

Baker & Hostetler LLP

Washington Square, Suite 1100  
1050 Connecticut Avenue, N.W.  
Washington, DC 20036-5304

T 202.861.1500  
F 202.861.1783  
www.bakerlaw.com

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Bruce W. Sanford  
direct dial: 202.861.1626  
bsanford@bakerlaw.com

Via Email and Overnight Mail

Deirdre Silver, Esq.  
Legal Director  
John Wiley & Sons, Inc.  
111 River Street  
Hoboken, N.J. 07030

Re: Allied Capital Corporation

Dear Ms. Silver:

We are in receipt of your October 5, 2007 correspondence forwarding Richard Zabel's letter. A copy of our response to Mr. Zabel is enclosed.

My letter of September 26, 2007 raised a series of questions about why Wiley, as the publisher of a proposed book by a hedge fund manager with a substantial "short" position in the stock of the target of the book, would want to publish such an unusual personal attack without first discussing it with the target. We have offered on a number of occasions to meet with your editors. Your response does not address this question or the other issues raised in my letter.

If Mr. Einhorn were an objective, disinterested journalist without much background on Allied, there could be some point to discussing the situation with him. But, of course, Mr. Einhorn is no such author. He has a financial incentive to attack the company with any weapon he can devise to drive down the public market price of its stock.

Over the last five years, Mr. Einhorn has made numerous public statements maligning Allied that have been proven false; prompted an SEC investigation of Allied that turned up no finding of any fraud, no fines or penalties and no restatement of any financials; and encouraged shareholder litigation against Allied that has been dismissed by the courts.

Just last week Mr. Einhorn rehashed many of his old canards, none of which have proven true. In a speech at the Heilbrunn Center for Graham & Dodd Investing in New York, he falsely stated that Allied is a “fathomless fraud” and that Allied’s “wrongdoing was much deeper than [he] originally imagined and extended as far as bilking U.S. taxpayers out of tens, if not, hundreds of millions of dollars by underwriting fraudulent government backed loans through its Business Loan Express subsidiary.” His statements are false for many reasons and contrary to publicly available facts that clearly show that (i) BLX is a separate, independently managed portfolio company, not a “subsidiary” of Allied; (ii) BLX is a victim of fraud and has incurred losses from the fraudulent acts of an ex-employee; (iii) there has been no finding by any government agency that Allied or BLX engaged in any fraudulent conduct; and (iv) the government has not incurred any net losses from the conduct of the former BLX employee.

Mr. Einhorn also states that “Allied persists in its misbehavior without consequence” and that “the authorities really don’t know what to do about fraud when they discover it in progress,” thereby explicitly and implicitly making the false statement that Allied has and continues to engage in fraudulent conduct. Mr. Einhorn conveniently ignores the financial facts that Allied paid \$1.46 billion in *cash* dividends in the last five years to its approximately 185,000 shareholders who averaged a 14.3% return on their investment during that period.

Lacking the good grace or integrity to admit that he has been wrong about Allied, Mr. Einhorn makes the remarkable statement that “the media, Wall Street analysts, the board of directors, the accountants, the SEC, prosecutors and other government agencies have completely fallen down on their jobs to police Allied’s management.” Everyone, it seems, is wrong about Allied except him.

This recent speech coupled with the proposed book which Mr. Einhorn is now publicly promising “will hit the bookstores next spring,” appear to be his latest salvo in his futile but determined effort to recover his investment in shorting Allied stock by bashing the company.

Allied previously has responded to Mr. Einhorn. They reviewed his charges and requested that he provide “specific information” of alleged wrongdoing. On March 18, 2005, for example, Allied’s Audit Committee of the Board of Directors wrote to Mr. Einhorn noting that the Board did not see any information that supported Mr. Einhorn’s charges of misconduct and requested that he provide such information, as the committee was authorized by the Board to receive and evaluate any evidence of wrongdoing. Mr. Einhorn provided none. On September 26, 2006, after receiving further correspondence from Mr. Einhorn, the Audit Committee again invited him to submit information. Again, he provided none.

Simply put, Mr. Einhorn likes to make flat-out statements, insinuations, and innuendo that imply more than he can prove. From what we have seen from Wiley so far – such as the book’s promotional copy and cover art published earlier this year on Wiley’s website and elsewhere – it appears that Mr. Einhorn will continue this use of language in the book. The promotional copy and cover art showing a house of cards

conveys the false message that Allied is a company without substance and one that is on the brink of collapse.

You informed us previously that the book is undergoing legal review. Since any manuscript makes specific statements, we believe it is Wiley's responsibility as a publisher to evaluate the accuracy and fairness of those statements with Allied, and the company remains ready to respond to questions you may have about specific passages or accusations written by the author. We will continue to provide you with information about any of Mr. Einhorn's false and defamatory statements or other attacks on Allied that come to our attention. We would also ask that you confirm the proposed publishing date.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce", with a long horizontal line extending to the right.

Bruce W. Sanford

cc: Steve Kippur  
Gary Rinck  
David Pugh