

ALLIED CAPITAL CORP
Form 10-Q
November 10, 2008

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 September 30, 2008**

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, 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
(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

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On November 7, 2008, 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

Consolidated Balance Sheet as of September 30, 2008 (unaudited) and December 31, 2007	1
Consolidated Statement of Operations (unaudited) For the Three and Nine Months Ended September 30, 2008 and 2007	2
Consolidated Statement of Changes in Net Assets (unaudited) For the Nine Months Ended September 30, 2008 and 2007	3
Consolidated Statement of Cash Flows (unaudited) For the Nine Months Ended September 30, 2008 and 2007	4
Consolidated Statement of Investments as of September 30, 2008 (unaudited)	5
Consolidated Statement of Investments as of December 31, 2007	21
Notes to Consolidated Financial Statements	36
Report of Independent Registered Public Accounting Firm	71
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	76
Item 3. Quantitative and Qualitative Disclosures About Market Risk	119
Item 4. Controls and Procedures	119

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	120
Item 1A. Risk Factors	121
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	129
Item 3. Defaults Upon Senior Securities	129
Item 4. Submission of Matters to a Vote of Security Holders	129
Item 5. Other Information	129
Item 6. Exhibits	130
Signatures	134

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

(in thousands, except per share amounts)	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2008-\$2,242,291; 2007-\$1,622,094)	\$ 1,433,700	\$ 1,279,080
Companies 5% to 25% owned (cost: 2008-\$313,212; 2007-\$426,908)	360,905	389,509
Companies less than 5% owned (cost: 2008-\$2,600,556; 2007-\$2,994,880)	2,307,332	2,990,732
Total private finance (cost: 2008-\$5,156,059; 2007-\$5,043,882)	4,101,937	4,659,321
Commercial real estate finance (cost: 2008-\$85,229; 2007-\$96,942)	106,632	121,200
Total portfolio at value (cost: 2008-\$5,241,288; 2007-\$5,140,824)	4,208,569	4,780,521
Accrued interest and dividends receivable	69,848	71,429
Other assets	131,949	157,864
Investments in money market and other securities	13,384	201,222
Cash	201,915	3,540
Total assets	\$ 4,625,665	\$ 5,214,576
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2008-\$15,950; 2007-\$153,000)	\$ 1,960,950	\$ 1,922,220
Revolving line of credit	170,000	367,250
Accounts payable and other liabilities	81,309	153,259
Total liabilities	2,212,259	2,442,729
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.0001 par value, 400,000 shares authorized; 178,692 and 158,002 shares issued and outstanding at September 30, 2008, and December 31, 2007, respectively	18	16
Additional paid-in capital	3,060,271	2,657,939
Common stock held in deferred compensation trusts		(39,942)
Notes receivable from sale of common stock	(1,851)	(2,692)

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Net unrealized appreciation (depreciation)	(1,066,833)	(379,327)
Undistributed earnings	421,801	535,853
Total shareholders' equity	2,413,406	2,771,847
Total liabilities and shareholders' equity	\$ 4,625,665	\$ 5,214,576
Net asset value per common share	\$ 13.51	\$ 17.54

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 September 30, 2008		For the Nine Months Ended September 30, 2008	
	2007	2007	2007	2007
	(unaudited)		(unaudited)	
Interest and Related Portfolio Income:				
Interest and dividends				
Companies more than 25% owned	\$ 29,699	\$ 28,198	\$ 85,167	\$ 83,895
Companies 5% to 25% owned	9,864	9,374	31,587	32,111
Companies less than 5% owned	72,644	68,097	249,325	194,460
Total interest and dividends	112,207	105,669	366,079	310,466
Fees and other income				
Companies more than 25% owned	6,130	5,146	22,638	14,552
Companies 5% to 25% owned	342	19	411	518
Companies less than 5% owned	1,983	7,534	11,056	18,460
Total fees and other income	8,455	12,699	34,105	33,530
Total interest and related portfolio income	120,662	118,368	400,184	343,996
Expenses:				
Interest	35,949	33,744	109,974	98,368
Employee	21,443	26,306	57,439	76,845
Employee stock options	1,477	18,312	9,531	31,492
Administrative	14,138	10,496	36,100	38,225
Total operating expenses	73,007	88,858	213,044	244,930
Net investment income before income taxes	47,655	29,510	187,140	99,066
Income tax expense (benefit), including excise tax	2,060	11,192	8,141	16,073
Net investment income	45,595	18,318	178,999	82,993
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses)				
Companies more than 25% owned	1,098	201,582	1,967	267,359
Companies 5% to 25% owned	7,234	(5,475)	(6,569)	(5,171)
Companies less than 5% owned	53,710	16,263	51,932	52,727
Total net realized gains (losses)	62,042	212,370	47,330	314,915

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Net change in unrealized appreciation or depreciation	(425,899)	(327,156)	(687,506)	(272,132)
Total net gains (losses)	(363,857)	(114,786)	(640,176)	42,783
Net increase (decrease) in net assets resulting from operations	\$ (318,262)	\$ (96,468)	\$ (461,177)	\$ 125,776
Basic earnings (loss) per common share	\$ (1.78)	\$ (0.63)	\$ (2.70)	\$ 0.83
Diluted earnings (loss) per common share	\$ (1.78)	\$ (0.63)	\$ (2.70)	\$ 0.81
Weighted average common shares outstanding basic	178,692	154,025	171,084	151,979
Weighted average common shares outstanding diluted	178,692	154,025	171,084	154,708

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 Nine Months Ended September 30, 2008 2007 (unaudited)	
Operations:		
Net investment income	\$ 178,999	\$ 82,993
Net realized gains	47,330	314,915
Net change in unrealized appreciation or depreciation	(687,506)	(272,132)
Net increase (decrease) in net assets resulting from operations	(461,177)	125,776
Shareholder distributions:		
Common stock dividends	(340,381)	(293,706)
Net decrease in net assets resulting from shareholder distributions	(340,381)	(293,706)
Capital share transactions:		
Sale of common stock	402,478	93,784
Issuance of common stock in lieu of cash distributions	3,751	12,447
Issuance of common stock upon the exercise of stock options		13,307
Cash portion of option cancellation payment		(52,833)
Stock option expense	9,655	32,069
Net decrease in notes receivable from sale of common stock	841	142
Purchase of common stock held in deferred compensation trusts	(943)	(9,272)
Distribution of common stock held in deferred compensation trusts	27,335	528
Other		2,297
Net increase in net assets resulting from capital share transactions	443,117	92,469
Total decrease in net assets	(358,441)	(75,461)
Net assets at beginning of period	2,771,847	2,841,244
Net assets at end of period	\$ 2,413,406	\$ 2,765,783
Net asset value per common share	\$ 13.51	\$ 17.90
Common shares outstanding at end of period	178,692	154,506

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 Nine Months Ended September 30, 2008 2007 (unaudited)	
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ (461,177)	\$ 125,776
Adjustments:		
Portfolio investments	(1,019,750)	(1,236,671)
Principal collections related to investment repayments or sales	878,229	1,086,513
Payment-in-kind interest and dividends, net of cash collections	(35,947)	(5,462)
Net increase (decrease) in accrued interest and dividends	835	(10,710)
Net collection (amortization) of discounts and fees	(10,176)	(1,215)
Net redemption of (investments in) U.S. Treasury bills, money market and other securities	187,838	(88,859)
Stock option expense	9,655	32,069
Changes in other assets and liabilities	(42,537)	13,943
Depreciation and amortization	1,752	1,540
Realized gains from the receipt of notes and other consideration from sale of investments, net of collections	14,430	(29,716)
Realized losses	87,867	81,456
Net change in unrealized (appreciation) or depreciation	687,506	272,132
Net cash provided by (used in) operating activities	298,525	240,796
Cash flows from financing activities:		
Sale of common stock	402,478	93,784
Sale of common stock upon the exercise of stock options		13,307
Collections of notes receivable from sale of common stock	841	142
Borrowings under notes payable	193,000	230,000
Repayments on notes payable	(153,000)	
Net borrowings under (repayments on) revolving line of credit	(197,250)	(207,750)
Cash portion of option cancellation payment		(52,833)
Purchase of common stock held in deferred compensation trusts	(943)	(9,272)
Other financing activities	(8,646)	(6,363)
Common stock dividends and distributions paid	(336,630)	(288,682)
Net cash provided by (used in) financing activities	(100,150)	(227,667)
Net increase (decrease) in cash	198,375	13,129
Cash at beginning of period	3,540	1,687
Cash at end of period	\$ 201,915	\$ 14,816

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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
AGILE Fund I, LLC ⁽⁵⁾	Equity Interests		\$ 814	\$ 751
(Private Equity Fund)	Total Investment		814	751
Alaris Consulting, LLC	Senior Loan (16.5%, Due 12/05 12/07) ⁽⁶⁾	\$ 27,055	26,987	
(Business Services)	Equity Interests		6,738	
	Total Investment		33,725	
	Standby Letters of Credit (\$231)			
AllBridge Financial, LLC	Equity Interests		29,648	19,431
(Asset Management)	Total Investment		29,648	19,431
	Standby Letter of Credit (\$15,000)			
Allied Capital Senior Debt Fund, L.P. ⁽⁵⁾	Equity Interests (See Note 3)		31,800	31,965
(Private Debt Fund)	Total Investment		31,800	31,965
Avborne, Inc. ⁽⁷⁾	Preferred Stock (12,500 shares)			935
(Business Services)	Common Stock (27,500 shares)			
	Total Investment			935
Avborne Heavy Maintenance, Inc. ⁽⁷⁾	Preferred Stock (1,568 shares)			157
(Business Services)	Common Stock (2,750 shares)			896
	Total Investment			1,053
Aviation Properties Corporation	Common Stock (100 shares)		68	

(Business Services)	Total Investment	68		
	Standby Letters of Credit (\$1,000)			
Border Foods, Inc.	Senior Loan (13.5%, Due 12/11) ⁽⁶⁾	18,834	12,537	18,834
(Consumer Products)	Senior Loan (9.0%, Due 12/09 12/11)	23,127	23,127	23,127
	Preferred Stock (100,000 shares)		12,721	10,031
	Common Stock (260,467 shares)		3,847	
	Total Investment		52,232	51,992
Calder Capital Partners, LLC ⁽⁵⁾ (Asset Management)	Senior Loan (10.4%, Due 5/09) ⁽⁶⁾	4,277	4,277	668
	Equity Interests		2,398	
	Total Investment		6,675	668
Callidus Capital Corporation (Asset Management)	Senior Loan (12.0%, Due 12/08)	1,750	1,750	1,750
	Subordinated Debt (17.8%, Due 8/13 2/14)	13,318	13,318	13,318
	Common Stock (100 shares)		2,067	40,032
	Total Investment		17,135	55,100
	Guaranty (\$9,636)			

- (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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Ciena Capital LLC (Financial Services)	Senior Loan (6.8%, Due 3/09) ⁽⁶⁾ Class A Equity Interests (25.0% See Note 3) Class B Equity Interests Class C Equity Interests	\$ 319,031 99,044	\$ 319,031 99,044 119,436 109,169	\$ 180,194
	Total Investment		646,680	180,194
	Guaranty (\$5,000 See Note 3) Standby Letters of Credit (\$102,600 See Note 3)			
CitiPostal Inc. (Business Services)	Senior Loan (7.2%, Due 12/13) Unitranche Debt (12.0%, Due 12/13) Subordinated Debt (16.0%, Due 12/15) Common Stock (37,024 shares)	692 51,625 8,756	681 51,404 8,756 12,726	681 51,404 8,756 15,688
	Total Investment		73,567	76,529
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)	32,035 5,563	31,939 5,548 14,361	31,939 5,548 17,738
	Total Investment		51,848	55,225
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13) Common Stock (32,090,696 shares)	38,968	38,854 28,744	38,854 9,451

	Total Investment		67,598	48,305
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)	31,989	31,893	31,893
Broadcasting & Cable)	Subordinated Debt (12.5%, Due 12/08) ⁽⁶⁾	1,550	1,550	
	Common Stock (174 shares)		81,195	17,330
	Total Investment		115,071	49,656
	Guaranty (\$900)			
	Standby Letters of Credit (\$200)			
Direct Capital Corporation	Subordinated Debt (16.0%, Due 3/13)	53,527	53,352	53,352
(Financial Services)	Common Stock (2,317,020 shares)		25,732	5,424
	Total Investment		79,084	58,776
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 8/12)	68,738	68,600	68,600
(Financial Services)	Preferred Stock (9,458 shares)		8,865	12,466
	Common Stock (12,711 shares)		12,783	
	Total Investment		90,248	81,066

- (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.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (8) The Company's investment in Crescent Equity Corp. had a cost basis of \$115.1 million and holds investments in Crescent Hotels & Resorts, LLC and affiliates (Business Services) with a value of \$49.7 million, and Longview Cable & Data, LLC (Broadcasting & Cable) with a value of zero, for a total value of \$49.7 million.

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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
ForeSite Towers, LLC	Equity Interest		\$	\$ 980
(Tower Leasing)	Total Investment			980
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. (Retail)	Senior Loan (9.0%, Due 2/11) ⁽⁶⁾ Common Stock (93,500 shares)	29,662	29,662 5,151	13,256
	Total Investment		34,813	13,256
	Standby Letter of Credit (\$105)			
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (7.2%, Due 2/11-2/12) Subordinated Debt (13.3%, Due 8/12-2/13) ⁽⁶⁾ Common Stock (1,147,453 shares)	53,707 83,692	53,554 83,393 56,187	52,659
	Total Investment		193,134	52,659
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/12) Common Stock (358,428 shares)	56,778	56,590 35,828	56,590 32,996
	Total Investment		92,418	89,586
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14) Equity Interests	6,000	6,000 7,500	6,000 8,633
	Total Investment		13,500	14,633

Impact Innovations Group, LLC	Equity Interests in Affiliate			321
(Business Services)	Total Investment			321
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	45,595	45,498	45,498
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12) ⁽⁶⁾	16,177	16,126	15,698
	Preferred Stock (25,000 shares)		25,000	
	Common Stock (620,000 shares)		6,325	
	Total Investment		92,949	61,196
Jakel, Inc.	Subordinated Debt (15.5%, Due 3/08) ⁽⁶⁾	748	748	748
(Industrial Products)	Total Investment		748	748
Knightsbridge CLO 2007-1 Ltd. ⁽⁴⁾	Class E Notes (11.8%, Due 1/22)	18,700	18,700	16,431
(CLO)	Income Notes (15.0%) ⁽¹¹⁾		40,656	35,705
	Total Investment		59,356	52,136

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Knightsbridge CLO 2008-1 Ltd. ⁽⁴⁾ (CLO)	Class C Notes (10.5%, Due 6/18)	\$ 12,800	\$ 12,800	\$ 12,800
	Class D Notes (11.5%, Due 6/18)	8,000	8,000	8,000
	Class E Notes (8.0%, Due 6/18)	13,200	10,534	10,534
	Income Notes (16.6%) ⁽¹¹⁾		20,453	20,453
	Total Investment		51,787	51,787
Legacy Partners Group, Inc. (Financial Services)	Senior Loan (14.0%, Due 5/09) ⁽⁶⁾	843	843	843
	Equity Interests		4,273	1,268
	Total Investment		5,116	2,111
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (13.0%, Due 6/12 6/13) ⁽⁹⁾	49,841	49,633	
	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		70,575	
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 6/09 7/09)	30,674	30,657	30,657
	Subordinated Debt (14.5%, Due 6/09 7/09)	40,958	40,831	40,831
	Common Stock (560,716 shares)		555	21
	Total Investment		72,043	71,509
Old Orchard Brands, LLC (Consumer Products)	Subordinated Debt (18.0%, Due 7/14)	18,760	18,688	18,688
	Equity Interests		15,857	35,081

	Total Investment		34,545	53,769
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	37,701	37,580	37,580
(Business Services)	Equity Interests		18,862	33,223
	Total Investment		56,442	70,803
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	26,878	26,808	26,808
(Business Services)	Common Stock (55,112 shares)		11,785	24,726
	Total Investment		38,593	51,534
Startec Equity, LLC	Equity Interests		206	214
(Telecommunications)	Total Investment		206	214
Unitranche Fund LLC	Subordinated Certificates (10.3%)		114,339	114,339
(Private Debt Fund)	Equity Interests		1	1
	Total Investment		114,340	114,340
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14)	2,812	2,670	2,670
(Business Services)	Equity Interests		11,384	16,262
	Warrants		144	205
	Total Investment		14,198	19,137
Total companies more than 25% owned			\$ 2,242,291	\$ 1,433,700

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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) Companies 5% to 25% Owned	Investment⁽¹⁾⁽²⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
10 th Street, LLC (Business Services)	Subordinated Debt (13.0%, Due 11/14) Equity Interests Option	\$ 21,223	\$ 21,109 421 25	\$ 21,223 1,075 25
	Total Investment		21,555	22,323
Advantage Sales & Marketing, Inc. (Business Services)	Subordinated Debt (12.0%, Due 3/14) Equity Interests	157,811	157,302	157,302 13,000
	Total Investment		157,302	170,302
Air Medical Group Holdings LLC (Healthcare Services)	Senior Loan (5.6%, Due 3/11) Equity Interests	4,635	4,597 2,993	4,332 10,700
	Total Investment		7,590	15,032
Alpine ESP Holdings, Inc. (Business Services)	Preferred Stock (536 shares) Common Stock (11,657 shares)		531 13	
	Total Investment		544	
Amerex Group, LLC (Consumer Products)	Subordinated Debt (12.3%, Due 1/13) Equity Interests	8,789	8,784 3,508	8,784 13,662
	Total Investment		12,292	22,446
BB&T Capital Partners/Windsor Mezzanine Fund, LLC ⁽⁵⁾ (Private Equity Fund)	Equity Interests		11,787	10,346
	Total Investment		11,787	10,346

Becker Underwood, Inc. (Industrial Products)	Subordinated Debt (14.5%, Due 8/12) Common Stock (4,376 shares)	25,341	25,284 5,014	25,341 4,300
	Total Investment		30,298	29,641
Drew Foam Companies, Inc. (Business Services)	Preferred Stock (622,555 shares) Common Stock (6,286 shares)		623 6	335
	Total Investment		629	335
Hilden America, Inc. (Consumer Products)	Common Stock (19 shares)		454	70
	Total Investment		454	70
Lydall Transport, Ltd. (Business Services)	Equity Interests		432	423
	Total Investment		432	423

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
MedBridge Healthcare, LLC	Senior Loan (8.0%, Due 8/09) ⁽⁶⁾	\$ 6,587	\$ 6,587	\$ 6,587
(Healthcare Services)	Subordinated Debt (10.0%, Due 8/14) ⁽⁶⁾	5,153	5,153	753
	Convertible Subordinated Debt (2.0%, Due 8/14) ⁽⁶⁾	2,970	984	
	Equity Interests		1,425	
	Total Investment		14,149	7,340
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	3,026	3,007	2,947
(Business Services)	Equity Interests		1,731	1,422
	Total Investment		4,738	4,369
Progressive International Corporation	Preferred Stock (500 shares)		500	1,103
(Consumer Products)	Common Stock (197 shares)		13	4,600
	Warrants			
	Total Investment		513	5,703
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	10,901	10,851	11,107
(Healthcare Services)	Equity Interests		1,298	1,568
	Total Investment		12,149	12,675
SGT India Private Limited ⁽⁴⁾	Common Stock (150,596 shares)		4,122	1,206
(Business Services)	Total Investment		4,122	1,206
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	4,250	4,155	4,107

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(Healthcare Services)	Equity Interests		1,881	2,157
	Total Investment		6,036	6,264
Triax Holdings, LLC	Subordinated Debt (21.0%, Due 2/12)	10,551	10,514	10,316
(Consumer Products)	Equity Interests		16,528	42,114
	Total Investment		27,042	52,430
Universal Environmental Services, LLC	Equity Interests		1,580	
(Business Services)	Total Investment		1,580	
Total companies 5% to 25% owned			\$ 313,212	\$ 360,905
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (14.6%, Due 8/13)	\$ 28,865	\$ 28,779	\$ 28,115
(Consumer Products)	Total Investment		28,779	28,115
Abraxas Corporation	Subordinated Debt (14.6%, Due 4/13)	37,000	36,831	36,274
(Business Services)	Total Investment		36,831	36,274
AgData, L.P.	Senior Loan (12.0%, Due 7/12)	1,843	1,837	1,834
(Consumer Services)	Unitranche Debt (12.0%, Due 7/12)	13,925	13,876	13,854
	Total Investment		15,713	15,688

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Augusta Sportswear Group, Inc.	Subordinated Debt (13.0%, Due 1/15)	\$ 53,000	\$ 52,818	\$ 53,032
(Consumer Products)	Common Stock (2,500 shares)		2,500	2,000
	Total Investment		55,318	55,032
Axium Healthcare Pharmacy, Inc.	Senior Loan (14.0%, Due 12/12)	3,750	3,722	3,667
(Healthcare Services)	Unitranche Debt (14.0%, Due 12/12)	8,500	8,469	7,897
	Common Stock (22,860 shares)		2,286	99
	Total Investment		14,477	11,663
Baird Capital Partners IV Limited ⁽⁵⁾	Limited Partnership Interest		3,114	2,994
(Private Equity Fund)	Total Investment		3,114	2,994
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,234	40,234
(Business Services)	Common Stock (39,274,290 shares) ⁽¹²⁾		39,274	90,653
	Warrants ⁽¹²⁾			
	Total Investment		79,508	130,887
Broadcast Electronics, Inc.	Senior Loan (9.8%, Due 7/12) ⁽⁶⁾	4,913	4,885	1,358
(Business Services)	Total Investment		4,885	1,358
Bushnell, Inc.	Subordinated Debt (10.3%, Due 2/14)	41,325	39,955	36,572

(Consumer Products)	Total Investment		39,955	36,572
Callidus Debt Partners CDO Fund I, Ltd. ⁽⁴⁾⁽¹⁰⁾	Class C Notes (12.9%, Due 12/13)	18,800	18,913	17,094
(CDO)	Class D Notes (17.0%, Due 12/13)	9,400	9,456	8,674
	Total Investment		28,369	25,768
Callidus Debt Partners CLO Fund III, Ltd. ⁽⁴⁾⁽¹⁰⁾	Preferred Shares (23,600,000 shares, 14.2%) ⁽¹¹⁾		20,100	18,129
(CLO)	Total Investment		20,100	18,129
Callidus Debt Partners CLO Fund IV, Ltd. ⁽⁴⁾⁽¹⁰⁾	Class D Notes (7.3%, Due 4/20)	3,000	1,997	2,165
(CLO)	Income Notes (20.6%) ⁽¹¹⁾		14,509	13,749
	Total Investment		16,506	15,914

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- (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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Callidus Debt Partners CLO Fund V, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Income Notes (22.0%) ⁽¹¹⁾ Total Investment		\$ 13,251	\$ 12,694
			13,251	12,694
Callidus Debt Partners CLO Fund VI, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Class D Notes (8.8%, Due 10/21) Income Notes (23.2%) ⁽¹¹⁾ Total Investment	\$ 9,000	7,104 27,907	5,783 28,111
			35,011	33,894
Callidus Debt Partners CLO Fund VII, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Income Notes (15.3%) ⁽¹¹⁾ Total Investment		23,825	19,699
			23,825	19,699
Callidus MAPS CLO Fund I LLC ⁽¹⁰⁾ (CLO)	Class E Notes (8.7%, Due 12/17) Income Notes (4.4%) ⁽¹¹⁾ Total Investment	17,000	17,000 45,792	13,955 33,767
			62,792	47,722
Callidus MAPS CLO Fund II, Ltd. ⁽⁴⁾⁽¹⁰⁾ (CLO)	Subordinated Debt (7.0%, Due 7/22) Income Notes (17.4%) ⁽¹¹⁾ Total Investment		3,494 18,230	3,494 15,224
		7,700		
			21,724	18,718
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (7.5%, Due 6/11) Unitranche Debt (14.5%, Due 6/11) Preferred Stock (345,056 Shares) Total Investment	500 3,161	497 3,136 345	481 3,031 150
			3,978	3,662
Catterton Partners VI, L.P. ⁽⁵⁾	Limited Partnership Interest		2,776	2,771

(Private Equity Fund)	Total Investment	2,776	2,771
Centre Capital Investors V, L.P. ⁽⁵⁾	Limited Partnership Interest	1,741	1,526
(Private Equity Fund)	Total Investment	1,741	1,526

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
CK Franchising, Inc. (Consumer Services)	Senior Loan (7.0%, Due 7/12)	\$ 6,075	\$ 6,000	\$ 6,000
	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,923	20,923
	Preferred Stock (1,281,887 shares)		1,282	1,549
	Common Stock (7,585,549 shares)		7,586	10,700
	Total Investment		35,791	39,172
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	16,000	15,971	15,971
	Preferred Stock (64,679 shares)		15,543	9,073
	Warrants			
	Total Investment		31,514	25,044
Community Education Centers, Inc. (Education Services)	Subordinated Debt (13.5%, Due 11/13)	35,413	35,347	33,701
	Total Investment		35,347	33,701
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,640	18,581	18,444
	Total Investment		18,581	18,444
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13)	90,000	89,597	87,765
	Equity Interests		552	300
	Total Investment		90,149	88,065
Cortec Group Fund IV, L.P. ⁽⁵⁾	Limited Partnership Interest		4,647	4,084

(Private Equity)	Total Investment		4,647	4,084
Diversified Mercury Communications, LLC	Senior Loan (6.2%, Due 3/13)	2,983	2,969	2,717
(Business Services)	Total Investment		2,969	2,717
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	14,568	14,498	14,609
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,434	4,421	5,412
	Total Investment		18,919	20,021
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	75,428	75,110	72,282
(Consumer Products)	Equity Interests		8,000	6,000
	Total Investment		83,110	78,282
Distant Lands Trading Co.	Senior Loan (10.0%, Due 11/11)	4,050	4,022	3,892
(Consumer Products)	Unitranche Debt (13.0%, Due 11/11)	42,890	42,770	42,684
	Common Stock (3,451 shares)		3,451	678
	Total Investment		50,243	47,254
Driven Brands, Inc.	Subordinated Debt (11.7%, Due 1/15 7/15)	88,300	88,082	88,082
d/b/a Meineke and Econo Lube	Common Stock (10,463,473 shares) ⁽¹²⁾		26,398	13,469
(Consumer Services)	Warrants ⁽¹²⁾			
	Total Investment		114,480	101,551

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Dryden XVIII Leveraged Loan 2007 Limited ⁽⁴⁾ (CLO)	Class B Notes (7.3%, Due 10/19) Income Notes (17.1%) ⁽¹¹⁾	\$ 9,000	\$ 7,580 22,462	\$ 7,383 20,760
	Total Investment		30,042	28,143
Dynamic India Fund IV ⁽⁴⁾⁽⁵⁾ (Private Equity Fund)	Equity Interests		9,350	11,524
	Total Investment		9,350	11,524
EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13) Common Stock (63,438 shares) ⁽¹²⁾ Warrants ⁽¹²⁾	119,248	118,813 63,438	118,813 9,751
	Total Investment		182,251	128,564
eCentury Capital Partners, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		7,274	1,822
	Total Investment		7,274	1,822
eInstruction Corporation (Education Services)	Subordinated Debt (13.6%, Due 7/14-1/15) Common Stock (2,406 shares)	33,266	33,124 2,500	31,384 2,300
	Total Investment		35,624	33,684
Farley s & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (11.0%, Due 3/11)	2,500	2,493	2,375
	Total Investment		2,493	2,375
FCP-BHI Holdings, LLC		26,485	26,387	25,390

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d/b/a Bojangles	Subordinated Debt (12.0%, Due 9/13) Equity Interests		968	1,700
(Retail)	Total Investment		27,355	27,090
Fidus Mezzanine Capital, L.P. ⁽⁵⁾	Limited Partnership Interest		9,597	9,077
(Private Equity Fund)	Total Investment		9,597	9,077
Freedom Financial Network, LLC (Financial Services)	Senior Loan (6.5%, Due 2/13) Subordinated Debt (13.5%, Due 2/14)	7,000 13,000	6,903 12,942	6,570 12,625
	Total Investment		19,845	19,195
Frozen Specialties, Inc.	Warrants		375	
(Consumer Products)	Total Investment		375	
Garden Ridge Corporation	Subordinated Debt (8.0%, Due 5/12) ⁽⁶⁾	20,500	20,500	20,500
(Retail)	Total Investment		20,500	20,500
Geotrace Technologies, Inc.	Warrants		2,027	2,800
(Energy Services)	Total Investment		2,027	2,800

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Gilchrist & Soames, Inc.	Subordinated Debt (13.4%, Due 10/13)	\$ 25,800	\$ 25,652	\$ 24,949
(Consumer Products)	Total Investment		25,652	24,949
Havco Wood Products LLC	Equity Interests		910	2,100
(Industrial Products)	Total Investment		910	2,100
Higginbotham Insurance Agency, Inc.	Subordinated Debt (13.7%, Due 8/13 8/14)	52,205	51,983	51,983
(Business Services)	Common Stock (23,695 shares) ⁽¹²⁾		23,695	24,828
	Warrant ⁽¹²⁾			
	Total Investment		75,678	76,811
The Hillman Companies, Inc. ⁽³⁾	Subordinated Debt (10.0%, Due 9/11)	44,580	44,483	44,480
(Consumer Products)	Total Investment		44,483	44,480
The Homax Group, Inc. (Consumer Products)	Senior Loan (6.4%, Due 10/12)	11,921	11,877	10,897
	Subordinated Debt (12.0%, Due 4/14)	14,000	13,342	12,880
	Preferred Stock (76 shares)		76	10
	Common Stock (24 shares)		5	
	Warrants		954	149
	Total Investment		26,254	23,936
Ideal Snacks Corporation	Senior Loan (6.8%, Due 6/10)	1,113	1,113	1,072
(Consumer Products)	Total Investment		1,113	1,072

Integrity Interactive Corporation	Unitranche Debt (10.5%, Due 2/12)	10,789	10,709	10,923
(Business Services)	Total Investment		10,709	10,923
International Fiber Corporation	Preferred Stock (21,566 shares)		2,157	2,000
(Industrial Products)	Total Investment		2,157	2,000
Kodiak Fund LP ⁽⁵⁾	Equity Interests		9,440	900
(Private Equity Fund)	Total Investment		9,440	900
Line-X, Inc.	Senior Loan (15.0%, Due 8/11) ⁽⁶⁾	900	888	888
(Consumer Products)	Unitranche Debt (15.0% Due 8/11) ⁽⁶⁾	48,445	48,319	36,112
	Total Investment		49,207	37,000
	Standby Letter of Credit (\$1,500)			

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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⁾	September 30, 2008 (unaudited)		
		Principal	Cost	Value
Market Track Holdings, LLC (Business Services)	Senior Loan (8.5%, Due 6/14)	\$ 500	\$ 450	\$ 479
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,483	24,171
	Total Investment		24,933	24,650
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (7.0%, Due 2/13)	266	266	245
	Total Investment		266	245
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (10.0%, Due 12/11)	19,052	19,135	19,052
	Convertible Subordinated Debt (9.8%, Due 12/15)	14,533	14,587	14,587
	Total Investment		33,722	33,639
Novak Biddle Venture Partners III, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,018	1,596
	Total Investment		2,018	1,596
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	950
	Total Investment		206	950
Pangaea CLO 2007-1 Ltd. ⁽⁴⁾ (CLO)	Class D Notes (7.5%, Due 10/21)	15,000	11,667	9,497
	Total Investment		11,667	9,497
PC Helps Support, LLC (Business Services)	Senior Loan (6.5%, Due 12/13)	8,846	8,756	8,799
	Subordinated Debt (13.3%, Due 12/13)	28,909	28,775	30,023
	Total Investment		37,531	38,822

Performant Financial Corporation	Common Stock (478,816 shares)		734	
(Business Services)	Total Investment		734	
Peter Brasseler Holdings, LLC	Equity Interests		3,451	3,600
(Business Services)	Total Investment		3,451	3,600
PharMEDium Healthcare Corporation	Senior Loan (6.4%, Due 10/13)	1,910	1,910	1,769
(Healthcare Services)	Total Investment		1,910	1,769
Postle Aluminum Company, LLC	Unitranche Debt (11.0%, Due 10/12)			
(Industrial Products)	Equity Interests	60,750	60,541	31,489
	Total Investment		62,706	31,489

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)		September 30, 2008 (unaudited)		
	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Pro Mach, Inc. (Industrial Products)	Subordinated Debt (12.5%, Due 6/12) Equity Interests	\$ 14,616	\$ 14,570 1,294	\$ 14,173 1,900
	Total Investment		15,864	16,073
Promo Works, LLC (Business Services)	Unitranche Debt (10.3%, Due 12/11)	24,932	24,762	23,988
	Total Investment		24,762	23,988
Reed Group, Ltd. (Healthcare Services)	Senior Loan (6.5%, Due 12/13) Subordinated Debt (13.8%, Due 12/13) Equity Interests	10,920 18,367	10,784 18,289 1,800	9,897 17,060 500
	Total Investment		30,873	27,457
S.B. Restaurant Company (Retail)	Unitranche Debt (9.8%, Due 4/11) Preferred Stock (46,690 shares) Warrants	39,501	39,272 117 534	38,138 117 180
	Total Investment		39,923	38,435
	Standby Letters of Credit (\$2,465)			
Snow Phipps Group, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		4,113	4,457
	Total Investment		4,113	4,457
SPP Mezzanine Funding II, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		9,503	9,400
	Total Investment		9,503	9,400

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Stag-Parkway, Inc.	Unitranche Debt (14.0%, Due 7/12)	49,285	49,126	37,450
(Business Services)	Total Investment		49,126	37,450
STS Operating, Inc.	Subordinated Debt (11.0%, Due 1/13)	30,386	30,290	30,114
(Industrial Products)	Total Investment		30,290	30,114
Summit Energy Services, Inc.	Senior Loan (6.0%, Due 8/13)	9,075	9,031	8,514
(Business Services)	Subordinated Debt (11.6%, Due 8/13)	35,730	35,584	36,440
	Common Stock (415,982 shares)		1,861	1,800
	Total Investment		46,476	46,754
Tank Intermediate Holding Corp.	Senior Debt (8.5%, Due 9/14)	538	384	384
(Industrial Products)	Senior Debt (8.3%, Due 9/14)	30,900	30,079	30,079
	Total Investment		30,463	30,463

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance Portfolio Company (in thousands, except number of shares)		September 30, 2008 (unaudited)		
	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Tappan Wire & Cable Inc. (Business Services)	Unitranche Debt (15.0%, Due 8/14) Common Stock (12,940 shares) ⁽¹²⁾ Warrant ⁽¹²⁾	\$ 22,346	\$ 22,243	\$ 22,243
	Total Investment		24,184	22,727
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12) Equity Interests	95,563	95,275	92,570
	Total Investment		97,424	94,070
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	40,000	39,516	37,793
	Total Investment		39,516	37,793
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (16.3%, Due 11/12) ⁽⁶⁾ Equity Interests	24,561	24,418	1,034
	Total Investment		25,452	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	60,054	59,834	57,350
	Total Investment		59,834	57,350
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (10.0%, Due 1/14)	29,000	28,871	28,710
	Total Investment		28,871	28,710

Venturehouse-Ciberner 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	77,687
d/b/a Wear Me Apparel	Common Stock (86 shares)		39,721	
(Consumer Products)	Total Investment		178,280	77,687

- (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.
- (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)

Private Finance Portfolio Company (in thousands, except number of shares)		September 30, 2008 (unaudited)		
Investment⁽¹⁾⁽²⁾	Principal	Cost	Value	
Webster Capital II, L.P. ⁽⁵⁾	Limited Partnership Interest		\$ 1,700	\$ 1,431
(Private Equity Fund)	Total Investment		1,700	1,431
Woodstream Corporation	Subordinated Debt (12.0%, Due 2/15)	\$ 90,000	89,618	84,975
(Consumer Products)	Common Stock (6,960 shares)		6,961	3,600
	Total Investment		96,579	88,575
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	159	88	81
	Other equity investments		25	
	Total Investment		113	81
Total companies less than 5% owned			\$ 2,600,556	\$ 2,307,332
Total private finance (146 portfolio investments)			\$ 5,156,059	\$ 4,101,937

(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.

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)

			September 30, 2008 (unaudited)	
	Stated Interest Rate Ranges	Number of Loans	Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	3	\$ 24,688	\$ 24,688
	7.00% 8.99%	2	4,359	4,294
	9.00% 10.99%	1	6,462	6,462
	11.00% 12.99%	1	10,466	9,588
	15.00% and above	2	3,970	6,397
Total commercial mortgage loans⁽¹³⁾			\$ 49,945	\$ 51,429
Real Estate Owned			\$ 20,855	\$ 24,010
Equity Interests⁽²⁾ Companies more than 25% owned			\$ 14,429	\$ 31,193
Guarantees (\$6,871)				
Standby Letter of Credit (\$650)				
Total commercial real estate finance			\$ 85,229	\$ 106,632
Total portfolio			\$ 5,241,288	\$ 4,208,569

	Yield	Cost	Value
Investments in U.S. Treasury Bills, Money Market and Other Securities			
Blackrock Liquidity Funds	2.9%	\$ 1,226	\$ 1,226
SEI Daily Income Tr Prime Obligation Money Market Fund	2.3%	5	5
Columbia Money Market Reserves Fund	2.6%	12,153	12,153
Total		\$ 13,384	\$ 13,384

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

(13) Commercial mortgage loans totaling \$7.6 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

CONSOLIDATED STATEMENT OF INVESTMENTS

Private Finance Portfolio Company (in thousands, except number of shares) Companies More Than 25% Owned	Investment ⁽¹⁾⁽²⁾	December 31, 2007		
		Principal	Cost	Value
Alaris Consulting, LLC (Business Services)	Senior Loan (16.5%, Due 12/05 12/07) ⁽⁹⁾ Equity Interests	\$ 27,055	\$ 26,987	\$
	Total Investment		5,189	
	Guaranty (\$1,100)			
AllBridg Financial, LLC (Asset Management)	Equity Interests		7,800	7,800
	Total Investment		7,800	7,800
	Standby Letter of Credit (\$30,000)			
Allied Capital Senior Debt Fund, L.P. ⁽⁵⁾ (Private Debt Fund)	Equity Interests (See Note 3)		31,800	32,811
	Total Investment		31,800	32,811
Avborne, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (12,500 shares) Common Stock (27,500 shares)		611	1,633
	Total Investment		611	1,633
Avborne Heavy Maintenance, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (1,568 shares) Common Stock (2,750 shares)		2,401	2,557 370
	Total Investment		2,401	2,927
	Guaranty (\$2,401)			
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		65	
	Total Investment		65	
	Standby Letters of Credit (\$1,000)			

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Border Foods, Inc.	Preferred Stock (100,000 shares)		12,721	4,648
(Consumer Products)	Common Stock (148,838 shares)		3,847	
	Total Investment		16,568	4,648
Calder Capital Partners, LLC ⁽⁵⁾	Senior Loan (9.4%, Due 5/09) ⁽⁶⁾	2,907	2,907	3,035
(Asset Management)	Equity Interests		2,396	3,559
	Total Investment		5,303	6,594
Callidus Capital Corporation	Subordinated Debt (18.0%, Due 10/08)	6,871	6,871	6,871
(Asset Management)	Common Stock (100 shares)		2,067	44,587
	Total Investment		8,938	51,458
Ciena Capital LLC	Class A Equity Interests(25.0% See Note 3) ⁽⁶⁾	99,044	99,044	68,609
(Financial Services)	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		327,781	68,609
	Guaranty (\$258,707 See Note 3)			
	Standby Letters of Credit (\$18,000 See Note 3)			

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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, 2007		
		Principal	Cost	Value
CitiPostal Inc. (Business Services)	Senior Loan (8.4%, Due 12/13)	\$ 692	\$ 679	\$ 679
	Unitranche Debt (12.0%, Due 12/13)	50,852	50,597	50,597
	Subordinated Debt (16.0%, Due 12/15)	8,049	8,049	8,049
	Common Stock (37,024 shares)		12,726	12,726
	Total Investment		72,051	72,051
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	35,054	34,923	34,923
	Subordinated Debt (15.0%, Due 7/11)	6,000	5,979	5,979
	Common Stock (884,880 shares)		16,648	27,597
	Total Investment		57,550	68,499
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13)	40,956	40,812	40,812
	Common Stock (37,200,551 shares)		33,321	40,934
	Total Investment		74,133	81,746
Direct Capital Corporation (Financial Services)	Subordinated Debt (16.0%, Due 3/13)	39,184	39,030	39,030
	Common Stock (2,097,234 shares)		19,250	6,906
	Total Investment		58,280	45,936
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	73,031	72,850	72,850
	Preferred Stock (10,964 shares)		10,276	19,330

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	Common Stock (14,735 shares)		14,819	38,544
	Total Investment		97,945	130,724
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			878
	Total Investment			878
Global Communications, LLC (Business Services)	Senior Loan (10.0%, Due 9/02) ⁽⁶⁾	1,822	1,822	1,822
	Total Investment		1,822	1,822
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (8.4%, Due 2/11-2/12)	50,940	50,752	50,752
	Subordinated Debt (12.1%, Due 8/12)	30,000	29,907	29,907
	Subordinated Debt (15.4%, Due 2/13) ⁽⁶⁾	52,373	52,150	1,337
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		188,996	81,996
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/12)	59,857	59,618	59,618
	Common Stock (415,328 shares)		41,533	44,154
	Total Investment		101,151	103,772
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			320
	Total Investment			320

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(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⁾	December 31, 2007		
		Principal	Cost	Value
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12)	\$ 44,257	\$ 44,136	\$ 45,041
	Subordinated Debt (19.0%, Due 9/12) ⁽⁶⁾	16,181	16,130	16,796
	Preferred Stock (25,000 shares)		25,000	1,462
	Common Stock (620,000 shares)		6,325	
	Total Investment		91,591	63,299
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08) ⁽⁶⁾	1,563	1,563	1,563
	Total Investment		1,563	1,563
Legacy Partners Group, Inc. (Business Services)	Senior Loan (14.0%, Due 5/09) ⁽⁶⁾	3,843	3,843	3,843
	Equity Interests		4,261	1,332
	Total Investment		8,104	5,175
Litterer Beteiligungs-GmbH ⁽⁴⁾ (Business Services)	Subordinated Debt (8.0%, Due 12/08)	772	772	772
	Equity Interest		1,809	700
	Total Investment		2,581	1,472
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 6/09 7/09)	30,674	30,639	30,639
	Subordinated Debt (14.5%, Due 6/09 7/09)	40,191	39,943	39,943
	Common Stock (648,661 shares)		643	4,949
	Total Investment		71,225	75,531
Old Orchard Brands, LLC (Consumer Products)	Subordinated Debt (18.0%, Due 7/14)	19,632	19,544	19,544
	Equity Interests		18,767	25,419

	Total Investment		38,311	44,963
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	39,331	39,180	39,180
(Business Services)	Equity Interests		21,128	37,965
	Total Investment		60,308	77,145
Powell Plant Farms, Inc.	Senior Loan (15.0%, Due 12/07) ⁽⁶⁾	1,350	1,350	1,534
(Consumer Products)	Total Investment		1,350	1,534
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	28,443	28,351	28,351
(Business Services)	Common Stock (63,888 shares)		13,662	26,292
	Total Investment		42,013	54,643
Staffing Partners Holding Company, Inc.	Subordinated Debt (13.5%, Due 1/07) ⁽⁶⁾	509	509	223
(Business Services)	Total Investment		509	223
Startec Equity, LLC	Equity Interests		190	430
(Telecommunications)	Total Investment		190	430
Sweet Traditions, Inc.	Senior Loan (13.0%, Due 9/08 8/11) ⁽⁶⁾	39,692	36,052	35,229
(Retail)	Preferred Stock (961 shares)		950	
	Common Stock (10,000 shares)		50	
	Total Investment		37,052	35,229

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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.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance

Portfolio Company

(in thousands, except number of shares)

Triview Investments, Inc.⁽⁸⁾

(Broadcasting & Cable/Business

Services/Consumer Products)

Investment⁽¹⁾⁽²⁾Senior Loan (10.0%, Due
12/07)Subordinated Debt
(12.9%, Due 1/10 6/17)Subordinated Debt
(12.5%, Due 11/07
3/08)⁽⁶⁾Common Stock (202
shares)**Total Investment**Guaranty (\$900)
Standby Letter of Credit
(\$200)Unitranche Fund LLC
(Private Debt Fund)Subordinated Certificates
Equity Interests**Total Investment**Worldwide Express Operations, LLC
(Business Services)Subordinated Debt
(14.0%, Due 2/14)
Equity Interests
Warrants**Total Investment****Total companies more than 25% owned**

Companies 5% to 25% Owned

10th Street, LLC

(Business Services)

Subordinated Debt
(13.0%, Due 12/14)

Equity Interests

Total Investment

December 31, 2007

Principal

Cost

Value

\$ 433 \$ 433 \$ 433

43,157 42,977 42,977

1,400 1,400 1,583

120,638 83,453

165,448 128,446

744 744

1 1

745 745

2,845 2,670 2,670

12,900 21,516

163 272

15,733 24,458**\$ 1,622,094 \$ 1,279,080**

\$ 20,774 \$ 20,645 \$ 20,645

446 1,100

21,091 21,745

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Advantage Sales & Marketing, Inc. (Business Services)	Subordinated Debt (12.0%, Due 3/14) Equity Interests	155,432	154,854	154,854 10,973
	Total Investment		154,854	165,827
Air Medical Group Holdings LLC (Healthcare Services)	Senior Loan (7.8%, Due 3/11) Equity Interests	3,030	2,980 3,470	2,980 10,800
	Total Investment		6,450	13,780
Alpine ESP Holdings, Inc. (Business Services)	Preferred Stock (622 shares) Common Stock (13,513 shares)		622 14	749 262
	Total Investment		636	1,011
Amerex Group, LLC (Consumer Products)	Subordinated Debt (12.0%, Due 1/13) Equity Interests	8,400	8,400 3,509	8,400 13,713
	Total Investment		11,909	22,113
BB&T Capital Partners/Windsor Mezzanine Fund, LLC ⁽⁵⁾ (Private Equity Fund)	Equity Interests		11,739	11,467
	Total Investment		11,739	11,467

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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.
- (8) Triview Investments, Inc. had a cost basis of \$165.4 million and holds investments in Longview Cable & Data, LLC (Broadcasting & Cable) with a value of \$7.0 million, Triax Holdings, LLC (Consumer Products) with a value of \$62.0 million, and Crescent Hotels & Resorts, LLC and affiliates (Business Services) with a value of \$59.4 million, for a total value of \$128.4 million.

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)

		December 31, 2007		
	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Becker Underwood, Inc.	Subordinated Debt (14.5%, Due 8/12)	\$ 24,865	\$ 24,798	\$ 24,798
(Industrial Products)	Common Stock (5,073 shares)		5,813	4,190
	Total Investment		30,611	28,988
BI Incorporated	Subordinated Debt (13.5%, Due 2/14)	30,615	30,499	30,499
(Business Services)	Common Stock (40,000 shares)		4,000	7,382
	Total Investment		34,499	37,881
Creative Group, Inc.	Subordinated Debt (14.0%, Due 9/13) ⁽⁶⁾	15,000	13,686	6,197
(Business Services)	Common Stock (20,000 shares)			
	Warrant		1,387	
	Total Investment		15,073	6,197
Drew Foam Companies, Inc.	Preferred Stock (722 shares)		722	396
(Business Services)	Common Stock (7,287 shares)		7	
	Total Investment		729	396
MedBridge Healthcare, LLC	Senior Loan (8.0%, Due 8/09) ⁽⁶⁾	7,164	7,164	7,164
(Healthcare Services)	Subordinated Debt (10.0%, Due 8/14) ⁽⁶⁾	5,184	5,184	2,406
	Convertible Subordinated Debt (2.0%, Due 8/14) ⁽⁶⁾	2,970	984	
	Equity Interests		1,416	
	Total Investment		14,748	9,570
MHF Logistical Solutions, Inc.		33,600	33,448	9,280

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	Subordinated Debt (11.5%, Due 6/12) ⁽⁶⁾			
(Business Services)	Subordinated Debt (18.0%, Due 6/13) ⁽⁶⁾	11,211	11,154	
	Common Stock (20,934 shares) ⁽¹²⁾		20,942	
	Warrants ⁽¹²⁾			
	Total Investment		65,544	9,280
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	19,800	19,704	19,704
(Business Services)	Equity Interests		2,000	940
	Total Investment		21,704	20,644
Progressive International Corporation	Subordinated Debt (16.0%, Due 12/09)	1,557	1,545	1,545
(Consumer Products)	Preferred Stock (500 shares)		500	1,038
	Common Stock (197 shares)		13	4,900
	Warrants			
	Total Investment		2,058	7,483
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	12,000	11,941	11,941
(Healthcare Services)	Equity Interests		1,500	1,681
	Total Investment		13,441	13,622

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- (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)

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	December 31, 2007		
		Principal	Cost	Value
SGT India Private Limited ⁽⁴⁾	Common Stock (150,596 shares)		\$ 4,098	\$ 3,075
(Business Services)	Total Investment		4,098	3,075
Soteria Imaging Services, LLC	Subordinated Debt (12.0%, Due 11/10)	\$ 14,500	13,744	13,744
(Healthcare Services)	Equity Interests		2,170	2,686
	Total Investment		15,914	16,430
Universal Environmental Services, LLC	Equity Interests		1,810	
(Business Services)	Total Investment		1,810	
Total companies 5% to 25% owned			\$ 426,908	\$ 389,509
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (14.5%, Due 8/13)	\$ 27,937	\$ 27,837	\$ 27,837
(Consumer Products)	Total Investment		27,837	27,837
AgData, L.P.	Senior Loan (10.3%, Due 7/12)	843	815	815
(Consumer Services)	Total Investment		815	815
Axium Healthcare Pharmacy, Inc.	Senior Loan (12.5%, Due 12/12)	2,600	2,567	2,567
(Healthcare Services)	Unitranche Debt (12.5%, Due 12/12)	8,500	8,463	8,463
	Common Stock (26,500 shares)		2,650	1,097

	Total Investment		13,680	12,127
Baird Capital Partners IV Limited Partnership ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,234	2,114
	Total Investment		2,234	2,114
BenefitMall, Inc. (Business Services)	Subordinated Debt (14.9%, Due 10/13-10/14) Common Stock (45,528,000 shares) ⁽¹²⁾ Warrants ⁽¹²⁾ Standby Letters of Credit (\$3,961)	82,167	81,930	81,930
	Total Investment		127,458	164,334
Broadcast Electronics, Inc. (Business Services)	Senior Loan (9.0%, Due 7/12) ⁽⁶⁾	4,913	4,884	3,273
	Total Investment		4,884	3,273
Bushnell, Inc. (Consumer Products)	Subordinated Debt (11.3%, Due 2/14)	41,325	39,821	39,821
	Total Investment		39,821	39,821

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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.
- (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, 2007		
		Principal	Cost	Value
Callidus Debt Partners CDO Fund I, Ltd. ⁽⁴⁾⁽¹⁰⁾	Class C Notes (12.9%, Due 12/13)	\$ 18,800	\$ 18,929	\$ 18,988
(CDO)	Class D Notes (17.0%, Due 12/13)	9,400	9,465	9,494
	Total Investment		28,394	28,482
Callidus Debt Partners CLO Fund III, Ltd. ⁽⁴⁾⁽¹⁰⁾	Preferred Shares (23,600,000 shares, 12.9%) ⁽¹¹⁾		21,783	19,999
(CLO)	Total Investment		21,783	19,999
Callidus Debt Partners CLO Fund IV, Ltd. ⁽⁴⁾⁽¹⁰⁾	Income Notes (14.8%) ⁽¹¹⁾		12,298	11,290
(CLO)	Total Investment		12,298	11,290
Callidus Debt Partners CLO Fund V, Ltd. ⁽⁴⁾⁽¹⁰⁾	Income Notes (20.3%) ⁽¹¹⁾		13,977	14,658
(CLO)	Total Investment		13,977	14,658
Callidus Debt Partners CLO Fund VI, Ltd. ⁽⁴⁾⁽¹⁰⁾	Class D Notes (11.3%, Due 10/21)	5,000	4,329	4,329
(CLO)	Income Notes (19.3%) ⁽¹¹⁾		26,985	26,985
	Total Investment		31,314	31,314
Callidus Debt Partners ⁽⁴⁾⁽¹⁰⁾ CLO Fund VII, Ltd.	Income Notes (16.6%) ⁽¹¹⁾		22,113	22,113
(CLO)	Total Investment		22,113	22,113

Callidus MAPS CLO Fund I LLC ⁽¹⁰⁾	Class E Notes (10.4%, Due 12/17)	17,000	17,000	16,119
(CLO)	Income Notes (5.6%) ⁽¹¹⁾		49,252	36,085
	Total Investment		66,252	52,204
Callidus MAPS CLO Fund II, Ltd. ⁽⁴⁾⁽¹⁰⁾	Income Notes (14.7%) ⁽¹¹⁾		18,753	18,753
(CLO)	Total Investment		18,753	18,753
Camden Partners Strategic Fund II, L.P. ⁽⁵⁾	Limited Partnership Interest		997	1,350
(Private Equity Fund)	Total Investment		997	1,350
Carlisle Wide Plank Floors, Inc.	Senior Loan (9.8%, Due 6/11)	500	497	497
(Consumer Products)	Unitranche Debt (10.0%, Due 6/11)		3,129	3,129
	Preferred Stock (400,000 Shares)	3,161	400	507
	Total Investment		4,026	4,133
Catterton Partners V, L.P. ⁽⁵⁾	Limited Partnership Interest		3,624	2,952
(Private Equity Fund)	Total Investment		3,624	2,952

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- (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 from companies less than 5% owned 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		December 31, 2007		
Portfolio Company		Principal	Cost	Value
(in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾			
Catterton Partners VI, L.P. ⁽⁵⁾	Limited Partnership Interest		\$ 2,259	\$ 2,103
(Private Equity Fund)	Total Investment		2,259	2,103
Centre Capital Investors IV, L.P. ⁽⁵⁾	Limited Partnership Interest		2,215	2,276
(Private Equity Fund)	Total Investment		2,215	2,276
Centre Capital Investors V, L.P. ⁽⁵⁾	Limited Partnership Interest		628	628
(Private Equity Fund)	Total Investment		628	628
CK Franchising, Inc. (Consumer Services)	Senior Loan (8.7%, Due 7/12)	\$ 9,000	8,911	8,911
	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,908	20,908
	Preferred Stock (1,486,004 shares)		1,486	1,586
	Common Stock (8,793,408 shares)		8,793	8,654
	Total Investment		40,098	40,059
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (14.8%, Due 2/11)	12,000	12,023	12,023
	Preferred Stock (74,978 shares)		18,018	19,421
	Warrants			
	Total Investment		30,041	31,444
Community Education Centers, Inc. (Education Services)	Subordinated Debt (13.5%, Due 11/13)	35,011	34,936	34,936
	Total Investment		34,936	34,936

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Component Hardware Group, Inc.	Subordinated Debt (13.5%, Due 1/13)	18,432	18,363	18,363
(Industrial Products)	Total Investment		18,363	18,363
Cook Inlet Alternative Risk, LLC	Unitranche Debt (10.8%, Due 4/13)	95,000	94,530	94,530
(Business Services)	Equity Interests		640	1,696
	Total Investment		95,170	96,226
Cortec Group Fund IV, L.P. ⁽⁵⁾	Limited Partnership Interest		3,383	2,922
(Private Equity)	Total Investment		3,383	2,922
Diversified Mercury Communications, LLC	Senior Loan (8.5%, Due 3/13)	233	217	217
(Business Services)	Total Investment		217	217
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	17,213	17,128	17,128
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,118	4,103	5,397
	Total Investment		21,231	22,525
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	75,000	74,631	74,631
(Consumer Products)	Equity Interests		8,000	8,000
	Total Investment		82,631	82,631

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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⁾	December 31, 2007		
		Principal	Cost	Value
Distant Lands Trading Co.	Senior Loan (10.3%, Due 11/11)	\$ 10,000	\$ 9,966	\$ 9,966
(Consumer Products)	Unitranche Debt (11.0%, Due 11/11)	42,375	42,226	42,226
	Common Stock (4,000 shares)		4,000	2,645
	Total Investment		56,192	54,837
Driven Brands, Inc.	Senior Loan (8.7%, Due 6/11)	37,070	36,951	36,951
d/b/a Meineke and Econo Lube	Subordinated Debt (12.1%, Due 6/12 6/13)	83,000	82,754	82,754
(Consumer Services)	Common Stock (11,675,331 shares) ⁽¹²⁾		29,455	15,977
	Warrants ⁽¹²⁾			
	Total Investment		149,160	135,682
Dryden XVIII Leveraged Loan 2007 Limited ⁽⁴⁾	Subordinated Debt (9.7%, Due 10/19)	9,000	7,406	7,406
(CLO)	Income Notes (14.2%) ⁽¹¹⁾		21,940	21,940
	Total Investment		29,346	29,346
Dynamic India Fund IV ⁽⁴⁾⁽⁵⁾	Equity Interests		6,050	6,215
(Private Equity Fund)	Total Investment		6,050	6,215
EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)	127,000	126,463	126,463
(Business Services)	Common Stock (73,540 shares) ⁽¹²⁾		73,540	62,675
	Warrants ⁽¹²⁾			
	Total Investment		200,003	189,138

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eCentury Capital Partners, L.P. ⁽⁵⁾	Limited Partnership Interest		6,899	2,176
(Private Equity Fund)	Total Investment		6,899	2,176
eInstruction Corporation	Subordinated Debt (13.5%, Due 7/14-1/15)	47,000	46,765	46,765
(Education Services)	Common Stock (2,406 shares)		2,500	2,500
	Total Investment		49,265	49,265
Farley s & Sathers Candy Company, Inc.	Subordinated Debt (13.7%, Due 3/11)	18,000	17,932	17,932
(Consumer Products)	Total Investment		17,932	17,932
FCP-BHI Holdings, LLC	Subordinated Debt (12.8%, Due 9/13)	24,000	23,887	23,887
d/b/a Bojangles	Equity Interests		1,000	998
(Retail)	Total Investment		24,887	24,885
Fidus Mezzanine Capital, L.P. ⁽⁵⁾	Limited Partnership Interest		6,357	6,357
(Private Equity Fund)	Total Investment		6,357	6,357
Frozen Specialties, Inc.	Warrants		435	229
(Consumer Products)	Total Investment		435	229
Garden Ridge Corporation	Subordinated Debt (7.0%, Due 5/12) ⁽⁶⁾	20,500	20,500	20,500
(Retail)	Total Investment		20,500	20,500

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance

Portfolio Company

(in thousands, except number of shares)

		December 31, 2007		
	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Geotrace Technologies, Inc.	Subordinated Debt (10.0%, Due 6/09)	\$ 6,772	\$ 6,616	\$ 6,616
(Energy Services)	Warrants		2,350	2,993
	Total Investment		8,966	9,609
Gilchrist & Soames, Inc.	Senior Loan (9.0%, Due 10/13)	20,000	19,954	19,954
(Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,800	25,676	25,676
	Total Investment		45,630	45,630
Grotech Partners, VI, L.P. ⁽⁵⁾	Limited Partnership Interest		8,808	8,252
(Private Equity Fund)	Total Investment		8,808	8,252
Havco Wood Products LLC	Senior Loan (9.7%, Due 8/11)	600	585	585
(Industrial Products)	Unitranche Debt (11.5%, Due 8/11)	5,100	4,248	4,248
	Equity Interests		1,055	3,192
	Total Investment		5,888	8,025
Haven Eldercare of New England, LLC	Subordinated Debt (12.0%, Due 8/09) ⁽⁶⁾	1,927	1,927	
(Healthcare Services)	Total Investment		1,927	
Higginbotham Insurance Agency, Inc.	Senior Loan (7.7%, Due 8/12)	15,033	14,942	14,942
(Business Services)	Subordinated Debt (13.5%, Due 8/13 8/14)	46,356	46,136	46,136
	Common Stock (23,926 shares) ⁽¹²⁾		23,926	23,868
	Warrant ⁽¹²⁾			
	Total Investment		85,004	84,946

The Hillman Companies, Inc. ⁽³⁾	Subordinated Debt (10.0%, Due 9/11)	44,580	44,458	44,458
(Consumer Products)	Total Investment		44,458	44,458
The Homax Group, Inc.	Senior Loan (8.7%, Due 10/12)	10,969	10,969	10,969
(Consumer Products)	Subordinated Debt (12.0%, Due 4/14)	14,000	13,244	13,244
	Preferred Stock (89 shares)		89	13
	Common Stock (28 shares)		6	
	Warrants		1,106	194
	Total Investment		25,414	24,420
Ideal Snacks Corporation	Senior Loan (9.0%, Due 6/10)	288	288	288
(Consumer Products)	Total Investment		288	288
Integrity Interactive Corporation	Unitranche Debt (10.5%, Due 2/12)	12,193	12,095	12,095
(Business Services)	Total Investment		12,095	12,095
International Fiber Corporation	Subordinated Debt (14.0%, Due 6/12)	24,572	24,476	24,476
(Industrial Products)	Preferred Stock (25,000 shares)		2,500	2,194
	Total Investment		26,976	26,670

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance

Portfolio Company

(in thousands, except number of shares)

		December 31, 2007		
	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Jones Stephens Corporation	Senior Loan (8.8%, Due 9/12)	\$ 5,537	\$ 5,525	\$ 5,525
(Consumer Products)	Total Investment		5,525	5,525
Knightsbridge CLO 2007-1 Ltd. ⁽⁴⁾	Subordinated Debt (14.1%, Due 1/22)	22,000	22,000	22,000
(CLO)	Income Notes (15.2%) ⁽¹¹⁾		31,211	31,211
	Total Investment		53,211	53,211
Kodiak Fund LP ⁽⁵⁾	Equity Interests		9,423	2,853
(Private Equity Fund)	Total Investment		9,423	2,853
Line-X, Inc.	Senior Loan (12.0%, Due 8/11)	900	885	885
(Consumer Products)	Unitranche Debt (12.0% Due 8/11)	48,198	48,039	42,784
	Total Investment		48,924	43,669
	Standby Letter of Credit (\$1,500)			
MedAssets, Inc. ⁽³⁾	Common Stock (224,817 shares)		2,049	6,652
(Business Services)	Total Investment		2,049	6,652
Mid-Atlantic Venture Fund IV, L.P. ⁽⁵⁾	Limited Partnership Interest		6,975	1,791
(Private Equity Fund)	Total Investment		6,975	1,791
Milestone AV Technologies, Inc.	Subordinated Debt (11.3%, Due 6/13)	37,500	37,500	36,750

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(Business Services)	Total Investment		37,500	36,750
NetShape Technologies, Inc.	Senior Loan (8.6%, Due 2/13)	5,802	5,773	5,773
(Industrial Products)	Total Investment		5,773	5,773
Network Hardware Resale, Inc.	Unitranche Debt (10.5%, Due 12/11)	20,512	20,614	20,614
(Business Services)	Convertible Subordinated Debt (9.8%, Due 12/15)	13,242	13,302	15,586
	Total Investment		33,916	36,200
Norwesco, Inc.	Subordinated Debt (12.7%, Due 1/12 7/12)	82,924	82,674	82,674
(Industrial Products)	Common Stock (559,603 shares) ⁽¹²⁾		38,313	117,831
	Warrants ⁽¹²⁾			
	Total Investment		120,987	200,505
Novak Biddle Venture Partners III, L.P. ⁽⁵⁾	Limited Partnership Interest		1,910	1,256
(Private Equity Fund)	Total Investment		1,910	1,256
Oahu Waste Services, Inc.	Stock Appreciation Rights		239	998
(Business Services)	Total Investment		239	998

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Private Finance

Portfolio Company

		December 31, 2007		
(in thousands, except number of shares)	Investment ⁽¹⁾⁽²⁾	Principal	Cost	Value
Odyssey Investment Partners Fund III, LP ⁽⁵⁾	Limited Partnership Interest		\$ 2,276	\$ 2,567
(Private Equity Fund)	Total Investment		2,276	2,567
Pangaea CLO 2007-1 Ltd. ⁽⁴⁾	Subordinated Debt (10.2%, Due 10/21)	\$ 15,000	11,570	11,570
(CLO)	Total Investment		11,570	11,570
Passport Health Communications, Inc. (Healthcare Services)	Preferred Stock (651,381 shares) Common Stock (19,680 shares)		2,000 48	2,433 7
	Total Investment		2,048	2,440
PC Helps Support, LLC (Business Services)	Senior Loan (8.9%, Due 12/13) Subordinated Debt (13.3%, Due 12/13)	20,000 30,895	20,000 30,743	20,000 30,743
	Total Investment		50,743	50,743
Pendum, Inc. (Business Services)	Subordinated Debt (17.0%, Due 1/11) ⁽⁶⁾ Preferred Stock (82,715 shares) Warrants	34,028	34,028	
	Total Investment		34,028	
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	
	Total Investment		734	
PharMEDium Healthcare Corporation (Healthcare Services)	Senior Loan (8.6%, Due 10/13)	19,577	19,577	19,577
	Total Investment		19,577	19,577

Postle Aluminum Company, LLC	Unitranche Debt (11.0%, Due 10/12)	61,500	61,252	61,252
(Industrial Products)	Equity Interests		2,500	3,092
	Total Investment		63,752	64,344
Pro Mach, Inc.	Subordinated Debt (13.0%, Due 6/12)	14,562	14,506	14,506
(Industrial Products)	Equity Interests		1,500	1,596
	Total Investment		16,006	16,102
Promo Works, LLC	Unitranche Debt (10.3%, Due 12/11)	26,215	26,006	26,006
(Business Services)	Guaranty (\$600)			
	Total Investment		26,006	26,006
Reed Group, Ltd.	Senior Loan (8.7%, Due 12/13)	21,000	20,970	20,970
(Healthcare Services)	Subordinated Debt (13.8%, Due 12/13)	18,000	17,910	17,910
	Equity Interests		1,800	1,800
	Total Investment		40,680	40,680
S.B. Restaurant Company	Unitranche Debt (9.8%, Due 4/11)	34,001	33,733	33,733
(Retail)	Preferred Stock (54,125 shares)		135	135
	Warrants		619	2,095
	Standby Letters of Credit (\$2,540)			
	Total Investment		34,487	35,963

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

Private Finance Portfolio Company (in thousands, except number of shares)		December 31, 2007		
	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
			\$	\$
SBBUT, LLC	Equity Interests			
(Consumer Products)	Total Investment			
Service Center Metals, LLC	Subordinated Debt (15.5%, Due 9/11)	\$ 5,000	4,981	4,981
(Industrial Products)	Equity Interests		313	343
	Total Investment		5,294	5,324
Snow Phipps Group, L.P. ⁽⁵⁾	Limited Partnership Interest		2,288	2,288
(Private Equity Fund)	Total Investment		2,288	2,288
SPP Mezzanine Funding, L.P. ⁽⁵⁾	Limited Partnership Interest		2,268	1,942
(Private Equity Fund)	Total Investment		2,268	1,942
SPP Mezzanine Funding II, L.P. ⁽⁵⁾	Limited Partnership Interest		4,077	3,731
(Private Equity Fund)	Total Investment		4,077	3,731
Stag-Parkway, Inc.	Unitranche Debt (10.8%, Due 7/12)	51,000	50,810	50,810
(Business Services)	Total Investment		50,810	50,810
STS Operating, Inc.	Subordinated Debt (11.0%, Due 1/13)	30,386	30,273	30,273
(Industrial Products)	Total Investment		30,273	30,273
Summit Energy Services, Inc.	Senior Loan (8.5%, Due 8/13)	24,239	24,239	23,512
(Business Services)		35,765	35,596	35,596

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Subordinated Debt (11.6%, Due 8/13)		
Common Stock (89,406 shares)	2,000	1,995
Total Investment	61,835	61,103