

April 8, 2008

T 202.861.1500
F 202.861.1783
www.bakerlaw.com

VIA EMAIL AND OVERNIGHT DELIVERY

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

Deirdre Silver, Esq.
Legal Director
John Wiley & Sons, Inc.
111 River Street
Hoboken, NJ 07030-5774

Re: *Fooling Some of the People All of the Time*

Dear Ms. Silver:

The promotional copy on the dust jacket of *Fooling Some of the People All of the Time* by David Einhorn has been published by John Wiley & Sons on Amazon.com and other websites. To the astonishment of our client Allied Capital, the copy is rife with errors and numerous false and defamatory statements that have previously been brought to Wiley's attention over the course of the last year. Wiley previously removed a number of these statements from its website and other promotional material, agreeing that such statements were unjustifiable.

During the past year, we have provided you with abundant material from court decisions, regulatory rulings, and other sources that prove that these damaging and inflammatory statements have no basis in fact. No need to hype the sales of Mr. Einhorn's book with sensational copy for the dust jacket can justify re-publishing statements that you have already acknowledged are wrong.

The factually unsupportable statements made about Allied in the dust jacket copy include:

- Allied Capital's "accounting was corrupt." This statement and the suggestion that follows in the promotional copy that the investing public agreed with Mr. Einhorn's strategy to make money by shorting Allied's stock is contradicted by the actual facts. At the outset, Mr. Einhorn did not use the loaded and harmful word "corrupt" to describe the Allied accounting methods that he questioned. News accounts of his 2002 speech do not report that Mr. Einhorn accused Allied of "corrupt" accounting. Wiley's mistaken use of the word on the dust jacket, therefore, does not even

accurately reflect what Mr. Einhorn actually said in 2002. Wiley not only misstates what Mr. Einhorn said, but also aggravates his accusation.

In June 2007, after three years of investigation, the production of millions of pages of documents to the SEC, and countless interviews with current and former Allied employees, the SEC made no findings of irregular, much less "corrupt" accounting practices, no findings of "systemic overstatement of asset values," and no findings of fraud. It did not require any financial restatement or changes in accounting practices nor did it impose any fines or penalties against Allied. Neither the SEC nor any court, nor any auditor, nor, indeed, anyone on earth other than Mr. Einhorn, has ever made a factual finding that Allied's accounting warranted revision. My June 20, 2007 letter to you explicitly set forth these facts.

The promotional copy further misleads the reader by failing to disclose that, after the brief drop in value precipitated by Mr. Einhorn's speech, Allied's stock rebounded, as the investing public obviously did not agree with his claims. As the District Court held in dismissing the class actions filed immediately after Mr. Einhorn made his inflammatory statements, "the stock price's recovery, in the face of a general decline in the market . . . indicates that investors quickly determined that [Mr. Einhorn's] 'new' information [about Allied] was not material to their investment decisions." In fact, as Allied's stock price continually increased over the next five years, Mr. Einhorn and others who shorted the stock as he recommended undoubtedly incurred losses.

- Allied is "disseminating half-truths and outright lies." The dust jacket makes the brand new accusation that Allied responded to Mr. Einhorn's 2002 speech by lying. Certainly no court, regulatory body, or other fact finder has ever made any determination that Allied has lied. Moreover, corporations do not lie; people do. Why weren't the individuals who allegedly made "outright lies" contacted by Wiley for comment and given the opportunity to respond to such a serious accusation? In my May 8, 2007 letter I stated that "Allied Capital's senior management and I stand ready to provide you or your editors at Wiley with any assistance we can to ensure that any book published about Allied is accurate, complete, and fair."
- Allied is engaged in "corporate malfeasance." Wiley resuscitates the use of this ugly, radioactive term, which it had previously and appropriately retracted when it took down the book's prior promotional material. The term broadly (and without any reference to some factual underpinning) accuses the company of wrongdoing and we first informed you of the statement's falsity in my letter of September 11, 2007. It was then removed from the internet in recognition that there is no basis for making that charge. My March 4, 2008 letter outlined how there is still no evidence to support such a charge.

- Allied is “an unscrupulous company [that] has ripped off U.S. taxpayers of hundreds of millions of dollars.” As we informed Wiley in my December 11, 2007 letter, BLX is not Allied and is not a subsidiary of Allied. However, even with respect to BLX, there has not been a finding of any improper conduct, nor a finding of “rip offs” let alone a finding of losses to U.S. taxpayers of “hundreds of millions,” that are attributable to the company. To date, one former employee of BLX (not Allied) has pled guilty to taking part in a conspiracy, along with numerous loan brokers, borrowers and bank insiders, to defrauding the SBA and BLX by providing false information to BLX and the SBA in the origination of government guaranteed loans. BLX has already paid the SBA millions of dollars to reimburse them (and thus the U.S. taxpayer) for any losses suffered and has pledged to reimburse them for any additional losses suffered as a result of fraudulent conduct by a former BLX employee (if there are any beyond what has already been paid). Given BLX’s interest in the unguaranteed portion of every SBA loan, any scheme to fraudulently approve unqualified borrowers for the SBA loan program would also be a scheme to defraud BLX. Not surprisingly, that is why convicted borrowers have, to date, been ordered to pay nearly \$6 million in restitution to BLX. That is also why a federal judge recently explained in one of his opinions that BLX, like the SBA, is an “aggrieved victim” of the fraud scheme.
- Einhorn has discovered Allied’s “illicit behavior was far worse than Einhorn ever suspected – and, shockingly, it continues to this day.” This statement by Wiley is simply reckless. We have provided you with evidence, time and again over the last year, of how courts, independent regulatory agencies, leaders in the capital markets and the investing public, have scrutinized Allied in the face of Mr. Einhorn’s attacks and reached far different conclusions than Mr. Einhorn. No less than three different judges from three different jurisdictions have all dismissed lawsuits brought by Mr. Einhorn or based substantially on his allegations. After lengthy criminal and civil investigations, Allied Capital has not been assessed any penalties or fines. Recent investments by Goldman Sachs and GE Capital, detailed in my March 4, 2008 letter, only serve to confirm the independent conclusions of the investing public, Wall Street and the courts that Mr. Einhorn’s allegations against Allied Capital are baseless. There is simply nothing to suggest that there has been any “illicit behavior” or that it “continues to this day.” This statement in the promotional copy has the effect of re-publishing all the historical statements made by Mr. Einhorn over the years as if six years of developments that have proven him wrong had not occurred. But the statement does not end there. It goes on to recklessly state – without any substantiation – that the illicit behavior is actually “far worse” today. There is no possible justification for this sweeping accusation.

- “If you think we’re past the days of corporate corruption and financial fraud, think again” and government regulators are “at best derelict and at worst complicit in [Allied’s] fraud.” In response to our May 8, 2007 letter objecting to the use of the words “clear fraud” in promotional material that appeared on the internet, Wiley withdrew and retracted that accusation. There has never been any basis for using the powerfully damaging word “fraud” in connection with Allied. Mr. Einhorn’s initial accusation in his 2002 speech was that Allied’s accounting methods did not properly value its portfolio companies, resulting in overvaluations for certain companies. As a federal judge stated in dismissing class action lawsuits against Allied that were prompted by Mr. Einhorn, “alleging disagreement with some of Allied’s valuations does not equate to alleging fraud.” There is simply no evidence that anything alleged to have happened comes close to the intentional, deliberate, purposeful conduct required to justify the use of the word “fraud.” Having agreed to take down the allegations of fraud last year, it is incredible that Wiley would now reiterate this charge.
- “Allied Capital is the story of Wall Street at its worst” and comparing Allied to “future Enrons.” There is simply no basis for these hyped-up and defamatory charges against Allied. Not only did Enron declare bankruptcy, but its Chairman and CEO, its COO, its CFO, its Chief Accounting Officer, subordinate accounting executives, and executives at various of its subsidiaries were all convicted of federal criminal charges. Further, its auditor and its lead engagement partner were both convicted of felonies (though the accounting firm’s conviction was subsequently reversed). By contrast, not only has neither Allied nor any member of its management been charged civilly or criminally with any violation of the law, but Allied has never been forced to restate any of its financial results. Indeed, as we have informed you repeatedly, sophisticated institutions have actually increased their business activities with Allied during the long period of Mr. Einhorn’s broadside attacks. There is no basis for comparing Allied to Enron or any other public company widely associated with criminal misconduct, and we wonder why Wiley would endorse such a claim.

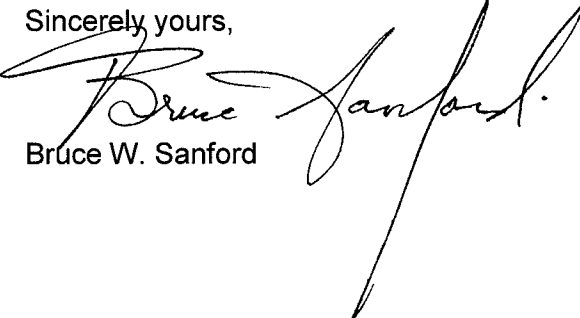
Perhaps the most astonishing thing about the dust jacket is Wiley’s conclusion that Mr. Einhorn’s story “is all true.” By vouching for the accuracy and truth of the entire book, Wiley has put its own imprimatur on the statements about Allied – including statements that we have clearly informed Wiley are false and libelous.

Mr. Einhorn has the right to write a book about historical events, including his six-year attempt to recover the losses he suffered when he shorted Allied stock, on the expectation that his criticism would drive it down, only to be confounded by the market’s appropriate and deliberate rejection of his ill-tempered view of Allied. What neither he, nor Wiley, has the right to do is to publish libelous statements that damage Allied’s reputation. The promotional copy published on the internet by Wiley contains just such defamatory falsehoods and inaccuracies. It must be changed immediately and removed from all websites.

Deirdre Silver, Esq.
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Frankly, it is incomprehensible that Wiley would create and publish promotional copy that not only goes beyond what Mr. Einhorn previously has said about Allied in his speeches and public statements, but that also vouches for the veracity of Mr. Einhorn's position. Wiley's irresponsible promotional copy compounds Mr. Einhorn's attacks on Allied by making unwarranted new accusations. This may be due to the mistakes of your copy writers, but they need to be, and we expect that they will be, corrected.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce W. Sanford". The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

Bruce W. Sanford

cc: Steve Kippur
Gary Rinck
David Pugh
Richard Zabel