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May 2, 2008

VIA E-MAIL AND REGULAR MAIL

Bruce W. Sanford, Esq.  
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Washington Square, Suite 1100  
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Washington, D.C. 20036-5304

**Re: Allied Capital Corporation**

Dear Mr. Sanford:

I received your letter of April 8, 2008. Of course, as you no doubt knew, your delays caused this letter to arrive when the book was already in final form. We have offered to have Mr. Einhorn meet with Allied management since our first correspondence in October 2007, more than half a year ago. Mr. Einhorn, as you and Allied well know, had offered to meet with Allied management for years before that, but Allied seemed more interested in attacking him and not even allowing him to ask questions of management by blocking him from participating in earnings calls and investor meetings. In short, Mr. Einhorn has always been willing to discuss with Allied any issues it wanted to raise with him regarding the merits of his criticisms. All Allied had to do was say, "Yes."

Your second paragraph suggests that Allied, and specifically its Audit Committee, has sought information from Mr. Einhorn, but that he has refused to respond and provide it. That is an astonishing claim when Mr. Einhorn has for years spoken openly and specifically about his criticisms of Allied, publicly disclosed his reports laying out in detail his criticisms, written numerous times and provided information to the Allied Audit Committee, and now written a book letting the entire world openly scrutinize his criticisms. Your reference to Allied's Audit Committee is one you may want to rethink. For example, when Mr. Einhorn gave the Audit Committee information that he believed he had been pretexted, the Audit Committee's response was skeptical and uninterested. In fact, based on the less than two weeks in which it looked into the claim, if it did anything at all, the Audit Committee "found no evidence" to support it. The Audit Committee, showing less than the independent, objective approach one expects of an Audit Committee, went on to say it was disposed to discredit Mr. Einhorn's claims because of his financial motivation to criticize the company – unless he produced more evidence of the pretexting. How he was supposed to produce evidence of misconduct carried out by Allied or its agents was somewhat of a mystery.

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Mr. Einhorn had already explained that he and other Allied critics had been pretexted. Nevertheless, only a few months later – and only after being subpoenaed in a criminal investigation led by the D.C. United States Attorney's Office – Allied had to admit that Mr. Einhorn was, again correct: the pretexting had occurred.

A year ago we requested that Allied inform us who had stolen Mr. Einhorn's personal information, pretexted him and impersonated his wife and who had stolen Greenlight's records. We asked that Allied return the stolen property, promptly. Astonishingly, this public company has not even had the decency to respond in any way. Allied has not informed him who committed these crimes so that Mr. Einhorn and Greenlight could take appropriate steps. This is just one example.

Last January, Mr. Einhorn wrote a ten-page letter to Allied's Board detailing significant misconduct. Other than issuing a cursory response that evening, Allied has never responded to Mr. Einhorn's letter. So your complaint that Mr. Einhorn has not provided the company sufficient information for it to know what issues he has identified is rather disingenuous.

Your next reference is to your letter of December 11, 2007 in which you asked that I give you a call to set up a meeting you wanted among the lawyers. You then complain that I never called you. As we have always said, we saw no purpose to a meeting among lawyers. Further, while you complain that I did not call you, you neglect to mention that I answered you in writing in January. If you needed to have a call, you were always free to call me which you didn't do. Please continue to feel free to call me.

Your next paragraph repeats the same statements you made in an earlier letter about needing a meeting among lawyers to set ground rules and discuss Reg FD before your client and Mr. Einhorn can meet. We have the same response as before, but this issue is now moot as the book has been published.

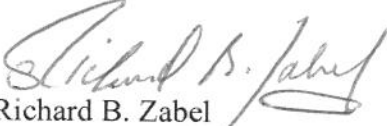
Your further comments about the publisher John Wiley & Sons are generally misplaced or incorrect, and, as is made clear in Ms. Silver's letter of May 1, 2008, Wiley does not agree with your characterizations of their website and promotional materials.

Enclosed, for your convenience, please find a copy of Mr. Einhorn's book. The book is intended to be a factual account of the conflict and Mr. Einhorn has made great efforts to ensure

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that the book is accurate. However, should you or your client identify any actual factual inaccuracies, please advise us and we will promptly and publicly correct any errors.

Sincerely,

  
Richard B. Zabel

Enclosure

cc: David Einhorn  
Deirdre Silver