

ALLIED CAPITAL CORP
Form 10-Q
August 10, 2009

FORM 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

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

**For The Quarterly Period
Ended June 30, 2009**

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
*(State or Jurisdiction of
Incorporation or Organization)*

52-1081052
*(IRS Employer
Identification No.)*

1919 Pennsylvania Avenue, N.W.
Washington, DC 20006
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (202) 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 NO

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 NO

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 Accelerated filer Non-accelerated filer Smaller reporting company

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(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 NO

On August 6, 2009, there were 179,011,774 shares outstanding of the Registrant's common stock, \$0.0001 par value.

ALLIED CAPITAL CORPORATION

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PART I: FINANCIAL INFORMATION**Item 1. Financial Statements****ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in thousands, except per share amounts)	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2009-\$2,037,757; 2008-\$2,167,020)	\$ 1,014,871	\$ 1,187,722
Companies 5% to 25% owned (cost: 2009-\$213,498; 2008-\$392,516)	161,368	352,760
Companies less than 5% owned (cost: 2009-\$2,000,141; 2008-\$2,317,856)	1,300,053	1,858,581
Total private finance (cost: 2009-\$4,251,396; 2008-\$4,877,392)	2,476,292	3,399,063
Commercial real estate finance (cost: 2009-\$73,663; 2008-\$85,503)	73,738	93,887
Total portfolio at value (cost: 2009-\$4,325,059; 2008-\$4,962,895)	2,550,030	3,492,950
Accrued interest and dividends receivable	44,600	55,638
Other assets	130,504	122,909
Investments in money market and other securities	415,025	287
Cash	68,985	50,402
Total assets	\$ 3,209,144	\$ 3,722,186
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2009-\$1,015,000; 2008-\$1,015,000)	\$ 1,760,544	\$ 1,895,000
Revolving line of credit	50,000	50,000
Accounts payable and other liabilities	57,271	58,786
Total liabilities	1,867,815	2,003,786
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.0001 par value, 400,000 shares authorized; 179,012 and 178,692 shares issued and outstanding at June 30, 2009, and December 31, 2008, respectively	18	18
Additional paid-in capital	3,037,223	3,037,845
Notes receivable from sale of common stock	(805)	(1,089)
Net unrealized appreciation (depreciation)	(1,855,936)	(1,503,089)

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Undistributed earnings	160,829	184,715
Total shareholders' equity	1,341,329	1,718,400
Total liabilities and shareholders' equity	\$ 3,209,144	\$ 3,722,186
Net asset value per common share	\$ 7.49	\$ 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 June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Interest and Related Portfolio Income:				
Interest and dividends				
Companies more than 25% owned	\$ 22,851	\$ 26,844	\$ 48,204	\$ 55,468
Companies 5% to 25% owned	9,212	9,049	20,348	21,723
Companies less than 5% owned	43,594	83,319	95,835	176,681
Total interest and dividends	75,657	119,212	164,387	253,872
Fees and other income				
Companies more than 25% owned	7,309	11,043	12,585	16,508
Companies 5% to 25% owned	193	16	210	69
Companies less than 5% owned	1,471	4,307	2,630	9,073
Total fees and other income	8,973	15,366	15,425	25,650
Total interest and related portfolio income	84,630	134,578	179,812	279,522
Expenses:				
Interest	43,117	36,465	86,602	74,025
Employee	10,964	13,344	22,034	35,996
Employee stock options	1,204	3,859	1,977	8,054
Administrative	8,459	12,943	18,304	21,962
Impairment of long-lived asset			2,873	
Total operating expenses	63,744	66,611	131,790	140,037
Net investment income before income taxes	20,886	67,967	48,022	139,485
Income tax expense (benefit), including excise tax	2,653	4,112	2,275	6,081
Net investment income	18,233	63,855	45,747	133,404
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses)				
Companies more than 25% owned	(72,912)	1,172	(76,962)	869
Companies 5% to 25% owned	(24,044)	(15,046)	(54,139)	(13,803)
Companies less than 5% owned	(29,100)	(3,981)	(22,064)	(1,778)

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Total net realized gains (losses)	(126,056)	(17,855)	(153,165)	(14,712)
Net change in unrealized appreciation or depreciation	(2,777)	(148,203)	(352,847)	(261,607)
Total net gains (losses)	(128,833)	(166,058)	(506,012)	(276,319)
Gain on repurchase of debt	81,537		83,532	
Net increase (decrease) in net assets resulting from operations	\$ (29,063)	\$ (102,203)	\$ (376,733)	\$ (142,915)
Basic earnings (loss) per common share	\$ (0.16)	\$ (0.59)	\$ (2.11)	\$ (0.85)
Diluted earnings (loss) per common share	\$ (0.16)	\$ (0.59)	\$ (2.11)	\$ (0.85)
Weighted average common shares outstanding basic	178,695	172,968	178,694	167,238
Weighted average common shares outstanding diluted	178,695	172,968	178,694	167,238

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)	For the Six Months Ended June 30,	
	2009	2008
	(unaudited)	
Operations:		
Net investment income	\$ 45,747	\$ 133,404
Net realized gains (losses)	(153,165)	(14,712)
Net change in unrealized appreciation or depreciation	(352,847)	(261,607)
Gain on repurchase of debt	83,532	
Net increase (decrease) in net assets resulting from operations	(376,733)	(142,915)
Shareholder distributions:		
Common stock dividends		(224,231)
Net decrease in net assets resulting from shareholder distributions		(224,231)
Capital share transactions:		
Sale of common stock		402,478
Issuance of common stock in lieu of cash distributions		3,751
Issuance of common stock upon exercise of stock options	233	
Stock option expense	2,046	8,180
Net decrease in notes receivable from sale of common stock	284	275
Purchase of common stock held in deferred compensation trusts		(943)
Distribution of common stock held in deferred compensation trusts		27,335
Other	(2,901)	
Net increase (decrease) in net assets resulting from capital share transactions	(338)	441,076
Total increase (decrease) in net assets	(377,071)	73,930
Net assets at beginning of period	1,718,400	2,771,847
Net assets at end of period	\$ 1,341,329	\$ 2,845,777
Net asset value per common share	\$ 7.49	\$ 15.93
Common shares outstanding at end of period	179,012	178,692

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	For the Six Months Ended June 30, 2009 2008 (unaudited)	
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ (376,733)	\$ (142,915)
Adjustments:		
Portfolio investments	(98,734)	(593,959)
Principal collections related to investment repayments or sales	416,283	597,577
Collections of notes and other consideration received from sale of investments	171,030	10,455
Realized gains from the receipt of notes and other consideration from sale of investments		(1,886)
Realized losses	174,524	52,395
Gain on repurchase of debt	(83,532)	
Redemption of (investments in) U.S. Treasury bills, money market and other securities	(414,738)	101,173
Payment-in-kind interest and dividends, net of cash collections	(18,531)	(24,497)
Change in accrued interest and dividends	9,928	(5,942)
Net collection (amortization) of discounts and fees	(4,506)	(7,635)
Stock option expense	2,046	8,180
Impairment of long-lived asset	2,873	
Changes in other assets and liabilities	(65,152)	(58,377)
Depreciation and amortization	787	1,143
Net change in unrealized (appreciation) or depreciation	352,847	261,607
Net cash provided by (used in) operating activities	68,392	197,319
Cash flows from financing activities:		
Sale of common stock		402,478
Sale of common stock upon the exercise of stock options	233	
Collections of notes receivable from sale of common stock	284	275
Borrowings under notes payable		193,000
Repurchase or repayment of notes payable	(50,326)	(153,000)
Net borrowings under (repayments on) revolving line of credit		(286,750)
Purchase of common stock held in deferred compensation trusts		(943)
Other financing activities		(6,658)
Common stock dividends and distributions paid		(220,480)
Net cash provided by (used in) financing activities	(49,809)	(72,078)
Net increase (decrease) in cash	18,583	125,241
Cash at beginning of period	50,402	3,540

Cash at end of period	\$ 68,985	\$ 128,781
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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

Private Finance Portfolio Company (in thousands, except number of shares) Companies More Than 25% Owned	Investment ⁽¹⁾⁽²⁾	June 30, 2009 (unaudited)		
		Principal	Cost	Value
AGILE Fund I, LLC ⁽⁵⁾	Equity Interests		\$ 678	\$ 426
(Private Equity Fund)	Total Investment		678	426
AllBridge Financial, LLC (Asset Management)	Senior Loan (7.2%, Due 12/09)	\$ 398	398	398
	Equity Interests		34,865	8,047
	Total Investment		35,263	8,445
	Standby Letter of Credit (\$15,000)			
Allied Capital Senior Debt Fund, L.P. ⁽⁵⁾	Limited Partnership Interests		31,800	33,044
(Private Debt Fund)	Total Investment		31,800	33,044
Avborne, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (12,500 shares)			904
	Common Stock (27,500 shares)			
	Total Investment			904
Avborne Heavy Maintenance, Inc. ⁽⁷⁾ (Business Services)	Common Stock (2,750 shares)			
	Total Investment			
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		93	
	Total Investment		93	
	Standby Letters of Credit (\$1,000)			
Border Foods, Inc. (Consumer Products)	Senior Loan (12.9%, Due 3/12)	34,876	29,199	34,876
	Preferred Stock (100,000 shares)		12,721	11,461

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	Common Stock (260,467 shares)		3,847	
	Total Investment		45,767	46,337
Calder Capital Partners, LLC ⁽⁵⁾ (Asset Management)	Senior Loan (12.5%, Due 5/09) ⁽⁶⁾	4,496	4,496	980
	Equity Interests		2,453	
	Total Investment		6,949	980
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13)	16,927	16,927	16,927
	Common Stock (100 shares)			21,012
	Total Investment		16,927	37,939
	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.

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⁾	June 30, 2009 (unaudited)		Value
		Principal	Cost	
Ciena Capital LLC (Financial Services)	Senior Loan (5.5%, Due 3/09) ⁽⁶⁾ Class B Equity Interests Class C Equity Interests	\$ 319,031	\$ 319,031 119,436 109,097	\$ 93,043
	Total Investment		547,564	93,043
	Guaranty (\$5,000 See Note 3) Standby Letters of Credit (\$46,000 See Note 3)			
CitiPostal Inc. (Business Services)	Senior Loan (3.8%, Due 12/13) Unitranche Debt (12.0%, Due 12/13) Subordinated Debt (16.0%, Due 12/15) Common Stock (37,024 shares)	692 51,559 9,866	682 51,369 9,866 12,726	682 51,369 9,866
	Total Investment		74,643	61,917
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11) Subordinated Debt (15.0%, Due 7/11) Common Stock (763,333 shares)	31,627 5,563	31,556 5,552 14,362	31,556 5,552 22,610
	Total Investment		51,470	59,718
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13) ⁽⁶⁾ Common Stock (32,090,696 shares)	40,623	40,510 28,744	10,710
	Total Investment		69,254	10,710

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Crescent Equity Corp. ⁽⁸⁾	Senior Loan (10.0%, Due 6/10)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 - 6/17) ⁽⁶⁾	32,305	32,216	4,378
	Common Stock (174 shares)		83,194	
	Total Investment		115,843	4,811
	Guaranty (\$900)			
Direct Capital Corporation	Senior Loan (8.0%, Due 1/14) ⁽⁶⁾	8,175	8,175	8,405
(Financial Services)	Subordinated Debt (16.0%, Due 3/13) ⁽⁶⁾	55,671	55,496	7,109
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		89,403	15,514
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 - 8/12)	68,967	68,860	49,696
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		90,508	49,696

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

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⁾	June 30, 2009 (unaudited)		Value
		Principal	Cost	
Global Communications, LLC	Senior Loan (10.0%, Due 9/02) ⁽⁶⁾	\$ 1,335	\$ 1,335	\$ 992
(Business Services)	Total Investment		1,335	992
Hot Light Brands, Inc. (Retail)	Senior Loan (9.0%, Due 2/11) ⁽⁶⁾	30,572	30,572	12,010
	Common Stock (93,500 shares)		5,151	
	Total Investment		35,723	12,010
Hot Stuff Foods, LLC	Senior Loan (3.8%, Due 2/11-2/12)	50,777	50,658	50,658
(Consumer Products)	Subordinated Debt (12.4%, Due 8/12-2/13) ⁽⁶⁾	83,692	83,387	16,143
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		190,232	66,801
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/15)	19,473	19,429	19,429
	Common Stock (358,428 shares)		36,348	18,411
	Total Investment		55,777	37,840
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	9,250
(Industrial Products)	Total Investment		13,500	15,250
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			322
	Total Investment			322

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Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12) Common Stock (155,000 shares)	54,124	54,050 40,413	54,050 11,033
	Total Investment		94,463	65,083
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08) ⁽⁶⁾	748	748	374
	Total Investment		748	374
Knightsbridge CLO 2007-1 Ltd. ⁽⁴⁾ (CLO)	Class E Notes (10.1%, Due 1/22) Income Notes (13.6%) ⁽¹¹⁾	18,700	18,700 39,556	11,341 25,858
	Total Investment		58,256	37,199
Knightsbridge CLO 2008-1 Ltd. ⁽⁴⁾ (CLO)	Class C Notes (8.1%, Due 6/18) Class D Notes (9.1%, Due 6/18) Class E Notes (5.6%, Due 6/18) Income Notes (17.3%) ⁽¹¹⁾	12,800 8,000 13,200	12,800 8,000 10,879 21,230	12,173 6,985 8,896 18,279
	Total Investment		52,909	46,333

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- (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.
- (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	June 30, 2009 (unaudited) Cost	Value
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 7/12)	\$ 25,260	\$ 25,256	\$ 25,256
	Subordinated Debt (14.5%, Due 7/12)	41,434	41,399	33,843
	Subordinated Debt (8.0%, Due 7/12) ⁽⁶⁾	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		67,349	59,099
Penn Detroit Diesel Allison, LLC (Business Services)	Equity Interests		20,081	20,005
	Total Investment		20,081	20,005
Senior Secured Loan Fund LLC (Private Debt Fund)	Subordinated Certificates (8.9%)		166,293	154,200
	Equity Interests		1	
	Total Investment		166,294	154,200
Service Champ, Inc. (Business Services)	Subordinated Debt (15.5%, Due 4/12)	27,393	27,337	27,337
	Common Stock (55,112 shares)		11,785	22,676
	Total Investment		39,122	50,013
Stag-Parkway, Inc. (Business Services)	Subordinated Debt (10.0%, Due 7/12)	19,044	18,997	18,997
	Common Stock (25,000 shares)		32,686	5,950
	Total Investment		51,683	24,947
Startec Equity, LLC	Equity Interests		211	

(Telecommunications)	Total Investment		211	
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14) ⁽⁶⁾	2,827	2,684	919
(Business Services)	Equity Interests		11,084	
	Warrants		144	
	Total Investment		13,912	919

Total companies more than 25% owned **\$ 2,037,757** **\$ 1,014,871**

Companies 5% to 25% Owned

10 th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	\$ 21,877	\$ 21,777	\$ 21,877
(Business Services)	Equity Interests		422	505
	Option		25	25
	Total Investment		22,224	22,407

Air Medical Group Holdings LLC	Senior Loan (4.3%, Due 3/11)			
(Healthcare Services)	Equity Interests		2,966	12,473
	Total Investment		2,966	12,473

BB&T Capital Partners/Windsor Mezzanine Fund, LLC ⁽⁵⁾	Equity Interests		11,789	9,680
(Private Equity Fund)	Total Investment		11,789	9,680

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- (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.

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	June 30, 2009 (unaudited)	
			Cost	Value
Driven Brands, Inc. (Consumer Services)	Subordinated Debt (16.5%, Due 7/15) Common Stock (3,772,098 shares)	\$ 87,800	\$ 87,424	\$ 84,032
	Total Investment		96,940	86,232
Multi-Ad Services, Inc. (Business Services)	Unitranche Debt (11.3%, Due 11/11) Equity Interests	2,516	2,497	2,453
	Total Investment		4,234	3,700
Pendum Acquisition, Inc. (Business Services)	Common Stock (8,872 shares)			
	Total Investment			
Postle Aluminum Company, LLC (Industrial Products)	Senior Loan (6.0%, Due 10/12) ⁽⁶⁾ Subordinated Debt (3.0%, Due 10/12) ⁽⁶⁾ Equity Interests	35,000	34,876	14,369
	Total Investment		60,918	14,369
Progressive International Corporation (Consumer Products)	Preferred Stock (500 shares) Common Stock (197 shares) Warrants		500	1,171
	Total Investment		513	5,071
Regency Healthcare Group, LLC (Healthcare Services)	Equity Interests		1,302	1,817
	Total Investment		1,302	1,817

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SGT India Private Limited ⁽⁴⁾	Common Stock (150,596 shares)		4,142	
(Business Services)	Total Investment		4,142	
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	4,250	4,192	4,095
(Healthcare Services)	Equity Interests		1,881	1,515
	Total Investment		6,073	5,610
Triax Holdings, LLC	Equity Interests		798	9
(Consumer Products)	Total Investment		798	9
Universal Environmental Services, LLC	Equity Interests		1,599	
(Business Services)	Total Investment		1,599	
Total companies 5% to 25% owned			\$ 213,498	\$ 161,368
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (16.0%, Due 8/13)	\$ 20,500	\$ 20,443	\$ 17,869
(Consumer Products)	Subordinated Debt (18.0%, Due 8/13) ⁽⁶⁾	9,048	9,030	
	Total Investment		29,473	17,869
Augusta Sportswear Group, Inc.	Common Stock (2,500 shares)		2,500	1,400
(Consumer Products)	Total Investment		2,500	1,400

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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	June 30, 2009 (unaudited)	
			Cost	Value
Axiom Healthcare Pharmacy, Inc.	Subordinated Debt (8.0%, Due 3/15)	\$ 2,975	\$ 2,975	\$ 2,380
(Healthcare Services)	Total Investment		2,975	2,380
Baird Capital Partners IV Limited ⁽⁵⁾	Limited Partnership Interest		3,636	2,413
(Private Equity Fund)	Total Investment		3,636	2,413
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,246	40,246
(Business Services)	Common Stock (39,274,290 shares) ⁽¹²⁾ Warrants ⁽¹²⁾		39,274	74,761
	Total Investment		79,520	115,007
Broadcast Electronics, Inc.	Senior Loan (8.8%, Due 11/11) ⁽⁶⁾	4,882	4,855	630
(Business Services)	Preferred Stock (2,044 shares)			
	Total Investment		4,855	630
Bushnell, Inc.	Subordinated Debt (7.1%, Due 2/14)	41,325	40,106	29,901
(Consumer Products)	Total Investment		40,106	29,901
Callidus Debt Partners	Class C Notes (12.9%, Due 12/13) ⁽⁶⁾	19,420	19,527	4,926
CDO Fund I, Ltd. ⁽⁴⁾⁽¹⁰⁾	Class D Notes (17.0%, Due 12/13) ⁽⁶⁾	9,400	9,454	
(CDO)	Total Investment		28,981	4,926

Callidus Debt Partners	Preferred Shares (23,600,000 shares)		20,138	1,492
CLO Fund III, Ltd. ⁽⁴⁾⁽¹⁰⁾				
(CLO)	Total Investment		20,138	1,492
Callidus Debt Partners	Class D Notes (5.7%, Due 4/20)	3,000	2,116	1,649
CLO Fund IV, Ltd. ⁽⁴⁾⁽¹⁰⁾	Income Notes (0.0%) ⁽¹¹⁾		14,979	4,166
(CLO)	Total Investment		17,095	5,815
Callidus Debt Partners	Income Notes (0.7%) ⁽¹¹⁾		13,698	4,594
CLO Fund V, Ltd. ⁽⁴⁾⁽¹⁰⁾				
(CLO)	Total Investment		13,698	4,594
Callidus Debt Partners	Class D Notes (7.1%, Due 10/21)	9,160	7,388	3,751
CLO Fund VI, Ltd. ⁽⁴⁾⁽¹⁰⁾	Income Notes (0.0%) ⁽¹¹⁾		29,144	5,629
(CLO)	Total Investment		36,532	9,380
Callidus Debt Partners	Income Notes (0.0%) ⁽¹¹⁾		24,824	4,772
CLO Fund VII, Ltd. ⁽⁴⁾⁽¹⁰⁾				
(CLO)	Total Investment		24,824	4,772

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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	June 30, 2009 (unaudited)	
			Cost	Value
Callidus MAPS CLO Fund I LLC ⁽¹⁰⁾ (CLO)	Class E Notes (6.1%, Due 12/17)	\$ 17,000	\$ 17,000	\$ 10,200
	Income Notes (0.0%) ⁽¹¹⁾		42,492	12,388
	Total Investment		59,492	22,588
Callidus MAPS CLO Fund II, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Class D Notes (5.4%, Due 7/22)	7,700	3,696	3,037
	Income Notes (0.0%) ⁽¹¹⁾		18,300	4,164
	Total Investment		21,996	7,201
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (4.2%, Due 6/11)	500	498	409
	Unitranche Debt (12.8%, Due 6/11)	3,161	3,143	2,585
	Preferred Stock (345,056 Shares)		345	
	Total Investment		3,986	2,994
Catterton Partners VI, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,952	1,521
	Total Investment		2,952	1,521
Centre Capital Investors V, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,798	1,715
	Total Investment		2,798	1,715
CK Franchising, Inc. (Consumer Services)	Senior Loan (5.5%, Due 7/12)	300	286	286
	Subordinated Debt (12.3%, Due 7/12 7/17)	21,152	21,090	21,090
	Preferred Stock (1,281,887 shares)		1,282	1,710
	Common Stock (7,585,549 shares)		7,586	16,497
	Total Investment		30,244	39,583

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Commercial Credit Group, Inc.	Subordinated Debt (15.0%, Due 6/15)	22,000	21,970	21,970
(Financial Services)	Preferred Stock (64,679 shares) Warrants		15,543	8,783
	Total Investment		37,513	30,753
Community Education Centers, Inc.	Subordinated Debt (19.5%, Due 11/13)	35,972	35,916	35,972
(Education Services)	Total Investment		35,916	35,972
Component Hardware Group, Inc.	Subordinated Debt (13.5%, Due 1/13)	18,851	18,802	16,303
(Industrial Products)	Total Investment		18,802	16,303
Cook Inlet Alternative Risk, LLC	Unitranche Debt (10.8%, Due 4/13)	87,600	87,264	69,000
(Business Services)	Equity Interests		552	
	Total Investment		87,816	69,000
Cortec Group Fund IV, L.P. ⁽⁵⁾	Limited Partnership Interest		4,970	2,717
(Private Equity)	Total Investment		4,970	2,717

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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	June 30, 2009 (unaudited)	
			Cost	Value
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	\$ 13,676	\$ 13,622	\$ 13,478
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,775	4,764	4,764
	Total Investment		18,386	18,242
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	76,389	76,122	59,663
(Consumer Products)	Equity Interests		8,000	
	Total Investment		84,122	59,663
Distant Lands Trading Co.	Senior Loan (6.3%, Due 11/11)	10,000	9,979	9,240
(Consumer Products)	Unitranche Debt (11.0%, Due 11/11)	43,499	43,408	41,571
	Common Stock (3,451 shares)		3,451	1,077
	Total Investment		56,838	51,888
Diversified Mercury	Senior Loan (4.5%, Due 3/13)	2,960	2,948	2,593
Communications, LLC	Total Investment		2,948	2,593
(Business Services)				
Dryden XVIII Leveraged Loan 2007 Limited ⁽⁴⁾	Class B Notes (5.6%, Due 10/19) ⁽⁶⁾	9,092	7,872	2,271
	Income Notes (0.0%) ⁽¹¹⁾		23,164	773
(CLO)	Total Investment		31,036	3,044
Dynamic India Fund IV ⁽⁴⁾⁽⁵⁾	Equity Interests		9,350	9,540
(Private Equity Fund)	Total Investment		9,350	9,540

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EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13) ⁽⁶⁾	123,819	123,385	
(Business Services)	Common Stock (63,438 shares) ⁽¹²⁾ Warrants ⁽¹²⁾		63,438	
	Total Investment		186,823	
eCentury Capital Partners, L.P. ⁽⁵⁾	Limited Partnership Interest		7,274	112
(Private Equity Fund)	Total Investment		7,274	112
eInstruction Corporation	Subordinated Debt (12.1%, Due 7/14-1/15)	35,328	35,204	31,981
(Education Services)	Common Stock (2,406 shares)		2,500	850
	Total Investment		37,704	32,831
Farley s & Sathers Candy Company, Inc.	Subordinated Debt (8.3%, Due 3/11)	2,500	2,495	2,393
(Consumer Products)	Total Investment		2,495	2,393

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)		June 30, 2009 (unaudited)		
	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
Fidus Mezzanine Capital, L.P. ⁽⁵⁾	Limited Partnership Interest		\$ 12,828	\$ 8,325
(Private Equity Fund)	Total Investment		12,828	8,325
Freedom Financial Network, LLC	Subordinated Debt (13.5%, Due 2/14)	\$ 8,000	7,950	8,000
(Financial Services)	Total Investment		7,950	8,000
Geotrace Technologies, Inc.	Warrants		2,027	2,335
(Energy Services)	Total Investment		2,027	2,335
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,304	25,179	23,079
	Total Investment		25,179	23,079
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	53,109	53,109
(Business Services)	Common Stock (23,695 shares) ⁽¹²⁾ Warrant ⁽¹²⁾		23,695	14,190
	Total Investment		76,804	67,299
The Homax Group, Inc. (Consumer Products)	Senior Loan (6.4%, Due 10/12)	10,194	10,150	9,110
	Subordinated Debt (14.5%, Due 4/14)	14,159	13,589	6,986
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	

	Warrants		954	
	Total Investment		24,774	16,096
Ideal Snacks Corporation	Senior Loan (7.3%, Due 6/10)	1,333	1,333	1,290
(Consumer Products)	Total Investment		1,333	1,290
Kodiak Fund LP ⁽⁵⁾	Equity Interests		9,350	900
(Private Equity Fund)	Total Investment		9,350	900
Market Track Holdings, LLC	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,483
(Business Services)	Subordinated Debt (15.9%, Due 6/14)	24,600	24,499	23,306
	Total Investment		26,949	25,789
NetShape Technologies, Inc.	Senior Loan (4.1%, Due 2/13)	875	875	445
(Industrial Products)	Total Investment		875	445

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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⁾	June 30, 2009 (unaudited)		
		Principal	Cost	Value
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.8%, Due 12/11) Convertible Subordinated Debt (9.8%, Due 12/15)	\$ 16,618 15,953	\$ 16,676 16,002	\$ 16,618 16,002
	Total Investment		32,678	32,620
Novak Biddle Venture Partners III, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,018	1,221
	Total Investment		2,018	1,221
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	385
	Total Investment		206	385
Pangaea CLO 2007-1 Ltd. ⁽⁴⁾ (CLO)	Class D Notes (5.9%, Due 1/21)	15,000	11,919	6,190
	Total Investment		11,919	6,190
PC Helps Support, LLC (Business Services)	Senior Loan (3.6%, Due 12/13) Subordinated Debt (12.8%, Due 12/13)	8,417 27,507	8,328 27,393	7,795 25,948
	Total Investment		35,721	33,743
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	560
	Total Investment		734	560
Promo Works, LLC (Business Services)	Unitranche Debt (12.3%, Due 12/11)	23,111	22,980	17,566
	Total Investment		22,980	17,566

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Reed Group, Ltd. (Healthcare Services)	Senior Loan (7.0%, Due 12/13)	12,338	12,206	10,946
	Subordinated Debt (15.8%, Due 12/13)	18,897	18,830	16,383
	Equity Interests		1,800	245
	Total Investment		32,836	27,574
S.B. Restaurant Company (Retail)	Unitranche Debt (9.8%, Due 4/11)	38,327	38,160	34,036
	Preferred Stock (46,690 shares)		117	117
	Warrants		534	
	Total Investment		38,811	34,153
Snow Phipps Group, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		5,850	4,308
	Total Investment		5,850	4,308
SPP Mezzanine Funding II, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		9,097	7,949
	Total Investment		9,097	7,949
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,307	27,378
	Total Investment		30,307	27,378
Summit Energy Services, Inc. (Business Services)	Common Stock (415,982 shares)		1,861	2,100
	Total Investment		1,861	2,100

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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	June 30, 2009 (unaudited) Cost	Value
Tappan Wire & Cable Inc. (Business Services)	Unitranche Debt (15.0%, Due 8/14) ⁽⁶⁾ Common Stock (12,940 shares) ⁽¹²⁾ Warrant ⁽¹²⁾	\$ 22,346	\$ 22,248	\$ 6,961
	Total Investment		24,291	6,961
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12) Equity Interests	94,843	94,616 2,156	89,432 1,376
	Total Investment		96,772	90,808
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	40,000	39,723	34,413
	Total Investment		39,723	34,413
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (18.3%, Due 11/12) ⁽⁶⁾ Equity Interests	24,561	24,409 1,034	
	Total Investment		25,443	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	56,676	56,496	53,019
	Total Investment		56,496	53,019
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (11.8%, Due 1/14)	19,060	18,984	18,641
	Total Investment		18,984	18,641

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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	60,000
d/b/a Wear Me Apparel	Common Stock			
	(86 shares)		39,635	
(Consumer Products)	Total Investment		178,194	60,000
Webster Capital II, L.P. ⁽⁵⁾	Limited Partnership			
	Interest		1,929	1,649
(Private Equity Fund)	Total Investment		1,929	1,649
Woodstream Corporation	Subordinated Debt			
	(12.0%, Due 2/15)	90,000	89,663	73,064
(Consumer Products)	Common Stock (6,960			
	shares)		6,961	1,100
	Total Investment		96,624	74,164
Other companies	Other debt investments	37	(147)	(147)
	Other equity			
	investments		41	8
	Total Investment		(106)	(139)
Total companies less than 5% owned			\$ 2,000,141	\$ 1,300,053
Total private finance (120 portfolio investments)			\$ 4,251,396	\$ 2,476,292

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

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

			June 30, 2009 (unaudited)	
	Stated Interest Rate Ranges	Number of Loans	Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	3	\$ 31,385	\$ 30,097
	7.00% 8.99%	2	1,946	1,929
	9.00% 10.99%	1	6,472	6,472
	11.00% 12.99%	1	10,475	9,051
	15.00% and above	2	3,970	5,485
Total commercial mortgage loans⁽¹³⁾			\$ 54,248	\$ 53,034
Real Estate Owned			\$ 5,920	\$ 6,579
Equity Interests⁽²⁾ Companies more than 25% owned			\$ 13,495	\$ 14,125
Guarantees (\$6,871)				
Total commercial real estate finance			\$ 73,663	\$ 73,738
Total portfolio			\$ 4,325,059	\$ 2,550,030

	Yield	Cost	Value
Investments in Money Market and Other Securities			
First American Treasury Obligations Fund		\$ 415,020	\$ 415,020
SEI Daily Income Tr Prime Obligation Money Market Fund	0.3 %	5	5
Total		\$ 415,025	\$ 415,025

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

(13) Commercial mortgage loans totaling \$9.8 million at value were on non-accrual status and therefore were considered non-income producing.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Private Finance Portfolio Company (in thousands, except number of shares) Companies More Than 25% Owned	Investment⁽¹⁾⁽²⁾	December 31, 2008		
		Principal	Cost	Value
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⁾	Limited Partnership Interests		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⁾ Equity Interests	4,496	4,496 2,453	953
	Total Investment		6,949	953
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13 2/14) Common Stock (100 shares)	16,068	16,068	16,068 34,377
	Total Investment		16,068	50,445
	Guaranty (\$6,447)			

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

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance		December 31, 2008		
Portfolio Company	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
(in thousands, except number of shares)				
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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- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
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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.

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)

Knightsbridge CLO 2008-1 Ltd.⁽⁴⁾

(CLO)

Investment⁽¹⁾⁽²⁾Class C Notes (9.3%, Due
6/18)Class D Notes (10.3%, Due
6/18)Class E Notes (6.8%, Due
6/18)Income Notes (16.6%)⁽¹¹⁾**Total Investment**

December 31, 2008

Principal

Cost

Value

\$ 12,800

\$ 12,800

\$ 12,800

8,000

8,000

8,000

13,200

10,573

10,573

21,315

21,315

52,688**52,688**

MHF Logistical Solutions, Inc.

(Business Services)

Subordinated Debt (13.0%,
Due 6/12 6/13⁹)Preferred Stock
(10,000 shares)Common Stock (20,934
shares)**Total Investment**

49,841

49,633

20,942

70,575

MVL Group, Inc.

(Business Services)

Senior Loan (12.0%, Due
6/09 7/09)Subordinated Debt (14.5%,
Due 6/09 7/09)Subordinated Debt (3.0%,
Due 6/09)⁽⁶⁾Common Stock
(560,716 shares)**Total Investment**

30,674

30,663

30,663

41,074

40,994

40,994

144

139

86

555

72,351**71,743**

Old Orchard Brands, LLC

(Consumer Products)

Subordinated Debt (18.0%,
Due 7/14)

Equity Interests

18,951

18,882

18,882

16,857

27,763

Total Investment**35,739****46,645**

Penn Detroit Diesel Allison, LLC

37,984

37,869

37,869

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

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

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

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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.

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
Progressive International Corporation (Consumer Products)	Preferred Stock (500 shares)		\$ 500	\$ 1,125
	Common Stock (197 shares)		13	4,600
	Warrants			
	Total Investment		513	5,725
Regency Healthcare Group, LLC (Healthcare Services)	Unitranche Debt (11.1%, Due 6/12)	\$ 10,901	10,855	10,825
	Equity Interests		1,302	2,050
	Total Investment		12,157	12,875
SGT India Private Limited ⁽⁴⁾ (Business Services)	Common Stock (150,596 shares)		4,137	
	Total Investment		4,137	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (11.3%, Due 11/10)	4,250	4,167	4,054
	Equity Interests		1,881	1,971
	Total Investment		6,048	6,025
Triax Holdings, LLC (Consumer Products)	Subordinated Debt (21.0%, Due 2/12) ⁽⁶⁾	10,625	10,587	
	Equity Interests		16,528	
	Total Investment		27,115	
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,599	
	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⁾	Total Investment		20,138	5,402
(CLO)				

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	Income Notes (16.4%) ⁽¹¹⁾		13,388	10,331
CLO Fund V, Ltd. ⁽⁴⁾⁽¹⁰⁾ (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	Income Notes (11.4%) ⁽¹¹⁾		24,026	15,361
CLO Fund VII, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)				
	Total Investment		24,026	15,361

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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.
- (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.

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
Callidus MAPS CLO Fund I LLC ⁽¹⁰⁾ (CLO)	Class E Notes (7.0%, Due 12/17)	\$ 17,000	\$ 17,000	\$ 9,813
	Income Notes (4.0%) ⁽¹¹⁾		45,053	27,678
	Total Investment		62,053	37,491
Callidus MAPS CLO Fund II, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Class D Notes (8.8%, Due 7/22)	7,700	3,555	2,948
	Income Notes (13.3%) ⁽¹¹⁾		18,393	12,626
	Total Investment		21,948	15,574
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (6.1%, Due 6/11)	1,000	998	953
	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⁾ (Private Equity Fund)	Limited Partnership Interest		2,812	2,356
	Total Investment		2,812	2,356
Centre Capital Investors V, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		3,049	2,344
	Total Investment		3,049	2,344
CK Franchising, Inc. (Consumer Services)	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,912	20,912
	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

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	Subordinated Debt (15.0%, Due 6/15)			
(Financial Services)	Preferred Stock (64,679 shares) Warrants		15,543	9,073
	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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- (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.
- (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⁾	December 31, 2008		
		Principal	Cost	Value
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (4.5%, Due 3/13)	\$ 2,972	\$ 2,958	\$ 2,692
	Total Investment		2,958	2,692
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	14,097	14,032	14,003
	Convertible Subordinated Debt (10.0%, Due 2/16)	4,545	4,533	4,700
	Total Investment		18,565	18,703
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (14.5%, Due 5/13)	75,909	75,609	71,703
	Equity Interests		8,000	3,200
	Total Investment		83,609	74,903
Distant Lands Trading Co. (Consumer Products)	Senior Loan (7.5%, Due 11/11)	4,825	4,800	4,501
	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⁾ (CLO)	Class B Notes (8.0%, Due 10/19)	9,000	7,728	4,535
	Income Notes (16.0%) ⁽¹¹⁾		22,080	17,477
	Total Investment		29,808	22,012