287
	Total Investment		**26,943**	**25,639**
NetShape Technologies, Inc.	Senior Loan (5.3%, Due 2/13)	441	441	375
(Industrial Products)	**Total Investment**		**441**	**375**
Network Hardware Resale, Inc.	Unitranche Debt (12.0%, Due 12/11)	16,618	16,682	16,632
(Business Services)	Convertible Subordinated Debt (9.8%, Due 12/15)	15,953	16,004	16,004
	Total Investment		**32,686**	**32,636**
Novak Biddle Venture Partners III, L.P.[5]	Limited Partnership Interest		2,018	1,227
(Private Equity Fund)	**Total Investment**		**2,018**	**1,227**
Oahu Waste Services, Inc.	Stock Appreciation Rights		206	375
(Business Services)	**Total Investment**		**206**	**375**
Pangaea CLO 2007-1 Ltd.[4]	Class D Notes (5.9%, Due 4/09)	15,000	11,864	4,554
(CLO)	**Total Investment**		**11,864**	**4,554**
PC Helps Support, LLC	Senior Loan (4.3%, Due 12/13)	8,610	8,520	8,573

(Business Services)	Subordinated Debt (12.8%, Due 12/13)	28,136	28,016	28,934
	Total Investment		**36,536**	**37,507**
Performant Financial Corporation	Common Stock (478,816 shares)		734	400
(Business Services)	**Total Investment**		**734**	**400**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
PharMEDium Healthcare Corporation	Senior Loan (3.8%, Due 10/13)	$ 1,910	$ 1,910	$ 1,747
(Healthcare Services)	**Total Investment**		**1,910**	**1,747**
Promo Works, LLC	Unitranche Debt (12.3%, Due 12/11)	23,111	22,967	21,030
(Business Services)	**Total Investment**		**22,967**	**21,030**
Reed Group, Ltd.	Senior Loan (7.2%, Due 12/13)	12,865	12,732	11,429
(Healthcare Services)	Subordinated Debt (15.8%, Due 12/13)	18,723	18,652	16,408
	Equity Interests		1,800	226
	Total Investment		**33,184**	**28,063**
S.B. Restaurant Company	Unitranche Debt (9.8%, Due 4/11)	37,327	37,142	35,682
(Retail)	Preferred Stock (46,690 shares)		117	117
	Warrants		534	
	Total Investment		**37,793**	**35,799**
	Standby Letters of Credit ($2,465)			
Snow Phipps Group, L.P.[5]	Limited Partnership Interest		4,962	4,256
(Private Equity Fund)	**Total Investment**		**4,962**	**4,256**
SPP Mezzanine Funding II, L.P.[5]	Limited Partnership Interest		9,118	9,018
(Private Equity Fund)	**Total Investment**		**9,118**	**9,018**

STS Operating, Inc.	Subordinated Debt (11.0%, Due 1/13)	30,386	30,301	28,829
(Industrial Products)	**Total Investment**		**30,301**	**28,829**
Summit Energy Services, Inc. (Business Services)	Subordinated Debt (11.6%, Due 8/13)	35,130	34,954	34,115
	Common Stock (415,982 shares)		1,861	2,000
	Total Investment		**36,815**	**36,115**
Tank Intermediate Holding Corp. (Industrial Products)	Senior Loan (6.8%, Due 9/14)	16,552	16,000	13,946
	Total Investment		**16,000**	**13,946**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**Principal**	**March 31, 2009 (unaudited) Cost**	**Value**
Tappan Wire & Cable Inc.	Unitranche Debt (15.0%, Due 8/14)[6]	$ 22,346	$ 22,247	$ 7,464
(Business Services)	Common Stock (12,940 shares)[12]		2,043	
	Warrant[12]			
	Total Investment		**24,290**	**7,464**
The Step2 Company, LLC	Unitranche Debt (11.0%, Due 4/12)	95,083	94,836	89,671
(Consumer Products)	Equity Interests		2,156	1,065
	Total Investment		**96,992**	**90,736**
Tradesmen International, Inc.	Subordinated Debt (12.0%, Due 12/12)	40,000	39,654	35,479
(Business Services)	**Total Investment**		**39,654**	**35,479**
TransAmerican Auto Parts, LLC	Subordinated Debt (16.3%, Due 11/12)[6]	24,561	24,409	
(Consumer Products)	Equity Interests		1,034	
	Total Investment		**25,443**	
Trover Solutions, Inc.	Subordinated Debt (12.0%, Due 11/12)	60,286	60,093	56,474
(Business Services)	**Total Investment**		**60,093**	**56,474**
United Road Towing, Inc.	Subordinated Debt (11.8%, Due 1/14)	20,000	19,920	19,772
(Consumer Services)	**Total Investment**		**19,920**	**19,772**

Venturehouse-Cibernet Investors, LLC	Equity Interest			
(Business Services)	**Total Investment**			
WMA Equity Corporation and Affiliates	Subordinated Debt (16.8%, Due 4/13-4/14)[6]	139,455	138,559	46,932
d/b/a Wear Me Apparel	Common Stock (86 shares)		39,635	
(Consumer Products)	**Total Investment**		**178,194**	**46,932**
Webster Capital II, L.P.[5]	Limited Partnership Interest		1,899	1,466
(Private Equity Fund)	**Total Investment**		**1,899**	**1,466**
Woodstream Corporation	Subordinated Debt (12.0%, Due 2/15)	90,000	89,648	78,683
(Consumer Products)	Common Stock (6,960 shares)		6,961	1,300
	Total Investment		**96,609**	**79,983**
Other companies	Other debt investments	155	81	74
	Other equity investments		31	8
	Total Investment		**112**	**82**
	Standby Letters of Credit ($200)			
Total companies less than 5% owned			**$ 2,234,718**	**$ 1,594,387**
Total private finance (132 portfolio investments)			**$ 4,649,677**	**$ 2,830,038**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Commercial Real Estate Finance
(in thousands, except number of loans)

			March 31, 2009 (unaudited)	
	Stated Interest Rate Ranges	Number of Loans	Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	4	$ 30,680	$ 29,538
	7.00% 8.99%	2	2,003	1,940
	9.00% 10.99%	1	6,469	6,469
	11.00% 12.99%	1	10,472	9,316
	15.00% and above	2	3,970	6,670
Total commercial mortgage loans(13)			**$ 53,594**	**$ 53,933**
Real Estate Owned			**$ 15,042**	**$ 7,801**
Equity Interests(2) Companies more than 25% owned			**$ 13,705**	**$ 17,296**
Guarantees ($6,871)				
Standby Letter of Credit ($650)				
Total commercial real estate finance			**$ 82,341**	**$ 79,030**
Total portfolio			**$ 4,732,018**	**$ 2,909,068**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
SEI Daily Income Tr Prime Obligation Money Market Fund	0.2 %	$ 5	$ 5
Total		$ 5	$ 5

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

(13) Commercial mortgage loans totaling $11.0 million at value were on non-accrual status and therefore were considered non-income producing.

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18

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

Private Finance **Portfolio Company** **(in thousands, except number of shares)**	**Investment[1][2]**	**Principal**	**December 31, 2008** **Cost**	**Value**
Companies More Than 25% Owned				
AGILE Fund I, LLC[5]	Equity Interests		$ 694	$ 497
(Private Equity Fund)	**Total Investment**		**694**	**497**
AllBridge Financial, LLC	Equity Interests		33,294	10,960
(Asset Management)	**Total Investment**		**33,294**	**10,960**
	Standby Letter of Credit ($15,000)			
Allied Capital Senior Debt Fund, L.P.[5]	Equity Interests (See Note 3)		31,800	31,800
(Private Debt Fund)	**Total Investment**		**31,800**	**31,800**
Avborne, Inc.[7]	Preferred Stock (12,500 shares)			942
(Business Services)	Common Stock (27,500 shares)			
	Total Investment			**942**
Avborne Heavy Maintenance, Inc.[7]	Common Stock (2,750 shares)			
(Business Services)	**Total Investment**			
Aviation Properties Corporation	Common Stock (100 shares)		93	
(Business Services)	**Total Investment**		**93**	
	Standby Letters of Credit ($1,000)			
Border Foods, Inc.	Senior Loan (12.6%, Due 12/09 3/12)	$ 33,027	26,860	33,027
(Consumer Products)	Preferred Stock (100,000 shares)		12,721	11,851
	Common Stock (260,467 shares)		3,847	

	Total Investment		**43,428**	**44,878**
Calder Capital Partners, LLC[5] (Asset Management)	Senior Loan (10.5%, Due 5/09)[6]	4,496	4,496	953
	Equity Interests		2,453	
	Total Investment		**6,949**	**953**
Callidus Capital Corporation	Subordinated Debt (18.0%, Due 8/13 2/14)	16,068	16,068	16,068
(Asset Management)	Common Stock (100 shares)			34,377
	Total Investment		**16,068**	**50,445**
	Guaranty ($6,447)			

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

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Ciena Capital LLC	Senior Loan (5.5%, Due 3/09)[6]	$ 319,031	$ 319,031	$ 104,883
(Financial Services)	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		**547,768**	**104,883**
	Guaranty ($5,000 See Note 3)			
	Standby Letters of Credit ($102,600 See Note 3)			
CitiPostal Inc.	Senior Loan (4.0%, Due 12/13)	692	681	681
(Business Services)	Unitranche Debt (12.0%, Due 12/13)	51,758	51,548	51,548
	Subordinated Debt (16.0%, Due 12/15)	9,114	9,114	9,114
	Common Stock (37,024 shares)		12,726	8,616
	Total Investment		**74,069**	**69,959**
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	32,035	31,948	31,948
(Business Services)	Subordinated Debt (15.0%, Due 7/11)	5,563	5,549	5,549
	Common Stock (763,333 shares)		14,361	17,968
	Total Investment		**51,858**	**55,465**
CR Holding, Inc.	Subordinated Debt (16.6%, Due 2/13)[6]	39,307	39,193	17,360
(Consumer Products)	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**67,937**	**17,360**

Crescent Equity Corp.[8]	Senior Loan (10.0%, Due 1/09)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 6/17)	22,312	22,247	14,283
	Subordinated Debt (11.0%, Due 1/12 9/12)[6]	10,097	10,072	4,331
	Common Stock (174 shares)		81,255	4,580
	Total Investment		**114,007**	**23,627**
	Guaranty ($900)			
	Standby Letters of Credit ($200)			
Direct Capital Corporation	Subordinated Debt (16.0%, Due 3/13)[6]	55,671	55,496	13,530
(Financial Services)	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**81,228**	**13,530**
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,840	62,189
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,488**	**62,189**

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(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
ForeSite Towers, LLC	Equity Interest		$	$ 889
(Tower Leasing)	**Total Investment**			**889**
Global Communications, LLC	Senior Loan (10.0%, Due 9/02)[6]	$ 1,335	1,335	1,335
(Business Services)	**Total Investment**		**1,335**	**1,335**
Hot Light Brands, Inc.	Senior Loan (9.0%, Due 2/11)[6]	30,522	30,522	13,678
(Retail)	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,673**	**13,678**
	Standby Letter of Credit ($105)			
Hot Stuff Foods, LLC	Senior Loan (4.0%, Due 2/11-2/12)	53,597	53,456	42,378
(Consumer Products)	Subordinated Debt (12.4%, Due 8/12-2/13)[6]	83,692	83,387	
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**193,030**	**42,378**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/12)	57,244	57,067	57,067
(Retail)	Common Stock (358,428 shares)		35,828	20,922
	Total Investment		**92,895**	**77,989**
IAT Equity, LLC and Affiliates	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
d/b/a Industrial Air Tool	Equity Interests		7,500	8,860
(Industrial Products)	**Total Investment**		**13,500**	**14,860**

Impact Innovations Group, LLC	Equity Interests in Affiliate			321
(Business Services)	**Total Investment**			**321**
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	45,827	45,738	45,827
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12)(6)	16,177	16,126	17,532
	Preferred Stock (25,000 shares)		25,000	4,068
	Common Stock (620,000 shares)		6,325	
	Total Investment		**93,189**	**67,427**
Jakel, Inc.	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	374
(Industrial Products)	**Total Investment**		**748**	**374**
Knightsbridge CLO 2007-1 Ltd.(4)	Class E Notes (13.8%, Due 1/22)	18,700	18,700	14,866
(CLO)	Income Notes (14.9%)(11)		40,914	35,214
	Total Investment		**59,614**	**50,080**

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(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Knightsbridge CLO 2008-1 Ltd.[4]	Class C Notes (9.3%, Due 6/18)	$ 12,800	$ 12,800	$ 12,800
(CLO)	Class D Notes (10.3%, Due 6/18)	8,000	8,000	8,000
	Class E Notes (6.8%, Due 6/18)	13,200	10,573	10,573
	Income Notes (16.6%)[11]		21,315	21,315
	Total Investment		**52,688**	**52,688**
MHF Logistical Solutions, Inc.	Subordinated Debt (13.0%, Due 6/12 6/13)[6]	49,841	49,633	
(Business Services)	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		**70,575**	
MVL Group, Inc.	Senior Loan (12.0%, Due 6/09 7/09)	30,674	30,663	30,663
(Business Services)	Subordinated Debt (14.5%, Due 6/09 7/09)	41,074	40,994	40,994
	Subordinated Debt (3.0%, Due 6/09)[6]	144	139	86
	Common Stock (560,716 shares)		555	
	Total Investment		**72,351**	**71,743**
Old Orchard Brands, LLC	Subordinated Debt (18.0%, Due 7/14)	18,951	18,882	18,882
(Consumer Products)	Equity Interests		16,857	27,763
	Total Investment		**35,739**	**46,645**
Penn Detroit Diesel Allison, LLC		37,984	37,869	37,869

	Subordinated Debt (15.5%, Due 8/13)			
(Business Services)	Equity Interests		18,873	21,100
	Total Investment		**56,742**	**58,969**
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	27,050	26,984	26,984
(Business Services)	Common Stock (55,112 shares)		11,785	21,156
	Total Investment		**38,769**	**48,140**
Stag-Parkway, Inc.	Unitranche Debt (14.0%, Due 7/12)	17,975	17,920	17,962
(Business Services)	Common Stock (25,000 shares)		32,686	6,968
	Total Investment		**50,606**	**24,930**
Startec Equity, LLC	Equity Interests		211	332
(Telecommunications)	**Total Investment**		**211**	**332**
Unitranche Fund LLC	Subordinated Certificates (12.0%)		125,423	125,423
(Private Debt Fund)	Equity Interests		1	1
	Total Investment		**125,424**	**125,424**
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14)[6]	2,865	2,722	2,032
(Business Services)	Equity Interests		11,384	
	Warrants		144	
	Total Investment		**14,250**	**2,032**
Total companies more than 25% owned			**$ 2,167,020**	**$ 1,187,722**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance **Portfolio Company** **(in thousands, except number of shares)**	**Investment(1)(2)**	**December 31, 2008** **Principal**	**Cost**	**Value**
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	$ 21,439	$ 21,329	$ 21,439
(Business Services)	Equity Interests		422	975
	Option		25	25
	Total Investment		**21,776**	**22,439**
Advantage Sales & Marketing, Inc.	Subordinated Debt (12.0%, Due 3/14)	158,617	158,132	135,000
(Business Services)	Equity Interests			5,000
	Total Investment		**158,132**	**140,000**
Air Medical Group Holdings LLC	Senior Loan (3.3%, Due 3/11)	3,360	3,326	3,139
(Healthcare Services)	Equity Interests		2,993	10,800
	Total Investment		**6,319**	**13,939**
Alpine ESP Holdings, Inc.	Preferred Stock (701 shares)		701	
(Business Services)	Common Stock (11,657 shares)		13	
	Total Investment		**714**	
Amerex Group, LLC	Subordinated Debt (12.3%, Due 1/13)	8,789	8,784	8,784
(Consumer Products)	Equity Interests		3,508	9,932
	Total Investment		**12,292**	**18,716**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5)	Equity Interests		11,789	11,063
(Private Equity Fund)	**Total Investment**		**11,789**	**11,063**

Becker Underwood, Inc.	Subordinated Debt (14.5%, Due 8/12)	25,503	25,450	25,502
(Industrial Products)	Common Stock (4,376 shares)		5,014	2,267
	Total Investment		**30,464**	**27,769**
Drew Foam Companies, Inc.	Preferred Stock (622,555 shares)		623	512
(Business Services)	Common Stock (6,286 shares)		6	
	Total Investment		**629**	**512**
Driven Brands, Inc.	Subordinated Debt (16.5%, Due 7/15)	84,106	83,698	83,698
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	4,855
	Total Investment		**93,214**	**88,553**
Hilden America, Inc.	Common Stock (19 shares)		454	76
(Consumer Products)	**Total Investment**		**454**	**76**
Lydall Transport, Ltd.	Equity Interests		432	345
(Business Services)	**Total Investment**		**432**	**345**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	3,018	2,995	2,941
(Business Services)	Equity Interests		1,737	1,782
	Total Investment		**4,732**	**4,723**

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(5) Non-registered investment company.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance **Portfolio Company** **(in thousands, except number of shares)**	**Investment[1][2]**	**Principal**	**December 31, 2008** **Cost**	**Value**
Progressive International	Preferred Stock (500 shares)		$ 500	$ 1,125
Corporation	Common Stock (197 shares)		13	4,600
(Consumer Products)	Warrants			
	Total Investment		**513**	**5,725**
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	$ 10,901	10,855	10,825
(Healthcare Services)	Equity Interests		1,302	2,050
	Total Investment		**12,157**	**12,875**
SGT India Private Limited[4]	Common Stock (150,596 shares)		4,137	
(Business Services)	**Total Investment**		**4,137**	
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	4,250	4,167	4,054
(Healthcare Services)	Equity Interests		1,881	1,971
	Total Investment		**6,048**	**6,025**
Triax Holdings, LLC	Subordinated Debt (21.0%, Due 2/12)[6]	10,625	10,587	
(Consumer Products)	Equity Interests		16,528	
	Total Investment		**27,115**	
Universal Environmental Services, LLC	Equity Interests		1,599	
(Business Services)	**Total Investment**		**1,599**	
Total companies 5% to 25% owned			**$ 392,516**	**$ 352,760**

Companies Less Than 5% Owned

3SI Security Systems, Inc.	Subordinated Debt (14.6%, Due 8/13)	$ 29,200	$ 29,118	$ 28,170
(Consumer Products)	**Total Investment**		**29,118**	**28,170**
Abraxas Corporation	Subordinated Debt (14.6%, Due 4/13)	36,822	36,662	36,170
(Business Services)	**Total Investment**		**36,662**	**36,170**
Augusta Sportswear Group, Inc.	Subordinated Debt (13.0%, Due 1/15)	53,000	52,825	52,406
(Consumer Products)	Common Stock (2,500 shares)		2,500	1,400
	Total Investment		**55,325**	**53,806**
Axium Healthcare Pharmacy, Inc.	Senior Loan (14.0%, Due 12/12)	3,750	3,724	3,654
(Healthcare Services)	Unitranche Debt (14.0%, Due 12/12)	8,500	8,471	7,908
	Common Stock (22,860 shares)		2,286	100
	Total Investment		**14,481**	**11,662**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Baird Capital Partners IV Limited[5]	Limited Partnership Interest		$ 3,636	$ 2,978
(Private Equity Fund)	**Total Investment**		**3,636**	**2,978**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	$ 40,326	40,238	40,238
(Business Services)	Common Stock (39,274,290 shares)[12]		39,274	91,149
	Warrants[12]			
	Total Investment		**79,512**	**131,387**
Broadcast Electronics, Inc.	Senior Loan (8.8%, Due 11/11)[6]	4,912	4,884	773
(Business Services)	Preferred Stock (2,044 shares)			
	Total Investment		**4,884**	**773**
Bushnell, Inc.	Subordinated Debt (8.0%, Due 2/14)	41,325	40,003	35,794
(Consumer Products)	**Total Investment**		**40,003**	**35,794**
Callidus Debt Partners	Class C Notes (12.9%, Due 12/13)	18,800	18,907	10,116
CDO Fund I, Ltd.[4][10]	Class D Notes (17.0%, Due 12/13)	9,400	9,454	
(CDO)				
	Total Investment		**28,361**	**10,116**
Callidus Debt Partners	Preferred Shares (23,600,000 shares)		20,138	5,402
CLO Fund III, Ltd.[4][10]				
(CLO)	**Total Investment**		**20,138**	**5,402**

Callidus Debt Partners	Class D Notes (9.1%, Due 4/20)	3,000	2,045	1,445
CLO Fund IV, Ltd.[4][10] (CLO)	Income Notes (13.2%)[11]		14,591	10,628
	Total Investment		**16,636**	**12,073**
Callidus Debt Partners CLO Fund V, Ltd.[4][10]	Income Notes (16.4%)[11]		13,388	10,331
(CLO)	**Total Investment**		**13,388**	**10,331**
Callidus Debt Partners	Class D Notes (9.8%, Due 10/21)	9,000	7,144	3,929
CLO Fund VI, Ltd.[4][10] (CLO)	Income Notes (17.8%)[11]		28,314	23,090
	Total Investment		**35,458**	**27,019**
Callidus Debt Partners CLO Fund VII, Ltd.[4][10]	Income Notes (11.4%)[11]		24,026	15,361
(CLO)	**Total Investment**		**24,026**	**15,361**

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(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Callidus MAPS CLO Fund I LLC[10]	Class E Notes (7.0%, Due 12/17)	$ 17,000	$ 17,000	$ 9,813
(CLO)	Income Notes (4.0%)[11]		45,053	27,678
	Total Investment		**62,053**	**37,491**
Callidus MAPS CLO Fund II, Ltd.[4][10]	Class D Notes (8.8%, Due 7/22)	7,700	3,555	2,948
	Income Notes (13.3%)[11]		18,393	12,626
(CLO)	**Total Investment**		**21,948**	**15,574**
Carlisle Wide Plank Floors, Inc.	Senior Loan (6.1%, Due 6/11)	1,000	998	953
(Consumer Products)	Unitranche Debt (14.5%, Due 6/11)	3,161	3,139	3,047
	Preferred Stock (345,056 Shares)		345	82
	Total Investment		**4,482**	**4,082**
Catterton Partners VI, L.P.[5]	Limited Partnership Interest		2,812	2,356
(Private Equity Fund)	**Total Investment**		**2,812**	**2,356**
Centre Capital Investors V, L.P.[5]	Limited Partnership Interest		3,049	2,344
(Private Equity Fund)	**Total Investment**		**3,049**	**2,344**
CK Franchising, Inc.	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,912	20,912
(Consumer Services)	Preferred Stock (1,281,887 shares)		1,282	1,592
	Common Stock (7,585,549 shares)		7,586	10,600
	Total Investment		**29,780**	**33,104**
Commercial Credit Group, Inc.		19,000	18,970	18,970

	Subordinated Debt (15.0%, Due 6/15)			
(Financial Services)	Preferred Stock (64,679 shares)		15,543	9,073
	Warrants			
	Total Investment		**34,513**	**28,043**
Community Education Centers, Inc.	Subordinated Debt (14.5%, Due 11/13)	35,548	35,486	34,056
(Education Services)	**Total Investment**		**35,486**	**34,056**
Component Hardware Group, Inc.	Subordinated Debt (13.5%, Due 1/13)	18,710	18,654	18,261
(Industrial Products)	**Total Investment**		**18,654**	**18,261**
Cook Inlet Alternative Risk, LLC	Unitranche Debt (10.8%, Due 4/13)	90,000	89,619	82,839
(Business Services)	Equity Interests		552	
	Total Investment		**90,171**	**82,839**
Cortec Group Fund IV, L.P.(5)	Limited Partnership Interest		4,647	3,445
(Private Equity)	**Total Investment**		**4,647**	**3,445**

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(5) Non-registered investment company.
(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.
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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Diversified Mercury Communications, LLC	Senior Loan (4.5%, Due 3/13)	$ 2,972	$ 2,958	$ 2,692
(Business Services)	**Total Investment**		**2,958**	**2,692**
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	14,097	14,032	14,003
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,545	4,533	4,700
	Total Investment		**18,565**	**18,703**
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	75,909	75,609	71,703
(Consumer Products)	Equity Interests		8,000	3,200
	Total Investment		**83,609**	**74,903**
Distant Lands Trading Co.	Senior Loan (7.5%, Due 11/11)	4,825	4,800	4,501
(Consumer Products)	Unitranche Debt (12.3%, Due 11/11)	43,133	43,022	42,340
	Common Stock (3,451 shares)		3,451	984
	Total Investment		**51,273**	**47,825**
Dryden XVIII Leveraged Loan 2007 Limited[4]	Class B Notes (8.0%, Due 10/19)	9,000	7,728	4,535
	Income Notes (16.0%)[11]		22,080	17,477
(CLO)	**Total Investment**		**29,808**	**22,012**
Dynamic India Fund IV[4][5]	Equity Interests		9,350	8,966
(Private Equity Fund)	**Total Investment**		**9,350**	**8,966**

EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	77,243
(Business Services)	Common Stock (63,438 shares)(12)		63,438	
	Warrants(12)			
	Total Investment		**186,823**	**77,243**
eCentury Capital Partners, L.P.(5)	Limited Partnership Interest		7,274	1,431
(Private Equity Fund)	**Total Investment**		**7,274**	**1,431**
eInstruction Corporation	Subordinated Debt (12.6%, Due 7/14-1/15)	33,931	33,795	31,670
(Education Services)	Common Stock (2,406 shares)		2,500	1,700
	Total Investment		**36,295**	**33,370**
Farley s & Sathers Candy Company, Inc.	Subordinated Debt (10.1%, Due 3/11)	2,500	2,493	2,365
(Consumer Products)	**Total Investment**		**2,493**	**2,365**

(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

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

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment(1)(2)**	**December 31, 2008 Principal**	**Cost**	**Value**
FCP-BHI Holdings, LLC	Subordinated Debt (12.0%, Due 9/13)	$ 27,284	$ 27,191	$ 25,640
d/b/a Bojangles	Equity Interests		1,029	1,700
(Retail)	**Total Investment**		**28,220**	**27,340**
Fidus Mezzanine Capital, L.P.(5)	Limited Partnership Interest		9,597	6,754
(Private Equity Fund)	**Total Investment**		**9,597**	**6,754**
Freedom Financial Network, LLC	Subordinated Debt (13.5%, Due 2/14)	13,000	12,945	12,811
(Financial Services)	**Total Investment**		**12,945**	**12,811**
Geotrace Technologies, Inc.	Warrants		2,027	3,000
(Energy Services)	**Total Investment**		**2,027**	**3,000**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,800	25,660	24,692
	Total Investment		**25,660**	**24,692**
Havco Wood Products LLC	Equity Interests		910	400
(Industrial Products)	**Total Investment**		**910**	**400**
Higginbotham Insurance Agency, Inc.	Subordinated Debt (13.7%, Due 8/13 8/14)	53,305	53,088	53,088
(Business Services)	Common Stock (23,695 shares)(12)		23,695	27,335
	Warrant(12)			
	Total Investment		**76,783**	**80,423**

The Hillman Companies, Inc.[3]	Subordinated Debt (10.0%, Due 9/11)	44,580	44,491	44,345
(Consumer Products)	**Total Investment**		**44,491**	**44,345**
The Homax Group, Inc.	Senior Loan (7.2%, Due 10/12)	11,785	11,742	10,689
(Consumer Products)	Subordinated Debt (14.5%, Due 4/14)	14,000	13,371	12,859
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**26,148**	**23,548**
Ideal Snacks Corporation	Senior Loan (5.3%, Due 6/10)	1,496	1,496	1,438
(Consumer Products)	**Total Investment**		**1,496**	**1,438**

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

(3) Public company.

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[1][2]**	**December 31, 2008 Principal**	**Cost**	**Value**
Kodiak Fund LP[5]	Equity Interests		$ 9,422	$ 900
(Private Equity Fund)	**Total Investment**		**9,422**	**900**
Market Track Holdings, LLC	Senior Loan (8.0%, Due 6/14)	$ 2,500	2,450	2,352
(Business Services)	Subordinated Debt (15.9%, Due 6/14)	24,600	24,488	23,785
	Total Investment		**26,938**	**26,137**
NetShape Technologies, Inc.	Senior Loan (5.3%, Due 2/13)	382	382	346
(Industrial Products)	**Total Investment**		**382**	**346**
Network Hardware Resale, Inc.	Unitranche Debt (12.5%, Due 12/11)	18,734	18,809	18,703
(Business Services)	Convertible Subordinated Debt (9.8%, Due 12/15)	14,533	14,585	14,585
	Total Investment		**33,394**	**33,288**
Novak Biddle Venture Partners III, L.P.[5]	Limited Partnership Interest		2,018	1,349
(Private Equity Fund)	**Total Investment**		**2,018**	**1,349**
Oahu Waste Services, Inc.	Stock Appreciation Rights		206	750
(Business Services)	**Total Investment**		**206**	**750**
Pangaea CLO 2007-1 Ltd.[4]	Class D Notes (9.2%, Due 10/21)	15,000	11,761	7,114
(CLO)	**Total Investment**		**11,761**	**7,114**

PC Helps Support, LLC (Business Services)	Senior Loan (4.8%, Due 12/13)	8,610	8,520	8,587
	Subordinated Debt (13.3%, Due 12/13)	28,136	28,009	28,974
	Total Investment		**36,529**	**37,561**
Performant Financial Corporation	Common Stock (478,816 shares)		734	200
(Business Services)	**Total Investment**		**734**	**200**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance **Portfolio Company** **(in thousands, except number of shares)**	**Investment[1][2]**	**December 31, 2008** **Principal**	**Cost**	**Value**
Peter Brasseler Holdings, LLC	Equity Interests		$ 3,451	$ 2,900
(Business Services)	**Total Investment**		**3,451**	**2,900**
PharMEDium Healthcare Corporation	Senior Loan (4.3%, Due 10/13)	$ 1,910	1,910	1,747
(Healthcare Services)	**Total Investment**		**1,910**	**1,747**
Postle Aluminum Company, LLC	Unitranche Debt (13.0%, Due 10/12)[6]	58,953	58,744	9,978
(Industrial Products)	Equity Interests		2,174	
	Total Investment		**60,918**	**9,978**
Pro Mach, Inc.	Subordinated Debt (12.5%, Due 6/12)	14,616	14,573	14,089
(Industrial Products)	Equity Interests		1,294	1,900
	Total Investment		**15,867**	**15,989**
Promo Works, LLC	Unitranche Debt (12.3%, Due 12/11)	23,111	22,954	21,266
(Business Services)	**Total Investment**		**22,954**	**21,266**
Reed Group, Ltd.	Senior Loan (7.6%, Due 12/13)	12,893	12,758	11,502
(Healthcare Services)	Subordinated Debt (13.8%, Due 12/13)	18,543	18,469	16,683
	Equity Interests		1,800	300
	Total Investment		**33,027**	**28,485**
S.B. Restaurant Company	Unitranche Debt (9.8%, Due 4/11)	36,501	36,295	34,914
(Retail)	Preferred Stock (46,690 shares)		117	117

	Warrants		534	
	Total Investment		**36,946**	**35,031**
	Standby Letters of Credit ($2,465)			
Snow Phipps Group, L.P.[5]	Limited Partnership Interest		4,785	4,374
(Private Equity Fund)	**Total Investment**		**4,785**	**4,374**
SPP Mezzanine Funding II, L.P.[5]	Limited Partnership Interest		9,362	9,269
(Private Equity Fund)	**Total Investment**		**9,362**	**9,269**
STS Operating, Inc.	Subordinated Debt (11.0%, Due 1/13)	30,386	30,296	29,745
(Industrial Products)	**Total Investment**		**30,296**	**29,745**
Summit Energy Services, Inc. (Business Services)	Subordinated Debt (11.6%, Due 8/13)	35,730	35,547	32,113
	Common Stock (415,982 shares)		1,861	1,900
	Total Investment		**37,408**	**34,013**
Tank Intermediate Holding Corp. (Industrial Products)	Senior Loan (7.1%, Due 9/14)	30,514	29,539	25,937
	Total Investment		**29,539**	**25,937**

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)	**Investment[(1)(2)]**	**December 31, 2008 Principal**	**Cost**	**Value**
Tappan Wire & Cable Inc.	Unitranche Debt (15.0%, Due 8/14)	$ 22,346	$ 22,248	$ 15,625
(Business Services)	Common Stock (12,940 shares)[(12)]		2,043	
	Warrant[(12)]			
	Total Investment		**24,291**	**15,625**
The Step2 Company, LLC	Unitranche Debt (11.0%, Due 4/12)	95,083	94,816	90,474
(Consumer Products)	Equity Interests		2,156	1,161
	Total Investment		**96,972**	**91,635**
Tradesmen International, Inc.	Subordinated Debt (12.0%, Due 12/12)	40,000	39,586	37,840
(Business Services)	**Total Investment**		**39,586**	**37,840**
TransAmerican Auto Parts, LLC	Subordinated Debt (16.3%, Due 11/12)[(6)]	24,561	24,409	
(Consumer Products)	Equity Interests		1,034	
	Total Investment		**25,443**	
Trover Solutions, Inc.	Subordinated Debt (12.0%, Due 11/12)	60,054	59,847	57,362
(Business Services)	**Total Investment**		**59,847**	**57,362**
United Road Towing, Inc.	Subordinated Debt (12.1%, Due 1/14)	20,000	19,915	20,000
(Consumer Services)	**Total Investment**		**19,915**	**20,000**

Venturehouse-Cibernet Investors, LLC	Equity Interest			
(Business Services)	**Total Investment**			
VICORP Restaurants, Inc.	Warrants		33	
(Retail)	**Total Investment**		**33**	
WMA Equity Corporation and Affiliates	Subordinated Debt (16.8%, Due 4/13-4/14)(6)	139,455	138,559	63,823
d/b/a Wear Me Apparel	Common Stock (86 shares)		39,721	
(Consumer Products)	**Total Investment**		**178,280**	**63,823**
Webster Capital II, L.P.(5)	Limited Partnership Interest		1,702	1,481
(Private Equity Fund)	**Total Investment**		**1,702**	**1,481**
Woodstream Corporation	Subordinated Debt (12.0%, Due 2/15)	90,000	89,633	83,258
(Consumer Products)	Common Stock (6,960 shares)		6,961	2,500
	Total Investment		**96,594**	**85,758**
York Insurance Services Group, Inc.	Common Stock (12,939 shares)		1,294	1,700
(Business Services)	**Total Investment**		**1,294**	**1,700**
Other companies	Other debt investments	155	74	72
	Other equity investments		30	8
	Total Investment		**104**	**80**
Total companies less than 5% owned			**$ 2,317,856**	**$ 1,858,581**
Total private finance (138 portfolio investments)			**$ 4,877,392**	**$ 3,399,063**

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(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Commercial Real Estate Finance
(in thousands, except number of loans)

	Stated Interest Rate Ranges	Number of Loans	December 31, 2008 (unaudited) Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	4	$ 30,999	$ 30,537
	7.00% 8.99%	1	644	580
	9.00% 10.99%	1	6,465	6,465
	11.00% 12.99%	1	10,469	9,391
	15.00% and above	2	3,970	6,529
Total commercial mortgage loans(13)			**$ 52,547**	**$ 53,502**
Real Estate Owned			**$ 18,201**	**$ 20,823**
Equity Interests(2) Companies more than 25% owned			**$ 14,755**	**$ 19,562**
Guarantees ($6,871)				
Standby Letter of Credit ($650)				
Total commercial real estate finance			**$ 85,503**	**$ 93,887**
Total portfolio			**$ 4,962,895**	**$ 3,492,950**

Investments in Money Market and Other Securities	Yield	Cost	Value
SEI Daily Income Tr Prime Obligation Money Market Fund	0.9%	$ 5	$ 5
Columbia Treasury Reserves Fund		12	12
Other Money Market Funds		270	270
Total		$ 287	$ 287

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

(13) Commercial mortgage loans totaling $7.7 million at value were on non-accrual status and therefore were considered non-income producing.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at and for the three months ended March 31, 2009 and 2008 is unaudited)

Note 1. Organization

Allied Capital Corporation, a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940 (1940 Act). Allied Capital Corporation (ACC) has a real estate investment trust subsidiary, Allied Capital REIT, Inc. (Allied REIT), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. ACC also has a subsidiary, A.C. Corporation (AC Corp), that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to the Company, its portfolio companies and its managed funds.

ACC and its subsidiaries, collectively, are referred to as the Company. The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Article 6 of Regulation S-X, the financial results of the Company s portfolio investments are not consolidated in the Company s financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company has primarily invested in debt and equity securities of private companies in a variety of industries.

Events of Default, Liquidity and Operations

The Company experienced a significant reduction in its net worth during the second half of 2008, primarily resulting from net unrealized depreciation on its portfolio, which reflected market conditions. As a result, on December 30, 2008, the Company entered into amendments relating to its private notes and revolving line of credit, including amendments which added new covenants. The amendments are more fully described in Note 4 to the consolidated financial statements.

In January 2009 the Company re-opened discussions with the revolving line of credit lenders (the Lenders) and the private noteholders (the Noteholders) to seek relief under certain terms of both the revolving credit facility and the private notes due to a then-expected covenant default. As of December 31, 2008, the Company s asset coverage was less than the 200% required by the revolving credit facility and the private notes. The Company continued to experience additional net unrealized depreciation on its portfolio in the first quarter of 2009 and as a result, as of March 31, 2009, the Company s asset coverage remained less than 200%. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt. In addition, the Company has not completed the documents contemplated by the December 30, 2008 amendments to the revolving credit facility and private notes, which were to include a grant of a first lien security interest on substantially all of the Company s assets. Under these debt agreements, events of default have occurred and are continuing related to these covenants and certain financial and other covenants. Discussions with the Lenders and the Noteholders are continuing and the discussions encompass a more comprehensive restructuring of these debt agreements to provide long-term operational flexibility.

Pursuant to the 1940 Act, the Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200%. The Company s publicly issued unsecured notes payable require the Company to comply with this provision of the 1940 Act. At March 31, 2009, the Company s asset coverage ratio was 171%, which is

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

less than the 200% requirement. As a result under the publicly issued unsecured notes payable, the Company will not be able to issue additional indebtedness until such time as its asset coverage returns to at least 200%. The Company has not experienced any default or cross default with respect to the publicly issued unsecured notes payable.

The existence of an event of default under the revolving credit facility and private notes restricts the Company from additional borrowing or obtaining letters of credit under its revolving credit facility, and from declaring dividends or other distributions to the Company s shareholders. Pursuant to the terms of the revolving credit facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding and fees on any letters of credit outstanding under the revolving credit facility increase by up to 200 basis points. Pursuant to the terms of the private notes, during the continuance of an event of default, the rate of interest borne by the private notes increases by 200 basis points.

On March 27, 2009, pursuant to the terms of the revolving line of credit, the administrative agent for the lenders terminated substantially all of the unused commitments under the revolving line of credit. As a result, the aggregate commitments under the Company s revolving line of credit have been reduced to $165.0 million. As of March 31, 2009, the Company had $50 million in outstanding borrowings and $113.5 million in outstanding letters of credit issued under the revolving line of credit.

Neither the Lenders nor the Noteholders have accelerated repayment of the Company s obligations; however, the occurrence of an event of default permits the administrative agent for the Lenders, or the holders of more than 51% of the commitments under the revolving credit facility, to accelerate repayment of all amounts due, to terminate commitments thereunder, and to require the Company to provide cash collateral equal to the face amount of all outstanding letters of credit. Pursuant to the terms of the private notes, the occurrence of an event of default permits the holders of 51% or more of any issue of outstanding private notes to accelerate repayment of all amounts due thereunder.

The Company s consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company does not have available cash resources sufficient to satisfy all of the obligations under these debt agreements should the lenders accelerate these obligations. These factors raise substantial doubt about the Company s ability to continue as a going concern. The Company continues to seek a comprehensive restructuring of these debt agreements to provide long-term operational flexibility. In addition, the Company continues to sell assets to generate capital to repay debt. There can be no assurance that the Company s plans will be successful in addressing the liquidity uncertainties discussed above. In the event there is an acceleration of the amounts outstanding under the revolving credit facility or any issue of the private notes, it would cause the Company to evaluate other alternatives and would have a material adverse effect on the Company s operations. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ACC and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2008 balances to conform with the 2009 financial statement presentation.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the unaudited consolidated financial results of the Company included herein contain all adjustments (consisting of only normal recurring accruals)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

necessary to present fairly the financial position of the Company as of March 31, 2009, the results of operations, and changes in net assets and cash flows for the three months ended March 31, 2009 and 2008. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the operating results to be expected for the full year.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where the Company directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where the Company controls the portfolio company s board of directors and, therefore, are deemed controlled by the Company under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where the Company directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where the Company holds one or more seats on the portfolio company s board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where the Company directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related party transactions.

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company s investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company s valuation policy and the provisions of the 1940 Act and FASB Statement No. 157, *Fair Value Measurements* (SFAS 157 or the Statement) and related interpretations. The Company 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. The Company s valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs. The Company s valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

The Company adopted SFAS 157 on a prospective basis in the first quarter of 2008. SFAS 157 requires the Company to assume that the portfolio investment is assumed to be sold in the 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 the Statement, the Company has considered its principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity.

The Company has determined that for its buyout investments, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition (M&A) market as the principal market

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

generally through a sale or recapitalization of the portfolio company. The Company believes that the in-use premise of value (as defined in SFAS 157), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, the Company uses the enterprise value methodology to determine the fair value of these investments under SFAS 157. Enterprise value means the entire value of the 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. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold, and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company s equity securities, liquidation events, or other events. The Company allocates the enterprise value to these securities in order of the legal priority of the securities.

While the Company typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where the Company does not have control or the ability to gain control through an option or warrant security, the Company cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with SFAS 157, the Company is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. The Company continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of its equity investment in these portfolio companies. The determined equity values are generally discounted when the Company has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other factors. For loan and debt securities, the Company performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires the Company to estimate the expected repayment date of the instrument and a market participant s required yield. The Company s estimate of the expected repayment date of a loan or debt security is generally shorter than the legal maturity of the instruments as the Company s loans have historically been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, the Company will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that the Company uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, the Company may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

The Company s equity investments in private debt and equity funds generally are valued at the fund s net asset value, unless other factors lead to a determination of fair value at a different amount. The value of the Company s equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of the Company s CLO bonds and preferred shares/income notes and CDO bonds (CLO/CDO Assets) is generally based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar bonds and

36

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

preferred shares/ income notes, when available. The Company recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment or loss assumptions in the underlying collateral pool or changes in redemption assumptions for the CLO/CDO Assets, if applicable. The Company determines the fair value of its CLO/CDO Assets on an individual security-by-security basis.

The Company will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, 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 values determined at the measurement date. In accordance with FSP 157-4 (discussed below), the Company does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums, and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, the Company uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in SFAS 157 and FSP 157-4.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, the Company will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if the Company has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Loans in workout status generally do not accrue interest. In addition, interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by the Company depending on such company s capital requirements.

When the Company receives nominal cost warrants or free equity securities (nominal cost equity), the Company allocates its cost basis in its investment between its debt securities and its nominal cost

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

The Company recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that the Company has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments, and services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees generally are recognized as income as the services are rendered. Fees are not accrued if the Company has doubt about collection of those fees.

Guarantees

Guarantees meeting the characteristics described in FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and issued or modified after December 31, 2002, are recognized at fair value at inception.

38

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company s investments. See Note 5.

Financing Costs

Debt financing costs are based on actual costs incurred in obtaining debt financing and are deferred and amortized as part of interest expense over the term of the related debt instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

Dividends to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

Stock Compensation Plans

The Company has a stock-based employee compensation plan. See Note 9. Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R was adopted using the modified prospective method of application, which required the Company to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, the Company did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under SFAS 123R. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the statement of operations. The stock option expense for the three months ended March 31, 2009 and 2008, was as follows:

($ in millions, except per share amounts)	**2009**	**2008**
Employee Stock Option Expense:		
Previously awarded, unvested options as of January 1, 2006	$	$ 1.7
Options granted on or after January 1, 2006	0.8	2.5
Total employee stock option expense	$ 0.8	$ 4.2
Per basic share	$ 0.00	$ 0.03
Per diluted share	$ 0.00	$ 0.03

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

Options Granted. The stock option expense shown in the table above was based on the underlying value of the options granted by the Company. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the vesting period. The following weighted average assumptions were used to calculate the fair value of options granted during the three months ended March 31, 2009 and 2008:

	2009	**2008**
Expected term (in years)	3.0	5.0
Risk-free interest rate	1.3%	2.7%
Expected volatility	103.8%	27.6%
Dividend yield	34.4%	8.5%
Weighted average fair value per option	$ 0.12	$ 2.19

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, the Company used historical and other data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of the Company s common stock over a historical time period consistent with the expected term. The dividend yield was determined based on an estimate of the Company s future dividends over the expected term, relative to the option price. The estimate of future dividends takes into consideration the Company s estimate of future taxable income required to be distributed in order to maintain its status as a registered investment company (see Federal and State Income Taxes and Excise Tax below). The Company currently is not paying a dividend and may or may not be able to pay a dividend during the expected term. In addition, actual future taxable income and dividends may significantly differ from these estimates.

To determine the stock options expense for options granted, the calculated fair value of the options granted is applied to the options granted, net of assumed future option forfeitures. The Company estimates that the employee-related stock option expense for outstanding unvested options as of March 31, 2009, will be $3.7 million, $4.1 million, and $3.7 million for the years ended December 31, 2009, 2010, and 2011, respectively. This estimate may change if the Company s assumptions related to future option forfeitures change. This estimate does not include any expense related to stock option grants after March 31, 2009, as the fair value of those stock options will be determined at the time of grant. The aggregate total stock option expense remaining as of March 31, 2009, is expected to be recognized over an estimated weighted-average period of 1.55 years.

Federal and State Income Taxes and Excise Tax

The Company has complied with the requirements of the Code that are applicable to regulated investment companies (RIC) and real estate investment trusts (REIT). ACC and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, the Company has made no provision for income taxes exclusive of excise taxes for these entities.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company s annual taxable income exceeds the distributions from such taxable income during the year earned. 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 taxable income, the Company

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Per Share Information

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the period presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Common stock equivalents of 1,268,614 and 6,305 were not included in the calculation of diluted earnings (loss) per common share for the three months ended March 31, 2009 and 2008, respectively, as the effect would have been antidilutive.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of $2.9 billion and $3.5 billion at March 31, 2009, and December 31, 2008, respectively. At March 31, 2009, and December 31, 2008, 86% and 94%, respectively, of the Company s total assets represented portfolio investments whose fair values have been determined by the Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the Board of Directors determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Recent Accounting Pronouncements

Fair Value Measurements. In September 2006, the FASB issued Statement No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

The Company adopted this statement on a prospective basis beginning in the quarter ended March 31, 2008. The initial adoption of this statement did not have a material effect on the Company s consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies, continued

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. In February 2007, the FASB issued Statement No. 159, which permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

The Company did not elect fair value measurement for assets or liabilities other than portfolio investments, which already were required to be measured at fair value, therefore, the adoption of this statement did not impact the Company s consolidated financial position or its results of operations.

Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). In October 2008, the FASB issued FSP 157-3, which applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement 157. FSP 157-3 clarifies the application of Statement 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value.

The Company has applied the provisions of FSP 157-3 in determining the fair value of its portfolio investments at December 31, 2008. The application of FSP 157-3 did not have a material impact on the Company s consolidated financial position or its results of operations.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). In April 2009, the FASB issued FSP 157-4, which provides guidance on how to determine the fair value of assets under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP 157-4 states that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums.

The Company adopted the provisions of FSP 157-4 on a prospective basis beginning in the quarter ending March 31, 2009. The adoption of the provisions of FSP 157-4 did not have a material effect on the Company s consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio

Private Finance

At March 31, 2009, and December 31, 2008, the private finance portfolio consisted of the following:

($ in millions)	2009 Cost	2009 Value	2009 Yield[1]	2008 Cost	2008 Value	2008 Yield[1]
Loans and debt securities:						
Senior loans	$ 592.3	$ 289.1	5.9%	$ 556.9	$ 306.3	5.6%
Unitranche debt[2]	447.3	403.8	12.1%	527.5	456.4	12.0%
Subordinated debt[3]	2,134.7	1,492.7	13.5%	2,300.1	1,829.1	12.9%
Total loans and debt securities[4]	3,174.3	2,185.6	12.3%	3,384.5	2,591.8	11.9%
Equity securities:						
Preferred shares/income notes of CLOs[5]	250.4	104.4	8.0%	248.2	179.2	16.4%
Subordinated certificates in Unitranche Fund LLC[5]	124.5	124.5	9.2%	125.4	125.4	12.0%
Other equity securities	1,100.5	415.5		1,119.3	502.7	
Total equity securities	1,475.4	644.4		1,492.9	807.3	
Total	$ 4,649.7	$ 2,830.0		$ 4,877.4	$ 3,399.1	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At March 31, 2009, senior loans included the senior secured loan to Ciena totaling $319.0 million at cost and $64.1 million at value, which was placed on non-accrual status on the purchase date.

The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.

The weighted average yield on the subordinated certificates in the Unitranche Fund LLC is computed as the (a) annual stated interest divided by (b) total investment at value.

(2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.

(3) Subordinated debt includes bonds in CLOs and in a CDO.

(4) The total principal balance outstanding on loans and debt securities was $3,205.6 million and $3,418.0 million at March 31, 2009, and December 31, 2008, respectively. The difference between principal and cost is represented by unamortized loan origination fees and costs, original issue discounts, and market discounts totaling $31.3 million and $33.5 million at March 31, 2009, and December 31, 2008, respectively.

(5) Investments in the preferred shares/income notes of CLOs and the subordinated certificates in Unitranche Fund LLC earn a current return that is included in interest income in the accompanying consolidated statement of operations.

The Company s private finance investment activity principally involves providing financing through privately negotiated long-term debt and equity investments. The Company s private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

The Company s private finance debt investments are generally structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company s equity at a pre-determined strike price, which is generally a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to the Company s rights and priority in the portfolio company s capital structure, and will vary depending on many factors, including if the Company has received nominal cost equity or other components of investment return, such as loan origination fees or market

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At March 31, 2009, 84% of the private finance loans and debt securities had a fixed rate of interest and 16% had a floating rate of interest. At December 31, 2008, 85% of the private finance loans and debt securities had a fixed rate of interest and 15% had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, usually set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to the Company monthly or quarterly. Unitranche debt generally carries a fixed rate of interest and generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to the Company quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. The Company may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. The Company also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where the Company s equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If the Company invests in non-voting equity in a buyout investment, the Company generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. The Company may incur costs associated with making buyout investments that will be included in the cost basis of the Company s equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

Ciena Capital LLC. Ciena Capital LLC (f/k/a Business Loan Express, LLC) (Ciena) has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration s 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company (SBLC). Ciena is headquartered in New York, NY.

On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court). Ciena continues to operate its servicing business and manage its assets as a debtor-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

At March 31, 2009 and December 31, 2008, the Company s investment in Ciena was as follows:

	March 31, 2009	**December 31, 2008**

($ in millions)	Cost	Value	Cost	Value
Senior Loan	$ 319.0	$ 64.1	$ 319.0	$ 104.9
Class B Equity Interests[1]	119.5		119.5	
Class C Equity Interests[1]	112.6		109.3	
Total	$ 551.1	$ 64.1	$ 547.8	$ 104.9

[1] At March 31, 2009 and December 31, 2008, the Company held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

At March 31, 2009 and December 31, 2008, other assets includes amounts receivable from or related to Ciena totaling $15.5 million and $15.4 million at cost and $2.1 million and $2.1 million at value, respectively. Net change in unrealized appreciation or depreciation included a net decrease in the Company s investment in Ciena of $44.1 million and $39.3 million for the three months ended March 31, 2009 and 2008, respectively.

In addition, at March 31, 2009, the Company had standby letters of credit issued under the Company s line of credit of $94.1 million in connection with term securitization transactions completed by Ciena. The term securitizations have experienced increasing defaults as a result of the economic environment, which may require the Company to fund a portion of the standby letters of credit in 2009. The Company s asset coverage ratio is currently less than 200% and the Company currently is in default under its revolving line of credit. In addition, the financial institution that has issued these letters of credit has experienced a ratings downgrade. As a result of these factors, the Company may need to use cash to provide credit enhancement to these term securitizations if these letters of credit cannot be maintained through the revolving credit facility or if the issuer of these letters of credit is further downgraded. During the three months ended March 31, 2009, the Company contributed $3.3 million to Ciena in exchange for additional Class C equity interests, which was used to support Ciena s term securitizations in lieu of a draw under the letters of credit. This investment was required as a result of the downgrade of the issuer of the letters of credit. The Company has considered any funding under the letters of credit in the valuation of Ciena at March 31, 2009 and December 31, 2008.

As a result of Ciena s decision to file for bankruptcy protection, the Company s unconditional guaranty of the obligations outstanding under Ciena s revolving credit facility became due. As of March 31, 2009, the senior secured loan to Ciena had a cost basis of $319.0 million and a value of $64.1 million. The Company continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to a third party bank. In connection with the Company s continuing guaranty of the amounts held by this bank, the Company has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to the Company.

The Company s investment in Ciena was on non-accrual status, therefore the Company did not earn any interest and related portfolio income from its investment in Ciena for each of the three months ended March 31, 2009 and 2008.

At March 31, 2009, Ciena had two non-recourse securitization warehouse facilities, both of which have matured. In order to pay down debt under the conventional loan warehouse facility, Ciena is in the process of selling loans on behalf of the conventional loan warehouse facility providers. Ciena is also working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. The Company has issued performance guaranties whereby the Company agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena s failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse securitizations.

The Office of the Inspector General of the SBA (OIG) and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena. Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena s lending practices under the Business and Industry Loan (B&I) program. The OIG and the

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

U.S. Department of Justice are also conducting a civil investigation of Ciena s lending practices in various jurisdictions. The Company is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against the Company in connection with certain defaulted loans in Ciena s portfolio. These investigations, audits and reviews are ongoing.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect the Company s financial results. The Company has considered Ciena s voluntary filing for bankruptcy protection, any funding under the letters of credit, current regulatory issues, ongoing investigations and litigation in performing the valuation of Ciena at March 31, 2009 and at December 31, 2008.

Collateralized Loan Obligations (CLOs) and Collateralized Debt Obligations (CDOs). At March 31, 2009, and December 31, 2008, the Company owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield[1]**	**Cost**	**Value**	**Yield[1]**
Bonds[2]:						
Callidus Debt Partners CDO Fund I, Ltd.	$ 28.4	$ 11.1	%	$ 28.4	$ 10.1	39.4%
Callidus Debt Partners CLO Fund IV, Ltd.	2.0	1.6	21.6%	2.0	1.4	26.9%
Callidus Debt Partners CLO Fund VI, Ltd.	7.2	4.0	20.9%	7.1	3.9	26.1%
Callidus MAPS CLO Fund I LLC	17.0	11.1	10.3%	17.0	9.8	12.2%
Callidus MAPS CLO Fund II LLC	3.6	3.0	25.6%	3.6	3.0	30.2%
Dryden XVIII Leveraged Loan 2007 Limited	7.8	3.1	19.3%	7.7	4.5	20.5%
Knightsbridge CLO 2007-1 Ltd.[3]	18.7	15.0	12.9%	18.7	14.9	17.4%
Knightsbridge CLO 2008-1 Ltd.[3]	31.4	28.4	13.3%	31.4	31.4	10.2%
Pangaea CLO 2007-1 Ltd.	11.9	4.6	24.4%	11.8	7.1	25.0%
Total bonds	128.0	81.9	12.9%	127.7	86.1	18.5%
Preferred Shares/Income Notes:						
Callidus Debt Partners CLO Fund III, Ltd.	20.1	6.4	%	20.1	5.4	%
Callidus Debt Partners CLO Fund IV, Ltd.	15.0	5.5	%	14.6	10.6	18.1%
Callidus Debt Partners CLO Fund V, Ltd.	13.6	6.9	12.1%	13.4	10.3	21.3%
Callidus Debt Partners CLO Fund VI, Ltd.	29.0	8.7	8.7%	28.3	23.1	21.8%
Callidus Debt Partners CLO Fund VII, Ltd.	24.7	10.5	5.1%	24.0	15.4	17.9%
Callidus MAPS CLO Fund I LLC	43.8	13.4	%	45.1	27.8	6.5%
Callidus MAPS CLO Fund II, Ltd.	18.8	4.4	%	18.4	12.6	19.3%
Dryden XVIII Leveraged Loan 2007 Limited	22.7	8.7	21.5%	22.1	17.5	20.2%
Knightsbridge CLO 2007-1 Ltd.[3]	41.8	20.4	%	40.9	35.2	17.4%
Knightsbridge CLO 2008-1 Ltd.[3]	20.9	19.5	22.1%	21.3	21.3	16.6%

Total preferred shares/income notes	250.4	104.4	7.9%	248.2	179.2	16.4%
Total	$ 378.4	$ 186.3		$ 375.9	$ 265.3	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations.

The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

(2) These securities are included in private finance subordinated debt.

(3) These funds are managed by the Company through a wholly-owned subsidiary.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

The bonds, preferred shares and income notes of the CLOs and CDO in which the Company has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO is generally allocated first to the senior bonds in order of priority, then any remaining cash flow is generally distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both March 31, 2009, and December 31, 2008, the face value of the CLO and CDO assets held by the Company was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At March 31, 2009, and December 31, 2008, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 646 issuers and 658 issuers, respectively, and had balances as follows:

($ in millions)	**2009**	**2008**
Bonds	$ 240.7	$ 268.3
Syndicated loans	4,428.8	4,477.3
Cash[(1)]	130.6	89.6
Total underlying collateral assets at cost[(2)]	$ 4,800.1	$ 4,835.2

(1) Includes undrawn liability amounts.

(2) At March 31, 2009, and December 31, 2008, the total cost basis of defaulted obligations was $134.0 million and $95.0 million, respectively, or approximately 2.8% and 2.0% respectively, of the total underlying collateral assets.

Loans and Debt Securities on Non-Accrual Status. At March 31, 2009, and December 31, 2008, private finance loans and debt securities at value not accruing interest were as follows:

($ in millions)	**2009**	**2008**
Loans and debt securities		
Companies more than 25% owned	$ 134.5	$ 176.1
Companies 5% to 25% owned	13.6	

Companies less than 5% owned	69.3	151.8
Total	$ 217.4	$ 327.9

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

Industry and Geographic Compositions. The industry and geographic compositions of the private finance portfolio at value at March 31, 2009, and December 31, 2008, were as follows:

	2009	2008
Industry		
Business services	33%	36%
Consumer products	26	24
CLO/CDO[1]	7	8
Financial services	6	6
Private debt funds	5	5
Consumer services	5	5
Retail	5	5
Industrial products	4	5
Healthcare services	3	2
Other	6	4
Total	100%	100%
Geographic Region[2]		
Mid-Atlantic	39%	41%
Midwest	29	28
Southeast	20	17
West	11	13
Northeast	1	1
Total	100%	100%

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital, a portfolio company of Allied Capital.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for the Company s portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

Commercial Real Estate Finance

At March 31, 2009, and December 31, 2008, the commercial real estate finance portfolio consisted of the following:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield[1]**	**Cost**	**Value**	**Yield[1]**
Commercial mortgage loans	$ 53.6	$ 53.9	6.7%	$ 52.5	$ 53.5	7.4%
Real estate owned	15.0	7.8		18.2	20.8	

Equity interests	13.7	17.3	14.8	19.6
Total	$ 82.3	$ 79.0	$ 85.5	$ 93.9

(1) The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

Commercial Mortgage Loans and Equity Interests. The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from third-party sellers. At March 31,

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

2009, and December 31, 2008, approximately 68% and 69% of the Company s commercial mortgage loan portfolio was composed of fixed interest rate loans, respectively, and 32% and 31% of the Company s commercial loan portfolio was composed of adjustable interest rate loans, respectively. At March 31, 2009, and December 31, 2008, loans with a value of $11.0 million and $7.7 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests primarily consist of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial real estate finance portfolio at value at March 31, 2009, and December 31, 2008, were as follows:

	2009	**2008**
Property Type		
Hospitality	57%	52%
Recreation	28	22
Office	13	15
Retail		9
Other	2	2
Total	100%	100%
Geographic Region		
Southeast	42%	43%
West	30	26
Midwest	19	22
Northeast	9	9
Mid-Atlantic		
Total	100%	100%

Fair Value Measurements

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company s investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company s valuation policy and the provisions of the 1940 Act and SFAS 157. The Company 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. The Company s valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs.

SFAS 157 establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, the Company classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis by level within the fair value hierarchy at March 31, 2009, were as follows:

($ in millions)	Fair Value Measurement as of March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Portfolio				
Private finance:				
Loans and debt securities	$ 2,185.6	$	$	$ 2,185.6
Preferred shares/income notes of CLOs	104.4			104.4
Subordinated certificates in Unitranche Fund LLC	124.5			124.5
Other equity securities	415.5			415.5
Commercial real estate finance	79.0			79.0
Total portfolio	$ 2,909.0	$	$	$ 2,909.0

The table below sets forth a summary of changes in the Company s assets measured at fair value using level 3 inputs.

	Private Finance				
	Loans and Debt	Preferred Shares/ Income Notes	Subordinated Certificates in Unitranche	Other Equity	Commercial Real Estate

($ in millions)	Securities	of CLOs	Fund LLC	Securities	Finance	Total
Balance at December 31, 2008	$ 2,591.8	$ 179.2	$ 125.4	$ 502.7	$ 93.9	$ 3,493.0
Total gains or losses						
Net realized gains (losses)[1]	(30.4)	7.3		(6.8)	4.1	(25.8)
Net change in unrealized appreciation or depreciation[2]	(196.0)	(76.9)		(68.4)	(11.7)	(353.0)
Purchases, issuances, repayments and exits, net[3]	(179.8)	(5.2)	(0.9)	(12.0)	(7.3)	(205.2)
Transfers in and/or out of level 3						
Balance at March 31, 2009	$ 2,185.6	$ 104.4	$ 124.5	$ 415.5	$ 79.0	$ 2,909.0
Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date[2]	$ (221.1)	$ (76.9)	$	$ (57.7)	$ (5.2)	$ (360.9)

(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations.

Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

(3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

Managed Funds

In addition to managing its own assets, the Company manages certain funds that also invest in the debt and equity securities of primarily private middle market companies in a variety of industries. At March 31, 2009, the Company had eight separate funds under its management (together, the Managed Funds) for which the Company may earn management or other fees for its services. The Company may invest in the equity of these funds, along with other third parties, from which the Company may earn a current return and/or a future incentive allocation.

On March 3, 2009, the Company announced the completion of the acquisition of the management contracts of three middle market senior debt CLOs (together, the Emporia Funds) and certain other related assets for approximately $11 million (subject to post-closing adjustments). The acquired assets are included in other assets in the accompanying consolidated balance sheet and the cost will be amortized over the life of the contracts. The Emporia Funds primarily invest in middle market and broadly syndicated senior secured loans. The Company is not an investor in the Emporia Funds.

The assets of the Managed Funds at March 31, 2009 and December 31, 2008, and the Company s management fees as of March 31, 2009 were as follows:

($ in millions) Name of Fund	Assets of Managed Funds March 31, 2009	Assets of Managed Funds December 31, 2008	Management Fee[2]
Unitranche Fund LLC	$ 781.3	$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.	397.7	412.9	1.625%[1][2]
Knightsbridge CLO 2007-1 Ltd.	502.0	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
AGILE Fund I, LLC	83.2	99.3	[1]
Emporia Preferred Funding I, Ltd.	414.2		0.625%[1]
Emporia Preferred Funding II, Ltd.	352.5		0.650%[1]
Emporia Preferred Funding III, Ltd.	406.2		0.650%[1]
Total Assets	$ 3,241.7	$ 2,107.4	

(1) The Company is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.

(2) Management fees are stated as a percent of assets except for the Allied Capital Senior Debt Fund, L.P. (ACSDF) which is stated as a percent of equity capital. The management fee paid by ACSDF was 2.000% at December 31, 2008 and reduced to 1.625% effective January 1, 2009.

A portion of the management fees earned by the Company may be deferred under certain circumstances. Collection of the fees earned may be dependent in part on the performance of the Managed Fund. The Company may pay a portion of management fees it receives to Callidus Capital Corporation, a portfolio investment controlled by the Company, for services provided as special manager to the Allied Capital Senior Debt Fund, L.P., Knightsbridge CLO 2007-1 Ltd., Knightsbridge CLO 2008-1 Ltd. and the Emporia Funds.

The Company s responsibilities to the Managed Funds may include investment origination, underwriting, and portfolio monitoring services. Each of the Managed Funds may separately invest in the debt or equity of companies in the Company s portfolio, and these investments may be senior, pari passu or

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Portfolio, continued

junior to the debt and equity investments held by the Company. The Company may or may not participate in investments made by the Managed Funds.

No assets were sold to any of the Managed Funds during the three months ended March 31, 2009. During the three months ended March 31, 2008, the Company sold $166.7 million of assets to the AGILE Fund I, LLC, for which the Company recognized a realized gain of $8.8 million and dividend income of $5.4 million.

The Company accounts for the sale of securities to funds with which it has continuing involvement as sales pursuant to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125, when the securities have been legally isolated from the Company, the Company has no ability to restrict or constrain the ability of the Managed Funds to pledge or exchange the transferred securities, and the Company does not have either the entitlement and the obligation to repurchase the securities or the ability to unilaterally cause the Managed Fund to put the securities back to the Company.

In addition to managing these funds, the Company holds certain investments in the Managed Funds as follows:

($ in millions)		**March 31, 2009**		**December 31, 2008**	
Name of Fund	**Investment Description**	**Cost**	**Value**	**Cost**	**Value**
Unitranche Fund LLC[1]	Subordinated Certificates and Equity Interests	$ 124.5	$ 124.5	$ 125.4	$ 125.4
Allied Capital Senior Debt Fund, L.P.	Equity interests	31.8	32.9	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	60.4	35.4	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	52.3	47.9	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
Total		$ 269.7	$ 241.1	$ 270.2	$ 260.5

(1) The Company has committed up to $525.0 million of subordinated certificates to the Unitranche Fund. The Unitranche Fund will be capitalized as investment transactions are completed. Investments made by the Unitranche Fund must be approved by the investment committee of the Unitranche Fund, which includes a representative from the Company. Therefore, this commitment to the Unitranche Fund cannot be drawn without the Company s approval.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Debt

At March 31, 2009, and December 31, 2008, the Company had the following debt:

	2009			2008		
($ in millions)	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost[(1)]**	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost[(1)]**
Notes payable:						
Privately issued unsecured notes payable	$1,015.0	$1,015.0	9.8%[(5)]	$1,015.0	$1,015.0	7.8%
Publicly issued unsecured notes payable	877.5	877.5	6.7%	880.0	880.0	6.7%
Total notes payable	1,892.5	1,892.5	8.3%	1,895.0	1,895.0	7.3%
Revolving line of credit[(4)]	165.0	50.0	6.3%[(2)(5)]	632.5	50.0	4.3%[(2)]
Total debt	$2,057.5	$1,942.5	8.6%[(3)(5)]	$2,527.5	$1,945.0	7.7%[(3)]

(1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt plus any applicable default interest, plus the annual amortization of commitment fees, other facility fees and amortization of debt financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

(2) The annual interest cost reflects the interest rate payable for borrowings under the revolving line of credit in effect at the balance sheet date. In addition to the current interest payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs of $6.0 million at March 31, 2009, and $8.5 million at December 31, 2008.

(3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the revolving line of credit regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.

(4) At March 31, 2009, $1.5 million remained unused on the revolving line of credit, net of amounts committed for standby letters of credit of $113.5 million issued under the credit facility. See discussion below.

(5) Events of default have occurred and are continuing under the Revolving Line of Credit and Private Notes which have increased the interest rates by 2.00% during the continuance of such events of default. Excluding this default interest, the annual interest cost on total debt would have been 7.5%.

Notes Payable

Revolving Line of Credit. The Company has a three-year unsecured revolving line of credit with total commitments of $165.0 million that expires on April 11, 2011 (the Revolving Line of Credit). At March 31, 2009, there was $50.0 million outstanding under the Company s Revolving Line of Credit and standby letters of credit of $113.5 million were issued under the credit facility.

Borrowings under the Revolving Line of Credit generally bear interest at a rate per annum equal to (i) LIBOR (for the period selected by the Company) plus 3.00% or (ii) the higher of (a) the Federal Funds rate plus 1.50% or (b) the Bank of America N.A. prime rate plus 1.00%. The Revolving Line of Credit requires the payment of an annual commitment fee equal to 0.50% of the committed amount (whether used or unused). The Revolving Line of Credit 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. All principal is due upon maturity.

The Revolving Line of Credit provides for a swingline sub-facility. The swingline sub-facility bears interest at the Bank of America N.A. cost of funds plus 2.00%. The Revolving Line of Credit also provides for a sub-facility for the issuance of letters of credit for up to an aggregate amount of $115.0 million. The letter of credit fee is 3.00% per annum on letters of credit issued, which is payable quarterly. Events of default have increased the interest rate and fees on letters of credit by up to 2.00% during the continuance of such events of default. See Note 1.

Privately Issued Unsecured Notes Payable. The Company has privately issued notes (the Private Notes) to institutional investors, primarily insurance companies. The Private Notes have five- or seven-year maturities and stated fixed rates of interest ranging from 6.53% to 9.14% at March 31, 2009. Events of default have occurred which have increased these interest rates by 2.00% during the continuance of such events of default. See Note 1. The Private Notes generally require payment of interest only semi-annually, and all principal is due upon maturity. At March 31, 2009, the Private Notes had maturities from November 2009 to June 2015. The Private Notes may be prepaid in whole or in part, together with an interest premium, if any, as stipulated in the private note agreements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Debt, continued

The Revolving Line of Credit and the Private Notes have similar financial and operating covenants. These covenants require the Company to maintain certain financial ratios, including asset coverage, debt to equity and interest coverage, and a minimum net worth. These debt agreements provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events, failure to pay judgments, attachment of its assets, change of control and the issuance of an order of dissolution. Certain of these events of default are subject to notice and cure periods or materiality thresholds. These debt agreements limit the Company s ability to declare dividends or repurchase its common stock during the existence of certain defaults and events of default.

Amendments to Revolving Line of Credit and Privately Issued Unsecured Notes Payable. On December 30, 2008, the Company entered into amendments relating to the Company s Private Notes and Revolving Line of Credit. The amendments reduced the Company s capital maintenance covenant to the greater of $1.5 billion and 85% of consolidated adjusted debt, and reduced the Company s interest charges coverage ratio covenant, determined as of the last day of each fiscal quarter for the period of four consecutive fiscal quarters ending on such day, to 1.4 to 1 for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter to and including the fiscal quarter ending December 31, 2009, to 1.6 to 1 for the fiscal quarter ending March 31, 2010 and each fiscal quarter thereafter to and including the fiscal quarter ending December 31, 2010, and to 1.7 to 1 for the fiscal quarter ending March 31, 2011 and each fiscal quarter thereafter. The amendments did not modify the Company s obligation to maintain a minimum 200% asset coverage ratio.

The amendments added new covenants that required the Company to grant to the Noteholders and the Lenders a first priority lien on substantially all of the Company s assets no later than January 30, 2009, and to maintain a ratio of consolidated total adjusted assets to secured debt of not less than 2.25 to 1. Also, prior to December 31, 2010, the Company is (i) required to limit the payment of dividends to a maximum of $0.20 per share per fiscal quarter (or such greater amount required for the Company to maintain its regulated investment company status), and (ii) restricted from purchasing, redeeming or retiring any shares of the Company s common stock or any warrants, rights or options to purchase or acquire any shares of the Company s common stock for an aggregate consideration in excess of $60 million. In addition, the amendments restricted the Company from prepaying, redeeming, purchasing or otherwise acquiring any of its currently outstanding public notes prior to their stated maturity. The amendments also made certain other modifications. The amendments increased the rate of interest on the instruments by 100 basis points. In addition, these amendments required a 50 basis point amendment fee.

Events of default have occurred and are continuing under the Revolving Line of Credit and Private Notes related to certain financial and other covenants. See Note 1.

Publicly Issued Unsecured Notes Payable. At March 31, 2009, the Company had outstanding publicly issued unsecured notes as follows:

($ in millions)	**Amount**	**Maturity Date**

6.625% Notes due 2011	$397.5	July 15, 2011
6.000% Notes due 2012	250.0	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$877.5	

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Debt, continued

The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes. In addition, the Company may purchase these notes in the market at par or at a discount to the extent permitted by the 1940 Act. During the three months ended March 31, 2009, the Company paid $0.5 million to repurchase certain of the 6.625% Notes due 2011 which had a face value of $2.5 million.

The 6.875% Notes due 2047 require payment of interest only quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

The Company has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. The Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200% as required by the 1940 Act, as amended. At March 31, 2009, the Company s asset coverage ratio was 171%, which is less than the 200% requirement. As a result, under the publicly issued unsecured notes payable, the Company will not be able to issue indebtedness until such time as the Company s asset coverage returns to at least 200%. The Company has not experienced any default or cross default with respect to the publicly issued unsecured notes payable.

Scheduled Maturities. Scheduled future maturities of notes payable at March 31, 2009, were as follows:

($ in millions)	Amount Maturing		
Year	**Privately Issued Unsecured Notes Payable[1]**	**Publicly Issued Unsecured Notes Payable**	**Total**
2009	$ 1,015.0	$	$ 1,015.0
2010			
2011		397.5	397.5
2012		250.0	250.0
2013			
Thereafter		230.0	230.0
Total	$ 1,015.0	$ 877.5	$ 1,892.5

(1) The private notes have stated contractual maturities as follows: 2009 $252.5 million, 2010 $408.0 million, 2011 $72.5 million, 2012 $89.0 million, 2013 $140.5 million, and thereafter $52.5 million.

As discussed above and in Note 1, events of default have occurred and are continuing under the Revolving Line of Credit and Private Notes. Neither the Lenders nor Noteholders have accelerated repayment; however, if the administrative agent for the Lenders under the Revolving Line of Credit or the required percentage of Lenders under the Revolving Line of Credit or Noteholders under the Private Notes, respectively, were to accelerate repayment, these obligations would become immediately due and payable. Therefore, in the table above, the Private Notes are shown as payable in 2009.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Guarantees and Commitments

In the ordinary course of business, the Company has issued guarantees and has extended standby letters of credit through financial intermediaries on behalf of certain portfolio companies. All standby letters of credit have been issued through Bank of America, N.A. As of March 31, 2009, and December 31, 2008, the Company had issued guarantees of debt and rental obligations aggregating $19.2 million and $19.2 million, respectively, and had extended standby letters of credit aggregating $113.5 million and $122.3 million, respectively. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations or if the expiration dates of the letters of credit are not extended. The maximum amount of potential future payments was $132.7 million and $141.5 million at March 31, 2009, and December 31, 2008, respectively.

As of March 31, 2009, the guarantees and standby letters of credit expired as follows:

(in millions)	Total	2009	2010	2011	2012	2013	After 2013
Guarantees	$ 19.2	$ 7.5	$ 6.4	$ 4.4	$ 0.1	$	$ 0.8
Standby letters of credit	113.5	113.5					
Total	$ 132.7	$ 121.0	$ 6.4	$ 4.4	$ 0.1	$	$ 0.8

Standby letters of credit have been issued under the Revolving Line of Credit. The Company s asset coverage ratio is currently less than 200% and events of default have occurred and are continuing under the Revolving Line of Credit. Therefore, the Company is precluded from borrowing under its Revolving Line of Credit to fund these standby letters of credit and the Company may need to fund these standby letter of credit draws with cash in lieu of a borrowing. As a result, in the table above the Company has assumed that these standby letters of credit may not be able to be extended and may mature in 2009. During the existence of an event of default, the administrative agent is (i) permitted to require the Company to provide cash collateral equal to the face amount of all outstanding standby letters of credit and (ii) not required to extend the existing letters of credit beyond their maturity dates, all of which expire during the course of 2009.

In the ordinary course of business, the Company enters into agreements with service providers and other parties that may contain provisions for the Company to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

At March 31, 2009, the Company had outstanding commitments to fund investments totaling $651.6 million, including $619.3 million related to private finance investments and $32.3 million related to commercial real estate finance investments. Total outstanding commitments related to private finance investments included $399.6 million to the Unitranche Fund LLC. Investments made by the Unitranche Fund must be approved by the investment committee of the Unitranche Fund, which includes a representative from the Company. Therefore, the Company s commitment to the Unitranche Fund cannot be drawn without the Company s approval. See Note 3.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Shareholders Equity

Sales of common stock for the three months ended March 31, 2009 and 2008, were as follows:

(in millions)	2009	2008
Number of common shares		8.3
Gross proceeds	$	$ 175.5
Less costs, including underwriting fees		4.6
Net proceeds	$	$ 170.9

There were no stock options exercised during the three months ended March 31, 2009 and 2008.

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. If the Company issues new shares, the issue price is equal to the average of the closing sale prices reported for the Company s common stock for the five consecutive trading days immediately prior to the dividend payment date. The Company may not issue new shares below net asset value. Dividend reinvestment plan activity for the three months ended March 31, 2009 and 2008, was as follows:

(in millions, except per share amounts)	2009	2008
Shares issued		0.2
Average price per share	$	$ 19.49
Shares purchased by plan agent for shareholders		
Average price per share		

Note 7. Earnings Per Common Share

Earnings per common share for the three months ended March 31, 2009 and 2008, were as follows:

(in millions, except per share amounts)	2009	2008
Net increase (decrease) in net assets resulting from operations	$ (347.7)	$ (40.7)

Weighted average common shares outstanding basic	178.7	161.5
Dilutive options outstanding		
Weighted average common shares outstanding diluted	178.7	161.5
Basic earnings (loss) per common share	$ (1.95)	$ (0.25)
Diluted earnings (loss) per common share	$ (1.95)	$ (0.25)

Note 8. Employee Compensation Plans

The Company has an Individual Performance Award plan (IPA), and an Individual Performance Bonus plan (IPB , each individually a Plan, or collectively, the Plans). These Plans generally are determined annually at the beginning of each year but may be adjusted throughout the year. In 2008, the

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Employee Compensation Plans, continued

IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in the Company s common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by the Company. The Company currently has not established an IPA or IPB for 2009; however, depending upon the Company s need to retain and motivate its employees, the Company may determine in conjunction with the Compensation Committee of the Board of Directors that some form of 2009 retention compensation or additional individual performance compensation may be in the best interests of the Company.

The trusts for the IPA payments were consolidated with the Company s accounts. The common stock was classified as common stock held in deferred compensation trust in the accompanying financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of the Company s common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense.

In December 2007, the Company s Board of Directors made a determination that it was in the best interests of the Company to terminate its deferred compensation arrangements. The Board of Directors decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements. The Board of Directors resolved that the accounts under these Plans would be distributed to participants in full on March 18, 2008, the termination and distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these Plans.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of the Company s common stock, net of required withholding taxes.

The IPA and IPB expenses are included in employee expenses and for the three months ended March 31, 2009 and 2008, were as follows:

($ in millions)	**2009**	**2008**
IPA	$	$ 2.4
IPA mark to market expense (benefit)		(4.1)
Total IPA expense (benefit)	$	$ (1.7)
Total IPB expense	$	$ 1.7

Note 9. Stock Option Plan

The purpose of the stock option plan (Option Plan) is to provide officers and non-officer directors of the Company with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Stock Option Plan, continued

the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control.

At March 31, 2009, and December 31, 2008, there were 37.2 million shares authorized under the Option Plan and the number of shares available to be granted under the Option Plan was 2.6 million and 9.5 million, respectively.

Information with respect to options granted, exercised and forfeited under the Option Plan for the three months ended March 31, 2009, was as follows:

(in millions, except per share amounts)	Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Remaining Term (Years)	Aggregate Intrinsic Value at March 31, 2009[1]
Options outstanding at January 1, 2009	19.7	$ 26.56		
Granted	10.6	$ 0.73		
Exercised		$		
Forfeited	(3.6)	$ 26.73		
Options outstanding at March 31, 2009	26.7	$ 16.28	5.98	$9.1
Exercisable at March 31, 2009[2]	9.8	$ 28.23	5.14	$
Exercisable and expected to be exercisable at March 31, 2009[3]	23.2	$ 16.37	5.95	$8.2

(1) Represents the difference between the market value of the options at March 31, 2009, and the cost for the option holders to exercise the options.
(2) Represents vested options.
(3) The amount of options expected to be exercisable at March 31, 2009, is calculated based on an estimate of expected forfeitures.

During the three months ended March 31, 2008, 7.1 million options were granted, no options were exercised and 0.3 million options were forfeited. No options vested during the three months ended March 31, 2009 and 2008.

Note 10. Dividends and Distributions and Taxes

At December 31, 2008, the Company estimated that it did not have excess taxable income available for distribution to shareholders in 2009, and the Company s Board of Directors did not declare a dividend for the first quarter of 2009. The Company s Board of Directors declared and the Company paid a dividend of $0.65 per common share for the first quarter of 2008, totaling $108.1 million.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Dividends and Distributions and Taxes, continued

The Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company s annual taxable income exceeds the distributions for the year. The Company records an excise tax based on the Company s estimated excess taxable income for the period. Such estimates may change from period to period. The Company did not record an excise tax for the three months ended March 31, 2009. The Company recorded an excise tax of $2.3 million for the three months ended March 31, 2008.

In certain circumstances, the Company is restricted in its ability to pay dividends. Each of the Company s Private Notes and the Company s Revolving Line of Credit contain provisions that limit the amount of dividends the Company can pay, and have a covenant that requires a minimum 200% asset coverage ratio at all times. At March 31, 2009, the Company was in default of that covenant (see Note 1). During the continuance of an event of default, the Company is precluded from declaring dividends or other distributions to its shareholders. In addition, pursuant to the 1940 Act, the Company may be precluded from declaring dividends or other distributions to its shareholders unless the Company s asset coverage is at least 200%.

The Company currently estimates that it had cumulative deferred taxable income related to installment sale gains of approximately $217.4 million as of December 31, 2008. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. The recognition of installment sales gains as of December 31, 2008 are estimates and will not be finally determined until the Company files its 2008 tax return in September 2009. Certain of these installment gains as of December 31, 2008 will be recognized for tax purposes in 2009 as certain notes received from the sale of the related investments have been sold.

The Company s undistributed book earnings of $184.7 million as of December 31, 2008 resulted from undistributed ordinary income and long-term capital gains. The difference between undistributed book earnings at the end of the year and taxable income carried over from the current year into the next year relates to a variety of timing and permanent differences in the recognition of income and expenses for book and tax purposes.

The Company s consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the three months ended March 31, 2009 and 2008, AC Corp s income tax benefit was $0.4 million and $0.3 million, respectively. For the three months ended March 31, 2009, paid in capital was decreased by $2.4 million primarily for the reduction of the deferred tax asset related to stock options that expired unexercised.

Note 11. Supplemental Disclosure of Cash Flow Information

The Company paid interest of $33.2 million and $31.1 million, respectively, for the three months ended March 31, 2009 and 2008. The Company paid income taxes, including excise taxes (net of refunds), of $3.0 million and $13.0 million the three months ended March 31, 2009 and 2008, respectively.

Non-cash operating activities for the three months ended March 31, 2009 and 2008, totaled $58.7 million and $132.0 million, respectively. Non-cash operating activities for the three months ended March 31, 2009 and 2008, included the exchange of existing debt securities and accrued interest with a

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Supplemental Disclosure of Cash Flow Information, continued

cost basis of $58.7 million and $99.6 million, respectively, for new debt and equity securities, and non-cash operating activities for the three months ended March 31, 2008, included consideration received in connection with the sale of securities of $32.4 million, which was received in cash in April 2008.

Non-cash financing activities included the issuance of common stock in lieu of cash distributions totaling $3.8 million for the three months ended March 31, 2008.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Financial Highlights

	At and for the Three Months Ended March 31, 2009[1]	At and for the Three Months Ended March 31, 2008	At and for the Year Ended December 31, 2008
Per Common Share Data			
Net asset value, beginning of period	$ 9.62	$ 17.54	$ 17.54
Net investment income[2]	0.16	0.43	1.23
Net realized gains (losses)[2][3]	(0.15)	0.02	(0.75)
Net investment income plus net realized gains (losses)[2]	0.01	0.45	0.48
Net change in unrealized appreciation or depreciation[2][3]	(1.96)	(0.70)	(6.49)
Net increase (decrease) in net assets resulting from operations[2]	(1.95)	(0.25)	(6.01)
Net decrease in net assets from shareholder distributions		(0.65)	(2.60)
Net increase in net assets from capital share transactions[2]		0.35	0.69
Net asset value, end of period	$ 7.67	$ 16.99	$ 9.62
Market value, end of period	$ 1.59	$ 18.43	$ 2.69
Total return[4]	(40.9)%	(11.4)%	(82.5)%
Ratios and Supplemental Data			
($ and shares in millions, except per share amounts)			
Ending net assets	$ 1,369.8	$ 2,828.4	$ 1,718.4
Common shares outstanding at end of period	178.7	166.5	178.7
Diluted weighted average common shares outstanding	178.7	161.5	173.0
Employee, employee stock option and administrative expenses/average net assets[5]	1.40%	1.28%	5.47%
Total operating expenses/average net assets[5][6]	4.41%	2.62%	11.39%
Income tax expense (benefit), including excise tax/average net assets[5]	(0.02)%	0.07%	0.10%
Net investment income/average net assets[5]	1.91%	2.48%	8.47%
Net increase (decrease) in net assets resulting from operations/average net assets[5]	(22.52)%	(1.45)%	(41.34)%
Portfolio turnover rate[5]	1.25%	5.62%	24.00%
Average debt outstanding	$ 1,945.0	$ 2,209.5	$ 2,091.6
Average debt per share[2]	$ 10.88	$ 13.68	$ 12.09

(1) The results for the three months ended March 31, 2009, are not necessarily indicative of the operating results to be expected for the full year.
(2) Based on diluted weighted average number of common shares outstanding for the period.
(3) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.
(4) Total return assumes the reinvestment of all dividends paid for the periods presented.
(5) The ratios for the three months ended March 31, 2009 and 2008, do not represent annualized results.
(6) Includes 0.19% for the effect of the impairment of long-lived asset during the three months ended March 31, 2009.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Litigation

On June 23, 2004, the Company was notified by the SEC that the SEC was conducting an informal investigation of the Company. The investigation related to the valuation of securities in the Company s private finance portfolio and other matters. On June 20, 2007, the Company announced that it entered into a settlement with the SEC that resolved the SEC s informal investigation. As part of the settlement and without admitting or denying the SEC s allegations, the Company agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, the Company did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in the Company s private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered the Company to continue to maintain certain of its current valuation-related controls. Specifically, for a period of two years, the Company has undertaken to: (1) continue to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continue to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, the Company received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding the Company and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. The Company produced materials in response to the requests from the U.S. Attorney s office and certain current and former employees were interviewed by the U.S. Attorney s Office. The Company has voluntarily cooperated with the investigation.

In late December 2006, the Company received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by the Company or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, the Company became aware that an agent of the Company obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital during a period of time in 2005. Also, while the Company was gathering documents responsive to the subpoena, allegations were made that the Company s management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. The Company s management has stated that these allegations are not true. The Company has cooperated fully with the inquiry by the U.S. Attorney s Office.

On February 26, 2007, Dana Ross filed a class action complaint in the U.S. District Court for the District of Columbia in which she alleges that Allied Capital Corporation and certain members of management violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Thereafter, the court appointed new lead counsel and approved new lead plaintiffs. On July 30, 2007, plaintiffs served an amended complaint. Plaintiffs claim that, between November 7, 2005, and January 22, 2007, Allied Capital either failed to disclose or misrepresented information about its portfolio company, Business Loan Express, LLC. Plaintiffs seek unspecified compensatory and other damages, as well as other relief. The Company believes the lawsuit is without merit, and intends to defend the lawsuit vigorously. On September 13, 2007, the Company filed a motion to dismiss the lawsuit. The motion is pending.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Litigation, continued

On October 6, 2008, Rena Nadoff filed a shareholder derivative action in the Superior Court of the District of Columbia, captioned Rena Nadoff v. Walton, et al., 2008 CA 007108, seeking unspecified compensatory and other damages, as well as equitable relief on behalf of Allied Capital Corporation. Ms. Nadoff s suit is substantially similar to a derivative action she filed in February 2007, which the Court dismissed in July 2007. On November 26, 2008, the Company filed a motion to dismiss the second Nadoff lawsuit. On February 3, 2009, the Court denied the motion to dismiss but ordered Ms. Nadoff to file an amended complaint that clearly identifies and sets forth the breaches of fiduciary duty, if any, that are alleged to have occurred after the filing (or dismissal) of the first Nadoff derivative lawsuit. Ms. Nadoff filed an amended complaint alleging breaches of fiduciary duty by the Board of Directors. The Company filed a motion to dismiss the amended complaint. In response, Ms. Nadoff requested that she be allowed to voluntarily dismiss the amended complaint without prejudice. The court denied her request and the motion to dismiss is pending.

In addition, the Company is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of the Company, see Note 3, Portfolio Ciena Capital LLC.

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, the Company does not expect these matters will materially affect its financial condition or results of operations.

Note 14. Subsequent Events

Subsequent to March 31, 2009, the Company sold portfolio investments and received $78.4 million of cash proceeds, as compared to their aggregate carrying value of $83.1 million at March 31, 2009. The assets were sold primarily in transactions the Company does not consider orderly in accordance with FSP 157-4. The Company will record any realized gains or losses on these sales during the three months ending June 30, 2009.

Subsequent to March 31, 2009, the Company purchased publicly issued notes in the market with a total par value of $56.8 million, which consisted of $34.6 million of its 6.625% Notes due 2011 and $22.2 million of its 6.000% Notes due 2012, for a total cost of $17.7 million, resulting in a gain of $39.1 million which will be reflected in the Company s results of operations for the three months ending June 30, 2009.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Allied Capital Corporation:

We have reviewed the accompanying consolidated balance sheet of Allied Capital Corporation and subsidiaries (the Company), including the consolidated statement of investments, as of March 31, 2009, the related consolidated statements of operations, changes in net assets and cash flows and the financial highlights (included in Note 12) for the three-month periods ended March 31, 2009 and 2008. These consolidated financial statements and financial highlights are the responsibility of the Company s management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements and financial highlights referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Allied Capital Corporation and subsidiaries, including the consolidated statement of investments, as of December 31, 2008, and the related consolidated statements of operations, changes in net assets and cash flows (not presented herein), and the financial highlights, for the year then ended; and in our report dated March 2, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet including the consolidated statement of investments as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Note 1 of the Company s audited financial statements as of December 31, 2008, and for the year then ended, discloses that the Company was in default on provisions of certain credit agreements at December 31, 2008. Our auditors report on those financial statements dated March 2, 2009, includes an explanatory paragraph referring to the matters in Note 1 of those financial statements, and indicating that these matters raised substantial doubt about the Company s ability to continue as a going concern. As indicated in Note 1 of the Company s unaudited interim financial statements as of March 31, 2009, and for the three-months then ended, the Company was still in default on provisions of certain credit agreements as of March 31, 2009. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

Washington, D.C.
May 11, 2009

Schedule 12-14

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

PRIVATE FINANCE Portfolio Company (in thousands)	**Investment[1]**	Amount of Interest or Dividends Credited to Income[6]	Other[2]	December 31, 2008 Value	Gross Additions[3]	Gross Reductions[4]	March 31, 2009 Value
Companies More Than 25% Owned							
AGILE Fund I, LLC (Private Equity Fund)	Equity Interests			$ 497	$	$ (81)	$ 416
AllBridge Financial, LLC (Asset Management)	Equity Interests			10,960	1,673	(1,562)	11,071
Allied Capital Senior Debt Fund, L.P. (Private Debt Fund)	Equity Interests			31,800	1,077		32,877
Avborne, Inc. (Business Services)	Preferred Stock			942		(4)	938
	Common Stock						
Avborne Heavy Maintenance, Inc. (Business Services)	Common Stock				660		660
Aviation Properties Corporation (Business Services)	Common Stock						
Border Foods, Inc. (Consumer Products)	Senior Loan	$ 1,315		33,027	1,102	(229)	33,900
	Preferred Stock			11,851		(2,636)	9,215
	Common Stock						
Calder Capital Partners, LLC (Asset Management)	Senior Loan[5]			953		(72)	881
	Equity Interests						
Callidus Capital Corporation	Subordinated Debt	720		16,068	135		16,203

(Asset Management)	Common Stock		34,377		(6,672)	27,705
Ciena Capital LLC (Financial Services)	Senior Loan(5)		104,883		(40,795)	64,088
	Class B Equity Interests					
	Class C Equity Interests			3,300	(3,300)	
CitiPostal Inc. (Business Services)	Senior Loan	8	681	1		682
	Unitranche Debt	1,567	51,548	144		51,692
	Subordinated Debt	379	9,114	377		9,491
	Common Stock		8,616		(8,616)	
Coverall North America, Inc. (Business Services)	Unitranche Debt	969	31,948	8		31,956
	Subordinated Debt	210	5,549	1		5,550
	Common Stock		17,968	1,043		19,011
CR Holding, Inc. (Consumer Products)	Subordinated Debt(5)		17,360		(7,368)	9,992
	Common Stock					
Crescent Equity Corp. (Business Services)	Senior Loan	11	433			433
	Subordinated Debt	58	1,135		(1,135)	
	Subordinated Debt(5)		17,479		(11,266)	6,213
	Common Stock		4,580	1,341	(5,882)	39
Direct Capital Corporation (Financial Services)	Senior Loan(5)			8,240		8,240
	Subordinated Debt(5)		13,530		(1,140)	12,390
	Common Stock					
Financial Pacific Company (Financial Services)	Subordinated Debt	2,683	62,189	10	(4,637)	57,562
	Preferred Stock					
	Common Stock					
ForeSite Towers, LLC (Tower Leasing)	Equity Interest		889	6		895
Global Communications, LLC (Business Services)	Senior Loan(5)		1,335			1,335
Hot Light Brands, Inc. (Retail)	Senior Loan(5)		13,678	50	(285)	13,443
	Common Stock					
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan	539	42,378	8,944	(1,210)	50,112
	Subordinated Debt(5)					
	Common Stock					

See related footnotes at the end of this schedule.

PRIVATE FINANCE Portfolio Company (in thousands)	**Investment[1]**	Amount of Interest or Dividends Credited to Income[6]	Other[2]	December 31, 2008 Value	Gross Additions[3]	Gross Reductions[4]	March 31, 2009 Value
Huddle House, Inc.	Subordinated Debt	$ 2,168		$ 57,067	$ 450	$	$ 57,517
(Retail)	Common Stock			20,922		(3,467)	17,455
IAT Equity, LLC and Affiliates	Subordinated Debt	135		6,000			6,000
d/b/a Industrial Air Tool	Equity Interests			8,860	218		9,078
(Industrial Products)							
Impact Innovations Group, LLC	Equity Interests in Affiliate			321	1		322
(Business Services)							
Insight Pharmaceuticals	Subordinated Debt	1,731		45,827	244	(7)	46,064
Corporation	Subordinated Debt[5]			17,532	598	(598)	17,532
(Consumer Products)	Preferred Stock			4,068	1,390		5,458
	Common Stock						
Jakel, Inc.	Subordinated Debt[5]			374			374
(Industrial Products)							
Knightsbridge CLO 2007-1 Ltd.	Class E Notes	503		14,866	118		14,984
(CLO)	Income Notes	1,530		35,214	1,529	(16,312)	20,431