

AKIN GUMP  
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March 24, 2008

VIA FACSIMILE AND E-MAIL

Bruce W. Sanford, Esq.  
Baker & Hostetler LLP  
Washington Square, Suite 1100  
1050 Connecticut Avenue, N.W.  
Washington, D.C. 20036-5304

**Re: Allied Capital Corporation**

Dear Mr. Sanford:

I received your letter of March 4, 2008. After months of delay, you seem almost to have agreed that the appropriate meeting in which Allied management can answer and attempt to rebut Mr. Einhorn's criticisms should take place between Mr. Einhorn and Allied management, rather than your original proposal to have management meet with the people at Wiley & Sons or to have a meeting among lawyers. However, as you no doubt already know (since your clients appear to monitor numerous aspects of Mr. Einhorn's life including but not limited to the progress of his book, which you know is set for Spring publication) your belated, conditional offer with time-consuming preliminaries suggests this is nothing more than a pretext to try to interfere with the timing of the book's publication. Even so, Mr. Einhorn will remain true to his word to give Allied a chance to explain why any of his criticisms are unjustified.

It also does not escape our notice that you say "Allied is willing to consider...a meeting between the principals" only after counsel have met to discuss the parameters of such a meeting. Your March 4, 2008 letter to Wiley & Sons more pointedly repeats that you are, again, only offering a meeting between lawyers as a "first step." This creates real doubt as to whether Allied's management, which has avoided Mr. Einhorn for years, truly intends to meet with Mr. Einhorn or whether this is simply a repeat of your previous request for a lawyers meeting. There is no need for, nor will we engage in, a meeting among lawyers to set "ground rules." Nor should there be any other preconditions for the meeting. Your original objective, as you expressed to Wiley & Sons, was to explain why Mr. Einhorn's criticisms are incorrect. We are ready to provide you the opportunity to make your explanation to Mr. Einhorn directly. Since you seem to prefer an "agenda," if you wish to provide us an "agenda" of subject matter areas related to which Allied management will answer questions, we would be willing to review it and see whether the meeting could be productive. If Allied is actually interested in meeting, you can suggest some dates in the immediate future.

Bruce W. Sanford

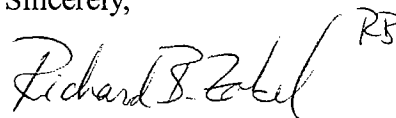
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We have every confidence that Allied management can have a meeting at which it answers Mr. Einhorn's questions without setting "ground rules" or violating Reg FD. First, Allied can refuse to answer a question if it chooses not to. It has never seemed to be Allied's problem to not answer a question it did not like. Secondly, public company managers are well-practiced at not violating Reg FD, and we would assume that any truthful responses to Mr. Einhorn's criticism would already be in the public domain, would be immaterial to a current investment in Allied or at least could be made public immediately afterward.

Please let me know if you would like to set a time to meet with Mr. Einhorn and who will be attending such a meeting from Allied.

Sincerely,



Richard B. Zabel

cc: David Einhorn  
Deirdre Silver