

ALLIED CAPITAL CORP  
Form 10-Q  
August 09, 2007

**FORM 10-Q**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

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

**For The Quarterly Period**  
**Ended June 30, 2007**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Commission File Number:**

**0-22832**

**ALLIED CAPITAL CORPORATION**  
*(Exact Name of Registrant as Specified in its Charter)*

**Maryland**  
*(State or Jurisdiction of*  
*Incorporation or Organization)*

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

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

**Registrant's telephone number, including area code: (202) 721-6100**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
YES  NO

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

On August 8, 2007, there were 154,326,070 shares outstanding of the Registrant's common stock, \$0.0001 par value.

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

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

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

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

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

**For the Three Months**  
**Ended June 30,**

**For the Six Months**  
**Ended June 30,**

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

(in thousands, except per share amounts)

(unaudited)

(unaudited)

**Interest and Related Portfolio Income:**

Interest and dividends

Companies more than 25% owned	\$ 28,540	\$ 23,419	\$ 55,697	\$ 53,565
Companies 5% to 25% owned	10,876	11,419	22,737	17,069
Companies less than 5% owned	63,398	60,595	126,363	113,680

Total interest and dividends	102,814	95,433	204,797	184,314
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Fees and other income

Companies more than 25% owned	5,417	5,649	9,406	17,736
Companies 5% to 25% owned	471	1,282	499	3,998
Companies less than 5% owned	8,974	8,092	10,926	15,419

Total fees and other income	14,862	15,023	20,831	37,153
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Total interest and related portfolio income	117,676	110,456	225,628	221,467
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**Expenses:**

Interest	34,336	21,861	64,624	46,346
Employee	28,611	20,398	50,539	41,826
Employee stock options	9,519	4,597	13,180	8,203
Administrative	14,505	9,861	27,729	21,195

Total operating expenses	86,971	56,717	156,072	117,570
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Net investment income before income taxes	30,705	53,739	69,556	103,897
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Income tax expense (benefit), including excise tax	5,530	3,544	4,881	12,402
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Net investment income	25,175	50,195	64,675	91,495
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**Net Realized and Unrealized Gains (Losses):**

Net realized gains (losses)

Companies more than 25% owned	67,127	95,212	65,777	528,399
Companies 5% to 25% owned	138	(74)	304	(417)
Companies less than 5% owned	7,614	5,102	36,464	5,093

Total net realized gains	74,879	100,240	102,545	533,075
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Net change in unrealized appreciation or depreciation	(10,896)	(116,706)	55,024	(491,254)
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Total net gains (losses)	63,983	(16,466)	157,569	41,821
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Net increase in net assets resulting from operations	\$ 89,158	\$ 33,729	\$ 222,244	\$ 133,316
Basic earnings per common share	\$ 0.59	\$ 0.24	\$ 1.47	\$ 0.96
Diluted earnings per common share	\$ 0.57	\$ 0.24	\$ 1.44	\$ 0.94
Weighted average common shares outstanding basic	152,361	140,024	150,940	139,395
Weighted average common shares outstanding diluted	156,051	143,213	154,446	142,466

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

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

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

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



**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

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

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



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

June 30, 2007

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

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

- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
- (3) Public company.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

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

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

June 30, 2007

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

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

- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
- (3) Public company.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (+) Loan repayments of \$11.4 million were received on July 2, 2007.

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

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

June 30, 2007

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

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

- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
- (3) Public company.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (8) Triview Investments, Inc. holds investments in Longview Cable & Data, LLC (Broadcasting & Cable) with a cost of \$68.0 million and a value of \$7.4 million, Triax Holdings, LLC (Consumer Products) with a cost of \$98.9 million and a value of \$94.4 million, and Crescent Hotels & Resorts, LLC and affiliates (Business Services) with a cost of \$38.8 million and a value of \$40.3 million.

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



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

**June 30, 2007**

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

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

**Companies Less Than 5% Owned**

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

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- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

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

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

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment <sup>(1)(2)</sup>	Principal	Cost	Value
			(unaudited)	
BenefitMall, Inc. (Business Services)	Unitranche Debt (13.3%, Due 8/12) Common Stock (45,528,000 shares) <sup>(12)</sup> Warrants <sup>(12)</sup> Standby Letters of Credit (\$9,981)	\$ 110,030	\$ 109,682 45,528	\$ 109,682 56,162
Broadcast Electronics, Inc. (Business Services)	Senior Loan (9.4%, Due 7/12)	4,938	4,908	4,908
Callidus Debt Partners CDO Fund I, Ltd. <sup>(4)(10)</sup> (CDO/CLO Fund)	Class C Notes (12.9%, Due 12/13) Class D Notes (17.0%, Due 12/13)	18,800 9,400	18,940 9,470	18,988 9,494
Callidus Debt Partners CLO Fund III, Ltd. <sup>(4)(10)</sup> (CDO/CLO Fund)	Preferred Shares (23,600,000 shares, 15.1%) <sup>(11)</sup>		22,158	22,947
Callidus Debt Partners CLO Fund IV, Ltd. <sup>(4)(10)</sup> (CDO/CLO Fund)	Income Notes (13.0%) <sup>(11)</sup>		12,492	12,143
Callidus Debt Partners CLO Fund V, Ltd. <sup>(4)(10)</sup> (CDO/CLO Fund)	Income Notes (15.8%) <sup>(11)</sup>		14,143	14,143
Callidus MAPS CLO Fund I LLC <sup>(10)</sup> (CDO/CLO Fund)	Class E Notes (10.9%, Due 12/17) Income Notes (11.6%) <sup>(11)</sup>	17,000	17,000 50,515	17,112 44,672
Callidus MAPS CLO Fund II, Ltd. <sup>(4)(10)</sup> (CDO/CLO Fund)	Income Notes (14.8%) <sup>(11)</sup>		17,396	17,396
Camden Partners Strategic Fund II, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		997	2,219
Carlisle Wide Plank Floors, Inc.	Unitranche Debt (10.5%, Due 6/11)	3,161	3,119	3,119

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(Consumer Products)	Preferred Stock (400,000 Shares)	400	600
Catterton Partners V, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest	3,760	4,016
Catterton Partners VI, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest	1,573	1,454
Centre Capital Investors IV, LP <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest	2,022	2,100

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- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.
- (11) Represents the effective yield earned on 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.
- (12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

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

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

June 30, 2007

Private Finance Portfolio Company (in thousands, except number of shares)	Investment <sup>(1)(2)</sup>	Principal	Cost	Value
			(unaudited)	
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (14.8%, Due 2/11) Preferred Stock (42,478 shares) Warrants	\$ 10,000	\$ 9,964 7,018	\$ 9,964 8,319
Community Education Centers, Inc. (Education Services)	Subordinated Debt (13.5%, Due 12/10 11/13)	34,814	34,732	34,732
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,295	18,218	18,218
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13) Equity Interests	100,000	99,484 640	99,484 2,100
Cortec Group Fund IV, L.P. <sup>(5)</sup> (Private Equity)	Limited Partnership Interest		3,345	2,919
CSAV, Inc. (Business Services)	Subordinated Debt (11.9%, Due 6/13)	37,500	37,500	37,500
DCWV Acquisition Corporation (Consumer Products)	Senior Loan (9.7%, Due 7/12) Unitranche Debt (11.0%, Due 7/12)	2,499 19,363	2,486 19,276	2,486 19,276
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12) Convertible Subordinated Debt (10.0%, Due 2/16)	17,886 3,919	17,790 3,904	17,790 3,904
Distant Lands Trading Co. (Consumer Products)	Senior Loan (10.2%, Due 11/11) Unitranche Debt (11.0%, Due 11/11) Common Stock (4,000 shares)	5,750 42,375	5,711 42,202 4,000	5,711 42,202 3,969
Driven Brands, Inc. d/b/a Meineke and Econo Lube (Consumer Services)	Senior Loan (8.8%, Due 6/11) Subordinated Debt (12.1%, Due 6/12 6/13) Common Stock (11,675,331 shares) <sup>(12)</sup> Warrants <sup>(12)</sup>	37,070 83,000	36,934 82,719 29,455	36,934 82,719 19,516

Dynamic India Fund IV <sup>(4)(5)</sup> (Private Equity Fund)	Equity Interests		6,050	6,050
EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13)	107,000	106,516	106,516
	Common Stock (53,540 shares) <sup>(12)</sup>		53,540	30,185
	Warrants <sup>(12)</sup>			
eCentury Capital Partners, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		6,274	2,123

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(Consumer Products)				
The Homax Group, Inc. (Consumer Products)	Senior Loan (9.2%, Due 10/12)	12,400	12,400	12,400
	Subordinated Debt (12.0%, Due 4/14)	14,000	13,207	13,207
	Preferred Stock (89 shares)		89	78
	Common Stock (28 shares)		6	
	Warrants		1,106	972
Ideal Snacks Corporation (Consumer Products)	Senior Loan (10.0%, Due 6/10)	33	33	33
Integrity Interactive Corporation (Business Services)	Unitranche Debt (10.5%, Due 2/12)	13,759	13,646	13,646
International Fiber Corporation (Industrial Products)	Subordinated Debt (14.0%, Due 6/12)	24,324	24,219	24,219
	Preferred Stock (25,000 shares)		2,500	2,200
Jones Stephens Corporation (Consumer Products)	Senior Loan (8.9%, Due 9/12)	5,579	5,565	5,565

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

**June 30, 2007**

<b>Private Finance Portfolio Company (in thousands, except number of shares)</b>	<b>Investment<sup>(1)(2)</sup></b>	<b>(unaudited)</b>		
		<b>Principal</b>	<b>Cost</b>	<b>Value</b>
K2 Advisors Subsidiary Holdings, LLC (Business Services)	Senior Loan (8.6%, Due 4/13)	\$ 10,000	\$ 10,000	\$ 10,000
Kodiak Fund LP <sup>(5)</sup> (Private Equity Fund)	Equity Interests		9,423	8,243
Line-X, Inc. (Consumer Products)	Senior Loan (12.0%, Due 8/11) Unitranche Debt (12.0% Due 8/11) Standby Letter of Credit (\$1,500)	2,200 48,355	2,183 48,174	2,183 48,174
MedAssets, Inc. (Business Services)	Preferred Stock (227,865 shares) Common Stock (50,000 shares)		2,049	3,769 200
Mid-Atlantic Venture Fund IV, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		6,975	3,019
Mogas Energy, LLC (Energy Services)	Subordinated Debt (9.5%, Due 8/08)	16,285	15,125	16,285
NetShape Technologies, Inc. (Industrial Products)	Senior Debt (8.6%, Due 2/13)	5,689	5,657	5,657
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (10.5%, Due 12/11) Convertible Subordinated Debt (9.8%, Due 12/15)	21,086 13,242	21,204 13,306	21,204 14,121
Norwesco, Inc. (Industrial Products)	Subordinated Debt (12.6%, Due 1/12 7/12) Common Stock (559,603 shares) <sup>(12)</sup> Warrants <sup>(12)</sup>	82,703	82,421 38,313	82,421 96,386
Novak Biddle Venture Partners III, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		1,910	2,007
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		239	900

Odyssey Investment Partners Fund III, LP <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		1,542	1,371
Passport Health Communications, Inc. (Healthcare Services)	Subordinated Debt (14.0%, Due 4/12)	10,299	10,260	10,260
	Preferred Stock (651,381 shares)		2,000	2,325
	Common Stock (19,680 shares)		48	48
Pendum, Inc. (Business Services)	Subordinated Debt (17.0%, Due 1/11) <sup>(6)</sup>	34,028	34,028	18,622
	Preferred Stock (82,715 shares)			
	Warrants			
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	

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

**June 30, 2007**

<b>Private Finance Portfolio Company (in thousands, except number of shares)</b>	<b>Investment<sup>(1)(2)</sup></b>	<b>Principal</b>	<b>(unaudited)</b>	
			<b>Cost</b>	<b>Value</b>
Postle Aluminum Company, LLC (Industrial Products)	Unitranche Debt (11.0%, Due 10/12) Equity Interests	\$ 61,750	\$ 61,476 2,500	\$ 61,476 2,700
Pro Mach, Inc. (Industrial Products)	Subordinated Debt (13.0%, Due 6/12) Equity Interests	14,489	14,427 1,500	14,427 1,900
Promo Works, LLC (Business Services)	Unitranche Debt (10.3%, Due 12/11) Guaranty (\$900)	26,215	25,980	25,980
S.B. Restaurant Company (Retail)	Unitranche Debt (9.8%, Due 4/11) Preferred Stock (54,125 shares) Warrants Standby Letters of Credit (\$3,557)	26,501	26,226 135 619	26,226 135 2,100
SBBUT, LLC (Consumer Products)	Equity Interests			
Service Center Metals, LLC (Industrial Products)	Subordinated Debt (15.5%, Due 9/11) Equity Interests	5,000	4,979 313	4,979 331
SPP Mezzanine Funding, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		2,207	2,604
SPP Mezzanine Funding II, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		1,990	1,690
Stag-Parkway, Inc. (Business Services)	Unitranche Debt (10.8%, Due 7/12)	51,000	50,793	50,793
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,262	30,262
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (10.5%, Due 4/12) Equity Interests	51,923	51,700 2,000	51,700 2,368
Tradesmen International, Inc.		9,136	8,648	8,648

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	Subordinated Debt (12.0%, Due 12/09)			
(Business Services)				
TransAmerican Auto Parts, LLC	Subordinated Debt (14.0%, Due 11/12)	13,076	13,027	13,027
(Consumer Products)	Equity Interests		1,198	953
Trover Solutions, Inc.	Senior Loan (11.1%, Due 5/12 11/12)	81,000	80,710	80,710
(Business Services)				
Universal Air Filter Company	Senior Loan (10.3%, Due 11/12)	30,000	29,864	29,864
(Industrial Products)				
Udata Venture Partners II, L.P. <sup>(5)</sup>	Limited Partnership Interest		4,627	4,955
(Private Equity Fund)				
Venturehouse-Cibernet Investors, LLC	Equity Interest			54
(Business Services)				
Venturehouse Group, LLC <sup>(5)</sup>	Equity Interest			108
(Private Equity Fund)				

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

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

**June 30, 2007**

<b>Private Finance Portfolio Company (in thousands, except number of shares)</b>	<b>Investment<sup>(1)(2)</sup></b>	<b>Principal</b>	<b>(unaudited)</b>	
			<b>Cost</b>	<b>Value</b>
VICORP Restaurants, Inc. (Retail)	Warrants		\$ 33	\$
Walker Investment Fund II, LLLP <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		1,330	375
WMA Equity Corporation and Affiliates d/b/a Wear Me Apparel (Consumer Products)	Subordinated Debt (13.6%, Due 4/13)	\$ 125,000	123,932	123,932
	Subordinated Debt (9.0%, Due 4/14)	12,750	12,750	12,750
	Common Stock (100 shares)		46,046	46,046
Webster Capital II, L.P. <sup>(5)</sup> (Private Equity Fund)	Limited Partnership Interest		75	75
Woodstream Corporation (Consumer Products)	Subordinated Debt (13.5%, Due 11/12 5/13)	53,477	53,363	53,363
	Common Stock (180 shares)		673	4,897
	Warrants			3,703
York Insurance Services Group, Inc. (Business Services)	Subordinated Debt (14.5%, Due 1/14)	44,693	44,503	44,503
	Common Stock (15,000 shares)		1,500	2,400
Other companies	Other debt investments <sup>(6)</sup>	223	94	89
	Other equity investments		8	
Total companies less than 5% owned			\$ 2,197,112	\$ 2,219,839
Total private finance (143 portfolio companies)			\$ 4,419,354	\$ 4,348,256

(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.

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

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

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

			June 30, 2007	
			(unaudited)	
	Interest Rate Ranges	Number of Loans	Cost	Value
<b>Commercial Mortgage Loans</b>				
	Up to 6.99%	3	\$ 20,416	\$ 19,770
	7.00% 8.99%	9	26,118	26,118
	9.00% 10.99%	3	8,369	8,369
	11.00% 12.99%	1	10,450	10,450
	15.00% and above	2	3,970	3,970
Total commercial mortgage loans <sup>(13)</sup>		18	\$ 69,323	\$ 68,677
<b>Real Estate Owned</b>			\$ 15,659	\$ 20,412
<b>Equity Interests<sup>(2)</sup> Companies more than 25% owned</b>			\$ 15,823	\$ 33,715
Guarantees (\$6,871)				
Standby Letter of Credit (\$1,295)				
Total commercial real estate finance			\$ 100,805	\$ 122,804
<b>Total portfolio</b>			<b>\$ 4,520,159</b>	<b>\$ 4,471,060</b>

	Yield	Cost	Value
<b>Liquidity Portfolio<sup>(14)</sup></b>			
American Beacon Money Market Select FD Fund	5.2%	\$ 86,376	\$ 86,376
Certificate of Deposit (Due September 2007)	5.5%	60,049	60,049
American Beacon Money Market Fund	5.2%	20,157	20,157
SEI Daily Income Tr Prime Obligation Fund	5.2%	34,150	34,150
Total liquidity portfolio		\$ 200,732	\$ 200,732
<b>Other Investments in Money Market Securities<sup>(14)</sup></b>			
Columbia Treasury Reserves Money Market Fund	5.2%	\$ 103,675	\$ 103,675

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- (5) Non-registered investment company.
- (13) Commercial mortgage loans totaling \$19.1 million at value were on non-accrual status and therefore were considered non-income producing.
- (14) Included in investments in money market and other securities on the accompanying Consolidated Balance Sheet.

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



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

December 31, 2006

**Private Finance**

**Portfolio Company**

(in thousands, except number of shares)

	Investment <sup>(1)(2)</sup>	Principal	Cost	Value
<b>Companies More Than 25% Owned</b>				
Alaris Consulting, LLC (Business Services)	Senior Loan (16.5%, Due 12/05 12/07) <sup>(6)</sup> Equity Interests Guaranty (\$1,100)	\$ 27,055	\$ 26,987 5,305	\$
Avborne, Inc. <sup>(7)</sup> (Business Services)	Preferred Stock (12,500 shares) Common Stock (27,500 shares)		610	918
Avborne Heavy Maintenance, Inc. <sup>(7)</sup> (Business Services)	Preferred Stock (1,568 shares) Common Stock (2,750 shares) Guaranty (\$2,401)		2,401	
Border Foods, Inc. (Consumer Products)	Preferred Stock (100,000 shares) Common Stock (148,838 shares)		12,721 3,848	
Business Loan Express, LLC (Financial Services)	Class A Equity Interests(25.0%) <sup>(6)</sup> Class B Equity Interests Class C Equity Interests Guaranty (\$189,706 See Note 3) Standby Letters of Credit (\$25,000 See Note 3)	66,622	66,622 119,436 109,301	66,622 79,139 64,976
Calder Capital Partners, LLC <sup>(5)</sup> (Financial Services)	Senior Loan (8.0%, Due 5/09) <sup>(6)</sup> Equity Interests	975	975 2,076	975 2,076
Callidus Capital Corporation (Financial Services)	Subordinated Debt (18.0%, Due 10/08) Common Stock (100 shares)	5,762	5,762 2,058	5,762 22,550
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11) Subordinated Debt (15.0%, Due 7/11) Common Stock (884,880 shares)	36,500 6,000	36,333 5,972 16,649	36,333 5,972 19,619
CR Brands, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13) Common Stock (37,200,551 shares)	39,573	39,401 33,321	39,401 25,738

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Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12) Preferred Stock (10,964 shares) Common Stock (14,735 shares)	71,589	71,362 10,276 14,819	71,362 15,942 65,186
ForeSite Towers, LLC (Tower Leasing)	Equity Interests		7,620	12,290
Global Communications, LLC (Business Services)	Senior Loan (10.7%, Due 9/02 11/07) <sup>(6)</sup> Subordinated Debt (17.0%, Due 12/03 9/05) <sup>(6)</sup> Preferred Equity Interest Options	15,957 11,339	15,957 11,336 14,067 1,639	15,957 11,237
Gordian Group, Inc. (Business Services)	Senior Loan (10.0%, Due 6/06 12/08) <sup>(6)</sup> Common Stock (1,000 shares)	11,792	11,803 6,762	

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- (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.

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

December 31, 2006

Private Finance Portfolio Company (in thousands, except number of shares)	Investment <sup>(1)(2)</sup>	Principal	Cost	Value
Healthy Pet Corp. (Consumer Services)	Senior Loan (9.9%, Due 8/10)	\$ 27,038	\$ 27,038	\$ 27,038
	Subordinated Debt (15.0%, Due 8/10)	43,720	43,579	43,579
	Common Stock (30,142 shares)		30,142	28,921
HMT, Inc. (Energy Services)	Preferred Stock (554,052 shares)		2,637	2,637
	Common Stock (300,000 shares)		3,000	8,664
	Warrants		1,155	3,336
Huddle House, Inc. (Retail)	Senior Loan (8.9%, Due 12/11)	19,950	19,950	19,950
	Subordinated Debt (15.0%, Due 12/12)	58,484	58,196	58,196
	Common Stock (415,328 shares)		41,662	41,662
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			873
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (16.1%, Due 9/12)	60,049	59,850	59,850
	Preferred Stock (25,000 shares)		25,000	7,845
	Common Stock (620,000 shares)		6,325	
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08) <sup>(6)</sup>	15,192	15,192	6,655
	Preferred Stock (6,460 shares)		6,460	
	Common Stock (158,061 shares)		9,347	
Legacy Partners Group, LLC (Financial Services)	Senior Loan (14.0%, Due 5/09) <sup>(6)</sup>	7,646	7,646	4,843
	Subordinated Debt (18.0%, Due 5/09) <sup>(6)</sup>	2,952	2,952	
	Equity Interests		4,248	
Litterer Beteiligungs-GmbH <sup>(4)</sup> (Business Services)	Subordinated Debt (8.0%, Due 3/07)	692	692	692
	Equity Interest		1,809	1,199
Mercury Air Centers, Inc. (Business Services)	Subordinated Debt (16.0%, Due 4/09)			
	11/12)	49,358	49,217	49,217
	Common Stock (57,970 shares)		35,053	195,019
	Standby Letters of Credit (\$1,581)			

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MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 6/09 7/09) Subordinated Debt (14.5%, Due 6/09) Common Stock (648,661 shares)	27,299	27,245	27,245
		35,846	35,478	35,478
			643	
Penn Detroit Diesel Allison, LLC (Business Services)	Subordinated Debt (15.5%, Due 8/13)	38,173	37,994	37,994