

ALLIED CAPITAL CORP  
Form PRE 14A  
March 03, 2006

**SCHEDULE 14A**  
**(Rule 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Allied Capital Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:



**Allied Capital Corporation**  
**Notice of Annual Meeting of Stockholders**

To the Stockholders:

The 2006 Annual Meeting of Stockholders of Allied Capital Corporation (the Company ) will be held at the Madison Hotel, Fifteenth & M Streets, NW, Washington, DC on May 16, 2006, at 10:00 a.m. (Eastern Time) for the following purposes:

1. To elect four directors of the Company who will serve for three years, or until their successors are elected and qualified;
2. To ratify the selection of KPMG LLP to serve as the independent registered public accounting firm for the Company for the year ending December 31, 2006;
3. To approve the issuance of up to \_\_\_\_\_ shares of common stock in exchange for the cancellation of vested in-the-money options in connection with a stock ownership initiative; and
4. To transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

You have the right to receive notice of and to vote at the meeting if you were a stockholder of record at the close of business on February 17, 2006. Whether or not you expect to be present in person at the Meeting, please sign the enclosed proxy and return it promptly in the envelope provided, or register your vote by telephone or through the Internet. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of the proxies by the Company.

By order of the Board of Directors,

Suzanne V. Sparrow  
Executive Vice President and  
Corporate Secretary

Washington, DC  
March 31, 2006

This is an important meeting. To ensure proper representation at the Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, vote your shares by telephone, or vote via the Internet. Even if you vote your shares prior to the Meeting, you still may attend the Meeting and vote your shares in person.

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**Allied Capital Corporation**  
1919 Pennsylvania Avenue, NW  
Washington, DC 20006  
**PROXY STATEMENT**

**General**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Allied Capital Corporation (the Company or Allied Capital ) for use at the Company's 2006 Annual Meeting of Stockholders (the Meeting ) to be held on May 16, 2006, at 10:00 a.m. (Eastern Time) at the Madison Hotel, Fifteenth & M Streets, NW, Washington, DC and at any adjournments or postponements thereof. This Proxy Statement, the accompanying proxy card, and the Company's Annual Report to Stockholders for the year ended December 31, 2005, are first being sent to stockholders on or about March 31, 2006.

We encourage you to vote your shares, either by voting in person at the Meeting or by granting a proxy (*i.e.*, authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card or otherwise provide voting instructions, either via the Internet or the telephone, and the Company receives it in time for the Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. **If you give no instructions on the proxy card, the shares covered by the proxy card will be voted FOR the election of the nominees as directors and FOR the other matters listed in the accompanying Notice of Annual Meeting of Stockholders.**

If you are a stockholder of record (*i.e.*, you hold shares directly in your name), you may revoke a proxy at any time before it is exercised by notifying the proxy tabulator, Automatic Data Processing, Inc., in writing. Please send your notification to Allied Capital Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717, and submit a properly executed, later-dated proxy or vote in person at the Meeting. Any stockholder of record attending the Meeting may vote in person whether or not he or she has previously voted his or her shares. If your shares are held for your account by a broker, bank, or other institution or nominee ( Broker Shares ), you may vote such shares at the Meeting only if you obtain proper written authority from your institution or nominee and present it at the Meeting.

Stockholders of record may also vote either via the Internet or by telephone. Specific instructions to be followed by stockholders of record interested in voting via the Internet or the telephone are shown on the enclosed proxy card. The Internet and telephone voting procedures are designed to authenticate the stockholder's identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

**Annual Meeting Admission**

If you plan to attend the Meeting, an admission ticket will be required for admission to the Meeting. If you are a stockholder of record, your ticket is attached to your proxy card. If your shares are held in the name of a broker or other nominee and you do not have an admission ticket, please bring with you a legal proxy or letter from the broker, trustee, bank, or nominee confirming your beneficial ownership of the shares as of the record date, February 17, 2006.

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### **Purpose of Meeting**

At the Meeting, you will be asked to vote on the following proposals:

1. To elect four directors of the Company who will serve for three years, or until their successors are elected and qualified;
2. To ratify the selection of KPMG LLP to serve as the independent registered public accounting firm for the Company for the year ending December 31, 2006;
3. To approve the issuance of up to \_\_\_\_\_ shares of common stock in exchange for the cancellation of vested in-the-money options in connection with a stock ownership initiative; and
4. To transact such other business as may properly come before the Meeting and any adjournments or postponements thereof.

### **Voting Securities**

You may vote your shares at the Meeting only if you were a stockholder of record at the close of business on February 17, 2006 (the Record Date). On February 17, 2006, there were 139,731,159 shares of the Company's common stock outstanding. Each share of common stock is entitled to one vote.

The Company's 401(k) Plan owns a total of 202,626 shares, representing less than 1% of the Company's total outstanding shares. The sub-trustees of the fund holding Company shares within the 401(k) Plan, who are executive officers of the Company, will vote the shares on behalf of the participants pursuant to their instructions.

### **Quorum Required**

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum. Abstentions will be treated as shares present for quorum purposes. Broker Shares for which the nominee has not received voting instructions from the record holder and does not have discretionary authority to vote the shares on certain proposals (which are considered Broker Non-Votes with respect to such proposals) will be treated as shares present for quorum purposes.

If a quorum is not present at the Meeting, the stockholders who are represented may adjourn the Meeting until a quorum is present. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

### **Vote Required**

*Election of Nominee Directors.* The affirmative vote of a majority of the votes cast at the Meeting is required to elect the four nominees as directors. Abstentions will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

*Ratification of Independent Registered Public Accounting Firm.* The affirmative vote of a majority of the votes cast at the Meeting in person or by proxy is required to ratify the appointment of KPMG LLP to serve as the Company's independent registered public accounting firm. Abstentions will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

*Approval of the issuance of up to shares of common stock in exchange for the cancellation of vested in-the-money options in connection with a stock ownership initiative.* The affirmative vote of a majority of the votes cast at the Meeting in person or by proxy is required to approve this proposal, provided that the total votes cast on this proposal represents over 50% in interest of all shares entitled to vote on the proposal. Abstentions and broker non-votes will have the same effect as votes against the proposal, unless holders of more than 50% of all securities entitled to vote on the proposal cast votes, in which event abstentions and broker non-votes will not have any effect on the result of the votes.

*Additional Solicitation.* If there are not enough votes to approve any proposals at the Meeting, the stockholders who are represented may adjourn the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

Also, a stockholder vote may be taken on one or more of the proposals in this Proxy Statement prior to any such adjournment if there are sufficient votes for approval of such proposal(s).

#### **Information Regarding This Solicitation**

The Company will bear the expense of the solicitation of proxies for the Meeting, including the cost of preparing, printing, and mailing this Proxy Statement, the accompanying Notice of Annual Meeting of Stockholders, the proxy card, and admission tickets. The Company has requested that brokers, nominees, fiduciaries, and other persons holding shares in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to, and obtain proxies from, such beneficial owners. The Company will reimburse such persons for their reasonable expenses in so doing.

In addition to the solicitation of proxies by mail, proxies may be solicited in person and by telephone, facsimile transmission, or telegram by directors, officers, or regular employees of the Company (without special compensation therefor). The Company has also retained Georgeson Shareholder Communications, Inc. to assist in the solicitation of proxies for a fee of approximately \$7,000, plus out-of-pocket expenses. Any proxy given pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. Any such notice of revocation should be provided in writing and signed by the stockholder in the same manner as the proxy being revoked and delivered to the Company's proxy tabulator.

#### **Security Ownership of Management and Certain Beneficial Owners**

The following table sets forth, as of February 17, 2006, each stockholder who owned more than 5% of the Company's outstanding shares of common stock, each current director, each nominee for director, the Chief Executive Officer, the

Company's executive officers, and the directors and executive officers as a group. Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has sole voting and investment power.

The Company's directors are divided into two groups – interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act of 1940.

Name of Beneficial Owner	Number of Shares Owned Beneficially <sup>(1)</sup>	Percentage of Class <sup>(2)</sup>	Dollar Range of Equity Securities Beneficially Owned by Directors <sup>(3)</sup>
Capital Research and Management Company 333 South Hope Street, 55th Floor Los Angeles, CA 90071-1447	7,646,020 <sup>(4)</sup>	5.5%	
<b>Interested Directors:</b>			
William L. Walton	3,463,419 <sup>(5,6,7)</sup>	2.4%	over \$100,000
Joan M. Sweeney	1,881,149 <sup>(5)</sup>	1.3%	over \$100,000
Robert E. Long	51,111 <sup>(8)</sup>	*	over \$100,000
<b>Independent Directors:</b>			
Ann Torre Bates	23,500 <sup>(7,8)</sup>	*	over \$100,000
Brooks H. Browne	83,713 <sup>(7,8)</sup>	*	over \$100,000
John D. Firestone	72,426 <sup>(7,8)</sup>	*	over \$100,000
Anthony T. Garcia	98,512 <sup>(8)</sup>	*	over \$100,000
Lawrence I. Hebert	52,800 <sup>(8,14)</sup>	*	over \$100,000
John I. Leahy	57,318 <sup>(8)</sup>	*	over \$100,000
Alex J. Pollock	27,187 <sup>(7,8,9)</sup>	*	over \$100,000
Marc F. Racicot	10,000 <sup>(8)</sup>	*	over \$100,000
Guy T. Steuart II	364,144 <sup>(8,10)</sup>	*	over \$100,000
Laura W. van Roijen	73,208 <sup>(7,8)</sup>	*	over \$100,000
<b>Executive Officers:</b>			
Kelly A. Anderson	285,321 <sup>(5)</sup>	*	
Scott S. Binder	748,825 <sup>(5,7,11)</sup>	*	
Michael J. Grisius	636,497 <sup>(5,7)</sup>	*	
Jeri J. Harman	158,166 <sup>(5)</sup>	*	
Thomas C. Lauer	78,407 <sup>(5,7)</sup>	*	
Robert D. Long	857,032 <sup>(5,7,12)</sup>	*	
Justin S. Maccarone	138,186 <sup>(5)</sup>	*	
Diane E. Murphy	311,008 <sup>(5)</sup>	*	
Penni F. Roll	693,272 <sup>(5)</sup>	*	
Daniel L. Russell	309,085 <sup>(5)</sup>	*	
John M. Scheurer	1,295,240 <sup>(5)</sup>	*	
John D. Shulman	844,549 <sup>(5)</sup>	*	
Suzanne V. Sparrow	463,441 <sup>(5,6)</sup>	*	
All directors and executive officers as a group (26 in number)	12,778,546 <sup>(13)</sup>	8.5%	



\* Less than 1%

- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934.
- (2) Based on a total of 139,731,159 shares of the Company's common stock issued and outstanding on February 17, 2006, and the number of shares of the Company's common stock issuable upon the exercise of stock options exercisable within 60 days held by each executive officer and non-officer director, which totals 9,957,230 in the aggregate.
- (3) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934.

(4) Information regarding share ownership was obtained from the Schedule 13G/ A that Capital Research and Management Company filed with the SEC on February 10, 2006.

(5) Share ownership for the following directors and executive officers includes:

	<b>Ow ned Throu gh Defer red</b>	<b>Options Exercis able With in 60 Days of February 17, 2006</b>	<b>Allocated to 401(k) Plan</b>	
<b>Ow ned Directly</b>	<b>Compensation Plans <sup>(15)</sup></b>			
<b>Interested Directors:</b>				
William L. Walton	466,264	175,895	2,618,634	7,469
Joan M. Sweeney	298,966	87,850	1,478,220	16,113
<b>Executive Officers:</b>				
Kelly A. Anderson	110,050	8,356	160,942	5,973
Scott S. Binder	91,260	42,043	613,550	1,972
Michael J. Grisius	55,610	32,199	530,026	18,662
Jeri J. Harman	0	8,166	150,000	0
Thomas C. Lauer	4,421	2,268	71,079	639
Robert D. Long	21,000	35,194	797,354	3,484
Justin S. Maccarone	0	4,852	133,334	0
Diane E. Murphy	5,947	17,006	288,043	12
Penni F. Roll	83,096	27,848	571,460	10,868
Daniel L. Russell	1,060	17,179	290,846	0
John M. Scheurer	266,497	66,452	923,670	38,621
John D. Shulman	4,799	32,648	807,102	0
Suzanne V. Sparrow	80,956	8,389	171,470	26,405

(6) Includes 202,626 shares held by the 401(k) Plan, of which Mr. Walton and Ms. Sparrow are sub-trustees of the fund holding the Company's shares. The sub-trustees disclaim beneficial ownership of such shares.

(7) Includes certain shares held in IRA or Keogh accounts: Walton 12,015 shares; Bates 3,500 shares; Browne 12,280 shares; Firestone 3,415 shares; Pollock 1,000 shares; van Roijen 7,752 shares; Binder 273 shares; Grisius 1,149 shares; Lauer 500 shares; and R.D. Long 17,000 shares.

(8) Beneficial ownership for these non-officer directors includes exercisable options to purchase 40,000 shares, except with respect to Ms. Bates who has exercisable options to purchase 20,000 shares, Mr. Leahy who has exercisable options to purchase 37,500 shares, Mr. Pollock who has exercisable options to purchase 9,000 shares, and Mr. Racicot who has exercisable options to purchase 10,000 shares.

(9) Includes 3,987 shares held in the Deferred Compensation Plans for Mr. Pollock.

(10) Includes 276,691 shares held by a corporation for which Mr. Steuart serves as an executive officer.

(11) Includes 20,000 shares held in a charitable remainder trust.

(12) Includes 4,000 shares held by a trust for the benefit of Mr. Long's children.

- (13) Includes a total of 9,957,230 shares underlying stock options exercisable within 60 days of February 17, 2006, which are assumed to be outstanding for the purpose of calculating the group's percentage ownership, and 202,626 shares held by the 401(k) Plan.
- (14) Includes 9,000 shares held in a revocable trust.
- (15) See Individual Performance Award and The 2005 Deferred Compensation Award II for a discussion of shares owned through the Deferred Compensation Plan II and the 2005 Deferred Compensation Plan II.

**PROPOSAL 1.**  
**ELECTION OF DIRECTORS**

Pursuant to the Company's bylaws, the Board of Directors may modify the number of members of the Board provided that the number of directors will not be fewer than three or greater than fifteen, unless otherwise permitted by law. Directors are elected for a staggered term of three years each, with the term of office of only one of the three classes of directors expiring each year. Directors serve until their successors are elected and qualified.

The Class II directors, Ms. Bates and Messrs. Leahy, Pollock, and Steuart have been nominated for election for a three-year term expiring in 2009. No person being nominated as a director is being proposed for election pursuant to any agreement or understanding between any such person and the Company.

A stockholder can vote for or withhold his or her vote from any or all of the nominees. **In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy FOR the election of all the nominees named below. If any of the nominees should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person or persons as are nominated as replacements.** The Board of Directors has no reason to believe that any of the persons named will be unable or unwilling to serve.

**THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS THAT  
STOCKHOLDERS VOTE FOR THE ELECTION OF THE NOMINEES NAMED IN THIS PROXY  
STATEMENT.**

**Information about the Directors**

Certain information, as of February 17, 2006, with respect to each of the four nominees for election at the Meeting, as well as each of the current directors, is set forth below, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that each nominee holds, and the year in which each nominee became a director of the Company or any of its predecessor companies.

The Board of Directors of each consolidated subsidiary will be composed of all of the Company's directors. The business address of each nominee and director listed below is 1919 Pennsylvania Avenue, NW, Washington, DC 20006.

***Nominees for Class II Directors Term Expiring 2009***

*All four Class II directors are independent directors for purposes of the Investment Company Act of 1940.*

**Ann Torre Bates**

Age 47. Ms. Bates has been a strategic and financial consultant since 1997. From 1995 to 1997, Ms. Bates served as Executive Vice President, CFO and Treasurer of NHP, Inc., a national real estate services firm. From 1991 to 1995, Ms. Bates was Vice President and Treasurer of US Airways. She currently serves on the boards and audit committees of Franklin Mutual Series and SLM Corporation (Sallie Mae). She has served as a director of the Company since 2003.

**John I. Leahy**

Age 75. Mr. Leahy has been the President of Management and Marketing Associates, a management consulting firm, since 1986. Previously, Mr. Leahy spent 34 years of his career with Black & Decker Corporation, where he served as President and CEO of the United States subsidiary from 1979 to 1981 and President and Group Executive Officer of the Western Hemisphere of Black & Decker Corporation from 1982 to 1985. Mr. Leahy is currently a director of B&L Sales, Inc. and is Trustee Emeritus of the Sellinger School of Business, Loyola College, Maryland. He has served as a director of the Company or one of its predecessors since 1994.

**Alex J. Pollock**

Age 63. Mr. Pollock has been a Resident Fellow at the American Enterprise Institute since 2004. He was President and Chief Executive Officer of the Federal Home Loan Bank of Chicago from 1991 to 2004. He currently serves as a director of the Chicago Mercantile Exchange, Great Lakes Higher Education Corporation, the Great Books Foundation, the Illinois Council on Economic Education and the International Union for Housing Finance. He has served as a director of the Company since 2003.

**Guy T. Steuart II**

Age 74. Mr. Steuart has been a director of Steuart Investment Company, which manages, operates, and leases real and personal property and holds stock in operating subsidiaries engaged in various businesses, since 1960 where he served as President until 2003 and currently serves as Chairman. Mr. Steuart has served as Trustee Emeritus of Washington and Lee University since 1992. He has served as a director of the Company or one of its predecessors since 1984.

***Class III Directors Term Expiring 2007***

*Messrs. Walton and Long and Ms. Sweeney are interested persons, as defined in the Investment Company Act of 1940, in the cases of Mr. Walton and Ms. Sweeney, due to their positions as officers of the Company and in the case of Mr. Long, as the father of an executive officer of the Company. Mr. Browne is an independent director.*

**William L. Walton**

Age 56. Mr. Walton has been the Chairman, Chief Executive Officer, and President of the Company since 1997. Mr. Walton's previous work experience includes serving as a Managing Director of Butler Capital Corporation, a mezzanine buyout firm, the personal investment advisor to William S. Paley, founder of CBS, and a Senior Vice President in Lehman Brothers Kuhn Loeb's Merger and Acquisition Group. He also founded two education service companies—Language Odyssey and Success Lab. He has served as director of the Company or one of its predecessors since 1986.

**Joan M. Sweeney**

Age 46. Ms. Sweeney is the Chief Operating Officer of the Company and has been employed by the Company since 1993. Ms. Sweeney oversees the Company's daily operations. Prior to joining Allied Capital, Ms. Sweeney was employed by Ernst & Young, Coopers & Lybrand, and the Division of Enforcement of the Securities and Exchange Commission. She has served as a director of the Company since 2004.

**Brooks H. Browne**

Age 56. Mr. Browne has been a private investor since 2002. Mr. Browne was the President of Environmental Enterprises Assistance Fund from 1993 to 2002 and served as a director from 1991 to 2005. He currently serves as Vice Chairman of the Board for Winrock International, a non-profit organization. He has served as a director of the Company or one of its predecessors since 1990.

**Robert E. Long**

Age 74. Mr. Long has been the Chief Executive Officer and a director of GLB Group, Inc., an investment management firm, since 1997 and President of Ariba GLB Group, Inc., the parent company of GLB Group, Inc., since 2005. He has been the Chairman of Emerald City Radio Partners, LLC since 1997. Mr. Long was the President of Business News Network, Inc. from 1995 to 1998, the Chairman and Chief Executive Officer of Southern Starr Broadcasting Group, Inc. from 1991 to 1995, and a director and the President of Potomac Asset Management, Inc. from 1983 to 1991. Mr. Long is a director of AmBase Corporation, CSC Scientific, Inc., and Advanced Solutions International, Inc. He has served as a director of the Company or one of its predecessors since 1972. Mr. Long is the father of Robert D. Long, an executive officer of the Company.

***Class I Directors Term Expiring 2008***

*All five Class I directors are independent directors for purposes of the Investment Company Act of 1940.*

**John D. Firestone**

Age 62. Mr. Firestone has been a Partner of Secor Group, a venture capital firm since 1978. Mr. Firestone has also served as a director of Security Storage Company of Washington, DC, since 1978. He is currently a director of Cuisine Solutions, Inc., and four non-profit organizations, including the National Rehabilitation Hospital, The Washington Ballet and the Tudor Place Foundation of which he is the past president. From 1997 to 2001 he was a director of The Bryn Mawr Trust Corporation. He has served as a director of the Company or one of its predecessors since 1993.

**Anthony T. Garcia**

Age 49. Mr. Garcia has been a private investor since 2003. Mr. Garcia was Vice President of Finance of Formity Systems, Inc., a developer of software products for business management of data networks, from January 2002 through 2003. Mr. Garcia was a private investor from 2000 to 2001, the General Manager of Breen Capital Group, an investor in tax liens, from 1997 to 2000, and a Senior Vice President of Lehman Brothers Inc. from 1985 to 1996. He has served as a director of the Company or one of its predecessors since 1991.

**Lawrence I. Hebert**

Age 59. Mr. Hebert is Senior Advisor for PNC Bank, N.A., and was a director and President and Chief Executive Officer of Riggs Bank N.A., a subsidiary of Riggs National Corporation, from 2001 to 2005. Mr. Hebert also served as Chief Executive Officer of Riggs National Corporation during 2005 and served as a director of Riggs National Corporation from 1988 to 2005. Mr. Hebert served as a director of Riggs Investment Advisors and Riggs Bank Europe Limited (both indirect subsidiaries of Riggs National Corporation). Mr. Hebert previously served as Vice Chairman from 1983 to 1998, President from 1984 to 1998, and Chairman and Chief Executive Officer from 1998 to 2001 of Allbritton Communications Company. He has served as a director of the Company or one of its predecessors since 1989.

**Marc F. Racicot**

Age 57. Mr. Racicot has served as President and Chief Executive Officer of the American Insurance Association since August 2005. Prior to that, he was an attorney at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former Governor (1993 to 2001) and Attorney General (1989 to 1993) of the State of Montana. Mr. Racicot was appointed by President Bush to serve as the Chairman of the Republican National Committee from 2002 to 2003 and he served as Chairman of the Bush/ Cheney Re-election Committee from 2003 to 2004. He presently serves on the Board of Directors for Burlington Northern Santa Fe Corporation, Massachusetts Mutual Life Insurance Company, Jobs for America's Graduates, and the Board of Visitors for the University of Montana School of Law. He has served as a director of the Company since March 2005.

**Laura W. van Roijen**

Age 53. Ms. van Roijen has been a private investor since 1992. Ms. van Roijen was a Vice President at Citicorp from 1982 to 1992. She has served as a director of the Company or one of its predecessors since 1992.

**Committees of the Board of Directors**

The Board of Directors of the Company has established an Executive Committee, an Audit Committee, a Compensation Committee, and a Corporate Governance/ Nominating Committee. The Audit Committee, Compensation Committee, and Corporate Governance/ Nominating Committee each operate pursuant to a committee charter. The charter of each Committee is available on the Company's web site at [www.alliedcapital.com](http://www.alliedcapital.com) in the Investor Resources section and is also available in print to any stockholder who requests a copy.

During 2005, the Board of Directors of the Company held 17 Board meetings and 76 committee meetings. All directors attended at least 75% of the aggregate number of meetings of the Board and of the respective committees on which they served. Each director makes a diligent effort to attend all Board and committee meetings, as well as the Annual Meeting of Stockholders. Each of the directors was present at the Company's 2005 Annual Meeting of Stockholders.

The Company has designated the Chairman of the Corporate Governance/ Nominating Committee as the Presiding Director to preside at all executive sessions of non-management directors. In his absence, the Chairman of the Audit Committee has been designated to serve in such capacity. Executive sessions of non-management directors are held regularly. Stockholders may communicate with the Presiding Director by writing to Presiding Director of the Board of Directors, Allied Capital Corporation, c/o Corporate Secretary, 1919 Pennsylvania Avenue, NW, Washington, DC 20006.

*The Executive Committee.* The Executive Committee has and may exercise those rights, powers, and authority that the Board of Directors from time to time grants to it, except where action by the Board is required by statute, an order of the Securities and Exchange Commission (the Commission), or the Company's charter or bylaws. The Executive Committee has been delegated authority from the Board to review and approve certain investments. The Executive Committee met 42 times during 2005. The Executive Committee members currently are Messrs. Walton, Hebert, Leahy, Long, Pollock and Steuart.

*The Audit Committee.* The Audit Committee operates pursuant to a charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee. The primary function of the Audit Committee is to serve as an independent and objective party to assist the Board of Directors in fulfilling its responsibilities for overseeing and monitoring the quality and integrity of the Company's financial statements, the adequacy of the Company's system of internal controls, the review of the independence, qualifications and performance of the Company's independent registered public accounting firm, and the performance of the Company's internal audit function. The Audit Committee met 18 times during 2005. The Audit Committee is presently composed of four persons, including Messrs. Browne (Chairman) and Garcia and Mmes. Bates and van Roijen, all of whom are considered independent under the rules promulgated by the New York



Stock Exchange. The Company's Board of Directors has determined that \_\_\_\_\_ are audit committee financial experts as defined under Item 401 of Regulation S-K of the Securities Exchange Act of 1934.

\_\_\_\_\_ each meet the current independence and experience requirements of Rule 10A-3 of the Exchange Act and, in addition, are not interested persons of the Company as defined in Section 2(a)(19) of the Investment Company Act of 1940.

*The Compensation Committee.* The Compensation Committee approves management's recommendations for the compensation of the Company's executive officers and reviews the amount of salary and bonus for each of the Company's other officers and employees. In addition, the Compensation Committee approves stock option grants for the Company's officers under the Company's Amended Stock Option Plan, determines the Individual Performance Awards ( IPA ) and Individual Performance Bonuses ( IPB ) for participants and determines other compensation arrangements for employees. The Compensation Committee met 11 times during 2005. The Compensation Committee members currently are Messrs. Leahy (Chairman), Browne, Firestone, Garcia, and Racicot, each of whom is not an interested person as defined in Section 2(a)(19) of the Investment Company Act of 1940.

*The Corporate Governance/ Nominating Committee.* The Corporate Governance/ Nominating Committee recommends candidates for election as directors to the Board of Directors and makes recommendations to the Board as to the Company's corporate governance policies. The Corporate Governance/ Nominating Committee met five times during 2005. The Corporate Governance/ Nominating Committee members currently are Messrs. Hebert (Chairman), Firestone, Pollock and Racicot, each of whom is not an interested person as defined in Section 2(a)(19) of the Investment Company Act of 1940.

The Corporate Governance/ Nominating Committee will consider qualified director nominees recommended by stockholders when such recommendations are submitted in accordance with the Company's bylaws, Corporate Governance Policy, and any other applicable law, rule or regulation regarding director nominations. When submitting a nomination to the Company for consideration, a stockholder must provide certain information that would be required under applicable Commission rules, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of Company common stock owned, if any; and, a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

In evaluating director nominees, the Corporate Governance/ Nominating Committee considers the following factors:

the appropriate size and composition of the Company's Board of Directors;

whether or not the person is an interested person of the Company as defined in Section 2(a)(19) of the Investment Company Act of 1940;

the needs of the Company with respect to the particular talents and experience of its directors;

the knowledge, skills, and experience of nominees in light of prevailing business conditions and the knowledge, skills, and experience already possessed by other members of the Board;

familiarity with national and international business matters;

experience with accounting rules and practices;

appreciation of the relationship of the Company's business to the changing needs of society;

the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and

all applicable laws, rules, regulations, and listing standards.

The Corporate Governance/ Nominating Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Corporate Governance/ Nominating Committee may also consider such other factors as it may deem to be in the best interests of the Company and its stockholders. The Corporate Governance/ Nominating Committee also believes it appropriate for certain key members of the Company's management to participate as members of the Board.

The Corporate Governance/ Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Corporate Governance/ Nominating Committee or the Board decides not to re-nominate a member for re-election, or if the Corporate Governance/ Nominating Committee recommends to expand the size of the Board of Directors, the Corporate Governance/ Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Corporate Governance/ Nominating Committee and the Board of Directors provide suggestions as to individuals meeting the criteria of the Corporate Governance/ Nominating Committee. Consultants may also be engaged to assist in identifying qualified individuals.

#### **Communication with the Board of Directors**

Stockholders with questions about the Company are encouraged to contact Allied Capital's Investor Relations department. However, if stockholders feel their questions have not been addressed, they may communicate with the Company's Board of Directors by sending their communications to Allied Capital Corporation Board of Directors, c/o Corporate Secretary, 1919 Pennsylvania Avenue, NW, Washington, DC 20006. All stockholder communications received by the Company's Corporate Secretary in this manner will be delivered to one or more members of the Board of Directors.

### **Code of Business Conduct**

Each executive officer as well as every employee of the Company is subject to the Company's Code of Business Conduct, which is available on the Company's website at [www.alliedcapital.com](http://www.alliedcapital.com) in the Investor Resources section and is also available in print to any stockholder who requests a copy.

### **Corporate Governance Policy**

The Company's Corporate Governance Policy is available on the Company's website at [www.alliedcapital.com](http://www.alliedcapital.com) in the Investor Resources section and is available in print to any stockholder who requests a copy.

### **Information about Executive Officers**

The following information, as of February 17, 2006, pertains to the Company's executive officers who are not directors of the Company.

#### **Kelly A. Anderson**

Age 52. Ms. Anderson, Executive Vice President and Treasurer, has been employed by the Company since 1987. Ms. Anderson is responsible for the Company's treasury, cash management and infrastructure operations.

#### **Scott S. Binder**

Age 51. Mr. Binder, Chief Valuation Officer, has been employed by the Company since 1997. He has served as Chief Valuation Officer since 2003. He served as a consultant to the Company from 1991 until 1997. Prior to joining the Company, Mr. Binder formed and was President of Overland Communications Group. He also served as a board member and financial consultant for a public affairs and lobbying firm in Washington, DC. Mr. Binder founded Lonestar Cablevision in 1986, serving as President until 1991. In the early 1980's, Mr. Binder worked for two firms specializing in leveraged lease transactions. From 1976 to 1981, he was employed by Coopers & Lybrand.

#### **Michael J. Grisius**

Age 42. Mr. Grisius, Managing Director, has been employed by the Company since 1992. Prior to joining the Company, Mr. Grisius worked in leveraged finance at Chemical Bank from 1989 to 1992 and held senior accountant and consultant positions with KPMG LLP from 1985 to 1988.

#### **Jeri J. Harman**

Age 48. Ms. Harman, Managing Director, has been employed by the Company since 2004. Prior to joining the Company, Ms. Harman served as a Managing Director and Principal for American Capital Strategies, Ltd., a business development company, from 2000 until 2004. She worked as a Managing Director and Head of Private Placements for First Security Van Kasper from 1996 to 2000 and a Managing Director of Coopers & Lybrand from 1993 to 1996. From 1982 to 1993, Ms. Harman held various senior level positions in the private placement arm of The Prudential Insurance Company of America. She has served on the Board of Directors for the Association of Corporate Growth since 2000.

**Thomas C. Lauer**

Age 38. Mr. Lauer, Managing Director, has been employed by the Company since 2004. Prior to joining the Company, Mr. Lauer worked in GE Capital's sponsor finance group from 2003 to 2004 and in the merchant banking and leveraged finance groups of Wachovia Securities (previously First Union Securities) from 1997 to 2003. He also held senior analyst positions at Intel Corporation and served as a corporate lender and credit analyst at National City Corporation.

**Robert D. Long**

Age 49. Mr. Long, Managing Director, has been employed by the Company since 2002 and currently manages business development activities. Prior to joining the Company, Mr. Long was Managing Director and Head of Investment Banking at C.E. Unterberg from 2001 to 2002, and Managing Director at E\*OFFERING/ Wit SoundView from 2000 to 2001. He also held management positions at Bank of America (Montgomery Securities) from 1996 to 2000, and Nomura Securities International from 1992 to 1996, and prior to that he served as a Managing Director at CS First Boston.

**Justin S. Maccarone**

Age 46. Mr. Maccarone, Managing Director, has been employed by the Company since April 2005. Prior to joining the Company, Mr. Maccarone served as a partner with UBS Capital Americas, LLC, a private equity fund focused on middle market investments from 1993 to 2005. Prior to that, Mr. Maccarone served as a Senior Vice President at GE Capital specializing in merchant banking and leveraged finance from 1989 to 1993 and served as Vice President of the Leveraged Finance Group at HSBC/ Marine Midland Bank from 1981 to 1989.

**Diane E. Murphy**

Age 52. Ms. Murphy, Executive Vice President and Director of Human Resources, has been employed by the Company since 2000. Prior to joining the Company, Ms. Murphy was employed by Allfirst Financial from 1982 to 1999 and served in several capacities including head of the retail banking group in the Greater Washington Metro Region from 1994 to 1996 and served as the senior human resources executive from 1996 to 1999.

**Penni F. Roll**

Age 40. Ms. Roll, Chief Financial Officer, has been employed by the Company since 1995. Ms. Roll is responsible for the Company's financial operations. Prior to joining the Company, Ms. Roll was employed by KPMG LLP.

**Daniel L. Russell**

Age 41. Mr. Russell, Managing Director, has been employed by the Company since 1998, and works in the private finance investment group. Prior to joining the Company, Mr. Russell was employed by KPMG LLP.

**John M. Scheurer**

Age 53. Mr. Scheurer Managing Director, has been employed by the Company since 1991. Earlier in his career, Mr. Scheurer managed his own commercial real estate company, served as executive vice president of Hunter Companies, a full service

commercial real estate leasing, investment and management company, and spent seven years with First American Bank in Washington DC. Mr. Scheurer is currently a member of the Board of Governors of the Commercial Mortgage Securities Association. He has also served as Chairman and as a Vice Chair of the Capital Markets Committee for the Commercial Real Estate Finance Committee of the Mortgage Bankers Association.

**John D. Shulman**

Age 43. Mr. Shulman, Managing Director, has been employed by the Company since 2001. Prior to joining the Company, Mr. Shulman served as the President and CEO of Onyx International, LLC from 1995 to 2001. He currently serves as a director of ChemLink Laboratories LLC and as a member of the investment committees of Taiwan Mezzanine Fund and Greater China Private Equity Fund.

**Suzanne V. Sparrow**

Age 40. Ms. Sparrow, Executive Vice President, Chief Compliance Officer and Corporate Secretary, has been employed by the Company since 1987. Ms. Sparrow manages the Company's compliance and corporate governance activities.

**Compensation of Directors and Certain Executive Officers**

The following table sets forth compensation that the Company paid during the year ended December 31, 2005, to all of the directors and the three highest paid executive officers of the Company (collectively, the Compensated Persons ) in each capacity in which each Compensated Person served. Certain of the Compensated Persons served as both officers and directors.

The Company's directors are divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act of 1940.

**Compensation Table**

	<b>Aggregate</b>	<b>Securities</b>	<b>Pension or Retirement Benefits</b>
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