



July 2, 2002

Mr. William L. Walton, Chairman, President and CEO  
Ms. Joan M. Sweeney, COO  
Allied Capital Corporation  
1919 Pennsylvania Avenue, N.W.  
Washington, DC 20006

Dear Sir and Madam:

As you know, Greenlight Capital has publicly criticized various aspects of your accounting, valuation analysis, and business model over the past several weeks. In our view, our criticisms are based on information we believe to be reliable and our opinions follow from the facts that we have discovered. While our criticisms have been public, we have limited them to business issues and have not engaged in any personal attacks.

We understand that you may not appreciate us in our role as whistle blower. We do not understand why rather than addressing our issues in a professional manner, you have engaged in a pattern of false personal attacks for which you have no basis. According to press accounts you have engaged professional assistance in public relations in an effort to better attack us. Be advised that no matter how far into the mud you roll, we have no intention of joining you there. Despite your behavior we will continue to conduct ourselves in a professional manner.

We do not expect you to confess and agree with our criticisms. While we find the dishonesty and disingenuous semantics in your responses to our criticisms distasteful, we are willing to continue an honest debate on these points in the marketplace.

However, we must call to your attention the following public comments made by you, which are personal, false and damaging to our reputation.

On May 16<sup>th</sup>, in a company sponsored public conference call Mr. Walton said, "We find it unusual that somebody gets up and gives a speech about a company who never bothers to talk to management. I think most informed investors would appreciate some time spent with us so they can talk these things through unless you are simply trying to develop the short thesis to scare people and make a quick buck and move on."

This statement is false in several ways. First we did bother to talk to management. We spent *several hours* discussing issues and confirming information with company representatives. We spoke with Ms. Sparrow on April 24<sup>th</sup> and with Ms. Roll and Ms. Beane on May 1<sup>st</sup>. At best, it was negligent of Mr. Walton to not find out the facts before disparaging us in public. Second, Mr. Walton has no basis to assert we are trying to scare anyone. Third, Mr. Walton has no basis to assert that we are out to make a quick buck and move on. On the contrary, our practice is to be long term, patient holders of our investments (including short positions) until we are proven right or wrong.

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We have a similar objection to Mr. Walton asserting without basis that we are "engaging in some short term trading," as he declared on the same conference call.

On the June 17<sup>th</sup> company sponsored public conference call, Mr. Walton falsely and without basis accused us of being closely linked with law firms who have sued Allied, "You develop a position; you then have some sort of an event; in our case it was a speech. One is closely linked with ----- law firms who then very quickly file suits."

In a June 20<sup>th</sup> Bloomberg story, Ms. Sweeney said that we declared a strategy of "let's scare the little old ladies."

In fact, we have no such strategy and certainly have never said anything of the kind. Ms. Sweeney has no basis for making such a false and defamatory attack.

On June 19<sup>th</sup> Mr. Walton stated in an Allied Capital press release, "We believe that Allied Capital has been the victim of a systematic campaign by short-sellers to use misinformation for personal profit."

We believe that Mr. Walton has no basis to assert that there is a campaign. The only campaign we know of was described in the Washington Post on June 17<sup>th</sup>, "Today, Allied will begin a concerted campaign against those investors with an informational conference call."

We have published our analysis and do not believe it contains any misinformation. We have listened to three conference calls and read several press releases from you designed to refute our criticisms and have yet to hear any factual errors in our research. Generally, your responses have been non-responsive, out of context or refutations of your mischaracterizations of our actual criticisms. However, if we have made any factual errors, we invite you to point out specifically where in our analysis we are factually mistaken. In the event any such errors exist, we will publicly correct the record. As for personal profit, we request that you point out when making that statement that half of Greenlight's "personal profit" on shorting your stock has been pledged for the benefit of pediatric cancer victims.

Given the above, we request that you publicly correct and retract your false comments about Greenlight Capital and refrain from further public personal attacks.

Respectfully,

David Einhorn

