

Baker Hostetler

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

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

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VIA FEDERAL EXPRESS

Stephen A. Kippur
Divisional President/Executive Vice President
John Wiley & Sons, Inc.
111 River Street
Hoboken, N.J. 07030

Dear Mr. Kippur:

As I mentioned in our telephone conversation on April 13, we understand that John Wiley & Sons, Inc. may be publishing a book by David Einhorn tentatively entitled "The Big Bet: Fooling Some of the People All of the Time" (the "Book"). The Book may include references to our client, Allied Capital Corporation ("Allied"). Over the past five years, Mr. Einhorn, and his hedge fund, Greenlight Capital, have maintained what we believe is a substantial "short position" in the stock of Allied, giving him an opportunity to benefit if the price of Allied stock declines. Concurrently, he has waged an unwavering campaign to attack Allied's business practices and integrity.

Allied is a business development company that provides long-term debt and equity capital to small and middle market private companies. Allied's success is well documented -- it has earned an approximate 18% average annual total return for its investors since its IPO in 1960. It has paid steady or increasing dividends on an annual basis, uninterrupted, since 1963. Only 2% of all other companies listed on the New York Stock Exchange have a similar dividend record. It has a current market capitalization of over \$4.3 billion, with approximately 186,000 shareholders.

Allied is concerned that the Book may rehash old accusations that have been unsubstantiated and make other, inaccurate, unfair statements damaging to Allied's shareholders. For instance, since 2002, Mr. Einhorn has denounced Allied's valuation of its portfolio investments, arguing that Allied should have lowered valuations more quickly than it did for certain of its portfolio companies. In fact, Einhorn's criticism that Allied fraudulently over-valued certain portfolio companies was flatly rejected in April 2003 by a federal court in New York.

Prompted by Einhorn's attacks against Allied (which began on May 15, 2002), plaintiffs across the country brought eight class action lawsuits against Allied, the first of

which was filed two days after Einhorn publicly launched his short attack. Less than a year later, U.S. District Judge Gerard Lynch, who had consolidated all of the cases, dismissed the consolidated case, holding that Allied employed a "process that any reasonable investor would understand was somewhat subjective, involved judgment calls, and given the lack of a market, would not yield exact, verifiable results." The court concluded that the best the plaintiffs could establish was that they disagreed with the investment valuations and "alleging disagreement with some of Allied's valuations does not equate to alleging fraud."

Yet as late as last month, Mr. Einhorn, in testimony to Congress, revived some of his old accusations and again accused Allied of "misleading the public" about investment valuations, "inflat[ing] earnings" and "charging excessive interest rates." Einhorn's original statements about Allied's valuation of its portfolio of investments lacked any basis in fact when initially made in 2002 and are inaccurate today. Regardless whether those statements were protected when uttered on Capitol Hill, they are not protected if they are reiterated in a book.

Mr. Einhorn also has implied that Allied is a Ponzi scheme and raises new capital to finance its dividend – a claim that casts doubt on the well-being of a high yielding stock such as Allied. The charge is meritless both historically and currently. Allied's financial statements show unequivocally that Allied's cash flows from operations before new investments significantly exceed cash dividends paid to investors. If Mr. Einhorn's implications were true, Allied could not have the impressive dividend record it has established over a 40-year time period.

In addition, Mr. Einhorn has made reckless charges of widespread "fraud" due to investigations at one of Allied's 145 portfolio companies, Business Loan Express, LLC ("BLX"), which accounted for only 4.3% of Allied's assets as of December 31, 2006. Any company within Allied's portfolio may experience difficulties from time to time, but that does not justify distorting the significance of any individual issue to try to create an unjustifiable generalization. In fact, Allied is a well-respected private equity investor in middle-market companies. Its total portfolio of investments today is approximately \$4.5 billion. For all the investments from which Allied has exited since December 31, 1997, which includes total invested capital of \$4.0 billion, Allied has generated aggregate investment returns of approximately 22%, an enviable record.

Unlike a typical non-fiction author, Mr. Einhorn has an economic incentive (due to his short position in Allied stock) to cast Allied in a negative light and selectively distort facts concerning Allied and its portfolio companies. Einhorn's guerilla tactics against a Canadian company, MI Developments ("MID") to force change in that company's business operations have come under scrutiny and criticism from a court in Ontario, Canada. Greenlight had filed suit against MID, but the court denied Greenlight's application on October 30, 2006, noting Einhorn's and Greenlight's conduct – some of which Allied knows as Einhorn's typical *modus operandi* -- including the following "improper" acts:

- surreptitiously taping telephone calls of MID representatives
- using threats of litigation to intimidate MID board members and management

- filing complaints with the Ontario Securities Commission without notice to MID
- disclosing complaint letters to the media and analysts prior to providing to MID
- submitting inaccurate and misleading materials to MID shareholders
- making inflammatory and disparaging remarks about MID's management during shareholder meetings
- submitting a sworn affidavit which was not accurate and alleged facts based on a meeting that he did not attend

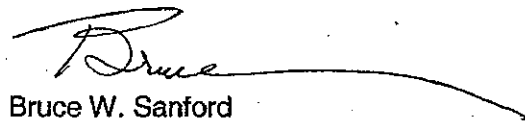
Finally, the recent debacle at New Century Financial Corp., the subprime mortgage lender which recently filed for bankruptcy court protection, emphatically illustrates that Mr. Einhorn can be wrong. By early 2006, Mr. Einhorn accumulated a 6% position in the stock of New Century and then forced his way onto the company's board of directors with the avowed purpose of improving its operations. In mid-2006, the stock of New Century traded at approximately \$40 a share; the stock recently traded at approximately \$1 a share before the company filed for bankruptcy. The company has recently announced that it needs to restate most of its financial results for 2006 due to aggressive accounting practices (which was during Mr. Einhorn's tenure as a director) and that federal authorities have initiated a criminal investigation.

While Mr. Einhorn may be motivated to write inaccurate, unfair, and damaging statements regarding Allied in his Book, we trust that Wiley will be willing to discuss with Allied's senior management before publication any potentially damaging statements that could adversely and unfairly affect the Company. In the event the Book contains any disparaging statements about Allied, we request that Allied be afforded the opportunity to respond to such statements.

We welcome the opportunity to meet with you in your offices or here in Washington to answer any questions.

Thank you for your attention to this matter and I look forward to hearing from you.

Sincerely,



Bruce W. Sanford

Enclosures

cc: Gary M. Rinck, Senior Vice President and General Counsel
David Pugh, Editor
William L. Walton, Chairman & CEO
Allied Capital