

ALLIED CAPITAL CORP
Form 10-Q
August 09, 2007

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, 2007

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 periods as the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 8, 2007, there were 154,326,070 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**

	June 30, 2007	December 31, 2006
(in thousands, except per share amounts)	(unaudited)	
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2007-\$1,775,496; 2006-\$1,578,822)	\$ 1,709,770	\$ 1,490,180
Companies 5% to 25% owned (cost: 2007-\$446,746; 2006-\$438,560)	418,647	449,813
Companies less than 5% owned (cost: 2007-\$2,197,112; 2006-\$2,479,981)	2,219,839	2,437,908
Total private finance (cost: 2007-\$4,419,354; 2006-\$4,497,363)	4,348,256	4,377,901
Commercial real estate finance (cost: 2007-\$100,805; 2006-\$103,546)	122,804	118,183
Total portfolio at value (cost: 2007-\$4,520,159; 2006-\$4,600,909)	4,471,060	4,496,084
Investments in money market and other securities	304,407	202,210
Accrued interest and dividends receivable	70,933	64,566
Other assets	153,514	122,958
Cash	45,574	1,687
 Total assets	 \$ 5,045,488	 \$ 4,887,505
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable and debentures (maturing within one year: 2007-\$153,000; 2006-\$)	\$ 1,921,815	\$ 1,691,394
Revolving line of credit		207,750
Accounts payable and other liabilities	132,539	147,117
Total liabilities	2,054,354	2,046,261
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.0001 par value, 400,000 shares authorized; 152,652 and 148,575 shares issued and outstanding at June 30, 2007, and December 31, 2006, respectively	15	15
Additional paid-in capital	2,620,247	2,493,335
Common stock held in deferred compensation trust	(34,374)	(28,335)
Notes receivable from sale of common stock	(2,709)	(2,850)
Net unrealized appreciation (depreciation)	(68,060)	(123,084)
Undistributed earnings	476,015	502,163

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Total shareholders' equity	2,991,134	2,841,244
Total liabilities and shareholders' equity	\$ 5,045,488	\$ 4,887,505
Net asset value per common share	\$ 19.59	\$ 19.12

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

For the Three Months
Ended June 30,

For the Six Months
Ended June 30,

2007 **2006** **2007** **2006**

(in thousands, except per share amounts)

(unaudited)

(unaudited)

Interest and Related Portfolio Income:				
Interest and dividends				
Companies more than 25% owned	\$ 28,540	\$ 23,419	\$ 55,697	\$ 53,565
Companies 5% to 25% owned	10,876	11,419	22,737	17,069
Companies less than 5% owned	63,398	60,595	126,363	113,680
Total interest and dividends	102,814	95,433	204,797	184,314
Fees and other income				
Companies more than 25% owned	5,417	5,649	9,406	17,736
Companies 5% to 25% owned	471	1,282	499	3,998
Companies less than 5% owned	8,974	8,092	10,926	15,419
Total fees and other income	14,862	15,023	20,831	37,153
Total interest and related portfolio income	117,676	110,456	225,628	221,467
Expenses:				
Interest	34,336	21,861	64,624	46,346
Employee	28,611	20,398	50,539	41,826
Employee stock options	9,519	4,597	13,180	8,203
Administrative	14,505	9,861	27,729	21,195
Total operating expenses	86,971	56,717	156,072	117,570
Net investment income before income taxes	30,705	53,739	69,556	103,897
Income tax expense (benefit), including excise tax	5,530	3,544	4,881	12,402
Net investment income	25,175	50,195	64,675	91,495
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses)				
Companies more than 25% owned	67,127	95,212	65,777	528,399
Companies 5% to 25% owned	138	(74)	304	(417)
Companies less than 5% owned	7,614	5,102	36,464	5,093
Total net realized gains	74,879	100,240	102,545	533,075
Net change in unrealized appreciation or depreciation	(10,896)	(116,706)	55,024	(491,254)
Total net gains (losses)	63,983	(16,466)	157,569	41,821

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Net increase in net assets resulting from operations	\$ 89,158	\$ 33,729	\$ 222,244	\$ 133,316
Basic earnings per common share	\$ 0.59	\$ 0.24	\$ 1.47	\$ 0.96
Diluted earnings per common share	\$ 0.57	\$ 0.24	\$ 1.44	\$ 0.94
Weighted average common shares outstanding basic	152,361	140,024	150,940	139,395
Weighted average common shares outstanding diluted	156,051	143,213	154,446	142,466

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

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

	For the Six Months Ended June 30,	
(in thousands, except per share amounts)	2007	2006
	(unaudited)	
Operations:		
Net investment income	\$ 64,675	\$ 91,495
Net realized gains	102,545	533,075
Net change in unrealized appreciation or depreciation	55,024	(491,254)
Net increase in net assets resulting from operations	222,244	133,316
Shareholder distributions:		
Common stock dividends	(193,368)	(166,632)
Net decrease in net assets resulting from shareholder distributions	(193,368)	(166,632)
Capital share transactions:		
Sale of common stock	93,784	82,970
Issuance of common stock in lieu of cash distributions	8,279	7,199
Issuance of common stock upon the exercise of stock options	11,967	8,226
Stock option expense	13,358	8,439
Net decrease in notes receivable from sale of common stock	141	498
Purchase of common stock held in deferred compensation trust	(6,166)	(4,649)
Distribution of common stock held in deferred compensation trust	127	106
Other	(476)	
Net increase in net assets resulting from capital share transactions	121,014	102,789
Total increase in net assets	149,890	69,473
Net assets at beginning of period	2,841,244	2,620,546
Net assets at end of period	\$ 2,991,134	\$ 2,690,019
Net asset value per common share	\$ 19.59	\$ 19.17
Common shares outstanding at end of period	152,652	140,312

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Six Months Ended June 30,	
	2007	2006
(in thousands)	(unaudited)	
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 222,244	\$ 133,316
Adjustments:		
Portfolio investments	(659,141)	(1,071,243)
Principal collections related to investment repayments or sales	735,441	769,598
Change in accrued or reinvested interest and dividends	(17,714)	9,064
Net collection (amortization) of discounts and fees	(425)	(3,094)
Redemption of (investments in) U.S. Treasury bills		(22,875)
Redemption of (investments in) money market securities	(97,478)	25,581
Stock option expense	13,358	8,439
Changes in other assets and liabilities	(28,354)	(1,410)
Depreciation and amortization	1,022	870
Realized gains from the receipt of notes and other consideration from sale of investments, net of collections	(9,201)	(217,086)
Realized losses	18,057	4,405
Net change in unrealized (appreciation) or depreciation	(55,024)	491,254
Net cash provided by (used in) operating activities	122,785	126,819
Cash flows from financing activities:		
Sale of common stock	93,784	82,970
Sale of common stock upon the exercise of stock options	11,967	8,226
Collections of notes receivable from sale of common stock	141	498
Borrowings under notes payable	230,000	50,000
Repayments on notes payable and debentures		(37,000)
Net borrowings under (repayments on) revolving line of credit	(207,750)	(90,000)
Purchase of common stock held in deferred compensation trust	(6,166)	(4,649)
Other financing activities	(8,362)	(1,590)
Common stock dividends and distributions paid	(192,512)	(163,531)
Net cash provided by (used in) financing activities	(78,898)	(155,076)
Net increase (decrease) in cash	43,887	(28,257)
Cash at beginning of period	1,687	31,363
Cash at end of period	\$ 45,574	\$ 3,106

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS**

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
(unaudited)				
Companies More Than 25% Owned				
Alaris Consulting, LLC (Business Services)	Senior Loan (16.5%, Due 12/05 12/07) ⁽⁶⁾ Equity Interests Guaranty (\$1,100)	\$ 27,055	\$ 26,987 5,189	\$
AllBridge Financial, LLC (Financial Services)	Equity Interests		800	800
Allied Capital Senior Debt Fund, L.P. ⁽⁵⁾ (Private Debt Fund)	Equity Interests (See Note 3)		19,080	19,252
Avborne, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (12,500 shares) Common Stock (27,500 shares)		611	927
Avborne Heavy Maintenance, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (1,568 shares) Common Stock (2,750 shares) Guaranty (\$2,401)		2,401	
Border Foods, Inc. (Consumer Products)	Preferred Stock (100,000 shares) Common Stock (148,838 shares)		12,721 3,847	
Business Loan Express, LLC (Financial Services)	Class A Equity Interests(25.0% See Note 3) ⁽⁶⁾ Class B Equity Interests Class C Equity Interests Guaranty (\$208,821 See Note 3) Standby Letters of Credit (\$20,000 See Note 3)	95,822	95,822 119,436 109,301	95,822 70,023 54,948
Calder Capital Partners, LLC ⁽⁵⁾ (Financial Services)	Senior Loan (8.0%, Due 5/09) ⁽⁶⁾ Equity Interests	1,952	1,952 2,154	1,952 538
Callidus Capital Corporation (Financial Services)	Senior Loan (12.0%, Due 12/08) Subordinated Debt (18.0%, Due 10/08) Common Stock (100 shares)	700 6,292	700 6,292 2,067	700 6,292 48,341

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Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	35,054	34,905	34,905
	Subordinated Debt (15.0%, Due 7/11)	6,000	5,976	5,976
	Common Stock (884,880 shares)		16,648	22,510
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13)	40,256	40,099	40,099
	Common Stock (37,200,551 shares)		33,321	38,522
Direct Capital Corporation (Financial Services)	Subordinated Debt (16.0%, Due 3/13)	36,227	36,058	36,058
	Common Stock (2,097,234 shares)		19,250	17,166
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	72,306	72,102	72,102
	Preferred Stock (10,964 shares)		10,276	17,576
	Common Stock (14,735 shares)		14,819	70,473
ForeSite Towers, LLC (Tower Leasing)	Equity Interests			913

- (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.
- (3) Public company.
- (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.
- (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)

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
				(unaudited)
Global Communications, LLC (Business Services)	Senior Loan (10.7%, Due 9/02 11/07) ⁽⁶⁾ Subordinated Debt (17.0%, Due 12/03 9/05) ⁹⁾ Preferred Equity Interest Options	\$ 15,957 11,339	\$ 15,957 11,336 14,067 1,639	\$ 15,957 3,221
Gordian Group, Inc. (Business Services)	Senior Loan (10.0%, Due 6/06 12/08) ⁽⁶⁾ Common Stock (1,000 shares)	11,792	11,794 6,942	
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (8.8%, Due 2/11-2/12) Subordinated Debt (13.7%, Due 8/12 2/13) Subordinated Debt (16.0%, Due 2/13) ⁽⁶⁾ Common Stock (1,147,453 shares)	49,660 61,532 20,841	49,450 61,293 20,750 56,187	49,450 48,155
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/12) Common Stock (415,328 shares)	58,949	58,686 41,533	58,686 43,070
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			320
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12) Subordinated Debt (19.0%, Due 9/12) ⁽⁶⁾ Preferred Stock (25,000 shares) Common Stock (620,000 shares)	44,257 16,181	44,123 16,130 25,000 6,325	44,569 16,457 209
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08) ⁽⁶⁾ Preferred Stock (6,460 shares) Common Stock (158,061 shares)	15,692	15,692 6,460 9,347	
Legacy Partners Group, Inc. (Financial Services)	Senior Loan (14.0%, Due 5/09) ⁽⁶⁾ Equity Interests	3,843	3,843 4,261	3,843 568

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Litterer Beteiligungs-GmbH ⁽⁴⁾ (Business Services)	Subordinated Debt (8.0%, Due 3/07) Equity Interest	706	706 1,809	706 2,906
Mercury Air Centers, Inc. (Business Services)	Subordinated Debt (16.0%, Due 4/09 11/12) Common Stock (57,970 shares)	50,361	50,252 35,053	50,252 269,886
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 6/09 7/09) Subordinated Debt (14.5%, Due 6/09 7/09) Common Stock (648,661 shares)	30,674 39,687	30,623 39,364 643	30,623 39,364 2,013
Old Orchard Brands, LLC (Consumer Products)	Subordinated Debt (18.0%, Due 7/14) Equity Interests	19,300	19,206 18,767	19,206 18,767
Penn Detroit Diesel Allison, LLC (Business Services)	Subordinated Debt (15.5%, Due 8/13) Equity Interests	38,748	38,583 21,128	38,583 27,532
Powell Plant Farms, Inc. (Consumer Products)	Senior Loan (15.0%, Due 12/07) ⁽⁶⁾⁽⁺⁾ Preferred Stock (1,483 shares) Warrants	12,748	12,748	12,748

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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.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (+) Loan repayments of \$11.4 million were received on July 2, 2007.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
			(unaudited)	
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	\$ 28,084	\$ 27,982	\$ 27,982
(Business Services)	Common Stock (63,888 shares)		13,662	21,194
Staffing Partners Holding Company, Inc.	Subordinated Debt (13.5%, Due 1/07) ⁽⁶⁾	541	541	549
(Business Services)				
Startec Global Communications Corporation	Senior Loan (10.0%, Due 5/07 5/09)	11,175	11,175	11,175
(Telecommunications)	Common Stock (19,180,000 shares)		37,255	17,109
Sweet Traditions, Inc.	Senior Loan (9.0%, Due 8/11) ⁽⁶⁾	39,392	35,752	35,752
(Retail)	Preferred Stock (961 Shares)		950	950
	Common Stock (10,000 Shares)		50	50
Triview Investments, Inc. ⁽⁸⁾	Senior Loan (9.6%, Due 12/07 6/08)	14,758	14,758	14,758
(Broadcasting & Cable/Business Services/Consumer Products)	Subordinated Debt (14.7%, Due 1/10 5/17)	75,484	75,116	75,116
	Subordinated Debt (8.5%, Due 11/07 7/08) ⁽⁹⁾	5,000	5,000	5,087
	Common Stock (202 shares)		110,744	47,062
	Guaranty (\$800)			
	Standby Letter of Credit (\$200)			
Total companies more than 25% owned			\$ 1,775,496	\$ 1,709,770
Companies 5% to 25% Owned				
Advantage Sales & Marketing, Inc.	Subordinated Debt (12.0%, Due 3/14)	\$ 153,856	\$ 153,231	\$ 153,231
(Business Services)	Equity Interests			11,000
Air Medical Group Holdings LLC	Senior Loan (8.5%, Due 3/11)	1,787	1,729	1,729
(Healthcare Services)	Equity Interests		3,470	9,200

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Alpine ESP Holdings, Inc. (Business Services)	Preferred Stock (622 shares) Common Stock (13,513 shares)		622 14	696 100
Amerex Group, LLC (Consumer Products)	Subordinated Debt (12.0%, Due 1/13) Equity Interests	8,400	8,400 3,509	8,400 21,787
BB&T Capital Partners/Windsor Mezzanine Fund, LLC ⁽⁵⁾ (Private Equity Fund)	Equity Interests		5,873	5,608
Becker Underwood, Inc. (Industrial Products)	Subordinated Debt (14.5%, Due 8/12) Common Stock(5,073 shares)	24,552	24,477 5,813	24,477 3,600
BI Incorporated (Business Services)	Subordinated Debt (13.5%, Due 2/14) Common Stock (40,000 shares)	30,499	30,374 4,000	30,374 6,800

- (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.
- (3) Public company.
- (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.
- (8) Triview Investments, Inc. holds investments in Longview Cable & Data, LLC (Broadcasting & Cable) with a cost of \$68.0 million and a value of \$7.4 million, Triax Holdings, LLC (Consumer Products) with a cost of \$98.9 million and a value of \$94.4 million, and Crescent Hotels & Resorts, LLC and affiliates (Business Services) with a cost of \$38.8 million and a value of \$40.3 million.

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
			(unaudited)	
CitiPostal, Inc. and Affiliates (Business Services)	Senior Loan (11.1%, Due 8/13-11/14) Equity Interests	\$ 20,610	\$ 20,513 4,578	\$ 20,513 6,900
Creative Group, Inc. (Business Services)	Subordinated Debt (12.0%, Due 9/13) ⁽⁶⁾ Warrant	15,000	13,686 1,387	11,198
Drew Foam Companies, Inc. (Business Services)	Preferred Stock (722 shares) Common Stock (7,287 shares)		722 7	428
MedBridge Healthcare, LLC (Healthcare Services)	Senior Loan (6.0%, Due 8/09) ⁽⁶⁾ Subordinated Debt (10.0%, Due 8/14) ⁽⁶⁾ Convertible Subordinated Debt (2.0%, Due 8/14) ⁽⁶⁾ Equity Interests	7,164 5,184 2,970	7,164 5,184 984 1,416	7,164 2,129
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (11.5%, Due 6/12) ⁽⁶⁾ Subordinated Debt (18.0%, Due 6/13) ⁽⁶⁾ Common Stock (20,934 shares) ⁽¹²⁾ Warrants ⁽¹²⁾	33,600 11,211	33,448 11,154 20,942	17,277
Multi-Ad Services, Inc. (Business Services)	Unitranche Debt (11.3%, Due 11/11) Equity Interests	19,900	19,792 2,000	19,792 940
PresAir LLC (Industrial Products)	Senior Loan (7.5%, Due 12/10) ⁽⁶⁾ Equity Interests	5,729	5,411 1,341	2,082
Progressive International Corporation (Consumer Products)	Subordinated Debt (16.0%, Due 12/09) Preferred Stock (500 shares) Common Stock (197 shares) Warrants	7,629	7,613 500 13	7,613 1,068 4,300

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Regency Healthcare Group, LLC (Healthcare Services)	Senior Loan (11.1%, Due 6/12)	1,250	1,233	1,233
	Unitranche Debt (11.1%, Due 6/12)	12,000	11,949	11,949
	Equity Interests		1,500	1,720
SGT India Private Limited ⁽⁴⁾ (Business Services)	Common Stock (109,524 shares)		4,093	3,076
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (12.0%, Due 11/10)	14,500	13,661	13,661
	Equity Interests		2,170	2,592
Universal Environmental Services, LLC (Business Services)	Unitranche Debt (15.5%, Due 2/09) ⁽⁶⁾	10,989	10,963	6,010
	Equity Interests		1,810	
Total companies 5% to 25% owned			\$ 446,746	\$ 418,647

Companies Less Than 5% Owned

3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (14.5%, Due 8/13)	\$ 27,376	\$ 27,268	\$ 27,268
AgData, L.P. (Consumer Services)	Senior Loan (10.3%, Due 7/12)	1,726	1,694	1,694
Axiom Healthcare Pharmacy, Inc. (Healthcare Services)	Unitranche Debt (12.0%, Due 12/12)	8,500	8,423	8,423
	Common Stock (26,500 shares)		2,650	1,400
Baird Capital Partners IV Limited Partnership ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		1,557	1,298

- (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.
- (3) Public company.
- (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.
- (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)

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	(unaudited)		
		Principal	Cost	Value
BenefitMall, Inc. (Business Services)	Unitranche Debt (13.3%, Due 8/12) Common Stock (45,528,000 shares) ⁽¹²⁾ Warrants ⁽¹²⁾	\$ 110,030	\$ 109,682 45,528	\$ 109,682 56,162