

ALLIED CAPITAL CORP
 Form 4
 July 19, 2007

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
 Expires: January 31, 2005
 Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WALTON WILLIAM L

(Last) (First) (Middle)

1919 PENNSYLVANIA AVENUE,
 NW, 3RD FLOOR

(Street)

WASHINGTON, DC 20006

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol

ALLIED CAPITAL CORP [ALD]

3. Date of Earliest Transaction (Month/Day/Year)

07/18/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
 Chairman & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	07/18/2007		A	V	455,211 A \$ 31.75	D	
Common Stock					8,367	I	by 401K
Common Stock					12,015	I	by IRA
Common Stock					2,663	I	by Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Security (Instr. 3 and 4)
				Code	V (A) (D)	Date Exercisable Expiration Date	Title Am Num Sha
Non-Qualified Stock Option (right to buy)	\$ 16.813	07/18/2007		D	755,500	<u>(1)</u> 05/26/2010	Common Stock 75
Non-Qualified Stock Option (right to buy)	\$ 17.75	07/18/2007		D	90,922	<u>(3)</u> 12/30/2009	Common Stock 90
Non-Qualified Stock Option (right to buy)	\$ 17.875	07/18/2007		D	51,196	<u>(4)</u> 12/08/2008	Common Stock 51
Non-Qualified Stock Option (right to buy)	\$ 21.375	07/18/2007		D	659,188	<u>(5)</u> 01/08/2008	Common Stock 65
Non-Qualified Stock Option (right to buy)	\$ 21.52	07/18/2007		D	607,554	<u>(6)</u> 12/13/2012	Common Stock 60
Non-Qualified Stock Option (right to buy)	\$ 21.59	07/18/2007		D	254,274	<u>(7)</u> 09/20/2011	Common Stock 25

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WALTON WILLIAM L 1919 PENNSYLVANIA AVENUE, NW 3RD FLOOR WASHINGTON, DC 20006	X		Chairman & CEO	

Signatures

s/ William L.

Walton

07/19/2007

**Signature of
Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The canceled options, granted on May 26, 2000, provided for vesting in three annual installments commencing one year from date of grant.

(2) On July 18, 2007, the issuer canceled, pursuant to the issuer's tender offer, options previously granted to the reporting person. In exchange for the options, the reporting person received an option cancellation payment ("OCP") which was paid one-half in cash and one-half in unregistered shares of the issuer's common stock. The value of the OCP was equal to the difference between the weighted average market price of \$31.75, less the exercise price of the option, multiplied by the number options canceled.

(3) The canceled options, granted on December 30, 1999, provided for vesting in six annual installments commencing on grant date.

(4) The canceled options, granted on December 8, 1998, provided for vesting in six annual installments commencing on grant date

(5) The canceled options, granted on January 8, 1998, provided for vesting in six equal annual installments commencing on grant date.

(6) The canceled options, granted on December 13, 2002, provided for vesting in three equal installments commencing on June 30, 2003.

(7) The canceled options, granted on September 20, 2001, provided for vesting in three equal annual installments commencing one year from grant date.

Remarks:

401(k) Plan holdings adjusted for routine non-reportable transactions.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.