

ALLIED CAPITAL CORP
Form 10-Q
August 08, 2005

FORM 10-Q
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, 2005

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) 331-1112

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) YES NO

On August 4, 2005, there were 135,004,993 shares outstanding of the Registrant's common stock, \$0.0001 par value.

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

(in thousands, except share and per share amounts)	(unaudited)	
	June 30, 2005	December 31, 2004
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2005-\$1,328,737; 2004-\$1,389,342)	\$ 1,442,656	\$ 1,359,641
Companies 5% to 25% owned (cost: 2005-\$178,312; 2004-\$194,750)	160,994	188,902
Companies less than 5% owned (cost: 2005-\$995,095; 2004-\$800,828)	966,885	753,543
Total private finance (cost: 2005-\$2,502,144; 2004-\$2,384,920)	2,570,535	2,302,086
Commercial real estate finance (cost: 2005-\$145,969; 2004-\$722,612)	143,801	711,325
Total portfolio at value (cost: 2005-\$2,648,113; 2004-\$3,107,532)	2,714,336	3,013,411
Deposits of proceeds from sales of borrowed Treasury securities	18,066	38,226
Accrued interest and dividends receivable	61,789	79,489
Other assets	81,333	72,712
Cash and cash equivalents	490,013	57,160
Total assets	\$ 3,365,537	\$ 3,260,998
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable and debentures (maturing within one year: 2005-\$150,000; 2004-\$169,000)	\$ 986,512	\$ 1,064,568
Revolving line of credit		112,000
Obligations to replenish borrowed Treasury securities	18,066	38,226
Accounts payable and other liabilities	79,672	66,426
Total liabilities	1,084,250	1,281,220
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.0001 par value, 200,000,000 shares authorized; 134,131,115 and 133,098,807 shares issued and outstanding at June 30, 2005, and December 31, 2004,	13	13

respectively

Additional paid-in capital	2,120,529	2,094,421
Common stock held in deferred compensation trust	(17,479)	(13,503)
Notes receivable from sale of common stock	(5,270)	(5,470)
Net unrealized appreciation (depreciation) on portfolio	51,939	(107,767)
Undistributed (distributions in excess of) earnings	131,555	12,084
 Total shareholders equity	 2,281,287	 1,979,778
 Total liabilities and shareholders equity	 \$ 3,365,537	 \$ 3,260,998
 Net asset value per common share	 \$ 17.01	 \$ 14.87

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,	
	2005	2004	2005	2004
(in thousands, except per share amounts)				
	(unaudited)		(unaudited)	
Interest and Related Portfolio Income:				
Interest and dividends				
Companies more than 25% owned	\$ 30,199	\$ 15,918	\$ 58,450	\$ 31,870
Companies 5% to 25% owned	5,597	6,259	11,518	12,245
Companies less than 5% owned	35,534	51,996	86,307	103,597
Total interest and dividends	71,330	74,173	156,275	147,712
Loan prepayment premiums				
Companies more than 25% owned				
Companies 5% to 25% owned		712		712
Companies less than 5% owned	853	2,355	2,530	3,305
Total loan prepayment premiums	853	3,067	2,530	4,017
Fees and other income				
Companies more than 25% owned	7,877	8,306	12,758	12,795
Companies 5% to 25% owned	55	123	125	470
Companies less than 5% owned	6,092	1,831	9,438	4,271
Total fees and other income	14,024	10,260	22,321	17,536
Total interest and related portfolio income	86,207	87,500	181,126	169,265
Expenses:				
Interest	19,154	17,983	39,379	37,096
Employee	22,877	11,920	38,333	24,275
Administrative	23,048	9,076	43,802	14,903
Total operating expenses	65,079	38,979	121,514	76,274
Net investment income before income taxes	21,128	48,521	59,612	92,991
Income tax expense (benefit), including excise tax	5,861	(469)	5,593	(544)
Net investment income	15,267	48,990	54,019	93,535
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses)				

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Companies more than 25% owned	(17,884)	4,816	(17,485)	151,499
Companies 5% to 25% owned	4,711	31,068	4,708	35,696
Companies less than 5% owned	220,669	(9,281)	230,558	(12,742)
Total net realized gains	207,496	26,603	217,781	174,453
Net change in unrealized appreciation or depreciation	89,122	19,749	159,706	(152,338)
Total net gains	296,618	46,352	377,487	22,115
Net increase in net assets resulting from operations	\$ 311,885	\$ 95,342	\$ 431,506	\$ 115,650
Basic earnings per common share	\$ 2.33	\$ 0.74	\$ 3.23	\$ 0.90
Diluted earnings per common share	\$ 2.29	\$ 0.73	\$ 3.17	\$ 0.88
Weighted average common shares outstanding basic	133,701	128,814	133,493	128,564
Weighted average common shares outstanding diluted	136,381	131,208	135,982	131,620

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)	2005	2004
	(unaudited)	
Operations:		
Net investment income	\$ 54,019	\$ 93,535
Net realized gains	217,781	174,453
Net change in unrealized appreciation or depreciation	159,706	(152,338)
Net increase in net assets resulting from operations	431,506	115,650
Shareholder distributions:		
Common stock dividends	(152,329)	(146,822)
Preferred stock dividends		(52)
Net decrease in net assets resulting from shareholder distributions	(152,329)	(146,874)
Capital share transactions:		
Issuance of common stock for portfolio investments	7,200	3,227
Issuance of common stock upon the exercise of stock options	12,689	12,033
Issuance of common stock in lieu of cash distributions	4,163	2,964
Net decrease in notes receivable from sale of common stock	200	10,015
Purchase of common stock held in deferred compensation trust	(3,976)	(6,909)
Other	2,056	28
Net increase in net assets resulting from capital share transactions	22,332	21,358
Total increase (decrease) in net assets	301,509	(9,866)
Net assets at beginning of period	1,979,778	1,914,577
Net assets at end of period	\$ 2,281,287	\$ 1,904,711
Net asset value per common share	\$ 17.01	\$ 14.77
Common shares outstanding at end of period	134,131	128,960

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months
Ended June 30,

(in thousands)	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 431,506	\$ 115,650
Adjustments		
Portfolio investments	(647,248)	(737,227)
Principal collections related to investment repayments or sales	1,090,813	430,882
Change in accrued or reinvested interest and dividends	3,567	(26,147)
Amortization of discounts and fees	(3,334)	(2,490)
Changes in other assets and liabilities	8,136	(4,012)
Depreciation and amortization	963	820
Realized gains from the receipt of notes and other securities as consideration from sale of investments, net of collections	(916)	(49,117)
Realized losses	41,643	29,550
Net change in unrealized (appreciation) or depreciation	(159,706)	152,338
Net cash provided by (used in) operating activities	765,424	(89,753)
Cash flows from financing activities:		
Sale of common stock upon the exercise of stock options	12,689	12,033
Collections of notes receivable from sale of common stock	200	10,015
Borrowings under notes payable and debentures		15,212
Repayments on notes payable and debentures	(76,700)	(119,000)
Net borrowings under (repayments on) revolving line of credit	(112,000)	208,500
Redemption of preferred stock		(7,000)
Purchase of common stock held in deferred compensation trust	(3,976)	(6,909)
Other financing activities	(1,958)	(572)
Common stock dividends and distributions paid	(150,826)	(143,859)
Preferred stock dividends paid		(52)
Net cash provided by (used in) financing activities	(332,571)	(31,632)
Net increase (decrease) in cash and cash equivalents	432,853	(121,385)
Cash and cash equivalents at beginning of period	57,160	214,167
Cash and cash equivalents at end of period	\$ 490,013	\$ 92,782

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

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

June 30, 2005

Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited)	
			Cost	Value
Companies More Than 25% Owned				
Acme Paging, L.P. ⁽⁴⁾ (Telecommunications)	Loan (6.8%, Due 12/07 1/08) ⁽⁶⁾ Equity Interests Common Stock (4,656 shares)	\$ 4,631	\$ 4,631 13,274 27	\$
Advantage Sales & Marketing, Inc. (Business Services)	Loan (12.0%, Due 9/09) Debt Securities (18.5%, Due 12/09) Common Stock (18,957,011 shares)	60,000 127,716	59,758 127,716 73,932	59,758 127,716 218,048
Alaris Consulting, LLC (Business Services)	Loan (16.1%, Due 12/05 12/07) ⁽⁶⁾ Equity Interests Guaranty (\$1,100)	24,850	24,877 5,165	3,209
American Healthcare Services, Inc. and Affiliates (Healthcare Services)	Loan (1.1%, Due 12/04 12/05) ⁽⁶⁾	5,250	4,851	4,222
Avborne, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (12,500 shares) Common Stock (27,500 shares)		7,014	892
Avborne Heavy Maintenance, Inc. ⁽⁷⁾ (Business Services)	Preferred Stock (1,568 shares) Common Stock (2,750 shares)			
Business Loan Express, LLC (Financial Services)	Class A Equity Interests Class B Equity Interests Class C Equity Interests Guaranty (\$107,720 See Note 3)	57,175	57,175 117,436 109,301	57,175 144,154 138,690

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Standby Letters of Credit
 (\$35,550
 See Note 3)

Callidus Capital Corporation (Financial Services)	Loan (12.0%, Due 12/06)	1,301	1,301	1,301
	Debt Securities (18.0%, Due 10/08)	4,424	4,424	4,424
	Common Stock (10 shares)		2,045	4,100
Fairchild Industrial Products Company (Industrial Products)	Loan (8.5%, Due 7/09)	6,297	6,297	6,297
	Debt Securities (12.1%, Due 7/09)	3,624	3,624	3,624
	Common Stock (2,000 shares)		2,841	19,576

(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.

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

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		June 30, 2005		
Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited)	
			Cost	Value
Financial Pacific Company (Financial Services)	Loan (17.4%, Due 2/12 8/12) Preferred Stock (10,964 shares) Common Stock (14,735 shares)	\$ 69,478	\$ 69,185 10,276 14,819	\$ 69,185 11,896 46,925
ForeSite Towers, LLC (Tower Leasing)	Equity Interests		4,146	4,161
GAC Investments, Inc. (Broadcasting & Cable)	Common Stock (107 shares) Guaranty (\$800) Standby Letter of Credit (\$200)		57,356	7,661
Global Communications, LLC (Business Services)	Loan (14.5%, Due 12/03 12/06) ⁽⁶⁾ Debt Securities (13.0%, Due 9/02 9/05) ⁽⁹⁾ Preferred Equity Interest Options	6,393 18,446	6,393 18,443 14,067 1,639	6,393 18,443 14,233
Gordian Group, Inc. (Business Services)	Loan (10.0%, Due 12/05 12/08) ⁽⁶⁾ Common Stock (1,000 shares)	11,392	11,430 5,821	4,618
HealthASPex, Inc. (Business Services)	Preferred Stock (1,000,000 shares) Preferred Stock (1,451,380 shares) Common Stock (1,451,380 shares)		700 4,900 4	700 1,341
HMT, Inc. (Energy Services)	Preferred Stock (554,052 shares) Common Stock (300,000 shares) Warrants		2,637 3,000 1,155	2,637 3,899 1,501
Housecall Medical Resources, Inc. (Healthcare Services)	Loan (16.8%, Due 11/07 11/09) Common Stock (864,000 shares)	15,846	15,796 86	15,796 53,612
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			772
	Loan (16.0%, Due 9/12)	57,791	57,528	57,528

Insight Pharmaceuticals Corporation (Consumer Products)	Preferred Stock (25,000 shares)		25,000	26,000
	Common Stock (6,200 shares)		6,325	442
Jakel, Inc. (Industrial Products)	Loan (15.5%, Due 3/08) ⁽⁶⁾	5,412	5,412	
	Debt Securities (15.5%, Due 3/08) ⁽⁶⁾	8,330	8,330	
	Preferred Stock (6,460 shares)		6,460	
	Common Stock (158,061 shares)		9,347	
Legacy Partners Group, LLC (Financial Services)	Loan (14.0%, Due 5/09) ⁽⁶⁾	7,646	7,646	5,552
	Debt Securities (18.0%, Due 5/09) ⁽⁶⁾	2,952	2,952	
	Equity Interests		2,729	

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		June 30, 2005		
Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited)	
			Cost	Value
Litterer Beteiligungs-GmbH ⁽⁴⁾ (Business Services)	Debt Securities (8.0%, Due 3/07)	\$ 633	\$ 633	\$ 633
	Equity Interest		1,756	2,234
Maui Body Works, Inc. (Healthcare Services)	Common Stock (100 shares)		2,501	
Mercury Air Centers, Inc. (Business Services)	Senior Loan (10.0%, Due 4/09)	23,500	23,500	23,500
	Loan (16.0%, Due 4/09)	38,908	38,735	38,735
	Common Stock (57,068 shares)		33,723	29,000
	Standby Letters of Credit (\$1,322)			
MVL Group, Inc. (Business Services)	Loan (12.9%, Due 7/09)	42,440	41,948	41,948
	Debt Securities (14.4%, Due 7/09)	18,266	17,793	17,793
	Common Stock (648,661 shares)		643	6,541
Pennsylvania Avenue Investors, L.P. ⁽⁵⁾ (Private Equity Fund)	Equity Interests		1,897	1,419
Powell Plant Farms, Inc. (Consumer Products)	Loan (15.0%, Due 12/05)	29,940	21,092	21,092
	Debt Securities (20.0%, Due 6/03) ⁽⁶⁾	19,291	19,224	10,392
	Preferred Stock (1,483 shares) Warrants			
Redox Brands, Inc. (Consumer Products)	Preferred Stock (2,726,444 shares)		7,903	8,410
	Warrants		584	300
Service Champ, Inc. (Business Services)	Loan (15.5%, Due 4/12)	26,739	26,593	26,593
	Common Stock (63,888 Shares)		13,662	13,662
Staffing Partners Holding Company, Inc.	Loan (13.5%, Due 10/06) ⁽⁶⁾	940 5,672	940 5,672	940 5,672

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(Business Services)	Debt Securities (13.5%, Due 10/06) ⁽⁶⁾				
	Preferred Stock (439,600 shares)		4,968		731
	Common Stock (69,773 shares)			50	
	Warrants			10	
Startec Global Communications Corporation (Telecommunications)	Loan (10.0%, Due 5/07 5/09)	16,426	16,426		16,426
	Common Stock (19,180,000 shares)		37,255		4,993
STS Operating, Inc. (Industrial Products)	Loan (15.3%, Due 3/12)	8,436	8,436		8,436
	Common Stock (3,000,000 shares)		3,522		16,725
	Options				
Total companies more than 25% owned			\$ 1,328,737	\$	1,442,656

Companies 5% to 25% Owned

Air Evac Lifeteam (Healthcare Services)	Debt Securities (13.0%, Due 7/10)	\$ 41,841	\$ 41,677	\$ 41,677
	Equity Interests		3,941	3,127
Aspen Pet Products, Inc. (Consumer Products)	Loans (19.0%, Due 6/08)	19,453	19,361	19,361
	Preferred Stock (2,819 shares)		2,154	1,014
	Common Stock (1,400 shares)		140	
	Warrants			

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		June 30, 2005		
Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited)	
			Cost	Value
Becker Underwood, Inc. (Industrial Products)	Loan (14.5%, Due 8/12) Common Stock (4,364 shares)	\$ 23,342	\$ 23,239 5,000	\$ 23,239 4,000
Border Foods, Inc. (Consumer Products)	Loan (13.0%, Due 12/10) Debt Securities (13.0%, Due 12/10) Preferred Stock (50,919 shares) Common Stock (1,810 shares) Warrants	3,000 10,000	3,000 9,540 2,000 45 665	1,193 3,795
The Debt Exchange Inc. (Business Services)	Preferred Stock (921,875 shares)		1,250	2,226
MedBridge Healthcare, LLC (Healthcare Services)	Loan (5.1%, Due 8/09 8/14) Convertible Debenture (2.0%, Due 8/14) ⁽⁶⁾	11,447 2,985	11,447 1,000	9,829
Nexcel Synthetics, LLC (Consumer Products)	Loan (14.5%, Due 6/09) Equity Interests	10,430	10,397 1,708	10,397 450
Pres Air Trol LLC (Industrial Products)	Debt Securities (12.0%, Due 4/10) Equity Interests	6,265	5,947 1,338	5,947 319
Progressive International Corporation (Consumer Products)	Loan (16.0%, Due 12/09) Preferred Stock (500 shares) Common Stock (197 shares) Warrants	7,327	7,298 500 13	7,298 778 13
Soteria Imaging Services, LLC (Healthcare Services)	Loan (12.1%, Due 11/10) Equity Interests	11,906	10,804 2,140	10,804 2,226
Universal Environmental Services, LLC (Business Services)	Loan (13.5%, Due 2/09) Equity Interests	12,150	12,105 1,603	12,105 1,196
Total companies 5% to 25% owned			\$ 178,312	\$ 160,994

Companies Less Than 5% Owned

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Anthony, Inc. (Industrial Products)	Loan (12.5%, Due 9/11 9/12)	\$ 14,596	\$ 14,532	\$ 14,532
Apogen Technologies, Inc. (Business Services)	Debt Securities (13.0%, Due 1/10)	5,000	4,984	4,984
	Preferred Stock (270,008 shares)		2,700	3,354
	Common Stock (1,256,452 shares)		50	5,789
	Warrants			483
Autonomy Corporation PLC ⁽³⁾⁽⁴⁾ (Business Services)	Common Stock (302,667 shares)		1,298	1,271
Benchmark Medical, Inc. (Healthcare Services)	Debt Securities (14.0%, Due 12/08)	13,788	13,734	13,734
	Warrants		18	18
BI Incorporated (Business Services)	Loan (14.0%, due 2/12)	16,040	15,964	15,964
C&K Market, Inc. (Retail)	Loan (13.0%, due 12/08)	14,472	14,406	14,406

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		June 30, 2005		
Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited)	
			Cost	Value
Callidus Debt Partners	Class C Notes (12.9%, Due 12/13)	\$ 18,800	\$ 18,988	\$ 18,988
CDO Fund I, Ltd. ⁽⁴⁾ (Senior Debt CDO Fund)	Class D Notes (17.0%, Due 12/13)	9,400	9,494	9,494
Callidus Debt Partners	Preferred Shares (23,600,000 shares)		24,489	24,489
CLO Fund III, Ltd. ⁽⁴⁾ (Senior Debt CLO Fund)				
Camden Partners Strategic Fund II, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,142	2,794
Catterton Partners V, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,335	2,168
CBS Personnel Holdings, Inc. (Business Services)	Loan (14.5%, Due 12/09)	20,357	20,272	20,272
Colibri Holding Corporation (Consumer Products)	Debt Securities (12.5%, Due 9/08)	3,750	3,516	3,516
	Preferred Stock (459 shares)		523	875
	Common Stock (3,362 shares)		1,250	452
	Warrants		290	105
Community Education Centers, Inc. (Education Services)	Loan (15.0%, Due 12/10)	31,729	31,603	31,603
Component Hardware Group, Inc. (Industrial Products)	Preferred Stock (18,000 shares)		2,605	2,763
	Common Stock (2,000 shares)		200	500
Cooper Natural Resources, Inc. (Industrial Products)	Debt Securities (0%, Due 11/07)	1,170	1,170	1,062
	Preferred Stock (6,316 shares)		1,424	
	Warrants		830	
Coverall North America, Inc. (Business Services)	Loan (14.6%, Due 2/11)	26,958	26,906	26,906
	Preferred Stock (6,500 shares)		6,500	6,659

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	Warrants		2,950	3,400
DCS Business Services, Inc. (Business Services)	Common Stock (478,816 shares)		734	2,500
Drilltec Patents & Technologies Company, Inc. (Energy Services)	Loan (10.0%, Due 8/06) ⁽⁶⁾ Debt Securities (15.8%, Due 8/06) ⁽⁶⁾	10,994 1,500	10,918 1,500	
eCentury Capital Partners, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		5,024	
EDM Consulting, LLC (Business Services)	Loan (6.0%, Due 12/06) ⁽⁶⁾	100	100	85
Elexis Beta GmbH ⁽⁴⁾ (Industrial Products)	Options		426	50
Frozen Specialties, Inc. (Consumer Products)	Warrants		435	530

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(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.

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

		June 30, 2005		
Private Finance Portfolio Company (in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	(unaudited) Cost	Value
Garden Ridge Corporation (Retail)	Loan (7.0%, Due 5/12) ⁽⁶⁾	\$ 22,500	\$ 22,500	\$ 14,985
Geotrace Technologies, Inc. (Energy Services)	Debt Securities (12.0%, Due 6/09) Warrants	18,400	16,468 2,350	16,468 2,350
Ginsey Industries, Inc. (Consumer Products)	Loans (12.5%, Due 3/06)	4,105	4,105	4,105
Grant Broadcasting Systems II (Broadcasting & Cable)	Loan (5.0%, Due 6/09)	2,756	2,756	2,756
Grotech Partners, VI, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		6,451	4,094
Haven Eldercare of New England, LLC ⁽⁸⁾ (Healthcare Services)	Loans (9.3%, Due 10/05) ⁽⁶⁾	46,671	46,670	45,022
Haven Healthcare Management, LLC ⁽⁸⁾ (Healthcare Services)	Loan (18.0% Due 8/06) ⁽⁶⁾	5,817	5,817	4,721
The Hillman Companies, Inc. ⁽³⁾ (Consumer Products)	Loan (13.5%, Due 9/11)	43,509	43,308	43,308
Homax Holdings, Inc. (Consumer Products)	Debt (12.0%, Due 8/11) Preferred Stock (89 shares) Common Stock (28 shares) Warrants	14,000	12,973 89 6 1,106	12,973 82 6 1,333
Icon International, Inc. (Business Services)	Common Stock (25,707 shares)		76	
Interline Brands, Inc. ⁽³⁾ (Business Services)	Common Stock (152,371 shares)		2,294	2,896
International Fiber Corporation (Industrial Products)	Debt Securities (14.0%, Due 6/12) Preferred Stock (25,000 shares)	21,328	21,236 2,500	21,236 2,100

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MedAssets, Inc. (Business Services)	Preferred Stock (227,865 shares) Warrants		2,049 136	2,807 90
Meineke Car Care Centers, Inc. (Business Services)	Senior Loan (6.9%, Due 6/11)	28,000	27,852	27,852
	Loan (11.0%, Due 6/12)	55,000	54,729	54,729
	Debt Securities (15.0%, Due 6/13)	17,000	16,916	16,916
	Common Stock (10,696,308 shares) ⁽⁹⁾		26,985	26,985
	Warrants			

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(8) Haven Eldercare of New England, LLC and Haven Healthcare Management, LLC are affiliated companies.

(9) 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.

		June 30, 2005		
Private Finance Portfolio Company			(unaudited)	
(in thousands, except number of shares)	Investment⁽¹⁾⁽²⁾	Principal	Cost	Value
MHF Logistical Solutions, Inc. (Business Services)	Senior Loan (10.5%, Due 5/11) Preferred Stock (431 shares) Common Stock (1,438 shares)	\$ 23,000	\$ 22,887 431 144	\$ 22,887 431 144
Mid-Atlantic Venture Fund IV, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		6,600	3,287
Mogas Energy, LLC (Energy Services)	Debt Securities (9.5%, Due 3/12 4/12) Warrants	17,227	15,773 1,774	15,773 2,800
MortgageRamp, Inc. (Business Services)	Common Stock (772,000 shares)		3,860	306
Nobel Learning Communities, Inc. ⁽³⁾ (Education)	Preferred Stock (1,214,356 shares) Warrants		2,764 575	2,564 893
Norwesco, Inc. (Industrial Products)	Loan (14.0%, Due 12/11)	15,000	14,930	14,930
Novak Biddle Venture Partners III, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		1,399	1,457
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		239	580
Onyx Television GmbH ⁽⁴⁾ (Broadcasting & Cable)	Preferred Units		201	
Opinion Research Corporation ⁽³⁾ (Business Services)	Warrants		996	800
Oriental Trading Company, Inc. (Consumer Products)	Common Stock (13,820 shares)			5,200
Packaging Advantage Corporation	Debt Securities (18.5%, Due 7/06)	15,439	14,731	11,134

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(Business Services)	Common Stock (232,168 shares) Warrants		2,386 963	
Pro Mach, Inc. (Industrial Products)	Loan (13.8%, Due 6/12) Equity Interests	19,107	19,020 1,500	19,020 1,200
RadioVisa Corporation (Broadcasting & Cable)	Loan (15.5%, Due 12/08)	26,484	26,378	26,378
Red Hawk Industries, LLC (Business Services)	Senior Loan (11.0%, Due 4/11) Loan (11.0%, Due 4/11)	28,000 8,200	27,866 8,136	27,866 8,136
Resun Leasing, Inc. (Business Services)	Loan (15.5%, Due 11/07)	30,000	30,000	30,000
S.B. Restaurant Company (Retail)	Debt Securities (15.0%, Due 11/08) Preferred Stock (54,125 shares) Warrants	17,885	17,395 135 619	17,395 135 619
SBBUT, LLC (Consumer Products)	Equity Interests		85	85

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		June 30, 2005		
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			Cost	Value
Soff-Cut Holdings, Inc. (Industrial Products)	Preferred Stock (300 shares) Common Stock (2,000 shares)		\$ 300 200	\$
SPP Mezzanine Fund, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		2,199	2,093
SunStates Refrigerated Services, Inc. (Warehouse Facilities)	Loan (0%, Due 1/05) ⁽⁶⁾	\$ 15	15	
Tradesmen International, Inc. (Business Services)	Debt Securities (12.0%, Due 12/09) Warrants	15,000	14,257 710	14,257 710
United Site Services, Inc. (Business Services)	Loan (13.0%, Due 6/10 12/10) Common Stock (160,588 shares)	54,107	53,851 1,000	53,851 1,000
Universal Tax Systems, Inc. (Business Services)	Loan (14.5%, Due 7/11)	18,828	18,748	18,748
Uputa Venture Partners II, L.P. ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		5,075	4,876
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest		34	34
Venturehouse Group, LLC ⁽⁵⁾ (Private Equity Fund)	Equity Interest		598	403
VICORP Restaurants, Inc. ⁽³⁾ (Retail)	Warrants		33	814
Walker Investment Fund II, LLLP ⁽⁵⁾ (Private Equity Fund)	Limited Partnership Interest		1,330	709

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Wear Me Apparel Corporation (Consumer Products)	Debt Securities (15.0%, Due 12/10) Warrants	45,000	43,741 1,219	43,741 550
Weston Solutions, Inc. (Business Services)	Loan (17.3%, Due 6/10)	7,350	7,325	7,325
Wilshire Restaurant Group, Inc. (Retail)	Debt Securities (20.0%, Due 6/07) ⁽⁶⁾ Warrants	19,107	18,566 735	18,954 735
Wilton Industries, Inc. (Consumer Products)	Loan (19.3%, Due 6/08)	7,200	7,200	7,200
Woodstream Corporation (Consumer Products)	Loan (12.8%, Due 8/12 2/13) Common Stock (180 shares) Warrants	31,101	31,052 673	31,052 1,869 1,631
Other companies	Other investments Other investments ⁽⁶⁾ Guaranty (\$153)	484 223	542 223	530 223
Total companies less than 5% owned			\$ 995,095	\$ 966,885
Total private finance (117 portfolio companies)			\$ 2,502,144	\$ 2,570,535

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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.

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