

ALLIED CAPITAL CORP

Form 10-Q/A

June 12, 2002

**FORM 10-Q/A**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**QUARTERLY REPORT PURSUANT TO**

**SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

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**For The Quarterly Period**

**Ended March 31, 2002 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**

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 12 of 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

On May 2, 2002 there were 101,930,554 shares outstanding of the Registrant's common stock, \$0.0001 par value.

**EXPLANATORY NOTE**

This Form 10-Q/A amends the Registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2002, as filed with the Securities and Exchange Commission on May 8, 2002, and is being filed to include a report of the Registrant's independent auditors regarding the review of the Registrant's interim financial statements. In addition, the Form 10-Q/A includes disclosure regarding the filing of several class action lawsuits against the Registrant alleging

violations of the securities laws.

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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>March 31, 2002</b>	<b>December 31, 2001</b>
	<b>(Unaudited)</b>	
(in thousands, except share amounts)		
<b>ASSETS</b>		
Portfolio at value:		
Private finance (cost: 2002-\$1,568,704; 2001-\$1,553,966)	\$1,604,891	\$1,595,072
Commercial real estate finance (cost: 2002-\$648,940; 2001-\$732,636)	649,169	734,518
	<hr/>	
	<hr/>	
Total portfolio at value	2,254,060	2,329,590
	<hr/>	
	<hr/>	
Other assets		
142,500	130,234	
Cash and cash equivalents		
2,297	889	
	<hr/>	
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Total assets	\$2,398,857	\$2,460,713
	<hr/>	
	<hr/>	
<b>LIABILITIES AND SHAREHOLDERS</b>		
<b>EQUITY</b>		
Liabilities:		
Notes payable and debentures		
\$876,056	\$876,056	
Revolving credit facility		
57,000	144,750	
Accounts payable and other liabilities		

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77,460 80,784

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Total liabilities  
1,010,516 1,101,590

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Commitments and Contingencies

Preferred stock  
7,000 7,000  
Shareholders' equity:

Common stock, \$0.0001 par value,  
200,000,000 shares authorized; 100,764,535  
and 99,607,396 shares issued and outstanding  
at March 31, 2002 and December 31, 2001,  
respectively

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Additional paid-in capital

1,380,501 1,352,688

Notes receivable from sale of common stock

(27,272) (26,028)

Net unrealized appreciation on portfolio

32,468 39,981

Distributions in excess of earnings

(4,366) (14,528)

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Total shareholders' equity

1,381,341 1,352,123

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Total liabilities and shareholders' equity

\$2,398,857 \$2,460,713

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF OPERATIONS**

	<b>For the Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(unaudited)</b>	
<b>(in thousands, except per share amounts)</b>		
Interest and related portfolio income:		
Interest and dividends		
\$64,973	\$54,875	
Premiums from loan dispositions		
1,613	821	
Fees and other income		
15,805	9,375	
	<hr/>	
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Total interest and related portfolio income		
82,391	65,071	
	<hr/>	
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Expenses:		
Interest		
17,469	15,930	
Employee		
8,035	6,446	
Administrative		
3,018	2,967	
	<hr/>	
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Total operating expenses		
28,522	25,343	
	<hr/>	
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Net investment income before net realized and unrealized gains		
53,869	39,728	
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Net realized and unrealized gains:		
Net realized gains		
9,605	1,154	



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Net unrealized gains (losses)  
(7,513) 11,146

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Total net realized and unrealized gains  
2,092 12,300

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Net increase in net assets resulting  
from operations  
\$55,961 \$52,028

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Basic earnings per common share  
\$0.56 \$0.61

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Diluted earnings per common share  
\$0.55 \$0.60

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Weighted average common shares  
outstanding basic  
99,977 85,504

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Weighted average common shares  
outstanding diluted  
102,364 87,059

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

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

	<b>For the Three Months Ended March 31,</b>	
<b>(in thousands, except per share amounts)</b>	<b>2002</b>	<b>2001</b>
	<b>(unaudited)</b>	
<b>Operations:</b>		
Net investment income before net realized and unrealized gains	\$53,869	\$39,728
Net realized gains	9,605	1,154
Net unrealized gains (losses)	(7,513)	11,146
Net increase in net assets resulting from operations	55,961	52,028
<b>Shareholder distributions:</b>		
Common stock dividends	(53,259)	(42,081)
Preferred stock dividends	(55)	(55)
Net decrease in net assets resulting from shareholder distributions	(53,314)	(42,136)
<b>Capital share transactions:</b>		
Sale of common stock	19,950	9,950
Issuance of common stock upon the exercise of stock options	6,293	2,904

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Issuance of common stock in lieu of  
cash distributions

1,572 1,785

Net (increase) decrease in notes  
receivable from sale of common  
stock

(1,244) 22

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Net increase in net assets resulting  
from capital share transactions

26,571 14,661

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Total increase in net assets

\$29,218 \$24,553

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Net assets at beginning of period

\$1,352,123 \$1,029,692

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Net assets at end of period

\$1,381,341 \$1,054,245

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Net asset value per common share

\$13.71 \$12.26

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Common shares outstanding at end of  
period

100,765 85,956

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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 Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(unaudited)</b>	
<b>(in thousands)</b>		
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$55,961	\$52,028
Adjustments		
Portfolio investments	(80,040)	(150,758)
Repayments of investment principal	31,013	30,281
Proceeds from investment sales	125,099	35,187
Change in accrued or reinvested interest and dividends	(13,258)	(14,577)
Changes in other assets and liabilities	(10,033)	(2,060)
Amortization of loan discounts and fees	(3,883)	(2,668)
Depreciation and amortization	266	257
Realized losses	3,320	746
Net unrealized (gains) losses	7,513	(11,146)
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Net cash provided by (used in) operating activities	115,958	(62,710)
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Cash flows from financing activities:		
Sale of common stock	19,950	9,950
Collections of notes receivable from sale of common stock	217	1,501

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Common dividends and distributions paid	
(51,687) (40,296)	
Preferred stock dividends paid	
(55) (55)	
Net borrowings under notes payable and debentures	
10,628	
Net borrowings under (repayments on) revolving line of credit	
(87,750) 86,500	
Other financing activities	
4,775 1,425	

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Net cash provided by (used in) financing activities	
(114,550) 69,653	

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Net increase in cash and cash equivalents	
\$1,408 \$6,943	

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Cash and cash equivalents at beginning of period	
\$889 \$2,449	

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Cash and cash equivalents at end of period	
\$2,297 \$9,392	

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## ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INVESTMENTS

Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited) Cost	(unaudited) Value
ACE Products, Inc.	Loans	\$ 17,164	\$ 17,164
Acme Paging, L.P.	Loan	750	750
	Debt Securities	6,993	6,993
	Limited Partnership Interest	3,640	2,184
Advantage Mayer, Inc.	Debt Securities	10,947	10,947
	Warrants		
Alderwoods Group, Inc.(1)	Debt Securities	6,129	6,129
	Common Stock (357,568 shares)	5,006	3,006
Allied Office Products, Inc.	Debt Securities	7,477	7,477
	Warrants	629	629
American Barbecue & Grill, Inc.	Warrants	125	
American Healthcare Services, Inc.	Debt Securities	40,780	40,780
	Common Stock (79,567,042 shares)	1,000	100
	Guaranty (\$915)		
American Home Care Supply, LLC	Debt Securities	6,920	6,920
	Warrants	579	1,579
Aspen Pet Products, Inc.	Loans	14,816	14,816
	Preferred Stock (2,021 shares)	1,981	1,981
	Common Stock (1,400 shares)	140	140
ASW Holding Corporation	Warrants	25	25
Autania AG(1)	Debt Securities	4,460	4,460
	Common Stock (250,000 shares)	2,193	2,193
Avborne, Inc.	Debt Securities	12,959	6,584
	Warrants	1,180	
Bakery Chef, Inc.	Loans	17,306	17,306
Blue Rhino Corporation(1)	Debt Securities	13,864	13,864
	Warrants	1,200	5,750
Border Foods, Inc.	Debt Securities	9,329	9,329
	Preferred Stock (50,919 shares)	2,000	2,000

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	Warrants	665	665
Business Loan Express, Inc.	Loan	6,000	6,000
	Debt Securities	78,481	78,481
	Preferred Stock (25,111 shares)	25,111	25,111
	Common Stock (25,503,043 shares)	104,596	120,096
	Guaranty (\$51,460 See Note 3)		
Camden Partners Strategic Fund II, L.P.	Limited Partnership Interest	1,785	1,829
CampGroup, LLC	Debt Securities	2,711	2,711
	Warrants	220	220

(1) Public company.

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

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

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Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited)	
		Cost	Value
Candlewood Hotel Company(1)	Preferred Stock (3,250 shares)	\$ 3,250	\$ 3,250
Celebrities, Inc.	Loan	240	240
	Warrants	12	550
Colibri Holding Corporation	Loans	3,471	3,471
	Preferred Stock (237 shares)	248	248
	Common Stock (3,362 shares)	1,250	1,250
	Warrants	290	290
The Color Factory Inc.	Loan	6,882	6,882
	Preferred Stock (1,000 shares)	1,000	1,000
	Common Stock (980 shares)	6,535	8,035
Component Hardware Group, Inc.	Debt Securities	10,909	10,909
	Preferred Stock (18,000 shares)	1,800	1,800
	Common Stock (2,000 shares)	200	200
Convenience Corporation of America	Debt Securities	8,355	2,738
	Preferred Stock (22,301 shares)	334	
	Warrants		
Cooper Natural Resources, Inc.	Debt Securities	1,782	1,782
	Preferred Stock (6,316 shares)	1,427	1,427
	Warrants	832	832
CorrFlex Graphics, LLC	Debt Securities	2,346	2,346
	Warrants		6,674
	Options		576
Coverall North America, Inc.	Loan	10,335	10,335
	Debt Securities	5,325	5,325
	Warrants		
CPM Acquisition Corporation	Loan	9,754	9,754
Csabai Canning Factory Rt	Hungarian Quotas (9.2%)	700	
CTT Holdings	Loan	1,432	1,432
Cumulus Media, Inc. (1)	Common Stock (397,922 shares)	7,131	7,131
	Warrants	186	186
CyberRep	Loan	1,145	1,145
	Debt Securities	14,375	14,375
	Warrants	660	3,310
The Debt Exchange Inc.	Preferred Stock (921,829 shares)	1,250	1,250



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Directory Investment Corporation	Common Stock (470 shares)	112	32
Directory Lending Corporation	Series A Common Stock (34 shares)		
	Series B Common Stock (6 shares)	8	
	Series C Common Stock (10 shares)	22	
Drilltec Patents & Technologies Company, Inc.	Loan	10,918	9,262
	Debt Securities	1,500	1,500
	Warrants		
eCentury Capital Partners, L.P.	Limited Partnership Interest	1,875	1,800

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Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited)	
		Cost	Value
EDM Consulting, LLC	Debt Securities Common Stock (140 shares)	\$ 1,875 250	\$ 443
El Dorado Communications, Inc.	Loans	306	306
Elexis Beta GmbH	Options	426	526
Elmhurst Consulting, LLC	Loan Common Stock (74 shares) Guaranty (\$2,800)	9,767 5,165	9,767 5,165
Eparfin S.A.	Loan	29	29
E-Talk Corporation	Debt Securities Warrants	8,852 1,157	4,509
Ex Terra Credit Recovery, Inc.	Preferred Stock (500 shares) Common Stock (2,500 shares) Warrants	568	318
Executive Greetings, Inc.	Debt Securities Warrants	16,658 360	16,658 360
Fairchild Industrial Products Company	Debt Securities Warrants	5,889 280	5,889 2,378
Foresite Towers, LLC	Equity Interest	15,500	15,500
Galaxy American Communications, LLC	Debt Securities Options Guaranty (\$750)	48,863	39,211
Garden Ridge Corporation	Debt Securities Preferred Stock (1,130 shares) Common Stock (188,400 shares)	27,006 1,130 613	27,006 1,130 613
GC-Sun Holdings II, LP (Kar Products, LP)	Loans	8,167	8,167
Gibson Guitar Corporation	Debt Securities Warrants	17,369 525	17,369 2,325
Ginsey Industries, Inc.	Loans Convertible Debentures Warrants	5,000 500	5,000 500 504
Global Communications, LLC	Loan Debt Securities Equity Interest	1,996 15,068 11,067	1,996 15,068 11,067

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	Options	1,639	1,639
Grant Broadcasting Systems II	Warrants	87	5,976
Grotech Partners, VI, L.P.	Limited Partnership Interest	1,463	1,029
The Hartz Mountain Corporation	Debt Securities	27,474	27,474
	Common Stock (200,000 shares)	2,000	2,000
	Warrants	2,613	2,613

(1) Public company.

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		March 31, 2002	
Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	(unaudited)	
		Cost	Value
HealthASPex, Inc.	Preferred Stock (1,451,380 shares)	\$ 4,900	\$ 4,011
	Preferred Stock (1,000,000 shares)	731	620
	Common Stock (1,451,380 shares)	4	
The Hillman Companies Inc.	Debt Securities	40,546	40,546
	Common Stock (6,890,937 shares)	57,156	57,156
HMT, Inc.	Debt Securities	9,015	9,015
	Common Stock (300,000 shares)	3,000	3,000
	Warrants	1,155	1,155
Hotelevision, Inc.	Preferred Stock (315,100 shares)	315	315
Icon International, Inc.	Common Stock (35,228 shares)	1,219	1,519
Impact Innovations Group, LLC	Debt Securities	6,661	6,661
	Warrants	1,674	1,674
Intellirisk Management Corporation	Loans	22,568	22,568
International Fiber Corporation	Debt Securities	22,423	22,423
	Common Stock (1,029,069 shares)	5,483	6,982
	Warrants	550	700
iSolve Incorporated	Preferred Stock (14,853 shares)	874	
	Common Stock (13,306 shares)	14	
Jakel, Inc.	Loan	23,369	23,369
JRI Industries, Inc.	Debt Securities	1,977	1,977
	Warrants	74	74
Julius Koch USA, Inc.	Debt Securities	759	759
	Warrants	259	7,000
Kirker Enterprises, Inc.	Warrants	348	3,501
	Equity Interest	4	4
Kirkland s, Inc.	Debt Securities	7,200	7,200
	Preferred Stock (917 shares)	412	412
	Warrants	96	96
Kyrus Corporation	Debt Securities	7,595	7,595
	Warrants	348	348
Liberty-Pittsburgh Systems, Inc.	Debt Securities	3,491	3,491
	Common Stock (123,929 shares)	142	142

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Litterer Beteiligungs-GmbH	Debt Securities	1,070	1,070
	Equity Interest	358	358
Logic Bay Corporation	Preferred Stock (1,131,222 shares)	5,000	5,000
Love Funding Corporation	Preferred Stock (26,000 shares)	359	213
Magna Card, Inc.	Debt Securities	153	153
	Preferred Stock (1,875 shares)	94	94
	Common Stock (4,687 shares)		
Master Plan, Inc.	Loan	1,204	1,204
	Common Stock (156 shares)	42	42

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Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited)	
		Cost	Value
Matrics, Inc.	Preferred Stock (511,876 shares) Warrants	\$ 500	\$ 500
MedAssets.com, Inc.	Debt Securities Preferred Stock (260,418 shares) Warrants	15,114 2,049 136	15,114 2,049 136
Mid-Atlantic Venture Fund IV, L.P.	Limited Partnership Interest	2,475	1,528
Midview Associates, L.P.	Warrants		
Monitoring Solutions, Inc.	Debt Securities Common Stock (33,333 shares) Warrants	1,823	153
MortgageRamp.com, Inc.	Common Stock (772,000 shares)	3,860	3,860
Morton Grove Pharmaceuticals, Inc.	Loan Preferred Stock (106,947 shares)	16,356 5,000	16,356 9,000
Most Confiserie GmbH & Co KG	Loan	943	943
MVL Group, Inc.	Loan Debt Securities Warrants	16,138 14,924 643	15,916 14,924 643
NetCare, AG	Loan Common Stock (262,784 shares)	760 230	760 230
NETtel Communications, Inc.	Debt Securities	11,334	4,334
Nobel Learning Communities, Inc.(1)	Debt Securities Preferred Stock (1,063,830 shares) Warrants	9,679 2,000 575	9,679 2,000 575
North American Archery, LLC	Loans Convertible Debentures Guaranty (\$645)	1,390 2,248	840 2,008
Northeast Broadcasting Group, L.P.	Debt Securities	295	295
Novak Biddle Venture Partners III, L.P.	Limited Partnership Interest	420	420
Nursefinders, Inc.	Debt Securities Warrants	11,373 900	11,373 1,500
Onyx Television GmbH	Preferred Units (120,000 shares)	201	201

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Opinion Research Corporation(1)	Debt Securities	14,227	14,227
	Warrants	996	996
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Oriental Trading Company, Inc.	Loan	128	128
	Debt Securities	12,788	12,788
	Preferred Equity Interest	1,500	1,822
	Common Equity Interest		
	Warrants	13	265

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(1) Public company.

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Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited)	
		Cost	Value
Outsource Partners, Inc.	Debt Securities	\$24,021	\$24,021
	Warrants	826	826
Packaging Advantage Corporation	Debt Securities	11,610	11,610
	Common Stock (200,000 shares)	2,000	2,000
	Warrants	963	963
Pico Products, Inc.	Loan	1,406	1,406
Polaris Pool Systems, Inc.	Debt Securities	10,658	10,658
	Warrants	1,050	1,050
Powell Plant Farms, Inc.	Loan	18,152	18,152
Proeducation GmbH	Loan	321	321
Professional Paint, Inc.	Debt Securities	22,086	22,086
	Preferred Stock (15,000 shares)	18,309	18,309
	Common Stock (110,000 shares)	69	3,069
Progressive International Corporation	Debt Securities	3,961	3,961
	Preferred Stock (500 shares)	500	500
	Common Stock (197 shares)	13	13
	Warrants		
Prosperco Finanz Holding AG	Debt Securities	5,276	5,276
	Common Stock (1,528 shares)	1,059	1,059
	Warrants		
Raytheon Aerospace, LLC	Debt Securities	5,090	5,090
	Equity Interest		
Redox Brands, Inc.	Debt Securities	9,556	9,556
	Warrants	584	584
Schwinn Holdings Corporation	Debt Securities	10,195	1,835
Seasonal Expressions, Inc.	Preferred Stock (1,000 shares)	500	
Simula, Inc.(1)	Loan	20,223	20,223
Soff-Cut Holdings, Inc.	Debt Securities	8,587	8,587
	Preferred Stock (300 shares)	300	300
	Common Stock (2,000 shares)	200	200
	Warrants	446	446
Southwest PCS, LLC	Loan	8,401	8,401



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Spa Lending Corporation	Preferred Stock (28,672 shares)	424	367
	Common Stock (6,208 shares)	76	18
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Staffing Partners Holding Company, Inc.	Debt Securities	4,992	4,992
	Preferred Stock (414,600 shares)	2,073	2,073
	Common Stock (50,200 shares)	50	50
	Warrants	10	10
<hr/>			
Startec Global Communications Corporation(1)	Loan	22,815	22,815
	Debt Securities	21,286	10,301
	Common Stock (258,064 shares)	3,000	
	Warrants		
<hr/>			

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Private Finance Portfolio Company (in thousands, except number of shares)	Investment(2)	March 31, 2002	
		(unaudited)	
		Cost	Value
STS Operating, Inc.	Common Stock (3,000,000 shares)	\$ 3,177	\$ 3,177
SunStates Refrigerated Services, Inc.	Loans	6,062	4,573
	Debt Securities	2,445	877
Sure-Tel, Inc.	Loan	1,207	1,207
	Preferred Stock (1,116,902 shares)	4,642	4,642
	Warrants	662	662
	Options		
Sydran Food Services II, L.P.	Debt Securities	12,973	12,973
	Equity Interest	3,909	3,909
Total Foam, Inc.	Debt Securities	262	127
	Common Stock (910 shares)	10	
Tubbs Snowshoe Company, LLC	Debt Securities	3,917	3,917
	Equity Interests	500	500
	Warrants	54	54
United Pet Group, Inc.	Debt Securities	9,017	9,017
	Warrants	15	15
Updata Venture Partners, II, L.P.	Limited Partnership Interest	2	1,492
Velocita, Inc.(1)	Debt Securities	11,718	4,318
	Warrants	3,540	
Venturehouse Group, LLC	Equity Interest	667	398
Walker Investment Fund II, LLLP	Limited Partnership Interest	1,200	943
Warn Industries, Inc.	Debt Securities	18,646	18,646
	Warrants	1,429	3,129
Williams Brothers Lumber Company	Warrants	24	322
Wilmar Industries, Inc.	Debt Securities	33,132	33,132
	Preferred Stock (199,313 shares)	1,849	1,849
	Common Stock (15,615 shares)	139	139
	Warrants	1,181	1,181
Wilshire Restaurant Group, Inc.	Debt Securities	15,368	15,368
	Warrants	735	735
Wilton Industries, Inc.	Loan	12,000	12,000

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Woodstream Corporation	Loan	572	572
	Debt Securities	7,641	7,641
	Equity Interests	1,700	4,547
	Warrants	450	1,203
<hr/>			
WyoTech Acquisition Corporation	Debt Securities	12,597	12,597
	Preferred Stock (100 shares)	3,700	3,700
	Common Stock (99 shares)	100	54,100
<hr/>			
Total private finance (133 investments)		\$ 1,568,704	\$ 1,604,891
<hr/>			

(1) Public company.

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

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

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(in thousands, except number of loans)	Stated Interest	Face	March 31, 2002	
			(unaudited) Cost	Value
<b>Commercial Real Estate Finance</b>				
<b>CMBS</b>				
CMBS Bonds				
Mortgage Capital Funding, Series 1998-MC3				
5.5% \$54,491 \$27,051 \$27,051				
Morgan Stanley Capital I, Series 1999-RM1				
6.4% 51,046 21,536 21,536				
COMM 1999-1				
5.6% 74,879 36,016 36,016				
Morgan Stanley Capital I, Series 1999-FNV1				
6.1% 37,762 16,780 16,780				
DLJ Commercial Mortgage Trust 1999-CG2				
6.1% 83,718 36,672 36,672				
Commercial Mortgage Acceptance Corp., Series 1999-C1				
6.8% 34,856 16,324 16,324				
LB Commercial Mortgage Trust, Series 1999-C2				
6.7% 29,005 11,463 11,463				
Chase Commercial Mortgage Securities Corp., Series 1999-2				
6.5% 37,430 16,566 16,566				
FUNB CMT, Series 1999-C4				
6.5% 43,372 18,243 18,243				
Heller Financial, HFCMC Series 2000 PH-1				
6.8% 45,456 18,544 18,544				
SBMS VII, Inc., Series 2000-NL1				
7.2% 20,804 10,747 10,747				
DLJ Commercial Mortgage Trust, Series 2000-CF1				
7.0% 38,685 18,274 18,274				
Deutsche Bank Alex. Brown, Series Comm 2000-C1				
6.9% 39,379 17,485 17,485				
LB-UBS Commercial Mortgage Trust, Series 2000-C4				
6.9% 34,967 12,651 12,651				
Credit Suisse First Boston Mortgage Securities Corp., Series 2001-CK1				
5.9% 43,288 18,041 18,041				
JP Morgan-CIBC-Deutsche 2001				
5.8% 46,326 19,705 19,705				
Lehman Brothers-UBS Warburg 2001-C4				
6.4% 49,582 21,891 21,891				
SBMS VII, Inc., Series 2001-C1				
6.1% 41,109 15,974 15,974				
GE Capital Commercial Mortgage Securities Corp., Series 2001-2				
6.1% 45,218 19,835 19,835				
Credit Suisse First Boston Mortgage Securities Corp., Series 2001-CKN5				
5.2% 59,602 28,062 28,062				
JP Morgan Chase Commercial Mortgage Securities Corp., Series 2001-C1				
5.6% 42,747 16,100 16,100				
SBMS VII, Inc., Series 2001-C2				

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6.2% 47,353 21,960 21,960  
 FUNB CMT, Series 2002-C1  
 6.0% 38,238 16,491 16,491  
 Collateralized Debt Obligations

Crest 2001-1, Ltd.  
 24,153 24,153 24,153

Crest 2002-1, Ltd.  
 23,104 23,104 23,104

Total CMBS  
 \$1,086,570 \$503,668 \$503,668

	Interest Rate Ranges	Number of Loans	Cost	Value
<b>Commercial Mortgage Loans</b>				
	Up to 6.99%	10	\$ 8,096	\$ 9,518
	7.00%- 8.99%	24	27,096	28,903
	9.00%-10.99%	13	12,072	12,071
	11.00%-12.99%	13	10,054	10,053
	13.00%-14.99%	7	12,500	12,293
	15.00% and above	1	55	55
	Total commercial mortgage loans	68	\$ 69,873	\$72,893
	<b>Residual Interest</b>		\$ 69,680	\$ 69,380
	<b>Real Estate Owned</b>			
	5,719 3,228			
	Total commercial real estate finance			
	\$648,940 \$649,169			
	Total portfolio			
	\$2,217,644 \$2,254,060			

(1) Public company.

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

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)	Investment(2)	December 31, 2001	
		Cost	Value
Ability One Corporation	Loans	\$ 10,657	\$ 10,657
ACE Products, Inc.	Loans	16,875	16,875
Acme Paging, L.P.	Debt Securities Limited Partnership Interest	6,992 3,640	6,992 2,184
Advantage Mayer, Inc.	Debt Securities Warrants	10,945	10,945
Allied Office Products, Inc.	Debt Securities Warrants	7,491 629	7,491 629
American Barbecue & Grill, Inc.	Warrants	125	
American Home Care Supply, LLC	Debt Securities Warrants	6,906 579	6,906 1,579
American Physicians Services, Inc. (formerly Physicians Speciality Corporation)	Debt Securities Common Stock (79,567,042 shares) Guaranty (\$195)	40,194 1,000	40,194 100
Aspen Pet Products, Inc.	Loans Preferred Stock (1,860 shares) Common Stock (1,400 shares)	14,576 1,981 140	14,576 1,981 140
ASW Holding Corporation	Warrants	25	25
Aurora Communications, LLC	Loans Equity Interest	15,809 2,461	15,809 6,050
Autania AG(1)	Debt Securities Common Stock (250,000 shares)	4,762 2,261	4,762 2,261
Avborne, Inc.	Debt Securities Warrants	12,750 1,180	6,375
Bakery Chef, Inc.	Loans	17,018	17,018
Blue Rhino Corporation(1)	Debt Securities Warrants	13,816 1,200	13,816 2,000
Border Foods, Inc.	Debt Securities Preferred Stock (50,919 shares) Warrants	9,313 2,000 665	9,313 2,000 665

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Business Loan Express, Inc.	Loan	6,000	6,000
	Debt Securities	76,242	76,242