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June 20, 2007

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Via Email and Overnight Mail

Deirdre Silver, Esq.
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111 River Street
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NOT FOR PUBLIC DISCLOSURE

Re: *Allied Capital Corporation*

Dear Ms. Silver:

We want to advise you that the United States Securities and Exchange Commission has concluded its informal investigation, begun in June of 2004, into Allied Capital Corporation with the announcement today that Allied and the Commission have entered into an administrative order (the "Order"). You can review the Order at <http://www.sec.gov>.

Significantly, the Order does not support Mr. Einhorn's accusations of a "systemic overstatement of asset values" or that Allied engaged in securities fraud. The SEC made no findings of systemic overstatement, no findings of fraud, did not assess any fines or penalties, and did not require any financial restatement. There are no findings that Allied inappropriately valued any securities in its private finance portfolio or that Allied's public disclosures were inaccurate. As explained in our previous letter of May 8, Allied has enhanced its valuation process, a fact the SEC specifically noted in its Order. The Order provides no validation for Mr. Einhorn's charges against Allied.

Rather, the Order is limited to Allied's record keeping and internal control procedures. The SEC alleged that, in certain instances during a 21-month period between June 30, 2001 and March 31, 2003, Allied Capital did not adequately document its valuation process in reasonable detail. Without admitting or denying the SEC's allegations, Allied agreed to the Order and committed to the continued valuation of investments in accordance with its current practice.

Deirdre Silver, Esq.
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We hope that this latest information assists your legal review of Mr. Einhorn's proposed book. A three year investigation into Allied involving the review of millions of pages of documents and interviews with a number of current and former Allied directors and employees has produced no support for Mr. Einhorn's charges against Allied.

Please feel free to contact me if you have any questions.

Sincerely,

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

Bruce W. Sanford

cc: Stephen Kippur
Gary M. Rinck
David Pugh
William L. Walton
Ralph G. Blasey III