FORM N-2

Initial filing of a registration statement on Form N-2 for closed-end investment companies

Filing Date: **1999-03-26**
SEC Accession No. 0000950133-99-000920

FILER

ALLIED CAPITAL CORP

CIK:**3906**| IRS No.: **521081052** | State of Incorp.:**MD** | Fiscal Year End: **1231**
Type: **N-2** | Act: **33** | File No.: **333-75161** | Film No.: **99575099**

Mailing Address
1666 K STREET NW
1666 K STREET NW
WASHINGTON DC 20006

Business Address
1666 K ST NW STE 901
WASHINGTON DC 20006
2023311112

As filed with the Securities and Exchange Commission on March 26, 1999

REGISTRATION NO.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ALLIED CAPITAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

1919 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006-3434
(202) 331-1112
(Address and Telephone Number, including Area Code, of Principal Executive Offices)

WILLIAM L. WALTON, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
ALLIED CAPITAL CORPORATION
1919 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006-3434
(Name and Address of Agent for Service)

Copies of information to:

<TABLE>
<S> <C>
STEVEN B. BOEHM
SUTHERLAND ASBILL & BRENNAN LLP
1275 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-2415
</TABLE>

Approximate Date of Proposed Public Offering:
From time to time after the effective date of the Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. [X]

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

<TABLE>
<CAPTION>

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
<S>	<C>	<C>	<C>	<C>
Common Stock, $0.0001 par value per share.....	5,785,785(2)	$17.969	$103,964,770.70	$28,902.21(3)

</TABLE>

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) on the basis of the average of the high and low sales prices of the common stock on March 19, 1999 as reported on the Nasdaq National Market.
(2) In reliance upon Rule 429, this amount is in addition to the shares previously registered by the Registrant under Form N-2 Registration No. 333-51899. All shares unsold under such prior registration statement (a total of 214,215 as of March 26, 1999) are carried forward into this registration statement.
(3) This amount does not include $1,631, which was previously paid in connection with Registration No. 333-51899 and is credited as provided in Rule 429.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION

STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

ALLIED CAPITAL CORPORATION

CROSS-REFERENCE SHEET
SHOWING LOCATION IN PROSPECTUS AND STATEMENT OF ADDITIONAL INFORMATION OF INFORMATION REQUIRED BY PARTS A AND B OF FORM N-2 REGISTRATION STATEMENT

<TABLE>
<CAPTION>

ITEM NUMBER	REGISTRATION STATEMENT ITEM AND HEADING	CAPTION OR LOCATION IN PROSPECTUS OR STATEMENT OF ADDITIONAL INFORMATION
<C>	<S>	<C>
	PART A: INFORMATION REQUIRED IN A PROSPECTUS	
1.	Outside Front Cover	Outside front cover page
2.	Cover Pages; Other Offering Information	Inside front cover page
3.	Fee Table and Synopsis	Prospectus Summary; Fees and Expenses; Where You Can Find Additional Information
4.	Financial Highlights	Selected Consolidated Financial Data
5.	Plan of Distribution	Plan of Distribution
6.	Selling Shareholders	Not Applicable
7.	Use of Proceeds	Use of Proceeds
8.	General Description of the Registrant	Outside front cover; Prospectus Summary; Risk Factors; The Company; Business; Price Range of Common Stock and Dividends; Senior Securities; Portfolio Companies; Financial Statements
9.	Management	Management; Safekeeping, Transfer and Dividend Paying Agent and Registrar
10.	Capital Stock, Long-Term Debt, and Other Securities	Price Range of Common Stock and Dividends; Dividend Reinvestment Plan; Taxation; Certain Government Regulations; Description of Capital Stock
11.	Defaults and Arrears on Senior Securities	Not Applicable
12.	Legal Proceedings	Business -- Legal Proceedings
13.	Table of Contents of the Statement of Additional Information	Table of Contents of the Statement of Additional Information
	PART B: INFORMATION REQUIRED IN A STATEMENT OF ADDITIONAL INFORMATION	
14.	Cover Page	Outside front cover page of Statement of Additional Information
15.	Table of Contents	Outside front cover page of Statement of Additional Information
16.	General Information and History	General Information and History
17.	Investment Objective and Policies	Investment Objectives and Policies
18.	Management	Management
19.	Control Persons and Principal Shareholders	Control Persons and Principal Holders of Securities
20.	Investment Advisory and Other Services	Investment Advisory Services; Safekeeping, Transfer and Dividend Paying Agent and Registrar; Accounting Services
21.	Brokerage Allocation and Other Practices	Brokerage Allocation and Other Practices
22.	Tax Status	Tax Status
23.	Financial Statements	Financial Statements in Prospectus
	PART C: OTHER INFORMATION	

</TABLE>

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C to this registration statement.

Allied Capital Logo

PROSPECTUS (SUBJECT TO COMPLETION)
ISSUED , 1999

6,000,000 SHARES

ALLIED CAPITAL CORPORATION

COMMON STOCK

Please read this prospectus, and the accompanying prospectus supplement, if any, before investing, and keep it for future reference. It contains important information about the Company.

To learn more about the Company, you may want to look at the Statement of Additional Information dated March , 1999 (known as the "SAI"). For a free copy of the SAI, contact us at:

Allied Capital Corporation
1919 Pennsylvania Avenue, N.W.
Washington, DC 20006
1-888-818-5298

The Company has filed the SAI with the U.S. Securities and Exchange Commission and has incorporated it by reference into this prospectus. The SAI's table of contents appears on page 61 of this prospectus.

The Commission maintains an Internet website (http://www.sec.gov) that contains the SAI, material incorporated by reference and other information about the Company.

We may offer, from time to time, up to 6,000,000 shares of common stock, par value $0.0001 per share, on terms to be determined at the time of offering. The shares may be offered at prices and on terms to be described in one or more supplements to this prospectus, provided, however, that the offering price per share, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock.

We are an internally managed closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended.

Our investment objective is to achieve current income and capital gains. We seek to achieve our investment objective by investing primarily in private small to medium-sized growing businesses in a variety of industries and in diverse geographic locations, primarily in the United States. No assurances can be given that we will continue to achieve our objective.

Our common stock is traded on the Nasdaq National Market under the symbol "ALLC." As of March , 1999, the last reported sales price for the common stock was $.

YOU SHOULD REVIEW THE INFORMATION INCLUDING THE RISK OF LEVERAGE, SET FORTH UNDER "RISK FACTORS" ON PAGE 7 OF THIS PROSPECTUS BEFORE INVESTING IN COMMON STOCK OF THE COMPANY.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATIONS TO THE CONTRARY IS A CRIMINAL OFFENSE.

March , 1999

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

WE HAVE NOT AUTHORIZED ANY DEALER, SALESMAN OR OTHER PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR ANY ACCOMPANYING SUPPLEMENT TO THIS PROSPECTUS. YOU MUST NOT RELY UPON ANY INFORMATION OR REPRESENTATION NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR THE ACCOMPANYING PROSPECTUS SUPPLEMENT AS IF WE HAD AUTHORIZED IT. THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT DO NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE REGISTERED SECURITIES TO WHICH THEY RELATE, NOR DO THEY CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO

BUY ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION IN SUCH JURISDICTION. THE INFORMATION CONTAINED IN THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT IS ACCURATE AS OF THE DATES ON THEIR COVERS. WHEN WE DELIVER THIS PROSPECTUS OR ANY PROSPECTUS SUPPLEMENT, OR MAKE A SALE PURSUANT TO THIS PROSPECTUS, WE ARE NOT IMPLYING THAT THE INFORMATION IS CURRENT AS OF THE DATE OF THE DELIVERY OR THE SALE.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

</TABLE>

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, AND THE ACCOMPANYING PROSPECTUS SUPPLEMENT, IF ANY, MAY CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "EXPECT," "INTEND," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS OR SIMILAR WORDS OR PHRASES. THE MATTERS DESCRIBED IN "RISK FACTORS" AND CERTAIN OTHER FACTORS NOTED THROUGHOUT THIS PROSPECTUS, AND THE ACCOMPANYING PROSPECTUS SUPPLEMENT, IF ANY, AND IN ANY EXHIBITS TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS, AND THE ACCOMPANYING PROSPECTUS SUPPLEMENT, IF ANY, IS A PART, CONSTITUTE CAUTIONARY STATEMENTS IDENTIFYING IMPORTANT FACTORS WITH RESPECT TO ANY SUCH FORWARD-LOOKING STATEMENTS, INCLUDING CERTAIN RISKS AND UNCERTAINTIES, THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENTS.

5

PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It likely does not contain all the information that is important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.

Our current business and investment portfolio resulted from the merger of five affiliated companies on December 31, 1997. The companies that merged were Allied Capital Corporation (old), Allied Capital Corporation II, Allied Capital Advisers, Inc., Allied Capital Commercial Corporation and Allied Capital Lending Corporation. The five companies are referred to as the predecessor companies.

All information in this prospectus, unless otherwise indicated, has been presented as if the predecessor companies had merged as of the beginning of the earliest period presented. In this prospectus or any accompanying prospectus supplement, unless otherwise indicated, the "Company", "ACC", "we", "us" or "our" refer to the post-merger Allied Capital Corporation and its subsidiaries.

THE COMPANY (Page 11)

We are a lender to and investor in private small and medium-sized businesses. We have been lending to private growing businesses for 40 years and have financed thousands of borrowers nationwide in a variety of industries. Our lending operations are conducted in three primary areas:

- mezzanine finance,

- commercial real estate finance, and

- Small Business Administration 7(a) lending.

Our principal loan products include:

- subordinated loans with equity features,
- commercial mortgage loans, and

- SBA 7(a) guaranteed loans.

We are a value-added full-service lender, and we source loans and investments through our numerous relationships with:

- regional and boutique investment banks,

- mezzanine and private equity investors, and

- other intermediaries, including professional services firms.

In order to increase our sourcing and origination activities, we have offices in Chicago, San Francisco, Detroit, Atlanta, and Philadelphia. We centralize our credit approval function and service our loans through an experienced staff of professionals at our headquarters in Washington, DC. Our common stock is quoted on the Nasdaq National Market under the symbol "ALLC."

We have an advantageous structure that allows for the "pass-through" of income to our shareholders without the imposition of a corporate level of taxation. See "Taxation."

We are an internally managed closed-end management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended ("1940 Act"). Our investment objective is to achieve current income and capital gains. We seek to achieve our investment objective by investing in growing businesses in a variety of industries and in diverse geographic locations, primarily in the United States.

THE OFFERING (Page 59)

We may offer, from time to time, up to 6,000,000 shares of common stock, par value $0.0001 per share, on terms to be determined at the time of offering. Shares may be offered at prices and on terms

described in one or more supplements to this prospectus, provided, however, that the offering price per share, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock.

We may offer shares directly to one or more purchasers, through agents we designate, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of shares, their names, and any applicable purchase price, fee, commission or discount, will be described in an accompanying prospectus supplement. We will not sell shares without delivering a prospectus supplement describing the method and terms of the offering of such shares.

USE OF PROCEEDS (Page 11)

Unless otherwise specified in the prospectus supplement accompanying this prospectus, we intend to use the net proceeds from selling shares for general corporate purposes, which may include investment in small to medium-sized, private growth companies in accordance with our investment objective, purchase of commercial mortgage-backed securities, repayment of indebtedness, acquisitions and other general corporate purposes.

DIVIDENDS (Page 12)

We pay quarterly dividends to shareholders. The amount of our quarterly dividends is determined by the board of directors and is based upon our estimate of annual taxable income.

DIVIDEND REINVESTMENT PLAN (Page 55)

We have adopted an "opt out" dividend reinvestment plan ("DRIP plan"). Under the DRIP plan, if your shares are registered in your name, your dividends will be automatically reinvested in additional shares of common stock unless you "opt out" of the DRIP plan.

PRINCIPAL RISK FACTORS (Page 7)

Investment in shares of common stock involves certain risks relating to our structure and our investment objective that you should consider before purchasing shares.

As a BDC, our consolidated portfolio includes securities primarily issued by privately held companies. These investments may involve a high degree of business and financial risk, and they are generally illiquid. A large number of entities and individuals compete for the same kind of investment opportunities as we do. We borrow funds to make investments in and loans to small and medium-sized businesses. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. In addition, the loss of pass-through tax treatment could have a material adverse effect on our total return, if any.

CERTAIN ANTI-TAKEOVER PROVISIONS (Page 57)

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for the Company. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of common stock the opportunity to realize a premium over the market price for the common stock.

FEES AND EXPENSES

This table describes the various costs and expenses that an investor in the Company will bear directly or indirectly.

<TABLE>
<S> <C>

SHAREHOLDER TRANSACTION EXPENSES	
Sales load (as a percentage of offering price)(1).....	--%
Dividend reinvestment plan fees(2).....	None
ANNUAL EXPENSES (AS A PERCENTAGE OF CONSOLIDATED NET ASSETS ATTRIBUTABLE TO COMMON SHARES)(3)	
Operating expenses(4).....	4.9%
Interest payments on borrowed funds(5).....	4.2%
Total annual expenses(6).....	9.1%

</TABLE>

---

(1) In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The expenses of the Company's DRIP plan are included in "Operating expenses." The Company has no cash purchase plan. The participants in the DRIP plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See "Dividend Reinvestment Plan."

(3) "Consolidated net assets attributable to common shares" equals net assets (i.e., total assets less total liabilities and preferred stock) at December 31, 1998.

(4) "Operating expenses" represent all operating expenses of the Company for the year ended December 31, 1998 excluding interest on indebtedness. Operating expenses exclude the formula and cut-off awards. See "Management -- Compensation Plans."

(5) The "Interest payments on borrowed funds" percentage is based on interest payments for the year ended December 31, 1998 divided by consolidated net assets attributable to common shares. The Company had outstanding borrowings of $334.4 million at December 31, 1998. See "Risk Factors."

(6) "Total annual expenses" as a percentage of consolidated net assets attributable to common shares are higher than the total annual expenses percentage would be for a company that is not leveraged. The Company borrows money to leverage its net assets and increase its total assets. The

Securities and Exchange Commission requires that "Total annual expenses" percentage be calculated as a percentage of net assets, rather than the total assets, including assets that have been funded with borrowed monies. If the "Total annual expenses" percentage were calculated instead as a percentage of consolidated total assets, "Total annual expenses" for the Company would be 5.2% of consolidated total assets.

EXAMPLE

The following example, required by the Commission, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in the Company. In calculating the following expense amounts, we assumed we would have no additional leverage and that our operating expenses would remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

<TABLE>
<CAPTION>

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return.....	$91	$273	$454	$904

</TABLE>

Although the example assumes (as required by the Commission) a 5.0% annual return, our performance will vary and may result in a return of greater or less than 5.0%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in the DRIP plan may receive shares that we issue at or above net asset value or are purchased by the administrator of the DRIP plan, at the market price in effect at the time, which may be higher than, at, or below net asset value. See "Dividend Reinvestment Plan."

THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES, AND THE ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the consolidated financial information below with the Consolidated Financial Statements and Notes included in this prospectus. Financial information for the years ended December 31, 1998, 1997, 1996 and 1995 has been derived from audited financial statements. Financial information for the year ended December 31, 1994 has been derived from the audited financial statements of the individual predecessor companies. The selected financial data reflects the operations of the Company with all periods restated as if the predecessor companies had merged as of the beginning of the earliest period presented. SEE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" ON PAGE 13 FOR MORE INFORMATION.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
OPERATING DATA:	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Interest and related portfolio income:					
Interest.....	$79,921	$86,882	$77,541	$61,550	$47,065
Net premiums from loan dispositions.....	5,949	7,277	4,241	2,796	2,380
Net gain on securitization of commercial mortgage loans.....	14,812	--	--	--	--
Investment advisory fees and other income.....	6,056	3,246	3,155	4,471	2,710
Total interest and related portfolio income.....	106,738	97,405	84,937	68,817	52,155
Expenses:					
Interest on indebtedness.....	20,694	26,952	20,298	12,355	7,486
Salaries and employee benefits.....	11,829	10,258	8,774	8,031	6,929
General and administrative.....	11,921	8,970	8,289	6,888	7,170
Merger.....	--	5,159	--	--	--
Total operating expenses.....	44,444	51,339	37,361	27,274	21,585
Formula and cut-off awards(1).....	7,049	--	--	--	--
Portfolio income before net realized and					

unrealized gains	55,245	46,066	47,576	41,543	30,570
Net realized and unrealized gains:					
Net realized gains	22,541	10,704	19,155	12,000	6,236
Net unrealized gains (losses)	1,079	7,209	(7,412)	9,266	(2,244)
Total net realized and unrealized gains	23,620	17,913	11,743	21,266	3,992
Income before minority interests and income taxes	78,865	63,979	59,319	62,809	34,562
Minority interests	--	1,231	2,427	546	--
Income tax expense	787	1,444	1,945	1,784	672
Net increase in net assets resulting from operations	$78,078	$61,304	$54,947	$60,479	$33,890
PER SHARE:					
Basic earnings per common share	$ 1.50	$ 1.24	$ 1.19	$ 1.38	$ 0.80
Diluted earnings per common share	$ 1.50	$ 1.24	$ 1.17	$ 1.37	$ 0.79
Total tax distributions per common share(2)	$ 1.43	$ 1.71	$ 1.23	$ 1.09	$ 0.94
Weighted average basic common shares outstanding(3)	51,941	49,218	46,172	43,697	42,463
Weighted average diluted common shares outstanding(3)	51,974	49,251	46,733	44,010	42,737

(footnotes appear on next page)

9

	AT DECEMBER 31,				
BALANCE SHEET DATA:	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Portfolio at value	$800,274	$697,021	$607,368	$528,483	$443,316
Portfolio at cost	796,389	690,720	613,276	526,979	451,078
Total assets	856,079	807,775	713,360	605,434	501,817
Total debt outstanding(4)	334,350	347,663	274,997	200,339	130,236
Preferred stock issued to SBA(4)	7,000	7,000	7,000	7,000	7,000
Shareholders' equity	485,117	420,060	402,134	367,192	344,043
Shareholders' equity per common share	$ 8.68	$ 8.07	$ 8.34	$ 8.26	$ 8.02
Common shares outstanding at period end(3)	55,919	52,047	48,238	44,479	42,890

	YEAR ENDED DECEMBER 31,				
OTHER DATA:	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Loan originations	$ 524,530	$364,942	$283,295	$216,175	$215,843
Loan repayments	138,081	233,005	179,292	111,731	54,097
Loan sales(5)	81,013	53,912	27,715	29,726	30,160
Total assets managed at period end	1,143,548	935,720	822,450	702,567	583,817
Realized gains	25,757	15,804	30,417	16,679	9,144
Realized losses	(3,216)	(5,100)	(11,262)	(4,679)	(2,908)

---

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Comparison of Fiscal Years Ended December 31, 1998, 1997 and 1996."

(2) Distributions are based on taxable income, which differs from income for financial reporting purposes. In 1997, Allied Capital Corporation (old) distributed $0.34 per common share representing the 844,914 shares of Allied Capital Lending Corporation distributed in conjunction with the merger. The distribution resulted in a partial return of capital. Also in conjunction with the merger, the Company distributed $0.17 per common share representing the undistributed earnings of the predecessor companies at December 31, 1997.

(3) Excludes 810,456 shares held in the deferred compensation trust at or for

the period ended December 31, 1998.

(4) See "Senior Securities" on page 26 for more information regarding the Company's level of indebtedness.

(5) Excludes loans sold through securitization in January 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Comparison of Fiscal Years Ended December 31, 1998, 1997 and 1996."

10

<TABLE>
<CAPTION>

	1998				1997			
	QTR 4	QTR 3	QTR 2	QTR 1	QTR 4	QTR 3	QTR 2	QTR 1
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
QUARTERLY DATA:								
Total interest and related portfolio income	$25,974	$22,546	$21,321	$36,897	$25,984	$25,111	$24,911	$21,399
Portfolio income before realized and unrealized gains	11,776	9,401	9,148	24,920	7,910	12,093	14,095	11,968
Net increase in net assets resulting from operations	16,631	14,906	14,476	32,065	13,216	17,146	18,296	12,646
Basic earnings per common share	0.31	0.29	0.28	0.62	0.25	0.35	.37	0.27
Diluted earnings per common share	0.31	0.29	0.28	0.61	0.25	0.35	0.37	0.27
Net asset value per common share(1)	8.68	8.13	8.14	8.23	8.07	8.42	8.50	8.39
Dividends declared per common share	0.38	0.35	0.35	0.35	0.80(2)	0.31	0.30	0.30

</TABLE>

---

(1) We determine net asset value per common share as of the last day of the quarter. The net asset values shown are based on outstanding shares at the end of each period, excluding common stock held in the Company's deferred compensation trust.

(2) During the fourth quarter of 1997, the Company declared a quarterly dividend of $0.61 per common share which included $0.34 per common share representing the distribution of shares of Allied Capital Lending Corporation previously held in Allied Capital Corporation's (old) portfolio. The Company also declared an annual extra distribution of $0.02 per common share, and a special distribution of previously undistributed earnings of $0.17 per common share in conjunction with the merger.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission (the "Commission") a registration statement and related exhibits under the Securities Act of 1933, as amended (the "Securities Act"). The registration statement contains additional information about us and the registered securities being offered by this prospectus. You may inspect the registration statement and the exhibits without charge at the Securities and Exchange Commission at 450 Fifth Street, NW, Washington, DC 20549. You may obtain copies from the Commission at prescribed rates.

We file annual, quarterly and special reports, proxy statements and other information with the Commission. You can inspect, without charge, at the public reference facilities of the Commission at 450 Fifth Street, NW, Washington, DC 20549; Seven World Trade Center, New York, New York 10048; and 500 West Madison Street, Chicago, Illinois 60661. The Commission also maintains a web site at http://www.sec.gov that contains reports, proxy statements and other information regarding public companies, including our Company. You can also obtain copies of these materials from the public reference section of the Commission at 450 Fifth Street, NW, Washington, DC 20549, at prescribed rates. Please call the Commission at 1-800-SEC-0330 for further information on the public reference room. You can also inspect reports and other information we file at the offices of the Nasdaq Stock Market, 1735 K Street, NW, Washington, DC 20006.

11

RISK FACTORS

Investing in the Company involves a number of significant risks and other factors relating to the structure and investment objective of the Company. As a result, there can be no assurance that the Company will achieve its investment objective. In addition to the information contained in this prospectus, you should consider carefully the following information before making investments in the shares.

LENDING TO SMALL, PRIVATELY OWNED COMPANIES INVOLVES A HIGH DEGREE OF RISK

Our portfolio consists primarily of loans to small, privately owned companies. There is generally no publicly available information about these companies, and we rely on the diligence of our employees and agents to obtain information in connection with the Company's investment decisions. Typically, small businesses depend on the management talents and efforts of one person or a small group of persons for their success. The death, disability or resignation of these persons could have a material adverse impact on such a company. In addition, small businesses frequently have smaller product lines and market shares than their competition. Small companies may be more vulnerable to customer preferences, market conditions and economic downturns and often need substantial additional capital to expand or compete. Small companies may also experience substantial variations in operating results, and frequently have highly leveraged capital structures. Such factors can severely effect the return on, or the recovery of, our investment in such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative.

OUR BORROWERS MAY DEFAULT ON THEIR PAYMENTS

We invest in and lend to small businesses that may have limited financial resources and that may be unable to obtain financing from traditional sources. Our borrowers may not meet net income, cash flow and other coverage tests typically imposed by bank lenders. Numerous factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in the collateral for the loan. We also make unsecured, subordinated loans or invest in equity securities, which may involve a higher degree of risk.

OUR PORTFOLIO OF INVESTMENTS IS ILLIQUID

We acquire most of our loans and equity securities directly from small companies. Our portfolio of loans and equity securities are and will be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio may adversely affect our ability to dispose of loans and securities at times when it may be advantageous for us to liquidate such investments.

OUR PORTFOLIO IS RECORDED AT FAIR VALUE AS DETERMINED BY THE BOARD OF DIRECTORS

There is typically no public market for the loans and equity securities of the small companies to which we make loans. As a result, our board of directors estimates the value of these loans and equity securities. Unlike traditional lenders, we do not establish reserves for anticipated loan losses. Instead, we adjust quarterly the valuation of our portfolio to reflect the board of directors' estimate of the current realizable value of our loan portfolio. Without a readily ascertainable market value, the estimated value of our portfolio of loans

and equity securities may differ significantly from the values that would be placed on the portfolio if there existed a ready market for the loans and equity securities. Any changes in estimated net asset value are recorded in the Company's statement of operations as "Net unrealized gains (losses)."

WE BORROW MONEY WHICH MAY INCREASE THE RISK OF INVESTING IN OUR COMPANY

We borrow from, and issue senior debt securities to, banks and other lenders. Lenders of these senior securities have fixed dollar claims on our consolidated assets which are superior to the claims of our common shareholders.

Borrowings, also known as leverage, magnifies the potential for gain and loss on amounts invested and, therefore, increases the risks associated with investing in our securities. If the value of our consolidated assets increases, then leveraging would cause the net asset value attributable to the Company's common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had

we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments, and, if asset coverage for a class of senior security representing indebtedness declines to less than 200%, we may be required to sell a portion of our investments when it is disadvantageous to do so. Leverage is generally considered a speculative investment technique.

As of December 31, 1998, the Company's debt as a percentage of total liabilities and shareholders' equity was 39%. Our ability to achieve our investment objective may depend in part on our continued ability to maintain a leveraged capital structure by borrowing from banks or other lenders on favorable terms. There can be no assurance that we will be able to maintain such leverage.

At December 31, 1998, the Company had $334.4 million of outstanding indebtedness, bearing a weighted annual interest rate of 7.5%. In order for us to cover annual interest payments on indebtedness, we must achieve annual returns of a least 2.9% on our portfolio.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be greater than those appearing below.

ASSUMED RETURN ON THE COMPANY'S PORTFOLIO
(NET OF EXPENSES)

<TABLE>
<CAPTION>

	-20%	-10%	-5%	0%	5%	10%	20%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Corresponding return to shareholder(1)....	-40.5%	-22.9%	-14.0%	-5.2%	3.6%	12.4%	30.1%

</TABLE>

---

(1) The calculation assumes (i) $856.1 million in total assets, (ii) an average cost of funds of 7.5%, (iii) $334.4 million in debt outstanding and (iv) $485.1 million of shareholders' equity.

CHANGES IN INTEREST RATES MAY AFFECT OUR PROFITABILITY

Because we borrow money to make investments, our income is materially dependent upon the "spread" between the rate at which we borrow funds and the rate at which we loan these funds. In periods of sharply rising interest rates, our cost of funds would increase and could reduce or eliminate the spread. We use a combination of long-term and short-term borrowings to finance our lending activities. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. There can be no assurance that we can maintain a positive net interest spread or that a significant change in market interest rates will not have a material adverse effect on our profitability.

BECAUSE WE MUST DISTRIBUTE INCOME, WE WILL CONTINUE TO NEED ADDITIONAL CAPITAL

We will continue to need capital to fund loans. Historically, we have borrowed from financial institutions and have issued equity securities. A reduction in the availability of funds from financial institutions could have a material adverse effect on the Company. We must distribute at least 90% of our net operating income other than net realized long-term capital gains to our stockholders to maintain our regulated investment company ("RIC") status. As a result such earnings will not be available to fund loan originations. We expect to borrow from financial institutions and sell additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our loans, it could have a material adverse effect on the Company's financial condition and our results. In addition, as a BDC, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow in certain circumstances.

OUR PORTFOLIO MAY NOT PRODUCE CAPITAL GAINS

Mezzanine loans are typically structured as debt securities with a relatively high fixed rate of interest and with an equity feature such as conversion rights, warrants or options. As a result, mezzanine loans will

generate interest income from the time they are made, and may also produce a realized gain, from an accompanying equity feature. We cannot be sure that our portfolio will generate a current return or capital gains.

LOSS OF PASS-THROUGH TAX TREATMENT WOULD SUBSTANTIALLY REDUCE NET ASSETS AND INCOME AVAILABLE FOR DIVIDENDS

The Company qualifies as a RIC. If we meet certain diversification and distribution requirements, the Company qualifies for pass-through tax treatment. The Company would cease to qualify for pass-through tax treatment if it were unable to comply with these requirements, or if it ceased to qualify as a BDC under the 1940 Act. We also could be subject to a 4% excise tax (and, in certain cases, corporate level income tax) if we fail to make certain distributions. If the Company fails to qualify as a RIC, the Company would become subject to federal income tax as if it were an ordinary corporation, which would substantially reduce our net assets and the amount of income available for distribution to our shareholders.

WE OPERATE IN A COMPETITIVE MARKET

We compete for investments with many other companies and individuals, some of whom have greater resources than we do. Increased competition would make it more difficult for us to purchase or originate loans at attractive prices. As a result of this

competition, sometimes we may be precluded from making otherwise attractive investments.

WE OPERATE IN A HIGHLY REGULATED ENVIRONMENT

We are regulated by the Commission and the SBA. In addition, changes in the laws or regulations that govern BDCs, RICs, real estate investment trusts ("REITs"), SBICs and SBLCs may significantly affect our business. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations also are subject to change. Any change in the law or regulations that govern our business could have a material impact on the Company or its operations.

QUARTERLY RESULTS MAY FLUCTUATE FROM QUARTER TO QUARTER

The Company's quarterly operating results could fluctuate due to a number of factors. These factors include, among others, the completion of a securitization transaction in a particular calendar quarter, variations in the loan origination volume, variation in timing of loan prepayments, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, you should not rely on quarterly results to be indicative of the Company's performance in future quarters.

THE COMPANY

Our company is principally engaged in lending to and investing in private small and medium-sized businesses. The Company is organized in the state of Maryland and is an internally managed closed-end management investment company that has elected to be regulated as a business development company (as defined above, a "BDC") under the 1940 Act.

We have two wholly owned subsidiaries that have also elected to be regulated as BDCs. Allied Investment Corporation ("Allied Investment") is licensed by the Small Business Administration ("SBA") as a Small Business Investment Company ("SBIC"). Allied Capital SBLC Corporation ("Allied SBLC") is licensed by the SBA as a Small Business Lending Company ("SBLC") and is a participant in the SBA Section 7(a) Guaranteed Loan Program. In addition, we have a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT").

Our executive offices are located at 1919 Pennsylvania Avenue, NW, Washington, DC 20006 and our telephone number is (202) 331-1112. In addition, we maintain offices in Chicago, San Francisco, Detroit, Atlanta, Philadelphia and Frankfurt, Germany.

USE OF PROCEEDS

Unless otherwise specified in the prospectus supplement accompanying this prospectus, we intend to use the net proceeds from selling shares for general

corporate purposes, which may include investment in small to medium-sized, private growth companies in accordance with our investment objective, purchase of commercial mortgage-backed securities, repayment of indebtedness, acquisitions and other general corporate purposes.

We anticipate that substantially all of the net proceeds of any offering of shares will be used, as described above, within six months, and in any event within two years. Pending investment, we intend to invest the net proceeds of any offering of shares in time deposits, income-producing securities with maturities of three months or less that are issued or guaranteed by the federal government or an agency of the federal government, and high quality debt securities maturing in one year or less from the time of investment.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock is traded on the Nasdaq National Market under the symbol "ALLC." The following table lists the high and low closing sales prices for the Company's stock in 1998 and 1999 and for Allied Capital Lending Corporation's stock, the predecessor company to the Company, in 1997. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions. On March , 1999, the last reported closing sale price of the common stock was $ per share.

<TABLE>
<CAPTION>

	CLOSING SALE PRICE	
	HIGH	LOW
<S>	<C>	<C>
ALLIED CAPITAL LENDING CORPORATION		
YEAR ENDED DECEMBER 31, 1997		
First Quarter	$17.000	$14.875
Second Quarter	16.625	13.875
Third Quarter	16.750	14.500
Fourth Quarter	22.750	15.750
ALLIED CAPITAL CORPORATION		
YEAR ENDED DECEMBER 31, 1998		
First Quarter	$27.688	$21.000
Second Quarter	29.000	21.750
Third Quarter	24.813	14.938
Fourth Quarter	18.875	12.500
YEAR ENDING DECEMBER 31, 1999		
First Quarter (through March , 1999)	$	$

</TABLE>

Allied Capital Lending Corporation's common stock historically traded at prices in excess of its net asset value. Our common stock continues to trade in excess of net asset value. There can be no assurance, however, that we will maintain a premium to net asset value.

We pay quarterly dividends to stockholders. The amount of our quarterly dividends is determined by the board of directors and is based upon an estimate of annual taxable income. See "Taxation." We cannot assure that we will achieve investment results or maintain a tax status that will permit any particular level of dividend payment.

Our credit facilities limit our ability to declare dividends if we default under certain provisions.

We have adopted an "opt out" dividend reinvestment plan ("DRIP plan"). Under the DRIP plan, if your shares are registered in your name, your dividends will be automatically reinvested in additional shares of common stock unless you "opt out" of the DRIP plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with the Selected Consolidated Financial Data and the Company's 1998 Consolidated Financial Statements and Notes thereto.

OVERVIEW

The Company's primary business is investing in and lending to private small and medium-sized businesses in three areas: mezzanine finance, commercial real estate finance, and 7(a) lending.

The Company's earnings depend primarily on the level of interest and related portfolio income and net realized and unrealized gain income earned on the Company's investment portfolio after deducting interest paid on borrowed capital and operating expenses. Interest income results from the stated interest rate earned on a loan, the amortization of loan origination points and original issue discount, and the amortization of any market discount arising from purchased loans. The level of interest income is directly related to the balance of the investment portfolio multiplied by the effective yield on the portfolio. The Company's ability to generate interest income is dependent on economic, regulatory and competitive factors that influence interest rates, loan originations, and the Company's ability to secure financing for its investment activities.

The total portfolio at value was $800.3 million, $697.0 million and $607.4 million at December 31, 1998, 1997 and 1996, respectively. During the year ended December 31, 1998, the Company originated investments totaling $524.5 million and received repayments and sold loans totaling $219.1 million. In addition, the Company's portfolio was reduced by approximately $223 million as a result of an asset securitization of commercial mortgage loans in January 1998. As a result, the total portfolio increased by 15% from December 31, 1997 to December 31, 1998. The portfolio increased approximately 15% for each of the years ended December 31, 1997 and 1996.

<TABLE>
<CAPTION>

PORTFOLIO COMPOSITION	1996	1997	1998
<S>	<C>	<C>	<C>
Mezzanine Investments	27%	25%	46%
Commercial Mortgage Loans	52%	56%	27%
Commercial Mortgage-Backed Securities	--	--	13%
SBA 7(a) Loans	6%	5%	7%
Cash and Other Assets	15%	14%	7%
	100%	100%	100%

</TABLE>

MEZZANINE

Mezzanine loans, debt securities and equity interests were $388.6 million, $207.7 million and $191.2 million at December 31, 1998, 1997 and 1996, respectively. The effective yield on the mezzanine loans and debt securities was 14.6%, 12.6%, and 13.2% at December 31, 1998, 1997 and 1996, respectively. Mezzanine loan originations and purchases were $236.0 million, $66.7 million and $66.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. Mezzanine repayments and sales were $41.3 million for the year ended December 31, 1998. During the two years ended December 31, 1997, mezzanine repayments and sales of equity interests were approximately equal to originations, which kept the level of the portfolio relatively constant.

During 1998, excluding certain high yield debt purchases, the Company made 19 new mezzanine investments with an average investment size of $10.6 million. On average, these new portfolio companies had revenues of $81.3 million, cash flows of $9.4 million, and had been in business for approximately 22 years.

During 1998, the Company also made two discounted purchases of high yield debt investments for its mezzanine portfolio with an aggregate purchase price of $22.2 million. This discounted debt is estimated to have an average effective yield of 15%.

Prior to the Merger, mezzanine loan originations were made through Allied Capital Corporation and Allied Capital Corporation II, which originated small ($2 million -- $10 million) mezzanine loans in order to maintain appropriate portfolio diversity for regulated investment company purposes. Pursuant to the terms of a Securities and Exchange Commission exemptive order, Allied Capital Corporation and Allied Capital Corporation II loan originations were made pursuant to a co-investment formula, based on relative total assets, which required identical terms for each loan originated. As a result, Allied Capital Corporation and Allied Capital Corporation II were unable to originate larger loans or price loans based on their own capital structures. These inefficiencies limited the ability of Allied Capital Corporation and Allied Capital Corporation II to compete effectively in the marketplace.

Subsequent to the Merger, the Company's larger overall portfolio size

enables it to compete for larger mezzanine loans while maintaining adequate diversity within the portfolio. As a result, the Company has been and will continue to actively pursue mezzanine loans in sizes ranging from $5 million to $25 million. The Company also is able to price its mezzanine loans using a single capital structure, which enables the Company to price its loans more competitively. The Company believes that its post-Merger strategies have been successful in increasing mezzanine loan origination activity during 1998 and will enable the Company to increase mezzanine loan originations in 1999.

COMMERCIAL MORTGAGE LOANS

Commercial mortgage loans were $233.2 million, $447.2 million and $373.7 million at December 31, 1998, 1997 and 1996, respectively. The commercial mortgage loan portfolio declined by 48% during the year ended December 31, 1998 due to the sale through securitization of approximately $295 million in commercial mortgage loans, and the sale of whole loans to third parties aggregating approximately $44.0 million. For the year ended December 31, 1998, the Company originated and purchased new commercial mortgage loans of $198.6 million and received repayments of $96.7 million. The commercial mortgage loan portfolio increased by 20% and 35% for the years ended December 31, 1997 and 1996, respectively. Commercial mortgage loan originations and purchases were $249.0 million and $176.3 million, and repayments were $154.5 million and $87.5 million for 1997 and 1996, respectively.

The weighted average current stated interest rate on the commercial mortgage loan portfolio at December 31, 1998, 1997 and 1996 was 9.7%, 9.6% and 10.3%, respectively. The weighted average yield on the commercial mortgage loan portfolio was 10.4%, 11.4% and 13.4% at December 31, 1998, 1997 and 1996, respectively. The effective yield on the commercial mortgage loan portfolio is higher than the stated interest rate due to the amortization of market discount on purchased loans and original issue discount.

The Company generally prices its commercial mortgage loans based on a fixed spread over comparable U.S. Treasury rates given the term of the loan. During 1997 and 1998,

interest rates on U.S. Treasury bonds declined significantly, and the spreads charged by commercial real estate lenders in the marketplace narrowed. As a result, the Company began to reevaluate its strategy regarding commercial real estate lending as pricing for this type of loan became increasingly inexpensive in the marketplace. Early in the third quarter of 1998, the Company significantly reduced its commercial mortgage loan origination activity for its own portfolio, and began exploring opportunities to originate commercial real estate loans for sale to third parties. During the fourth quarter of 1998, the Company sold $39.4 million in commercial mortgage loans to other lenders realizing net premiums of approximately 2.1%. Additional loan sales from the Company's existing commercial real estate portfolio are expected to continue. The Company anticipates that it will continue to originate and sell commercial real estate loans that do not meet its portfolio yield requirements.

COMMERCIAL MORTGAGE-BACKED SECURITIES

Commercial Mortgage-Backed Securities (CMBS) were $113.7 million at December 31, 1998. The portfolio consists of $67.2 million of Subordinated CMBS, purchased on December 30, 1998 for $32.2 million, and $81.5 million of Residual CMBS retained from a $295 million asset securitization the Company completed on January 30, 1998 (discussed below). As of December 31, 1998, the estimated yield to maturity on the Subordinated CMBS and the Residual CMBS was 15.0% and 9.7%, respectively. As of December 31, 1998, the weighted average yield on the entire CMBS portfolio was 11.2%.

The Company believes that it took advantage of a unique market opportunity to acquire Subordinated CMBS at a significant discount at the end of the fourth quarter. Recent turmoil in the CMBS market created a lack of liquidity for the traditional buyers of the non-investment grade bonds. The Company plans to continue to opportunistically purchase bonds at significant discounts throughout the first quarter of 1999. The discounted purchases of the Subordinated CMBS have had, and will continue to have, the full scrutiny of the Company's stringent underwriting processes. The Company reunderwrites the majority of the loans securing the bonds, including determining its own assessment of cash flow available for debt service and appraisal value, and visits most of the collateral properties.

SBA 7(A) LOANS

The SBA 7(a) loan portfolio was $56.3 million, $40.7 million and $42.1 million at December 31, 1998, 1997 and 1996, respectively. SBA 7(a) loan originations were $57.7 million, $49.2 million and $40.8 million for the years ended December 31, 1998, 1997 and 1996, respectively. Sales of the guaranteed

portions of SBA 7(a) loans were $37.0 million, $43.4 million and $25.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. SBA 7(a) loans are originated with variable interest rates priced at spreads ranging from 1.75% to 2.75% over the prime lending rate.

RESULTS OF OPERATIONS

COMPARISON OF FISCAL YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

Net increase in net assets resulting from operations (NIA) was $78.1 million, or $1.50 per share, $61.3 million, or $1.24 per share, and $54.9 million, or $1.17 per share, for the years ended December 31, 1998, 1997 and 1996, respectively. NIA results from total interest and related portfolio income earned, less total expenses incurred in the operations of the Company, plus net realized and unrealized gains or losses. NIA, as a percentage of

average shareholders' equity, which is also known as return on equity, was 17%, 15% and 14% for 1998, 1997 and 1996, respectively. NIA, excluding the formula and cut-off awards in 1998, as a percentage of average shareholders' equity for 1998 was 18.8%. NIA, excluding Merger expenses, as a percentage of average shareholders' equity for 1997 was 16%.

A key element of the Company's post-Merger strategy was to allocate more of its capital resources to the Company's higher yielding mezzanine and 7(a) lending activities and reduce its lower yielding commercial mortgage loan portfolio. As a result, the Company completed a commercial mortgage loan securitization transaction in January 1998, in order to effectively liquidate $223 million of its lower yielding commercial mortgage loans. The Company securitized $295 million in loans and received cash proceeds, net of costs, of $223 million. The Company retained a trust certificate for its residual interest in mortgage securitization (the "Residual CMBS") in the loan pool sold, and will receive interest income from this Residual CMBS as well as receive the net spread of the interest earned on the loans sold less the interest paid on the bonds over the life of the bonds (the "Residual Securitization Spread").

The Company accounted for the securitization in accordance with Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a result, the Company recorded a gain of $14.8 million, or $0.28 per share, net of the costs of the securitization and the cost of settlement of interest rate swaps. The gain arises from the difference between the carrying amount of the loans and the fair market value of the assets received (i.e., cash, Residual Securitization Spread, Residual CMBS and a servicing asset). The Company will continue to earn interest income from the Residual CMBS, and will receive the actual net spread from the portion of the loans sold represented by the bonds issued. As the net spread is received, a portion will be allocated to interest income with the remainder applied to reduce the carrying amount of the Residual Securitization Spread. The Residual CMBS and the Residual Securitization Spread have been and will continue to be valued each quarter using updated prepayment, interest rate and loss estimates. As of December 31, 1998, the mortgage loan pool had an approximate weighted average stated interest rate of 9.4%. The value of the Residual Securitization Spread of $10.7 million was determined based on a constant prepayment rate of 7% and a discount rate of 12%. The value of the Residual CMBS of $70.8 million was determined using a discount rate equal to the average stated interest rate of the underlying mortgage loans. The Company completed the securitization as a means to improve its liquidity for investment in high yielding mezzanine and 7(a) loans. The Company does not anticipate significant future securitization activity.

Total interest and related portfolio income was $106.7 million, $97.4 million and $84.9 million for the years ended December 31, 1998, 1997 and 1996, respectively. Total interest and related portfolio income is primarily a function of the level of interest income earned and the balance of portfolio assets. In addition, total interest and related portfolio income includes premiums from loan sales, prepayment premiums, and advisory fee and other income.

Interest income totaled $79.9 million, $86.9 million and $77.5 million for the years ended December 31, 1998, 1997 and 1996, respectively. Interest income decreased 8% and increased 12% for 1998 and 1997, respectively. The decrease and increase in interest income earned results primarily from changes in the amount of loans outstanding during the periods presented. The Company's loan portfolio decreased by 4% to $628.6 million at December 31, 1998 from $655.8 million at December 31, 1997, and the loan portfolio

increased by 13% to $655.8 million at December 31, 1997 from $580.9 million at December 31, 1996. During 1998, the Company originated or purchased loans and other investments totaling $524.5 million. This increase was offset by the sale through securitization of $295 million in commercial mortgage loans, whole loan sales of commercial mortgage loans of $44.0 million, and the sale of the guaranteed portion of 7(a) loans totaling $37.0 million. In addition, the Company received loan repayments totaling $138.1 million.

The Company's efforts to reduce its lower yielding commercial mortgage loan portfolio in 1998 had the effect of reducing gross interest income in 1998 when compared to 1997. The reduction in this portfolio, however, has increased the overall weighted average yield on the portfolio, and should have the impact of increasing interest income prospectively, as well as increasing the Company's overall return on assets net of interest expense and return on equity capital. The weighted average yield on the total loan portfolio at December 31, 1998 was 12.5%, as compared to 11.7% and 13.1% at December 31, 1997 and 1996, respectively.

Net premiums from loan dispositions were $6.0 million, $7.3 million and $4.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. Included in net premiums from loan dispositions are premiums from loan sales and premiums received on the early repayment of loans. Premiums from loan sales were $3.8 million, $3.2 million and $2.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. This premium income results primarily from the cash gain on the sale of the guaranteed portion of the Company's SBA 7(a) loans into the secondary market and commercial real estate loans sold to third parties, less the origination costs associated with the loans sold.

Prepayment premiums were $2.2 million, $4.1 million and $1.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. Commercial mortgage loan repayments of $154.5 million in 1997 were primarily responsible for the large level of prepayment premiums experienced in 1997. While the scheduled maturity of mezzanine and commercial mortgage loans ranges from five to ten years, it is not unusual for the Company's borrowers to refinance or pay off their debts to the Company ahead of schedule. Because the Company seeks to finance primarily seasoned, performing companies, such companies at times can secure lower cost financing as their balance sheets strengthen, or as more favorable interest rates become available. Therefore, the Company generally structures its loans to require a prepayment premium for the first three to five years of the loan.

Investment advisory fees and other income were $6.1 million, $3.2 million and $3.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. Investment advisory fees are received from the private funds managed by the Company. Three of the Company's private, managed funds are no longer making new investments, and are returning capital to their investors as their assets pay off. In January 1998, the Company entered into an investment advisory agreement with Kreditanstalt fur Wiederaufbau (KfW), the state-owned public development bank of Germany, to manage a fund of approximately DM 160 million (approximately $95.4 million at December 31, 1998). For its services related to sourcing, structuring, investing, monitoring and disposing of its investments in small, private and medium-sized German businesses, the Company will receive a 3% per annum fee on total committed capital, payable quarterly. The increase in advisory fees and other income in 1998 is primarily the result of the advisory fees earned from KfW of approximately $2.7 million.

Total operating expenses were $44.4 million, $51.3 million ($46.2 million without Merger expenses) and $37.4 million for the years ended December 31, 1998, 1997 and 1996, respectively. Operating expenses include interest on indebtedness, salaries and employee benefits, and general and administrative expenses.

The Company's single largest expense is interest on indebtedness, which totaled $20.7 million, $27.0 million and $20.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. Interest expense decreased 23% for 1998 and increased 33% and 64% for 1997 and 1996, respectively. The increases and decreases are attributable to increases and decreases in borrowings by the Company and its subsidiaries under various credit facilities. Again, the Company's efforts to decrease the commercial mortgage loan portfolio during 1998 had the effect of reducing the overall level of the Company's outstanding borrowings throughout the year. The Company's total borrowings were $334.4 million, $347.7 million and $275.0 million at December 31, 1998, 1997 and 1996, respectively. Total borrowings decreased 4% for 1998 and increased 26% and 37% in 1997 and 1996, respectively. The Company's weighted average interest cost on outstanding borrowings at December 31, 1998, 1997 and 1996 was 7.5%, 7.3% and 7.6%, respectively.

Salaries and employee benefits totaled $11.8 million, $10.3 million and $8.8 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Total employees were 106, 80 and 66 at December 31, 1998, 1997 and 1996, respectively. The increase in salaries and employee benefits reflects the increase in total employees, combined with wage increases and the experience level of employees hired. The Company was an active recruiter in 1998 for experienced investment and operational personnel and the Company will continue to actively recruit and hire new professionals in 1999 to support anticipated portfolio growth.

General and administrative expenses include the lease for the Company's headquarters in Washington, DC, leases established in 1997 for the Company's offices in Chicago and San Francisco, leases established in 1998 for the Company's new offices in Atlanta and Detroit, travel costs, stock record expenses, directors' fees, legal and accounting fees and various other expenses. General and administrative expenses totaled $11.9 million, $9.0 million and $8.3 million, respectively, for the years ended December 31, 1998, 1997 and 1996. The increase in general and administrative expenses was partially due to twelve full months of costs associated with the two new offices that were established in the third and fourth quarters of 1997.

In 1997, the Company incurred Merger expenses totaling $5.2 million, which consisted primarily of investment banking fees of $3.1 million, legal fees of $1.0 million and costs associated with the solicitation of proxies of approximately $0.6 million.

Total operating expenses excluding interest on indebtedness and Merger expenses represented approximately 2.9%, 2.5% and 2.6% of the Company's average assets for the years ended December 31, 1998, 1997 and 1996, respectively.

During 1998, the Company began to expense a portion of the formula and cut-off awards that were established in connection with the Merger. Prior to the Merger, each of the predecessor companies had a stock option plan (the "Old Plans"). In preparation for the Merger, the Compensation Committees of the predecessor companies determined that the Old Plans should be terminated upon the Merger, so that the new merged Company would be able to develop a new incentive compensation plan for all officers and directors with a single equity security. The existence of the Old Plans had resulted in certain

inequities in option grants among the various officers of the predecessor companies simply because of the differences in the underlying equity securities.

To balance stock option awards among the employees, and to account for the deviations caused by the existence of five plans supported by five different publicly traded stocks, the Company developed two special awards to be granted in lieu of options under the Old Plans that would be foregone upon the cancellation of the Old Plans.

CUT-OFF AWARD. The first award established a cut-off dollar amount as of August 14, 1997 (the Merger announcement date) that would be computed for all outstanding, but unvested options that would be canceled as of the date of the Merger. The cut-off award was designed to cap the appreciated value in unvested options at the Merger announcement date in order to set the foundation to balance option awards upon the Merger. The cut-off award was designed to be equal to the difference between the market prices of the shares of stock underlying the canceled options under the Old Plans at August 14, 1997, less the exercise prices of the options. The cut-off award was computed to be $2.9 million in the aggregate and will be payable for each canceled option as the canceled options would have vested. The cut-off award will only be payable if the award recipient is employed by the Company on a future vesting date. The cut-off award expense totaled $0.8 million, or $0.02 per share, for 1998.

FORMULA AWARD. The formula award was designed to compensate officers from the point in time when their unvested options would cease to appreciate in value pursuant to the mechanics of the cut-off award (i.e., August 14, 1997) up until the time in which they would be able to receive option awards in the Company after the Merger became effective. In the aggregate, the formula award equaled 6% of the difference between the combined aggregate market capitalizations of the Predecessor Companies as of the close of the market on December 30, 1997, and the combined aggregate market capitalizations of the Predecessor Companies on August 14, 1997.

The formula award was designed as a long-term incentive compensation program that would replace canceled stock options and would balance share ownership among key officers for past and prospective service.

The terms of the formula award require that the award be contributed to the Company's deferred compensation plan, and be used to purchase shares of the Company in the open market. The formula award vests over a three-year period, on the anniversary date of the Merger, beginning on December 31, 1998.

In the aggregate, the market capitalizations of the Predecessor Companies increased by approximately $319 million from August 14, 1997 to December 30, 1997, and the total formula award was computed to be $19.0 million. The total expense recorded as a result of the formula awards during 1998 was $6.2 million, or approximately $0.12 per share. Assuming all officers who received a formula award remain with the Company over the remaining vesting period, the Company will expense the remaining formula award during 1999 and 2000 in an annual amount of approximately $6.4 million.

Net realized gains were $22.5 million, $10.7 million and $19.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. These gains resulted from the sale of equity securities associated with certain mezzanine and commercial mortgage loans and the realization of unamortized discount resulting from the early repayment of mezzanine and commercial mortgage loans, offset by losses on investments.

Realized gains totaled $25.8 million, $15.8 million and $30.4 million for the years ended December 31, 1998, 1997 and 1996, respectively. Realized gains during 1998 primarily resulted from transactions involving ten portfolio companies: ARS ($1.1 million), Calendar Broadcasting ($1.1 million), Arlington Square Associates ($1.9 million), DMI Furniture ($0.6 million), Virginia Beach Associates ($2.4 million), Labor Ready, Inc. ($5.0 million), Broadcast Holdings, Inc. ($1.1 million), Waterview Limited Partnership ($3.0 million), Z-Spanish Radio Network, Inc. ($2.7 million) and El Dorado Communications, Inc. ($0.8 million). Gains resulting from investments in these ten companies totaled $19.7 million. The Company also realized a gain of $4.0 million from the sale of an office building owned by Allied Capital Advisers Inc. prior to the Merger and incurred an income tax liability related to that gain of $0.8 million. Realized gains in 1997 resulted from transactions involving 83 portfolio companies.

Realized losses in 1998, 1997 and 1996 totaled $3.3 million, $5.1 million and $11.2 million and represented 0.4%, 0.6% and 1.6% of the Company's total assets, respectively. Realized losses in 1998 resulted primarily from the full or partial liquidation of three portfolio investments: SunStates Refrigerated Services, Inc. ($1.8 million), R-Tex Decoratives Company, Inc. ($0.6 million), and Pines Hotel ($0.3 million). These three investments resulted in realized losses of $2.7 million. Realized losses in 1997 resulted primarily from the full or partial liquidation of four investments: Taco Tico, Inc. ($1.1 million), SunStates Refrigerated Services, Inc. ($0.8 million), Enviroplan, Inc. ($0.8 million), and Vineyard Sycamore Plaza Associates ($0.4 million). Realized losses resulting from these four investments totaled $3.1 million. Realized losses in 1996 included $6.6 million in losses from the liquidation of two portfolio investments. The Company made loans to these two borrowers in the late 1980s and early 1990s, and each borrower encountered significant difficulties during the recession of the early 1990's. Losses realized in 1998, 1997 and 1996 had been recognized in NIA over time as unrealized depreciation when the Company determined that the respective portfolio security's value had become impaired. Thus, the Company reversed previously recorded unrealized depreciation totaling $3.6 million, $9.7 million and $7.5 million when the related losses were realized in 1998, 1997 and 1996, respectively.

The Company recorded net unrealized gains of $1.1 million and $7.2 million for the years ended December 31, 1998 and 1997, respectively, and net unrealized losses of $7.4 million for the year ended December 31, 1996. Net unrealized gains for 1998 consisted of valuation changes resulting from the Board of Directors' valuation of the Company's assets, the effect of valuation of interest rate swap agreements, and the effect of reversals of net unrealized appreciation resulting from net realized gains. At December 31, 1998, net unrealized appreciation in the portfolio totaled $2.4 million, and was composed of unrealized appreciation of $27.3 million resulting primarily from appreciated equity interests in portfolio companies, and unrealized depreciation of $24.9 million resulting primarily from underperforming loan and equity investments in the portfolio. At December 31, 1997, net unrealized appreciation in the portfolio totaled $1.3 million and was composed of unrealized appreciation of $19.2 million and unrealized depreciation of $17.9 million. At December 31, 1996, net unrealized depreciation in the portfolio totaled $5.9 million.

The Company employs a standard grading system for the entire portfolio. Grade 1 is used for those loans from which a capital gain is expected. Grade 2 is used for loans performing in accordance with plan. Grade 3 is used for loans that require closer monitoring; however, no loss of interest or principal is expected. Grade 4 is used for loans for which some loss of contractually due interest is expected, but no loss of principal is

expected. Grade 5 is used for loans for which some loss of principal and

interest is expected and the loan is written down to net realizable value. During 1998, the Company began to grade its commercial mortgage and 7(a) loan portfolios using the same grading system used for its mezzanine loan portfolio, so that the Company's entire portfolio would have a uniform grading system. Prior to this, the commercial real estate portfolio used a different grading system and the 7(a) loan portfolio was not graded.

At December 31, 1998, the Company's portfolio was graded as follows:

<TABLE>
<CAPTION>

PORTFOLIO BY GRADE	INVESTMENTS AT VALUE	PERCENTAGE OF TOTAL PORTFOLIO
	(IN MILLIONS)	
<S>	<C>	<C>
1	$104.4	13.0%
2	618.0	77.2
3	53.2	6.7
4	11.8	1.5
5	12.9	1.6
	$800.3	100.0%

</TABLE>

Grade 5 mezzanine investments totaled $6.4 million at value at December 31, 1998, or 0.8% of the Company's total portfolio based on the valuation of the Board of Directors. The value of these Grade 5 investments has been reduced from an aggregate cost of $22.7 million in order to reflect the Company's estimate of the net realizable value of these investments upon disposition. This reduction in value has been recorded previously as unrealized depreciation over several years in the Company's earnings. The Company continues to follow its historical practices of working with a troubled portfolio company in order to recover the maximum amount of the Company's investment, but records unrealized depreciation for a substantial amount of the potential exposure when such exposure is identified. During 1998, Grade 5 mezzanine investments decreased by $6.5 million from $12.9 million at December 31, 1997.

At December 31, 1998, commercial real estate Grade 5 loans totaled $0.1 million at value. The value of these Grade 5 loans approximates cost because of the estimated value of the underlying collateral securing the loans. A Grade 5 classification for a commercial real estate loan prior to the use of the uniform grading system meant that the loan was in workout. Because of the collateral securing these loans, however, few previous Grade 5 loans were ever expected to result in loss of principal. Of the loans included in Grade 5 at December 31, 1997, only one loan totaling $0.3 million at cost was expected to incur any loss of principal, and this loan was valued at $0.2 million.

Grade 5 SBA 7(a) loans totaled $6.3 million at value at December 31, 1998, and have been reduced from an aggregate cost basis of $7.9 million. The SBA 7(a) loan portfolio was not graded at December 31, 1997.

For the total portfolio, loans greater than 120 days delinquent were $13.7 million at value at December 31, 1998, or 1.7% of the total portfolio. Included in this category are loans valued at $9.9 million that are fully secured by real estate. Loans greater than 120 days delinquent generally do not accrue interest. Loans greater than 120 days delinquent at December 31, 1997, were $20.2 million at value or 2.9% of the total portfolio.

The Company incurred income tax expense of $0.8 million for the year ended December 31, 1998, which resulted from the taxation of a net built-in gain realized from

the sale of an office building owned by Allied Capital Advisers Inc. prior to the Merger. The Company incurred income tax expense of $1.4 million and $1.9 million, respectively, for the years ended December 31, 1997 and 1996 resulting from the operations of Allied Capital Advisers Inc. Because the Company has elected to be taxed as a regulated investment company ("RIC") under Subchapter M of the Code, the Company is not taxed on its investment company taxable income and realized capital gains, to the extent that such income and gains are distributed to shareholders.

In order to maintain its RIC status, the Company must, in general, (1) derive at least 90% of its gross income from dividends, interest and gains from the sale of securities; (2) meet investment diversification requirements as defined in the Code; and (3) distribute to shareholders at least 90% of its investment company taxable income annually. The Company intends to take all

steps necessary to continue to meet the RIC qualifications. However, there can be no assurance that the Company will continue to elect or qualify for such treatment in future years.

During 1998, 1997 and 1996, the Company or the Predecessor Companies declared dividends to their shareholders representing all of each company's ordinary taxable income, taxable net capital gains, and, in the case of Allied Capital Corporation in 1997, a partial return of capital resulting from the distribution of Allied Capital Corporation's ownership of Allied Capital Lending Corporation's shares. Tax distributions differ from NIA due to timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation, which is not included in taxable income. Total tax distributions declared were $75.1 million, $85.7 million and $57.4 million for 1998, 1997 and 1996, respectively. Tax distributions per share were $1.43, $1.71 and $1.23 for the three years ended December 31, 1998, 1997 and 1996, respectively. The per share distributions for 1997 and 1996 have been exchange adjusted for the Merger and include the exchange-adjusted shares of Allied Capital Advisers Inc. for which no tax distributions had historically been declared or paid.

Included in 1997 tax distributions was $18 million, or $0.34 per share, representing a non-cash dividend of the shares of Allied Capital Lending Corporation held in Allied Capital Corporation's portfolio. Allied Capital Corporation declared and paid a dividend equal to 0.107448 shares of Allied Capital Lending Corporation for each share of Allied Capital Corporation held on the record date for such dividend. These shares had a market value of $21.25 per share on December 30, 1997, the distribution date.

Also included in 1997 tax distributions was a special, one-time dividend equal to $8.8 million, or $0.17 per share, representing all of the retained earnings and profits of the Predecessor Companies at December 31, 1997. The special dividend was declared in conjunction with the Merger in order for the Company to maintain its RIC status.

Certain of the Company's credit facilities limit the Company's ability to declare dividends if the Company has defaulted under certain provisions of the credit agreement.

The weighted average common shares outstanding used to compute basic earnings per share were 51.9 million, 49.2 million and 46.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increases in the weighted average shares reflect the issuance of new shares, the exercise of employee stock options to purchase shares of the Company and the issuance of shares pursuant to a dividend reinvestment plan. Allied Capital Corporation's ownership of Allied Capital Lending Corporation during the periods presented has been eliminated in consolidation.

All per share amounts included in management's discussion and analysis have been computed using the weighted average shares used to compute diluted earnings per share, which were 52.0 million, 49.3 million and 46.7 million for the years ended December 31, 1998, 1997 and 1996, respectively.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

CASH AND CASH EQUIVALENTS

At December 31, 1998, the Company had $25.1 million in cash and cash equivalents. ACC invests otherwise uninvested cash in U.S. government or agency-issued or guaranteed securities that are backed by the full faith and credit of the United States, or in high quality, short-term repurchase agreements fully collateralized by such securities. The Company's objective is to manage to a low cash balance and fund new originations with its lines of credit.

INDEBTEDNESS

The Company had outstanding indebtedness at December 31, 1998 as follows:

<TABLE>
<CAPTION>

CLASS	AMOUNT OUTSTANDING	ANNUAL INTEREST RATE(1)
	(IN THOUSANDS)	
<S>	<C>	<C>
Debentures and notes payable:		
Master loan and security agreement....	$ 6,000	6.63%
Unsecured long-term notes payable.....	180,000	7.21%
SBA debentures.....	47,650	8.22%

OPIC loan	5,700	6.57%
Total debentures and notes payable	$239,350	7.38%
Revolving line of credit	$ 95,000	7.66%

</TABLE>

---

(1) The annual interest rate includes the cost of commitment fees and other facility fees.

MASTER LOAN AND SECURITY AGREEMENT. The Company, in conjunction with BMI, has a facility to borrow up to $250 million, of which $100 million is committed, using its commercial mortgage loans as collateral. The agreement generally requires interest-only payments with all principal due at maturity. The agreement bears interest at one-month London Inter-Bank Offered Rate ("LIBOR") plus 1.0%. The facility matures on October 7, 1999.

UNSECURED LONG-TERM NOTES PAYABLE. The Company obtained $180 million in financing through the issuance of unsecured long-term notes with private institutional lenders, primarily insurance companies. The terms of the notes include five- or seven-year maturities, priced at approximately 7.2%. The notes require payment of interest semiannually, and all principal is due upon maturity.

SBA DEBENTURES. The Company, through its SBIC subsidiary, has debentures totaling $47.7 million payable to the SBA, at interest rates ranging from 6.9% to 9.6% with scheduled maturity dates as follows: 1999 -- $0; 2000 -- $17.3 million; 2001 -- $9.4 million; 2002 -- $0; 2003 -- $0; and $21.0 million thereafter. The debentures require semi-annual interest-only payments with all principal due upon maturity. During 1997, Congress increased the maximum leverage available to an SBIC to $101.0 million, and the Company intends to continue to borrow under the SBIC program as the situation warrants.

The Company currently has a commitment from the SBA for an additional $27.0 million of debt.

REVOLVING LINE OF CREDIT. The Company has a $200 million unsecured revolving line of credit. The facility bears interest at LIBOR plus 1.25% and requires a commitment fee equal to 0.2% of the committed unused amount. The facility also has a facility fee equal to 0.15% of the initial commitment. The line of credit requires monthly payments of interest, and all principal is due upon maturity. The facility matures on June 30, 1999.

In March 1999, the Company replaced the $200 million facility with a new $315 million unsecured bank revolving line of credit. At the Company's option, the new credit facility bears interest at a rate equal to (i) LIBOR plus 1.25% or (ii) the higher of (a) the NationsBank, N.A. prime rate and (b) the Federal Funds rate plus 0.50%. The credit facility requires monthly payments of interest, and all principal is due upon maturity. The credit facility also requires a facility fee equal to 0.25% of the committed amount, regardless of the amount outstanding under the facility, which is payable quarterly in arrears.

FUTURE DEBT OR EQUITY OFFERINGS

The Company plans to secure additional debt and equity capital for continued investment in growing businesses. Because the Company is a RIC, it distributes substantially all of its income and requires external capital for growth. Because the Company is a business development company, it is limited in the amount of debt capital it may use to fund its growth, since it is generally required to maintain a ratio of 200% of total assets to total borrowings.

The Company's cash flow from operations was $68.9 million, $58.9 million and $45.2 million for the years ended December 31, 1998, 1997 and 1996, respectively. The Company plans to maintain a strategy of financing its operations, dividend requirements and future investments with cash from operations, through borrowing under short- or long-term credit facilities, through asset sales or securitizations, or through obtaining new equity capital. The Company will utilize its short-term credit facilities only as a means to bridge to long-term financing. The Company evaluates its interest rate exposure on an ongoing basis and may hedge variable and short-term interest rate exposure through interest rate swaps, Treasury locks and other techniques when appropriate. The Company believes that it has access to capital sufficient to fund its ongoing investment and operating activities, and from which to pay dividends.

FINANCIAL OBJECTIVES

The Company has set forth certain financial objectives that it intends to use in allocating its resources and in selecting new investment opportunities. Management's goal is to increase NIA annually by 15% to 20% and to result in a ratio of NIA to average shareholders' equity, or return on equity, of 19% to 22%. Management believes that the Company will be able to achieve these goals over the next three to five years. Factors that may impede the achievement of these objectives include those described under "Risk Factors" and also include other factors such as changes in the economy, competitive and market conditions, and future business decisions.

YEAR 2000

The Company has a Year 2000 compliance committee, which is responsible for assessing the Company's Year 2000 readiness by focusing on three main areas: the

Company's information technology ("IT") and other operating systems, service providers and portfolio companies. The committee reports periodically to the Board of Directors and to executive management.

The Company's IT systems consist of third-party software and relatively new hardware systems. All vendors providing critical software and hardware have indicated that their programs and systems would be Year 2000 compliant by the end of the first quarter of 1999. The Company's testing of all critical software and IT systems is scheduled to be completed by the end of first quarter 1999. In addition to the testing performed by Company personnel, the Company has also contracted with its loan accounting software vendor to perform independent validation tests, using the Company's data, to verify that this software will be Year 2000 compliant. Implementation of tested software and IT systems is scheduled to be completed by the end of the second quarter 1999. The Company currently has service and maintenance contracts with all of its critical software vendors; therefore, no additional costs are expected to be incurred by the Company for the upgrades needed to become compliant.

The second area of focus is the Company's service providers. The Company is in the process of obtaining compliance certificates from all critical service providers, which include banks and utility companies. The Company is not aware of any critical service provider that will not be Year 2000 compliant. However, the Company cannot give any assurance that the service providers will be Year 2000 compliant and that no interruption of business will occur as a result of their non-compliance.

The Company has sent Year 2000 questionnaires to its portfolio companies to assess their awareness and to evaluate their Year 2000 readiness. The Company plans to complete its survey and evaluation of its portfolio companies by the end of the first quarter of 1999 and will follow-up with any portfolio companies that may have material exposure and inadequate contingency plans. During 1998, the Company began to evaluate each new portfolio company's Year 2000 compliance as part of the due diligence process. No assurance can be given that certain of the Company's portfolio companies will not suffer material adverse effects from Year 2000 issues, and if such adverse effects impact those companies' ability to repay their loans, the Company's operating results and financial condition could be affected.

The Company estimates its operating costs to reach Year 2000 compliance will be approximately $100,000, and these costs are included in the Company's 1999 budget. This includes time allocated to this task by Company personnel and costs incurred in the testing phase.

While the Company believes that it is taking the necessary steps to be Year 2000 compliant, it is difficult to fully predict the impact on the Company of non-compliance in any of the above-mentioned areas. Significant non-compliance could result in a material adverse effect on the Company's financial conditions and results from operations. The Company believes that the worst-case Year 2000 scenarios may include 1) additional costs incurred to maintain the Company's books and records and to service the Company's investment portfolio, 2) the inability of the Company to access or transfer cash needed to pay its bills or fund new investments, 3) an increase in delinquencies and/or losses due to Year 2000 problems with the Company's portfolio companies, or 4) disruption in the capital markets resulting in a lack of liquidity to the Company. The degree of impact resulting from any of these worst-case scenarios cannot be determined at this time. The Company is currently assessing its contingency plan, taking into consideration these worst-case scenarios. This plan will be finalized after the Year 2000 compliance tests and surveys described above are completed.

SENIOR SECURITIES

Information about our senior securities is shown in the following tables. The "-- " indicates information which the Commission expressly does not require to be disclosed for certain types of senior securities.

<TABLE>
<CAPTION>

CLASS AND YEAR	TOTAL AMOUNT OUTSTANDING EXCLUSIVE OF TREASURY SECURITIES(1)	ASSET COVERAGE PER UNIT(2)	INVOLUNTARY LIQUIDATING PREFERENCE PER UNIT(3)	AVERAGE MARKET VALUE PER UNIT(4)
<S>	<C>	<C>	<C>	<C>
MASTER REPURCHASE AGREEMENT AND MASTER LOAN AND SECURITY AGREEMENT				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A
1991	0	0	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	23,210,000	3,695	--	N/A
1995	0	0	--	N/A
1996	85,775,000	2,485	--	N/A
1997	225,821,000	2,215	--	N/A
1998	6,000,000	2,734	--	N/A
UNSECURED LONG-TERM NOTES PAYABLE				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A
1991	0	0	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	0	0	--	N/A
1995	0	0	--	N/A
1996	0	0	--	N/A
1997	0	0	--	N/A
1998	180,000,000	2,734	--	N/A
SBA DEBENTURES(7)				
1989	$ 25,350,000	$4,015	$--	N/A
1990	40,450,000	3,397	--	N/A
1991	49,800,000	3,834	--	N/A
1992	49,800,000	5,789	--	N/A
1993	49,800,000	6,013	--	N/A
1994	54,800,000	3,695	--	N/A
1995	61,300,000	2,868	--	N/A
1996	61,300,000	2,485	--	N/A
1997	54,300,000	2,215	--	N/A
1998	47,650,000	2,734	--	N/A

</TABLE>

<TABLE>
<CAPTION>

CLASS AND YEAR	TOTAL AMOUNT OUTSTANDING EXCLUSIVE OF TREASURY SECURITIES(1)	ASSET COVERAGE PER UNIT(2)	INVOLUNTARY LIQUIDATING PREFERENCE PER UNIT(3)	AVERAGE MARKET VALUE PER UNIT(4)
<S>	<C>	<C>	<C>	<C>
OVERSEAS PRIVATE INVESTMENT CORPORATION LOAN				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A
1991	0	0	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	0	0	--	N/A
1995	0	0	--	N/A
1996	8,700,000	2,485	--	N/A
1997	8,700,000	2,215	--	N/A
1998	5,700,000	2,734	--	N/A
REVOLVING LINES OF CREDIT				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A

1991	0	0	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	32,226,000	3,695	--	N/A
1995	20,414,000	2,868	--	N/A
1996	45,099,000	2,485	--	N/A
1997	38,842,000	2,215	--	N/A
1998	95,000,000	2,734	--	N/A
SENIOR NOTE PAYABLE(5)				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A
1991	0	0	--	N/A
1992	20,000,000	5,789	--	N/A
1993	20,000,000	6,013	--	N/A
1994	20,000,000	3,695	--	N/A
1995	20,000,000	2,868	--	N/A
1996	20,000,000	2,485	--	N/A
1997	20,000,000	2,215	--	N/A
1998	0	0	--	N/A
BONDS PAYABLE				
1989	$ 0	$ 0	$--	N/A
1990	0	0	--	N/A
1991	0	0	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	0	0	--	N/A
1995	98,625,000	2,868	--	N/A
1996	54,123,000	2,485	--	N/A
1997	0	0	--	N/A
1998	0	0	--	N/A

</TABLE>

<TABLE>
<CAPTION>

CLASS AND YEAR	TOTAL AMOUNT OUTSTANDING EXCLUSIVE OF TREASURY SECURITIES(1)	ASSET COVERAGE PER UNIT(2)	INVOLUNTARY LIQUIDATING PREFERENCE PER UNIT(3)	AVERAGE MARKET VALUE PER UNIT(4)
<S>	<C>	<C>	<C>	<C>
REVERSE REPURCHASE AGREEMENTS(6)				
1989	$ 29,386,000	$4,015	$--	N/A
1990	28,361,000	3,397	--	N/A
1991	2,761,000	3,834	--	N/A
1992	0	0	--	N/A
1993	0	0	--	N/A
1994	0	0	--	N/A
1995	0	0	--	N/A
1996	0	0	--	N/A
1997	0	0	--	N/A
1998	0	0	--	N/A
REDEEMABLE CUMULATIVE PREFERRED STOCK(7)				
1989	$ 0	$ 0	$ 0	N/A
1990	1,000,000	308	100	N/A
1991	1,000,000	338	100	N/A
1992	1,000,000	526	100	N/A
1993	1,000,000	546	100	N/A
1994	1,000,000	351	100	N/A
1995	1,000,000	277	100	N/A
1996	1,000,000	242	100	N/A
1997	1,000,000	217	100	N/A
1998	1,000,000	267	100	N/A
NON-REDEEMABLE CUMULATIVE PREFERRED STOCK(7)				
1989	$ 6,000,000	$ 362	$100	N/A
1990	6,000,000	308	100	N/A
1991	6,000,000	338	100	N/A
1992	6,000,000	526	100	N/A
1993	6,000,000	546	100	N/A
1994	6,000,000	351	100	N/A
1995	6,000,000	277	100	N/A
1996	6,000,000	242	100	N/A
1997	6,000,000	217	100	N/A
1998	6,000,000	267	100	N/A

</TABLE>

---

(1) Total amount of each class of senior securities outstanding at the end

of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as the Company's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit. The asset coverage ratio for a class of senior securities that is preferred stock is calculated as the Company's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness, plus the involuntary liquidation preference of the preferred stock (see footnote 3). The Asset Coverage Per Unit for preferred stock is expressed in terms of dollar amounts per share.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Not applicable, as senior securities are not registered for public trading.

(5) The Company was the obligor on $15 million of the senior notes. The Company's SBIC subsidiaries were the obligors on the remaining $5 million, which is not subject to the asset coverage requirements of the 1940 Act.

(6) U.S. government agency guaranteed loans sold under agreements to repurchase. The Company was advised by the Staff of the Commission that these reverse repurchase agreements were not considered a class of senior security representing indebtedness and thus were not subject to the asset coverage requirements of the 1940 Act.

(7) Issued by the Company's SBIC subsidiary to the SBA. These categories of senior securities are not subject to the asset coverage requirements of the 1940 Act. See "Certain Government Regulations -- SBA Regulations."

BUSINESS

We are a value-added full-service lender. We invest in and lend to private, growing businesses in a variety of industries and in diverse geographic locations nationwide. We focus on investments in three primary areas:

- mezzanine finance

- commercial real estate finance, and

- SBA 7(a) lending.

Our investment portfolio consists primarily of small and medium-sized subordinated loans with equity features, small and medium-sized commercial mortgage loans, and small senior loans. At December 31, 1998, our investment portfolio totaled $800 million representing 733 borrower relationships in 39 states and the District of Columbia.

The Company's investment objective is to achieve current income and capital gains. We currently do not have a policy with respect to "concentrating" (i.e., investing 25% or more of our total assets) in any industry or group of industries and currently our portfolio is not concentrated. We may or may not concentrate in any industry or group of industries in the future.

THE 1997 MERGER

Allied Capital Corporation was formed through the merger, on December 31, 1997, of five affiliated public companies, the "predecessor companies", the oldest of which was founded in 1958. The merger provided numerous benefits and key competitive advantages:

- INCREASED SIZE. We are now the largest BDC in the United States and are significantly larger than any of the predecessor companies that merged in terms of total assets, total equity capital and total market capitalization. A larger asset base allows us to make larger investments in growing companies while maintaining portfolio diversity. A larger market capitalization provides our stockholders with better liquidity, and has increased our visibility in the debt and equity capital markets.

These improvements have provided the Company with a better foundation for growth.

- IMPROVED MIX OF INCOME. We now have a portfolio that produces a higher level of recurring investment income since the five companies merged. In addition, as a single company, we have been able to expand our existing businesses and improve our asset and liability management.

- EFFICIENCY. As one company, we now operate more efficiently. We have been able to eliminate redundant processes and expenses, including financial reporting, auditing, and corporate legal fees.

- SINGLE ENTITY FOCUSED ON HIGH RETURN INVESTMENTS. We now have one business plan with a single investment goal of generating strong current income and long-term capital gains. We are able to allocate both capital and human resources more effectively to maximize our returns on shareholder equity.

- INCREASED COMPETITIVENESS. Because of our increased size, focus, and efficiency, we have become a formidable competitor in the mezzanine finance marketplace. Our increased size has lowered our cost of capital and increased our pricing competitiveness. Our increased size has also enabled us to finance larger transactions while maintaining portfolio diversity. Our increased efficiency has

35

enabled us to grow both our sales and investment professional headcount so that we can more aggressively compete in the marketplace.

As a result of the merger, we increased our annual loan originations and improved the credit quality of our portfolio. We also increased our access to capital, particularly our ability to borrow from lenders. During 1998, we restructured our credit facilities and obtained unsecured debt financing at a lower cost with more favorable financing terms. In addition, we believe our larger market capitalization has increased our access to equity capital. Greater access to capital at a lower cost has enabled us to price our loans to borrowers more competitively.

MEZZANINE FINANCE

We provide mezzanine debt and equity financing in private transactions for small- and medium-sized growth companies. We recognize that entrepreneurs need an alternative to the high cost and dilutive nature of venture equity capital. Therefore, our mezzanine finance activities target a market niche between the senior debt financing provided by traditional lenders, such as banks and insurance companies, and the equity capital provided by venture capitalists and private equity investors.

Our mezzanine financing is generally used to fund growth, leveraged buyouts, note purchases, loan restructurings, acquisitions, recapitalizations, and bridge financings. We generally invest in private companies though, from time to time, we may invest in thinly traded public companies that lack access to public capital and whose securities are generally not marginable.

We originate and purchase investments ranging in size from $5 million to $25 million, with an emphasis on investments on the larger end of this range. Our mezzanine investments are generally structured as a subordinated loan that carries a relatively high fixed interest rate (12% to 18%), with interest-only payments in the early years and payments of both principal and interest in the later years, with maturities of five to ten years. Our mezzanine investments may also include equity features, such as warrants or options to buy a minority interest in the portfolio company. At December 31, 1998, approximately 98% of the Company's mezzanine investments had fixed interest rates.

We seek to generate a return on assets ranging from 14% to 20%, including both interest income and capital gains from the sale of our equity interests. Historically, we had structured our mezzanine investments so that approximately one-half of the potential return was earned through current interest payments, and one-half was earned in capital gains, which would arise from the sale of our equity interest in the portfolio company. We now structure our mezzanine investments with more emphasis on current interest, and less emphasis on the potential return from capital gains. At December 31, 1998, our mezzanine portfolio had a weighted average yield of 14.6%, as compared to a weighted average yield of 12.6% at December 31, 1997.

Our equity investments, which include warrants, options, and common and preferred stock, generally do not produce a current return, but are held for potential investment appreciation and ultimate capital gains. Generally, warrants are exercisable after a three- to five-year period, and the exercise price is usually nominal. The warrants often include registration rights, which

allows us to sell the securities if the portfolio company completes a public offering. In many cases, the warrants have a put option that requires that the borrower repurchase our equity position after a specified period of time at a formula price or at its fair market value.

At December 31, 1998, our mezzanine portfolio had $339.2 million in mezzanine loans and debt securities, and $49.4 million in equity interests, which combined represented 49% of our total investment portfolio. The geographic and industry composition of the mezzanine portfolio at December 31, 1998 was as follows:

GEOGRAPHIC REGION	
Mid-Atlantic	28%
Midwest	27%
Southeast	23%
West	11%
International	7%
Northeast	4%
Total	100%
Consumer products manufacturing	25%
Telecommunications	14%
Business services	11%
Retail	9%
Broadcasting	9%
Industrial products manufacturing	8%
Other	24%
Total	100%

Private equity and mezzanine investment partnerships are our primary competitors in the mezzanine finance business. We believe that we have certain structural and operational advantages when compared to many of these competitors. Our scale of operations, equity capital base, and successful track record as a mezzanine lender has enabled us to borrow long-term capital to leverage our equity and reduce our overall cost of capital. We use our lower cost of capital to price our loans competitively. In addition, the perpetual nature of our corporate structure enables us to be a better long-term partner for our borrowers than traditional mezzanine partnerships, which typically have a limited life. We also believe that high overhead, cumbersome regulatory structures and large size hinder many traditional lenders from lending effectively to our niche of small- and medium-sized businesses.

We hold a portion of our mezzanine investments in a wholly owned subsidiary, Allied Investment Corporation. Allied Investment is a BDC and is licensed and regulated by the Small Business Administration to operate as a small business investment company ("SBIC"). See "Certain Government Regulations" below for further information about SBIC regulation.

COMMERCIAL REAL ESTATE FINANCE

COMMERCIAL MORTGAGE LOANS. We originate and purchase mortgage loans to small and medium-sized businesses secured by commercial real estate. We believe that we successfully compete in the commercial real estate finance market due to our creativity and flexible loan terms. We use an "enterprise value" approach to assess new commercial mortgage loans, which requires an analysis of the underlying cash flow of the real estate tenant or owner-occupant in addition to more traditional real estate loan underwriting techniques, which may exclude the impact of business cash flows from the underwriting considerations. We believe that we are able to structure and finance more complicated loans than traditional real estate lenders due to our significant expertise in this area, and the experience of our investment professionals.

We generally price new commercial mortgage loans based on a fixed spread ranging from 3% to 5% over five to ten year U.S. Treasury rates. During 1997 and 1998, interest rates on U.S. Treasury bonds declined significantly, and the spreads charged by commercial real estate lenders in the marketplace narrowed. As a result, we began to reevaluate our strategy regarding commercial real estate lending in light of declining interest rates. During the third quarter of 1998, we significantly reduced our commercial

mortgage loan origination activity for our own portfolio, and began exploring opportunities to originate commercial mortgage loans for sale to various financial institutions.

We are now pursuing various loan sale opportunities and we plan to continue to originate commercial mortgage loans for sale. We can enhance the investment return from our commercial mortgage loan portfolio by originating and selling these lower-yielding loans, because we receive loan origination fees and cash premiums on the sale from the purchaser. During 1998, we sold a total of $44.0 million of commercial mortgage loans.

We focus on originating commercial mortgage loans for our own portfolio ranging in size from $1 million to $25 million with maturities of five to ten years. These loans are generally priced at higher interest rates and include subordinated real estate loans and sale-leaseback financing. Subordinated loans are priced similarly to our mezzanine loans and may be accompanied by an equity interest in the real estate or in the underlying business.

At December 31, 1998, 68% of the Company's portfolio of commercial mortgage loans carried a fixed interest rate, and 32% carried a floating rate tied to various indices. These loans may require payments of interest only, or they may require level payments of principal and interest calculated to amortize the principal on a 10- to 30-year basis with a balloon payment at maturity.

We derive income from the (1) interest charged on the commercial mortgage loan portfolio and (2) amortization of original issue and purchased discounts. The weighted average stated interest rate on the commercial mortgage loan portfolio at December 31, 1998 was 9.7% and the weighted average yield was 10.4%. The effective yield on the mortgage loan portfolio is higher than the stated interest rate due to the amortization of original issue discount and purchased discount. At December 31, 1998, the average loan-to-value for the commercial mortgage loan portfolio was 67.4%.

The Company's commercial mortgage loan portfolio totaled approximately $233.2 million at December 31, 1998, or 29% of the Company's total investment portfolio. The geographic composition and the property types securing the commercial mortgage loan portfolio at December 31, 1998 was as follows:

<TABLE>
<CAPTION>
GEOGRAPHIC REGION

<S>	<C>
Mid-Atlantic	36%
Southeast	23%
West	22%
Midwest	13%
Northeast	6%
Total	100%

</TABLE>

<TABLE>
<CAPTION>
PROPERTY TYPE

<S>	<C>
Hospitality	42%
Office	29%
Retail	14%
Recreation	5%
Other	10%
Total	100%

</TABLE>

We compete with banks, real estate conduits, equity and mortgage real estate investment trusts ("REITs") and other lenders for the commercial mortgage loans we originate. We believe we have earned a reputation in the commercial real estate finance market as a specialist in credits that require more difficult structuring or underwriting techniques, and that we compete successfully in this niche.

COMMERCIAL MORTGAGE-BACKED SECURITIES. Turmoil in the real estate capital markets during the fourth quarter of 1998 created a unique opportunity for the Company to acquire non-investment grade commercial mortgage-backed securities

("CMBS") at attractive yields. In late 1998, the Company purchased $67.2 million of non-investment grade bonds for $32.2 million, with an estimated yield to maturity of 15%. We plan to continue to

purchase CMBS as long as we can achieve significant discounts and attractive yields on such purchases.

In January 1998, we completed a $295 million asset securitization in which we retained a residual interest in securitized loans. We continue to service all of the loans in the pool. This transaction provided liquidity to our investment portfolio, and allowed us to reinvest the cash proceeds from the securitization into higher yielding mezzanine and SBA 7(a) loans. We do not anticipate significant future securitization activity; we will gain liquidity from our lower yielding loans primarily through whole loan sales.

At December 31, 1998, the Company had $113.7 million in commercial mortgage-backed securities, which represented approximately 14% of the Company's total investment portfolio.

The CMBS in which we invest are non-investment grade, which means that nationally recognized statistical rating organizations rate them below the top four investment-grade rating categories. Non-investment grade securities usually pay a higher interest rate than do investment-grade bonds, but with the higher return comes greater risk. Non-investment grade securities are considered speculative, and their capacity to pay principal and interest in accordance with the terms of their issue is not ensured. They tend to react more to changes in interest rates than do higher-rated securities, have a higher risk of default, tend to be less liquid, and may be more difficult to value. When we evaluate a CMBS purchase, we use the same stringent underwriting procedures and criteria for the pooled loans as we do for the loans we originate and purchase. These underwriting procedures and criteria are described in detail below. In addition, we believe that the underlying real estate collateral for our purchased CMBS adequately secures our position. At December 31, 1998, the average loan-to-value ratio for our commercial mortgage-backed securities portfolio, including the residual interest in our securitized pool, was 67.1%.

SBA 7(A) LENDING

We participate in the SBA's 7(a) Guaranteed Loan Program through a wholly owned subsidiary, Allied Capital SBLC Corporation. Allied SBLC is licensed by the SBA as a Small Business Lending Company (SBLC). It is one of only fourteen non-bank SBLCs operating in the United States.

Under the SBA 7(a) program, we extend senior secured loans that are partially guaranteed by the SBA. Our SBA 7(a) loans are provided to small businesses for the purposes of acquiring real estate, purchasing machinery or equipment, or providing working capital. The loans are secured by a mortgage or other liens on the assets of the borrower, and in all cases the owners of the business must personally guarantee the repayment of the loan. We focus our SBA 7(a) loan origination activity on loans secured by commercial real estate assets.

Our 7(a) loans typically range in size from $250,000 to $1 million. The SBA guarantees 80% of any qualified loan up to $100,000 regardless of maturity, and 75% of any qualified loan over $100,000 regardless of maturity, to a maximum guarantee of $750,000 for any one borrower. SBA regulations define qualified small businesses generally as businesses with (1) no more than $5 million in annual sales or (2) no more than 500 employees. The SBA stipulates that loans used to acquire real estate may have a maximum maturity of 25 years; loans used to purchase machinery and equipment may have a maximum maturity of 15 years; loans used for working capital may have a maximum maturity of seven years.

We generally price our 7(a) loans with variable interest rates typically ranging from 1.75% to 2.75% over the prime rate, adjusted monthly. Approximately 96% of the Company's SBA 7(a) loan portfolio had variable interest rates as of December 31, 1998. Generally loans are payable in equal monthly installments of principal and interest on the first day of the month following the month in which the loan is funded, until maturity. Our post-Merger capital structure has allowed us to lower our pricing on SBA 7(a) loans. As a result, we believe we now compete more effectively in the marketplace, and we have increased our deal flow.

We routinely sell the guaranteed portion of our SBA 7(a) loans in the well-established secondary market. We earn a premium on the sale of the guaranteed portion of our SBA 7(a) loans. Typically our premiums on loan sales, net of

origination costs, range from 4% to 7.5% of the face amount of each loan sold. This premium income enhances the return on our 25% retained investment in the loan, and our retained portion is not subordinate to the guaranteed portion sold. We continue to service 100% of each loan we originate.

For the fiscal year ended September 30, 1998, the federal government estimated that SBA 7(a) loans originations would approximate $10.5 billion. Banks, non-bank SBLCs, and certain state-sponsored non-bank lenders serve this large market. We believe that we compete successfully in the 7(a) loan market because we focus in certain regional markets and because we are a "Preferred Lender" in the regional markets in which we compete. As an SBA Preferred Lender, we are permitted to make 7(a) guaranteed loans without prior SBA credit approval, thus simplifying and expediting our loan approval process and the related disbursements. At December 31, 1998, Allied SBLC was a designated Preferred Lender in sixteen markets; we plan to attain Preferred Lender status in additional markets during 1999.

Our SBA 7(a) loan portfolio totaled $56.3 million at December 31, 1998, or 7% of our total investment portfolio. The SBA 7(a) portfolio includes loans to, among others, hotels and motels, automotive shops and gas stations, restaurants, manufacturers, broadcasting and communications companies, service providers, retail shops, and other small businesses. The following tables show our 7(a) loan portfolio by geographic region and industry at December 31, 1998:

<TABLE>
<CAPTION>
GEOGRAPHIC REGION

<S>	<C>
Midwest	34%
Mid-Atlantic	29%
Southeast	16%
West	14%
Northeast	7%
Total	100%

</TABLE>

<TABLE>
<CAPTION>
INDUSTRY

<S>	<C>
Retail	41%
Hospitality	30%
Consumer services	6%
Consumer products manufacturing	6%
Business services	4%
Broadcasting	4%
Other	9%
Total	100%

</TABLE>

INVESTMENT ADVISORY SERVICES

We are a registered investment adviser, pursuant to the Investment Advisers Act of 1940, and have certain investment advisory agreements to manage private investment funds. The revenue generated from these agreements is not material to the Company's

operations. See "Management's Discussion and Analysis -- Results of Operations -- Comparison of Fiscal Years Ended December 31, 1998, 1997 and 1996."

LOAN SOURCING

During 1997 and 1998, we significantly increased the scope of our sales and marketing activity by opening regional offices in Chicago, San Francisco, Detroit and Atlanta. We also developed a full-time sales and marketing staff with ten individuals dedicated to identifying and pursuing mezzanine investments, commercial mortgage loans, and SBA 7(a) loans. To source new investment opportunities, we work with thousands of intermediaries including:

- regional and boutique investment banks;

- private mezzanine and equity investors;

- business and mortgage brokers;

- national retail financial services companies; and

- banks, law firms and accountants.

We believe that our experience and reputation provide a competitive advantage in originating new investment opportunities. We have established an extensive network of investment referral relationships over our 40-year history. We are recognized as a pioneer in the mezzanine finance industry, and have developed a reputation in the commercial real estate finance market for our ability to finance complex transactions.

ASSET APPROVAL AND UNDERWRITING PROCESS

In assessing new investment opportunities, we maintain rigorous credit standards based on our underwriting guidelines, a thorough due diligence process, and a credit approval process requiring committee review, all of which are described below. The combination of conservative underwriting standards and our credit-oriented culture has resulted in a record of minimal realized losses.

GENERAL INVESTMENT CRITERIA. The following table highlights general underwriting criteria for each product type. We use these criteria as general guidelines only, and the characteristics of individual investments may vary significantly depending upon each unique investment opportunity.

<TABLE>
<CAPTION>

	MEZZANINE	REAL ESTATE/SBA 7(A) LENDING
<S>	<C>	<C>
INDUSTRY OR PROPERTY TYPE	Consumer and industrial products, business services (outsourcing), broadcasting, telecommunications, education, and other industries that have low vulnerability to changes in economic cycles	Office buildings, full service hotels, manufacturing facilities, warehouses, retail facilities, convenience stores, gas stations, and other properties requiring specialized underwriting expertise
INVESTMENT CRITERIA	Stable, growing companies, strong cash flow, high returns on invested capital, later-stage, strong management	Amortization, collateral coverage, cash flow coverage
LOAN SIZE	$5 million to $25 million	$0.2 million to $25 million
TERM	5 to 10 years	1 to 30 years
COLLATERAL	Second lien on assets, if available	First lien on real estate, second lien on real estate, personal guarantees

</TABLE>

LOAN UNDERWRITING PROCEDURES AND CRITERIA

MEZZANINE FINANCE. We generally consider financing companies that can demonstrate strong market position, sales growth, positive cash flow, and profitability. We emphasize the quality of management of our potential portfolio companies, and specifically seek experienced entrepreneurs with a management track record and relevant industry experience. We generally seek companies with annual revenues of $20 million to $200 million, cash flow margins of greater than 10% of revenues, operating histories of at least ten years, and seasoned management teams who have a significant personal investment at risk in the business. In addition, the business must generate a high return on its invested capital, and must demonstrate a low level of vulnerability to changes in economic cycles. The prospective portfolio company's total debt including our loan is generally no greater than five times the company's current cash flow, and the company's cash flow is generally no less than two times its total debt service obligation to all of its lenders.

For each mezzanine financing, our investment professionals thoroughly review, analyze and substantiate, through due diligence, the business plan and operations of the potential portfolio company. Our financial due diligence, which is often conducted with the assistance of an accounting firm, includes analyzing the company's historical and projected financial information and stress-testing the projections under adverse assumptions. Our business due

diligence, which is often conducted with the assistance of industry specialists or consultants, thoroughly studies the industry and competitive landscape. We assess the company's business plan and its cyclicality, to assess the borrower's ability to weather economic cycles. In management due diligence, we conduct numerous personal and professional reference checks, including employees, both current and former, customers, suppliers and competitors. The typical mezzanine financing will require two to three months of diligence and structuring before funding occurs.

COMMERCIAL REAL ESTATE FINANCE AND SBA 7(A) LENDING. When we evaluate commercial mortgage loans for origination or purchase, including CMBS purchases, we generally receive an initial package of information that typically includes underwriting

information that was developed by the borrower or seller. Typical underwriting information that we require from potential borrowers in order to conduct appropriate due diligence includes: financial statements of the borrower, appraisals, rent rolls and lease information, environmental reports, structural and engineering reports, and any other information deemed appropriate under the circumstances.

In the case of purchased loans, the seller generally provides financial statements of the borrower, property appraisals and any other original underwriting information. The seller also generally provides loan documents and payment histories. When we originate or purchase commercial mortgage loans, we generally consider a variety of other factors, including the borrower's estimated current cash flow coverage, the creditworthiness of the borrower, the net worth and financial strength of the borrower, the estimated current liquidation value of the related mortgaged property, and trends in the borrower's industry and in real estate values in the borrower's geographic region. The loan officer inspects the property during the due diligence process, and he or she values the property using internally developed valuation analyses.

Small businesses with less than 500 employees or less than $5 million in annual sales qualify for SBA 7(a) loans. Our underwriting criteria are otherwise very similar to our commercial mortgage loan criteria. We generally seek SBA 7(a) loans that are collateralized by real estate.

CREDIT APPROVAL PROCESS

All credit approval is obtained through a committee review process centralized at our headquarters in Washington, DC. All of our lending disciplines are represented on the investment committee, which is comprised of our most senior lenders. The investment committee in its entirety, or certain subcommittees of the investment committee, are required to approve all loan transactions.

No one individual has the ability to approve a credit. The asset approval process not only benefits from the experience of the investment committee members, but also from the experience of our other investment professionals who, on average, have over 13 years of professional experience. This experienced staff of investment professionals underwrites each new loan and subjects each potential investment to a rigorous due diligence process, as is described above.

In certain instances where risk/return characteristics warrant and for every transaction larger than $10 million, we require approval from the executive committee of the board of directors in addition to the investment committee. Even after all such approvals are received, due diligence must be successfully completed with final investment committee approval before funds are disbursed to a new borrower.

PORTFOLIO MANAGEMENT

LOAN SERVICING: Our staff is responsible for routine loan servicing, which includes:

- payment processing;
- borrower inquiries;
- escrow analysis and processing;
- third-party reporting; and
- insurance and tax administration.

In addition, our staff is responsible for special servicing activities including delinquency monitoring and collection, workout administration and management of foreclosed assets.

PORTFOLIO MONITORING AND VALUATION: We use a grading system in order to help us monitor our portfolio. The grading system assigns grades to loans from 1 to 5 as follows:

GRADE	DESCRIPTION
1	Probable capital gain
2	Performing security
3	Close monitoring -- no loss of principal or interest expected
4	Workout -- some loss of interest expected
5	Workout -- some loss of principal and interest expected. Security is valued at net realized value.

At December 31, 1998 Grade 1 investments totaled $104.4 million, or 13.0% of the total portfolio at value; Grade 2 investments totaled $618.0 million, or 77.2% of the total portfolio; Grade 3 investments totaled $53.2 million, or 6.7% of the total portfolio; Grade 4 investments totaled $11.8 million, or 1.5% of the total portfolio; and Grade 5 investments totaled $12.9 million or 1.6% of the total portfolio.

As a BDC, the board of directors is required to value the portfolio on a quarterly basis. In valuing each individual investment, we consider the financial performance of each borrower, loan payment histories, indications of potential equity realization events and current collateral values, and determine whether the value of the asset should be increased through unrealized appreciation or decreased through unrealized depreciation. After each investment professional has made his or her determination of value, members of senior management review the valuations. These valuations are then presented to the board of directors for their review and approval.

As a general rule, the Company does not value its loans above cost, but loans are subject to depreciation events when the asset is considered impaired. Also as a general rule, equity securities may be assigned appreciation if circumstances warrant. With respect to private equity securities, each investment is valued using industry valuation benchmarks, and then the value is assigned a discount reflecting the illiquid nature of the investment as well as our minority, non-control position. When an external event such as a purchase transaction, public offering, or subsequent equity sale occurs, the pricing indicated by the external event is used to corroborate our private equity valuation. Equity securities in public companies that carry certain restrictions on sale are generally valued at a discount from the public market value of the securities. Restricted and unrestricted publicly traded stocks may also be valued at discounts, due to the size of our investment or market liquidity concerns.

DELINQUENCIES. We monitor loan delinquencies weekly. The following outlines the treatment of each delinquency category:

30 DAYS PAST DUE.....	Our loan servicing staff monitors loans and contacts borrowers for collection.
60 DAYS PAST DUE.....	We generally transfer loans to investment professionals responsible for special servicing activity for monitoring, collection, and development of a workout plan, if necessary.

90 DAYS PAST DUE.....	Our accounting department reviews loans in conjunction with the investment professional responsible for special servicing to determine whether the loan should be placed on a non-accrual status or whether a valuation adjustment is required.
120 DAYS PAST DUE.....	Generally, we place such loans on non-accrual status and the loan is an active workout.

At December 31, 1998, $13.7 million, or 1.7% of the Company's portfolio at value was 120 days or more past due. Included in this category are loans valued

at $9.9 million that are secured by real estate.

LOAN LOSSES. We have a history of low levels of loan losses, and have a demonstrated track record of successfully resolving troubled credit situations with minimal loss. The following table shows realized losses in the Company's portfolio over the last five years:

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
Realized Losses.....	$ 2,908	$ 4,679	$ 11,262	$ 5,100	$ 3,216
Total Assets.....	501,817	605,434	713,360	807,775	856,079
Realized Losses/Total Assets.....	0.6%	0.8%	1.6%	0.6%	0.4%

</TABLE>

EMPLOYEES

At December 31, 1998, we employed 106 individuals including investment professionals, operations professionals and administrative staff. All individuals are located in the Washington, DC office, except for five individuals in the Chicago office, four in the San Francisco office, four in the Detroit office and one in the Atlanta office. We believe that our relations with employees are excellent.

LEGAL PROCEEDINGS

We are a party to certain lawsuits in the normal course of our business. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these actions will have a material effect upon our financial condition or results of operations.

PORTFOLIO COMPANIES

The following is a listing of our portfolio companies in which we had an equity investment at December 31, 1998. We make available significant managerial assistance to our portfolio companies. Other than loans to the portfolio company, our only relationship with each portfolio company is our investment. For information relating to the amount and

general terms of our loans to portfolio companies, see the Consolidated Statement of Investments at December 31, 1998 at pages F-5 to F-9.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF PORTFOLIO COMPANY	NATURE OF ITS PRINCIPAL BUSINESS	TITLE OF SECURITIES HELD BY THE COMPANY	PERCENTAGE OF CLASS HELD(1)
<S>	<C>	<C>	<C>
Acme Paging, L.P. ..... 1336 Basswood, Suite F Schaumburg, IL 60173	Paging Services	Partnership Interests	1.8%
American Barbecue & Grill, Inc. ..... 7300 W. 110th Street, Suite 570 Overland Park, KS 66210	Restaurant Chain	Warrants to Purchase Common Stock	17.3%
ASW Holding Corporation..... 2825 W. 31st Street Chicago, IL 60623	Steel Wool Manufacturer	Warrants to Purchase Common Stock	5.0%
Au Bon Pain Co., Inc. ..... 19 Fid Kennedy Avenue Boston, MA 02210	Restaurant Chain	Warrants to Purchase Common Stock	1.7%
Avborne, Inc. ..... c/o Trivest, Inc. 2665 S. Bayshore Dr., Suite 800 Miami, FL 33133-5462	Aviation Services Company	Warrants to Purchase Common Stock	2.5%
Brazos Sportswear, Inc. ..... 3860 Virginia Avenue Cincinnati, OH 45227	Sportswear Manufacturer & Distribution	Common Stock	7.8%
Candlewood Hotel Company..... 9342 East Central Wichita, KS 67206	Extended Stay Facilities	Series A Convertible Preferred Stock	5.0%
Celebrities, Inc. ..... 408-412 W. Oakland Park Boulevard	Radio Stations	Warrants to Purchase Common Stock	25.0%

Ft. Lauderdale, FL 33311-1712			
CeraTech Holdings Corporation.....	Ceramic Plate	Warrants to Purchase	33.7%
10435 Seymour Avenue	Manufacturer	Common Stock	
Franklin Park, IL 60131			
Cherry Tree Toys, Inc.	Direct Marketer of	Common Stock	19.8%
7601 France Avenue South, #225	Woodcrafts		
Edina, MN 55435			
Convenience Corporation of			
America.....	Convenience Store Chain	Series A Preferred Stock	10.0%
711 N. 108th Court		Warrants to Purchase	4.5%
Omaha, NE 68154		Common Stock	
Cooper Natural Resources, Inc. ...	Sodium Sulfate Producer	Warrants to Purchase	25.3%
P.O. Box 1477		Common Stock	
Seagraves, TX 79360			
Cosmetic Manufacturing.....	Cosmetic Manufacturer	Options to Purchase	10.0%
Resources, LLC		Shares	
11312 Penrose Street			
Sun Valley, CA 91352			
Csabai Canning Factory Rt.	Food Processing	Hungarian Quotas	9.2%
5600 Bekescasba			
Bekis: vt 52-54 Hungary			
DEH Printed Circuits, Inc.	Circuit Board	Warrants to Purchase	12.5%
840 Church Road	Manufacturer	Common Stock	
Elgin, IL 60123			

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS OF PORTFOLIO COMPANY	NATURE OF ITS PRINCIPAL BUSINESS	TITLE OF SECURITIES HELD BY THE COMPANY	PERCENTAGE OF CLASS HELD(1)
<S>	<C>	<C>	<C>
DeVlieg-Bullard, Inc.	Tool Manufacturer	Warrants to Purchase	1.7%
One Gorham Island		Common Stock	
Westport, CT 06680			
Directory Investment	Telephone Directories		50.0%
Corporation.....		Common Stock	
1919 Pennsylvania Avenue, N.W.			
Washington, DC 20006			
Directory Lending Corporation.....	Telephone Directories	Common Stock	50.0%
1919 Pennsylvania Avenue, N.W.		Preferred Stock	50.0%
Washington, DC 20006			
EDM Consulting, LLC.....	Environmental	Common Stock	25.0%
14 Macopin Avenue	Consulting		
Montclair, NJ 07043			
Enterprise Software, Inc.			
(formerly IndeNet Corp.)	Broadcasting Software	Common Stock	2.7%
5475 Tech Enter Drive, Suite 300		Warrants to Purchase	3.8%
Colorado Springs, CO 80919		Common Stock	
Esquire Communications Ltd.	Court Reporting	Warrants to Purchase	3.0%
216 E. 45th Street, 8th floor	Services	Common Stock	
New York, NY 10017			
ExTerra Credit Recovery, Inc.	Consumer Finance	Preferred Stock	2.6%
35 Lennon Lane, Suite 200		Common Stock	1.1%
Walnut Creek, CA 94598		Warrants to Purchase	1.1%
		Common Stock	
Fairchild Industrial Products			
Company.....	Industrial Controls	Warrants to Purchase	21.5%
3920 Westpoint Boulevard	Manufacturer	Common Stock	
Winston-Salem, NC 27013			
Galaxy American Communications,			
LLC.....	Cable Television	Warrants to Purchase	6%
1220 N. Main Street	Operator	Common Stock	
Sikeston, MO 63801			
Gibson Guitar Corporation	Guitar Manufacturer	Warrants to Purchase	3.0%
1818 Elm Hill Pike		Common Stock	
Nashville, TN 37210			
Ginsey Industries, Inc.	Toilet Seat		7.0%
	Manufacturer	Convertible Debentures	
281 Benigno Boulevard		Warrants to Purchase	16.0%
Bellmawr, NJ 08031		Common Stock	
Golden Eagle/Satellite			
Archery, LLC.....	Sporting Equipment	Convertible Debentures	26.9%
1733 Gunn Highway	Manufacturer		
Odessa, FL 33556			
Grant Broadcasting System II.....	Television Stations	Warrants to Purchase	40.0%
919 Middle River Drive,		Common Stock	
Suite 409		Warrants to Purchase	40.0%

Ft. Lauderdale, FL 33304		Common Stock in Affiliate Company	
Grant Television, Inc. ..... (See Grant Broadcasting System II)	Television Stations	Warrants to Purchase Common Stock	20.0%
Hotelevision, Inc. ..... 599 Lexington Avenue Suite 2300 New York, NY 10022	Hotel Cable-TV Network	Preferred Stock	14.2%

47

NAME AND ADDRESS OF PORTFOLIO COMPANY	NATURE OF ITS PRINCIPAL BUSINESS	TITLE OF SECURITIES HELD BY THE COMPANY	PERCENTAGE OF CLASS HELD(1)
<S>	<C>	<C>	<C>
Jack Henry & Associates, Inc. .... 663 Highway 60 P.O. Box 807 Monett, MO 65708	Commercial Banking Software Development	Common Stock	0.5%
JRI Industries, Inc. ..... 2958 East Division Springfield, MO 65803	Machinery Manufacturer	Warrants to Purchase Common Stock	7.5%
Julius Koch USA, Inc. ..... 387 Church Street New Bedford, MA 02745	Cord Manufacturer	Warrants to Purchase Common Stock	45.0%
Kirker Enterprises, Inc. ..... 55 East 6th Street Paterson, NJ 07524	Nail Enamel Manufacturer	Warrants to Purchase Common Stock	22.5%
		Equity Interest in Affiliate Company	5.0%
Kirkland's, Inc. ..... P.O. Box 7222 Jackson, TN 38308-7222	Home Furnishing Retailer	Warrants to Purchase Common Stock	3.2%
Kyrus Corporation (formerly MidSouth Data Systems, Inc.) ..... 25 Westridge Market Place Chandler, NC 28715	Value-Added Reseller, Computer Systems	Warrants to Purchase Common Stock	8.0%
Liberty-Pittsburgh Systems, Inc. ..... 265 Executive Drive Plainview, NY 11803	Business Forms Printing	Common Stock	20.0%
Love Funding Corporation..... 1220 19th Street, NW, Suite 801 Washington, DC 20036	Mortgage Services	Series D Preferred Stock	26.0%
Midview Associates, L.P. ..... 2 Eaton Street, Suite 1101 Hampton, VA 23669	Residential Land Development	Options to purchase partnership interests	35.0%
Mill-It Striping, Inc. ..... 1005 Sunshine Lane Altamonte Springs, FL 32714	Highway Paint Striping	Common Stock	8.0%
Monitoring Solutions, Inc. ..... 4303 South High School Road Indianapolis, IN 46241	Air Emissions Monitoring	Common Stock	25.0%
		Warrants to Purchase Common Stock	40.0%
Morton Industrial Group..... 5305 Oakbrook Parkway Norcross, GA 30093	Friction Materials Manufacturer	Common Stock	0.2%
Nobel Education Dynamics, Inc. ... 1400 N. Providence Road, Suite 3055 Media, PA 19063	Educational Services	Series D Convertible Preferred Stock	100.0%
		Warrants to Purchase Common Stock	11.6%
Nursefinders, Inc. ..... 1200 Copeland Road, Suite 200 Arlington, TX 76011	Home Healthcare Providers	Warrants to Purchase Common Stock	3.5%
Old Mill Holdings, Inc..... 410 Severn Avenue, Suite 311 Annapolis, MD 21403	Custom Embroidered Apparel Manufacturer	Warrants to Purchase Common Stock	24.0%
PIATL Holdings, Inc. ..... 16000 Horizon Way, Suite 100 Mt. Laurel, NJ 08054	Asbestos Testing Labs	Preferred Stock	35.5%
		Common Stock	23.6%

48

NAME AND ADDRESS OF PORTFOLIO COMPANY	NATURE OF ITS PRINCIPAL BUSINESS	TITLE OF SECURITIES HELD BY THE COMPANY	PERCENTAGE OF CLASS HELD(1)
Pico Products, Inc.	Satellite/Television	Common Stock	5.0%
12500 Foothill Boulevard	Component	Warrants to Purchase	15.0%
Lakeview Terr., CA 91342	Manufacturer	Common Stock	
Precision Industrial Co. (formerly			
Herr-Voss Industries, Inc.)	Machinery Manufacturer	Common Stock	8.5%
Arch Street Extension			
Carnegie, PA 15106			
Progressive International			
Corporation	Retail Kitchenware	Redeemable Preferred	6.2%
6111 S. 228th Street		Stock	
P.O. Box 97045		Warrants to Purchase	8.0%
Kent, WA 98064		Common Stock	
Quality Software Products			
Holdings, PLC.....	Accounting Software	Common Stock	0.7%
Talipot House 5th Avenue	Developer		
Gateshead Tyne & Wear, NE110XA			
UNITED KINGDOM			
Radio One of Atlanta, Inc.	Radio Stations	Common Stock	14.3%
5900 Princess Garden Parkway			
Lanham, MD 20706			
Schwinn/GT.....	Bicycle Manufacturer/	Warrants to Purchase	0.7%
1690 38th Street	Distributor	Common Stock	
Boulder, CO 80301			
Seasonal Expressions, Inc.....	Decorative Ribbon	Series A Preferred Stock	100.0%
230 5th Avenue, Suite 1007	Manufacturer		
New York, NY 10001			
Spa Lending Corporation.....	Health Spas	Series A Preferred Stock	100.0%
1919 Pennsylvania Avenue, N.W.		Series B Preferred Stock	68.4%
Washington, DC 20006		Series C Preferred Stock	46.3%
		Common Stock	62.1%
Sydran Food Services II, LP.....	Operator of Fast	Options to Purchase	2.5%
Bishop Ranch 8	Food Restaurants	Common Stock	
3000 Executive Parkway			
Ste. 515			
San Ramon, CA 94583-4254			
Total Foam, Inc.	Packaging Systems	Common Stock	49.0%
P.O. Box 688			
Ridgefield, CT 06877			
Unitel, Inc.	Operator of Call		8.0%
	Service	Warrants to Purchase	
8300 Greensboro Drive, 6th Floor	Centers	Common Stock	
McLean, VA 22102			
Vianova Resins GmbH.....	Specialty Chemical	Warrants to Purchase	0.2%
Rheingaustrasse 190	Producer	Common Stock	
D-65203 Weisbaden GERMANY			
Williams Brothers Lumber			
Company.....	Builders' Supplies	Warrants to Purchase	14.1%
3165 Pleasant Hill Road		Common Stock	
Duluth, GA 30136			

NAME AND ADDRESS OF PORTFOLIO COMPANY	NATURE OF ITS PRINCIPAL BUSINESS	TITLE OF SECURITIES HELD BY THE COMPANY	PERCENTAGE OF CLASS HELD(1)
Wyo-Tech Acquisition	Vocational School		100%
Corporation.....		Common Stock	
4373 N. 3rd Street		Preferred Stock	100%
Laramie, WY 82072			

---

(1) Percentages shown for warrants and options held represent the percentage of class of security we may own, on a fully diluted basis, assuming we exercise our warrants or options.

DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities divided by the total number of common shares outstanding.

Portfolio assets are carried at fair value as determined by the board of directors under the Company's valuation policy. As a general rule, the Company does not value its loans above cost, but loans are subject to depreciation events when the asset is considered impaired. Also as a general rule, equity securities may be assigned appreciation if circumstances warrant. With respect to private equity securities, each investment is valued using industry valuation benchmarks, and then the value is assigned a discount reflecting the illiquid nature of the investment as well as our minority, non-control position. When an external event such as a purchase transaction, public offering, or subsequent equity sale occurs, the pricing indicated by the external event is used to corroborate our private equity valuation. Equity securities in public companies that carry certain restrictions on sale are generally valued at a discount from the public market value of the securities. Restricted and unrestricted publicly traded stocks may also be valued at discounts, due to the size of our investment or market liquidity concerns.

Determination of fair value involves subjective judgments that cannot be substantiated by auditing procedures. Accordingly, under current standards, the accountants' opinion on the Company's financial statements in our annual report refers to the uncertainty with respect to the possible effect on the financial statements of such valuation.

MANAGEMENT

The board of directors supervises the management of our Company. The responsibilities of each director include, among other things, the oversight of the loan approval process, the quarterly valuation of our assets, and oversight of our financing arrangements. The board of directors maintains an Executive Committee, Audit Committee, Compensation Committee, and Nominating Committee, and may establish additional committees in the future. All of the Company's directors also serve as directors of its subsidiaries.

Our investment decisions are made by an investment committee comprised of the Company's most senior investment professionals. No one person is primarily responsible for making recommendations to the investment committee.

The Company is internally managed and our investment professionals manage our portfolio and the portfolios of companies for which we serve as investment adviser. These investment professionals have extensive experience in managing investments in private growing businesses in a variety of industries and in diverse geographic locations, and are familiar with our approach of lending and investing. Because the Company is internally managed, we pay no investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.

STRUCTURE OF BOARD OF DIRECTORS

The Company's board of directors is classified into three approximately equal classes with three-year terms, with only one of the three classes expiring each year. Directors serve until their successors are elected and qualified.

DIRECTORS

Information regarding the board of directors is as follows:

<TABLE>
<CAPTION>

NAME	AGE	POSITION	DIRECTOR SINCE(1)	EXPIRATION OF TERM
<S>	<C>	<C>	<C>	<C>
William L. Walton*.....	49	Chairman, Chief Executive Officer and President	1986	2001
George C. Williams, Jr.*.....	72	Chairman Emeritus	1964	2001
Brooks H. Browne.....	49	Director	1990	2001
John D. Firestone.....	55	Director	1993	1999
Anthony T. Garcia.....	42	Director	1991	1999
Lawrence I. Hebert.....	52	Director	1989	1999
John I. Leahy.....	68	Director	1994	2000
Robert E. Long.....	67	Director	1972	2001
Warren K. Montouri.....	69	Director	1986	2000
Guy T. Steuart II.....	67	Director	1984	2000
T. Murray Toomey, Esq.....	75	Director	1959	2000
Laura W. van Roijen.....	46	Director	1992	1999

</TABLE>

---

* Interested persons of the Company, as defined in the 1940 Act.

(1) Includes service as a director of any of the predecessor companies.

EXECUTIVE OFFICERS

Information regarding the Company's executive officers is as follows:

NAME	AGE	POSITION
William L. Walton.....	49	Chairman, Chief Executive Officer and President
Philip A. McNeill.....	39	Managing Director
John M. Scheurer.....	46	Managing Director
Joan M. Sweeney.....	39	Managing Director
G. Cabell Williams, III	44	Managing Director
Penni F. Roll.....	33	Principal and Chief Financial Officer

BIOGRAPHICAL INFORMATION

DIRECTORS

William L. Walton has been the Chairman, Chief Executive Officer and President of the Company since 1997. Mr. Walton was President of Allied II from 1996 to 1997. Mr. Walton is the Chairman of Business Mortgage Investors, Inc ("BMI"), and is a director of Nobel Learning Communities, Inc. (a portfolio company). Mr. Walton was Chief Executive Officer of Success Lab, Inc. (children's educational services) from 1993 to 1996, and Chief Executive Officer of Language Odyssey (educational publishing and services) from 1992 to 1996. Mr. Walton was Managing Director of Butler Capital Corporation from 1987 to 1991. Prior to that, Mr. Walton served as the investment advisor to William S. Paley, founder and Chairman of CBS, from 1985 to 1987, and was an investment banker with Lehman Brothers Kuhn Loeb from 1982 to 1985.

George C. Williams, Jr. is Chairman Emeritus of the Company. Mr. Williams was an officer of the predecessor companies from the later of 1959 or the inception of the relevant entity and President or Chairman and Chief Executive Officer of the predecessor companies from the later of 1964 or each entity's inception until 1991. Mr. Williams is a director of BMI. Mr. Williams is the father of G. Cabell Williams III, an executive officer of the Company.

Brooks H. Browne has been the President of Environmental Enterprises Assistance Fund since 1993. Mr. Browne was the President, Executive Vice President or Senior Vice President of Advisers from 1984 to 1993. Mr. Browne is a director of SEAF, Corporation Financiera Ambiental (Panama), Empresas Ambientales de Centro America (Costa Rica) and Yayasan Bina Usaha Lingkungan (Indonesia) (environmental nonprofit or investment funds).

John D. Firestone has been a Partner of Secor Group (venture capital) since 1978. Mr. Firestone is a director of BMI and Security Storage Company of Washington, DC, and is a senior advisor to Gilbert Capital, Inc.

Anthony T. Garcia has been General Manager of Breen Capital Group (investor in tax liens) since 1997. Mr. Garcia was a Senior Vice President of Lehman Brothers Inc. from 1985 to 1996.

Lawrence I. Hebert has been a director of Riggs National Corporation since 1988. He also serves as a director of Riggs Investment Management Corporation and Riggs Bank Europe Limited (indirect subsidiaries of Riggs National Corporation). Mr. Hebert is the President and a director of Perpetual Corporation (owner of Allbritton Communications Company and Allnewsco, Inc.) and the Chairman and Chief Executive Officer of Allbrittan Communications Company (owner of television stations). Mr. Hebert is a director of Allnewsco, Inc., the President of Westfield News Advertiser, Inc., and a trustee of The Allbritton Foundation. Mr. Hebert was Vice President of University Bancshares, Inc. (a Texas bank holding company) from 1975 to 1997.

John I. Leahy has been the President of Management and Marketing Associates (a management consulting firm) since 1986. Mr. Leahy was the President and Group Executive Officer, Western Hemisphere of Black & Decker Corporation from 1982 to 1985. Mr. Leahy is a director of Kar Kraft Systems, Inc., Cavanaugh Capital, Inc., Acorn Products, Inc., The Wills Group, Thulman-Eastern Company and Gallagher Fluid Seals, Inc.

Robert E. Long is the Managing Director of Goodwyn & Long Investment Management, Inc. Mr. Long has been the President and Chief Executive Officer of Business News Network, Inc. since 1995, was 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 Inc., AHL Shipping Company, Inc., CSC Scientific, Inc., and Global Travel, Inc.

Warren K. Montouri has been a Partner of Montouri & Roberson (real estate investment firm) since 1980. Mr. Montouri was a director of C&S/Sovran Bank from 1970 to 1990, a director of Sovran Financial Corporation from 1989 to 1990, a director of NationsBank, N.A. from 1990 to 1996, a trustee of Suburban Hospital from 1991 to 1994, and a trustee of The Audubon Naturalist Society from 1979 to 1985. He has been a director of Franklin National Bank since 1996.

Guy T. Steuart II has been a director and President of Steuart Investment Company (manages, operates, and leases real and personal property and holds stock in operating subsidiaries engaged in various businesses) since 1960. Mr. Steuart is Trustee Emeritus of Washington and Lee University.

T. Murray Toomey, Esq. has been an attorney at law since 1949. Mr. Toomey is a director of The National Capital Bank of Washington, and Federal Center Plaza Corporation. He is also a trustee of The Catholic University of America.

Laura W. van Roijen has been a private real estate investor since 1992. Ms. van Roijen was the Chairman of CWV & Associates (RTC qualified contracting firm) from 1991 to 1994, a director and the Treasurer of Black Possum Inc. (retail concern) from 1994 to 1996, the President of Volta Place, Inc. (real estate advisory firm) from 1991 to 1994, and Vice President (from 1986 to 1991) and Market Director (from 1989 to 1991) of Citicorp Real Estate, Inc.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Philip A. McNeill, Managing Director, has been employed by the Company since 1993.

John M. Scheurer, Managing Director, has been employed by the Company since 1991. Mr. Scheurer is also President of BMI.

Joan M. Sweeney, Managing Director, has been employed by the Company since 1993. Ms. Sweeney is also a Managing Director of BMI.

G. Cabell Williams, III, Managing Director, has been employed by the Company since 1981. Mr. Williams is also a Managing Director of BMI.

Penni F. Roll, Principal and Chief Financial Officer, has been employed by the Company since 1995. Ms. Roll is also Principal and Chief Financial Officer of BMI. Ms. Roll was a Manager at KPMG Peat Marwick, LLP from 1993 to 1995.

COMPENSATION PLANS

STOCK OPTION PLAN

The Company's stock option plan (the "New Plan") is intended to encourage stock ownership in the Company by officers, thus giving them a proprietary interest in the Company's performance. The Company's shareholders approved the New Plan at the Special Meeting of Shareholders of Allied Lending held on November 26, 1997. The principal objective of the Company's compensation committee in awarding stock options to the Chief Executive Officer and other eligible officers of the Company is to align each officer's interests with the success of the Company and the financial interests of its shareholders. The committee believes that the New Plan achieves this objective because it links a portion of each executive's compensation with the performance of the Company's stock and the value delivered to shareholders.

The committee grants stock options under the New Plan at a price not less than the prevailing market value, and such options will have value only if the Company's stock price increases. The committee determines the amount and features of the stock options, if any, to be awarded to the Company's officers. Historically, when granting stock options, the committee evaluated a number of factors, including the recipient's current stock holdings, years of service, position with the Company, and other factors. The committee

has not applied a formula assigning specific weights to any of these factors when making its determination.

For the year ended December 31, 1998, the Company's compensation committee granted a total of 5,189,944 options, net of cancellations, to certain officers

of the Company. These options generally vest over a five-year period. See "Control Persons and Principal Holders of Securities" in the SAI for currently exercisable options granted to certain executive officers. The Company filed an application with the Commission to request approval to grant options under the New Plan to non-officer directors. There can be no assurance that such approval will be granted.

The New Plan is designed to satisfy the conditions of Section 422 of the Code so that options granted under the New Plan may qualify as "incentive stock options." To qualify as "incentive stock options," options may not become exercisable for the first time in any year if the number of incentive options first exercisable in that year multiplied by the exercise price exceeds $100,000.

CUT-OFF AWARD AND FORMULA AWARD

Prior to the merger, each of the five predecessor companies had a stock option plan (each, an "Old Plan" and collectively, the "Old Plans"). Each predecessor company's compensation committee had granted options under the applicable Old Plan to various employees of Advisers, who were also officers of that predecessor company. In preparation for the merger, the Advisers' compensation committee in conjunction with the compensation committees of the other predecessor companies, determined that the five Old Plans should be terminated upon the merger, so that the new merged Company would be able to develop a new plan that would incent all officers and directors with a single equity security. The existence of the Old Plans had resulted in certain inequities in option grants among the various officers of the predecessor companies simply because of the differences in the underlying equity securities. To balance stock option awards among employees, and to account for the deviations caused by the existence of five plans supported by five different publicly traded stocks, two special awards were developed to be granted in lieu of options under the Old Plans that were forgone upon completion of the merger and the cancellation of the Old Plans.

CUT-OFF AWARD. The first award established a cut-off dollar amount as of the date of the announcement of the merger (August 14, 1997) that was computed for all outstanding, but unvested options that were canceled as of the date of the merger (the "Cut-Off Award"). The Cut-Off Award was designed to cap the appreciated value in unvested options at the merger announcement date in order to set the foundation to balance option awards upon the merger. The Cut-Off Award, in the aggregate, was computed to be $2.9 million, and is equal to the difference between the market price of the shares of stock underlying the canceled options under the Old Plans at August 14, 1997, less the exercise prices of the options. The Cut-Off Award is payable for each canceled option as the canceled option would have vested, and vests automatically in the event of a change of control. The Cut-Off Award is payable only if the award recipient is employed by the Company on the future vesting date. A table indicating the Cut-Off Award for certain officers, and the related vesting schedule, is contained in the SAI.

FORMULA AWARD. The second award (the "Formula Award") was designed to compensate officers from the point when their unvested options ceased to appreciate in value pursuant to the Cut-Off Award (i.e., August 14, 1997) up until the time in which they are able to receive option awards in the Company after the merger became effective.

In the aggregate, the Formula Award equaled six percent (6%) of the difference between the combined aggregate market capitalizations of the predecessor companies as of the close of the market on December 30, 1997, and the combined aggregate market capitalizations of the predecessor companies on August 14, 1997. In total, the combined aggregate market capitalization of the predecessor companies increased by $319 million from August 14, 1997 to December 30, 1997, and the aggregate Formula Award was approximately $19 million.

The Formula Award was designed as a long-term incentive compensation program to be a replacement for canceled stock options and to balance share ownership among key officers for past and prospective service. The terms of the Formula Award required that the award be contributed to the Company's deferred compensation plan, as discussed below, and be used to purchase shares of the Company in the open market.

The Formula Award vests and accrues equally over a three-year period, on the anniversary of the merger date (December 31, 1997), and vests automatically in the event of a change of control of the Company. If an officer terminates employment with the Company prior to the vesting of any part of the Formula Award, that amount will be forfeited to the Company. Assuming all officers meet the vesting requirement, the Company will accrue the Formula Award over the three-year period in equal amounts of approximately $6.4 million less any forfeitures. For the year ended December 31, 1998, $6.2 million, net of

forfeitures of $0.3 million, was expensed for the Formula Award. A table indicating the Formula Award for certain officers, and the related vesting schedule, is contained in the SAI.

On January 4, 1999, the trust that holds the deferred compensation plan distributed shares of the Company's common stock with a value of $4,062,000 representing the portion of the Formula Award that vested on December 31, 1998. These shares are held in restricted accounts at a brokerage firm.

EMPLOYEE STOCK OWNERSHIP PLAN

In connection with the merger, the Company adopted an amended and restated Employee Stock Ownership Plan, or ESOP. All eligible employees (i.e., employees with one (1) year of service who are at least 21 years of age) of the Company are eligible participants in the ESOP. Pursuant to this qualified plan, during 1998 the Company contributed 5% of each eligible participant's total cash compensation for the year (up to a $30,000 limit per person) to a plan account on the participant's behalf, which fully vests over a two-year period. The ESOP has used substantially all of these cash contributions to purchase shares of the Company, thus aligning every employee's interest with those of the Company and its shareholders. At December 31, 1998, the ESOP held 0.5% of the outstanding shares of the Company, and all of these shares had been allocated to participants' plan accounts.

DEFERRED COMPENSATION PLAN

Pursuant to the merger, the Company succeeded to the deferred compensation plan of Advisers (the "Deferred Compensation Plan"), and subsequently adopted such plan as amended and restated. The Deferred Compensation Plan is a funded plan that provides for the deferral of compensation by the Company's employees and consultants. Any employee or consultant of the Company is eligible to participate in the plan at such time and for such period as the board of directors designates. The Deferred Compensation Plan is administered through a trust, and the Company funds this plan through cash contributions.

The Deferred Compensation Plan holds the unvested shares of the Company's common stock purchased in connection with the Formula Award.

TAXATION

The following discussion is a general summary of the material federal income tax considerations applicable to the Company and to an investment in the common stock and does not purport to be a complete description of the income tax considerations applicable to such an investment. The discussion is based upon the Code, Treasury Regulations, and administrative and judicial interpretations each as of the date of this prospectus and, all of which are subject to change. You should consult your own tax advisor with respect to tax considerations which pertain to your purchase of common stock.

This summary assumes that the investors in the Company hold shares as capital assets. This summary does not discuss all aspects of federal income taxation relevant to holders of the common stock in light of particular circumstances, or to certain types of holders subject to special treatment under federal income tax laws, including dealers in securities and financial institutions. This summary does not discuss any aspects of foreign, state or local tax laws.

TAXATION AS A RIC

The Company intends to be treated for tax purposes as a "regulated investment company" or "RIC" within the meaning of Section 851 of the Code. If the Company qualifies as a RIC and distributes to its shareholders in a timely manner at least 90% of its "investment company taxable income," as defined in the Code (the "90% Distribution Requirement"), each year, it will not be subject to federal income tax on the portion of its taxable income and gains it distributes to shareholders. In addition, if a RIC distributes in a timely manner (or treats as "deemed distributed") 98% of its capital gain net income for each one year period ending on December 31 (pursuant to Section 4982(e)(4)(A) of the Code), and distributes 98% of its ordinary income for each calendar year, it will not be subject to the 4% nondeductible federal excise tax on certain undistributed income of RICs. The Company generally endeavors to distribute to shareholders all of its investment company taxable income and its net capital gain, if any, for each taxable year so that it will not incur income and excise taxes on its earnings.

In order to qualify as a RIC for federal income tax purposes, the Company must, among other things: (1) continue to qualify as a BDC under the 1940 Act; (2) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale of

stock or other securities or other income derived with respect to its business of investing in such stock or securities; and (3) diversify its holdings so that at the end of each quarter of the taxable year (a) at least 50% of the value of its assets consists of cash, cash items, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the Company's assets or 10% of the outstanding voting securities of the issuer, and (b) no more than 25% of the value of the Company's assets are invested in securities of one issuer (other than U.S. government securities or securities of other RICs), or of two or more issuers that are controlled by the Company and are engaged in the same or similar or related trades or businesses. The failure of one or more of the Company's subsidiaries to continue to qualify as RICs could adversely affect the Company's ability to satisfy foregoing diversification requirements.

If the Company fails to satisfy the 90% Distribution Requirement or otherwise fails to qualify as a RIC in any taxable year, it will be subject to tax in that year on all of its taxable income, regardless of whether it makes any distribution to its shareholders. In that case, all of the Company's distributions to its shareholders will be characterized as ordinary income (to the extent of the Company's current and accumulated earnings and profits). In contrast, as is explained below, if the Company qualifies as a RIC, a portion of its distributions may be characterized as long-term capital gain in the hands of shareholders.

TAXATION OF SHAREHOLDERS

Distributions of the Company generally are taxable to shareholders as ordinary income or capital gains. Shareholders receive notification from the Company at the end of each year as to the amount and nature of the income or gains distributed to them for that year. The distributions from the Company to a particular shareholder may be subject to the alternative minimum tax under the provisions of the Code. Shareholders not subject to tax on income will not be required to pay tax on amounts the Company distributed to them.

The Company's distributions of the ordinary income and net short-term capital gain generally are taxable to shareholders as ordinary income. Distributions of net capital gain, if any, that the Company designates as capital gain dividends generally are taxable to shareholders as long-term capital gain, regardless of the length of time a shareholder has held the shares. All distributions are taxable, whether invested in additional shares or received in cash. Dividends that the Company declares and are payable to shareholders of record in October, November or December of a given year that are paid during the following January, will be treated as having been received by shareholders on December 31 of the year of declaration.

If certain conditions are met, the Company's ordinary income dividends to its corporate shareholders may qualify for the dividends received deduction to the extent that the Company receives qualifying dividend income during the taxable year. Capital gain dividends distributed by the Company are not eligible for the dividends received deduction.

In general, any gain or loss realized upon a taxable disposition of shares of the Company, or upon receipt of a liquidating distribution, will be treated as capital gain or loss. If gain is realized, it will be subject to taxation at various tax rates depending on the length of time the taxpayer has held such shares and other factors. The gain or loss will be short-term capital gain or loss if the shares have been held for one year or less. If a shareholder has received any capital gain dividends with respect to such shares, any loss realized upon a taxable disposition of shares treated under the Code as having been held for six months or less, to the extent of such capital gain dividends, will be treated as a long-term capital loss. All or a portion of any loss realized upon a taxable disposition of shares of the Company may be disallowed if other shares of the Company are purchased (under a DRIP plan or otherwise) within 30 days before or after the disposition.

A shareholder that is not a "United States person" within the meaning of the Code (a "Non-U.S. shareholder") generally will be subject to a withholding tax of 30% (or lower applicable treaty rate) on dividends from the Company (other than capital gain dividends) that are not "effectively connected" with a United States trade or business carried on by such shareholder. Accordingly, investment in the Company is likely to be appropriate for a Non-U.S. shareholder only if such person can utilize a foreign tax credit or corresponding tax benefit in respect of such United States withholding tax. Non-effectively connected capital gain dividends and gains realized from the sale of Shares will not be subject to United States federal income tax in the case of (i) a Non-

U.S. shareholder that is a corporation and (ii) a Non-U.S. shareholder that is not present in the United States for more than 182 days during the taxable year (assuming that certain other conditions are met). See "Tax Status -- Non-U.S. Stockholders" in the SAI. Prospective foreign investors should consult their U.S. tax advisors concerning the tax consequences to them of an investment in shares.

The Company is required to withhold and remit to the Internal Revenue Service (the "IRS") 31% of the dividends paid to any shareholder who (i) fails to furnish the Company with a certified taxpayer identification number; (ii) has underreported dividend or interest income to the IRS; or (iii) fails to certify to the Company that he, she or it is not subject to backup withholding.

CERTAIN GOVERNMENT REGULATIONS

We operate in a highly regulated environment. The following discussion generally summarizes certain regulations.

BUSINESS DEVELOPMENT COMPANY ("BDC"). A business development company is defined and regulated by the Investment Company Act of 1940. It is a unique kind of investment company that focuses on investing in or lending to small private companies and making managerial assistance available to them. A BDC may use capital provided by public shareholders and from other sources to invest in long-term, private investments in growing small businesses. A BDC provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing in privately owned growth companies.

As a BDC, we may not acquire any asset other than "Qualifying Assets" unless, at the time we make the acquisition, our Qualifying Assets represent at least 70% of the value of our total assets (the "70% test"). The principal categories of Qualifying Assets relevant to our business are:

(1) Securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company. An eligible portfolio company is defined to include any issuer that (a) is organized and has its principal place of business in the United States, (b) is not an investment company other than an SBIC wholly owned by a BDC (our investments in Allied Investment, Allied SBLC and certain other subsidiaries generally are Qualifying Assets), and (c) does not have any class of publicly traded securities with respect to which a broker may extend margin credit;

(2) Securities received in exchange for or distributed with respect to securities described in (1) above or pursuant to the exercise of options, warrants, or rights relating to such securities; and

(3) Cash, cash items, government securities, or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

To include certain securities described above as Qualifying Assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company, or making loans to a portfolio company. We will provide managerial assistance on a

continuing basis to any portfolio company that requests it, whether or not difficulties are perceived.

As a BDC, the Company is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, as long as each class of senior security has an asset coverage of at least 200% immediately after each such issuance. This limitation is not applicable to borrowings by our SBIC or SBLC subsidiaries, and therefore any borrowings by these subsidiaries are not included in this asset coverage test. See "Risk Factors."

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of a "majority of the outstanding voting securities," as defined in the 1940 Act, of our shares. Since we made our BDC election, we have not made any substantial change in the nature of our business.

REGULATED INVESTMENT COMPANY ("RIC"). Our status as a RIC enables us to avoid the cost of federal and state taxation, and as a result achieve pre-tax investment returns. We believe that this tax advantage enables us to achieve

strong equity returns without having to aggressively leverage our balance sheet.

In order to qualify as a RIC, the Company must, among other things:

(1) Derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities or other income derived with respect to its business of investing in such stock or securities.

(2) Diversify its holdings so that

(a) at least 50% of the value of the Company's assets consists of cash, cash items, government securities and other securities if such other securities of any one issuer do not represent more than 5% of the Company's assets and 10% of the outstanding voting securities of the issuer, and

(b) no more than 25% of the value of the Company's assets are invested in securities of one issuer (other than U.S. government securities), or of two or more issuers that are controlled by the Company.

(3) Distribute at least 90% of its "investment company taxable income" each tax year to its shareholders. In addition, if a RIC distributes in a timely manner (or treats as "deemed distributed") 98% of its capital gain net income for each one year period ending on December 31 and distributes 98% of its ordinary income for each calendar year, it will not be subject to the 4% nondeductible federal excise tax on certain undistributed income of RICs.

SBA REGULATIONS. Allied Investment is an SBIC and Allied SBLC is an SBLC.

SBIC REGULATIONS. Allied Investment, a wholly owned subsidiary of the Company, is licensed by the SBA as an SBIC under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act"), and has elected to be regulated as a BDC. Allied Investment resulted from the merger of the Company's two wholly owned SBIC subsidiaries in July 1998. Pursuant to this merger, the Company's subsidiary that was then named Allied Investment Corporation merged with and into Allied Capital Financial Corporation ("Allied Financial"). Allied Financial then changed its name to Allied Investment Corporation ("Allied Investment"). Prior to the merger, Allied Financial was licensed by the SBA as a Specialized Small Business Investment Company ("SSBIC")

under 301(d) of the 1958 Act. After the merger, Allied Investment could make SBIC eligible investments in addition to SSBIC eligible investments.

SBICs are authorized to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the most recent two fiscal years. In addition, an SBIC must devote 20% of its investment activity to "smaller" concerns as defined by the SBA. A smaller concern is one that has a net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the most recent two fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses, and provide them with consulting and advisory services. Allied Investment provides long-term loans to qualifying small businesses; equity investments and consulting and advisory services are typically provided only in connection with such loans.

Allied Investment is periodically examined and audited by the SBA staff to determine its compliance with SBIC regulations.

Allied Investment has the opportunity to sell to the SBA subordinated debentures with a maturity of up to ten years, up to an aggregate principal amount of $101 million. This limit generally applies to all financial assistance provided by the SBA to any licensee and its "associates," as that term is defined in SBA regulations. Historically, an SBIC was also eligible to sell preferred stock to the SBA. Allied Investment had received $47.7 million of subordinated debentures and $7.0 million of preferred stock investments from the SBA at December 31, 1998; as a result of the $101 million limit, the Company is limited on its ability to apply for additional financing from the SBA. Interest rates on the SBA debentures currently outstanding have a weighted average interest rate of 8.23%.

At December 31, 1998, we had an outstanding commitment from the SBA to purchase up to $27.0 million in additional SBIC debentures. We may seek this

additional financing during 1999.

SBLC REGULATIONS. Allied SBLC is licensed to operate as an SBLC and is periodically examined and audited by the SBA staff for purposes of determining compliance with SBA regulations, including its participation in the Preferred Lenders Program. See SBA 7(a) Lending, above.

DIVIDEND REINVESTMENT PLAN

We have adopted an "opt out" dividend reinvestment plan ("DRIP plan"). Under the DRIP plan, if you own shares registered in your own name, our transfer agent, acting as reinvestment plan agent, will automatically reinvest any dividend in additional shares of common stock. Shareholders may change enrollment status in the DRIP plan at any time by contacting either the plan agent or the Company.

A shareholder's ability to participate in a DRIP plan may be limited according to how the shares are registered. A nominee may preclude beneficial owners holding shares in street name from participating in the DRIP plan. Shareholders who wish to participate in a DRIP plan may need to register their shares in their own name. Shareholders will be informed of their right to opt out of the DRIP plan in the Company's annual and quarterly

reports to shareholders. Shareholders who hold shares in the name of a nominee should contact the nominee for details.

All distributions to investors who do not participate (or whose nominee elects not to participate) in the DRIP plan will be paid by check mailed directly, or through the nominee, to the record holder by or under the discretion of the plan agent. The plan agent is American Stock Transfer and Trust Company, 40 Wall Street, New York, New York 10005. Their telephone number is 800-937-5449.

Under the DRIP plan, we may issue new shares unless the market price of the outstanding shares is less than 110% of the last reported net asset value. Alternatively, the plan agent may buy shares in the market. We value newly issued shares for the DRIP plan at the average of the reported last sale prices of the outstanding shares on the last five trading days prior to the payment date of the distribution, but not less than 95% of the opening bid price on such date. The price in the case of shares bought in the market will be the average actual cost of such shares, including any brokerage commissions. There are no other fees charged to shareholders in connection with the DRIP plan. Any distributions reinvested under the plan will nevertheless remain taxable to the shareholders.

DESCRIPTION OF CAPITAL STOCK

COMMON STOCK

The Company is authorized to issue 100,000,000 shares of common stock, par value $0.0001. At March 19, 1999, there were 58,765,691 shares of common stock outstanding and 5,113,898 shares of Common Stock reserved for issuance under the New Plan. The following are the authorized classes of securities of the Company as of March 19, 1999:

<TABLE>
<CAPTION>

(1) TITLE OF CLASS	(2) AMOUNT AUTHORIZED	(3) AMOUNT HELD BY COMPANY OR FOR ITS ACCOUNT	(4) AMOUNT OUTSTANDING EXCLUSIVE OF AMOUNTS SHOWN UNDER(3)
<S>	<C>	<C>	<C>
Allied Capital Corporation..... Common Stock	100,000,000	810,456	57,955,235

</TABLE>

---

* Represents shares of the Company held in a trust for the Deferred Compensation Plan. See "Management -- Compensation Plans."

All shares of common stock have equal rights as to earnings, assets, dividends, and voting privileges and all outstanding shares of common stock are fully paid and non-assessable. Our common stock has no preemptive, conversion, or redemption rights and are freely transferable. In the event of liquidation, each share of common stock is entitled to its proportion of our assets after debts and expenses. Each share is entitled to one vote and does not have

cumulative voting rights, which means that holders of a majority of the shares, if they so choose, could elect all of the directors, and holders of less than a majority of the shares would, in that case, be unable to elect any director. All shares offered hereby will be, when issued and paid for, fully paid and non-assessable.

The board of directors may classify and reclassify any unissued shares of capital stock of the Company by setting or changing in one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms or conditions or redemption or other rights of such shares of capital stock.

LIMITATION ON LIABILITY OF DIRECTORS

The Company has adopted provisions in its charter and bylaws limiting the liability of directors and officers of the Company for monetary damages. The effect of these provisions in the charter and bylaws is to eliminate the rights of the Company and its shareholders (through shareholders' derivative suits on behalf of the Company) to recover monetary damages against a director or officers for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior) except in certain limited situations. These provisions do not limit or eliminate the rights of the Company or any shareholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's or officer's duty of care. These provisions will not alter the liability of directors or officers under federal securities laws.

CERTAIN ANTI-TAKEOVER PROVISIONS

The charter and bylaws of the Company and certain statutory and regulatory requirements contain certain provisions that could make more difficult the acquisition of the Company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Company to negotiate first with the board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging such proposals because, among other things, negotiation of such proposals might result in an improvement of their terms. The description set forth below is intended as a summary only and is qualified in its entirety by reference to the charter and the bylaws.

CLASSIFIED BOARD OF DIRECTORS

The charter provides for the board of directors to be divided into three classes of directors serving staggered three-year terms, with each class to consist as nearly as possible of one-third of the directors then elected to the board. A classified board may render more difficult a change in control of the Company or removal of incumbent management. We believe, however, that the longer time required to elect a majority of a classified board of directors helps to ensure continuity and stability of the Company's management and policies.

ISSUANCE OF PREFERRED STOCK

The board of directors of the Company, without shareholder approval, has the authority to reclassify common stock as preferred stock and to issue preferred stock. Such stock could be issued with voting, conversion or other rights designed to have an anti-takeover effect.

MARYLAND CORPORATE LAW

The Company is subject to the Maryland Business Combination Statute and the Control Share Acquisition Statute, as defined below. The partial summary of the foregoing statutes contained in this prospectus is not intended to be complete and reference is made to the full text of such states for their entire terms.

BUSINESS COMBINATION STATUTE. Certain provisions of the Maryland Law establish special requirements with respect to "business combinations" between Maryland corporations and "interested shareholders" unless exemptions are applicable (the "Business Combination Statute"). Among other things, the Business Combination Statute prohibits

for a period of five years a merger or other specified transactions between a company and an interested shareholder and requires a super majority vote for such transactions after the end of such five-year period.

"Interested shareholders" are all persons owning beneficially, directly or indirectly, 10% or more of the outstanding voting stock of a Maryland corporation. "Business combinations" include certain mergers or similar transactions subject to a statutory vote and additional transactions involving transfer of assets or securities in specified amounts to interested shareholders or their affiliates.

Unless an exemption is available, a "business combination" may not be consummated between a Maryland corporation and an interested shareholder or its affiliates for a period of five years after the date on which the shareholder first became an interested shareholder and thereafter may not be consummated unless recommended by the board of directors of the Maryland corporation and approved by the affirmative vote of at least 80% of the votes entitled to be cast by all holders of outstanding shares of voting stock and 66 2/3% of the votes entitled to be cast by all holders of outstanding shares of voting stock other than the interested shareholder or its affiliates or associates, unless, among other things, the corporation's shareholders receive a minimum price (as defined in the Business Combination Statute) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its shares.

A business combination with an interested shareholder which is approved by the board of directors of a Maryland corporation at any time before an interested shareholder first becomes an interested shareholder is not subject to the five-year moratorium or special voting requirements. An amendment to a Maryland corporation charter electing not to be subject to the foregoing requirements must be approved by the affirmative vote of at least 80% of the votes entitled to be cast by all holders of outstanding shares of voting stock and 66 2/3% of the votes entitled to be cast by holders of outstanding shares of voting stock who are not interested shareholders. Any such amendment is not effective until 18 months after the vote of shareholders and does not apply to any business combination of a corporation with a shareholder who became an interested shareholder on or prior to the date of such vote.

CONTROL SHARE ACQUISITION STATUTE. The Maryland Law imposes limitations on the voting rights of shares acquired in a "control share acquisition." The control share statute defines a "control share acquisition" to mean the acquisition, directly or indirectly, of "control shares" subject to certain exceptions. "Control shares" of a Maryland corporation are defined to be voting shares of stock which, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors with one of the following ranges of voting power:

(1) one-fifth or more but not less than one-third;

(2) one-third or more but less than a majority; or

(3) a majority of all voting power.

Control shares do not include shares which the acquiring person is entitled to vote as a result of having previously obtained shareholder approval. Control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast by shareholders in the election of directors, excluding shares of stock as to which the acquiring person, officers of the corporation and directors of the corporation who are employees of the

corporation are entitled to exercise or direct the exercise of the voting power of the shares in the election of the directors.

The control share statute also requires Maryland corporations to hold a special meeting at the request of an actual or proposed control share acquiror generally within 50 days after a request is made with the submission of an "acquiring person statement," but only if the acquiring person:

(1) gives a written undertaking and, if required by the directors of the issuing corporation, posts a bond for the cost of the meeting; and

(2) submits definitive financing agreements for the acquisition of the control shares to the extent that financing is not provided by the acquiring person.

In addition, unless the issuing corporation's charter or bylaws provide otherwise, the control share statute provides that the issuing corporation, within certain time limitations, shall have the right to redeem control shares (except those for which voting rights have previously been approved) for "fair value" as determined pursuant to the control share statue in the event:

(1) there is a shareholder vote and the grant of voting rights is not

approved; or

(2) an "acquiring person statement" is not delivered to the target within 10 days following a control share acquisition.

Moreover, unless the issuing corporation's charter or bylaws provide otherwise, the control share statute provides that if, before a control share acquisition occurs, voting rights are accorded to control shares which result in the acquiring person having majority voting power, then all shareholders other than the acquiring person have appraisal rights as provided under the Maryland Law. An acquisition of shares may be exempted from the control share statute provided that a charter or bylaw provision is adopted for such purpose prior to the control share acquisition by any person with respect to the Company. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange to which the corporation is a party.

REGULATORY RESTRICTIONS

Allied Investment is an SBIC and Allied SBLC is an SBLC, and both are wholly owned subsidiaries of the Company. The SBA prohibits, without prior SBA approval, a "change of control" or transfers which would result in any person (or group of persons acting in concert) owning 10% or more of any class of capital stock of an SBIC. A "change of control" is any event which would result in a transfer of the power, direct or indirect, to direct the management and policies of an SBIC or SBLC, whether through ownership, contractual arrangements or otherwise.

PLAN OF DISTRIBUTION

We may sell shares through underwriters or dealers, directly to one or more purchasers, through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of shares will be named in the applicable prospectus supplement.

The distribution of shares may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated

prices, provided, however, that the offering price per share, less any commissions or discounts, must equal or exceed the net asset value ("NAV") per share of our common stock.

In connection with the sale of shares, underwriters or agents may receive compensation from the Company or from purchasers of shares, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell shares to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of shares may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from the Company and any profit realized by them on the resale of shares may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from the Company will be described in the applicable prospectus supplement.

Any shares sold pursuant to a prospectus supplement will be quoted on the Nasdaq National Market, or another exchange on which the shares are traded.

Under agreements into which the Company may enter, underwriters, dealers and agents who participate in the distribution of shares may be entitled to indemnification by the Company against certain liabilities, including liabilities under the Securities Act.

Underwriters, dealers and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

If so indicated in the applicable prospectus supplement, the Company will authorize underwriters or other persons acting as the Company's agents to solicit offers by certain institutions to purchase shares from the Company pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by the Company. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of shares shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other

agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, shares offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

LEGAL MATTERS

Certain legal matters with respect to the validity of the shares of common stock offered hereby will be passed upon for the Company by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters will be passed upon for underwriters, if any, by the counsel named in the prospectus supplement.

65

SAFEKEEPING, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

The Company's and its subsidiaries' investments are held in safekeeping by Riggs Bank, N.A. at 808 17th Street, N.W., Washington, D.C. 20006. LaSalle National Bank, located at 25 Northwest Point Boulevard, Suite 800, Elk Grove Village, Illinois 60007, serves as trustee with respect to assets of the Company held for securitization purposes. American Stock Transfer and Trust Company, 40 Wall Street, 46th Floor, New York, New York 10005 acts as the Company's transfer, dividend paying and reinvestment plan agent and registrar.

INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements included in this prospectus and elsewhere in the registration statement to the extent and for the periods indicated in their report have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and is included in this prospectus with their consent.

TABLE OF CONTENTS OF STATEMENT OF ADDITIONAL INFORMATION

66

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

</TABLE>

67

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT NUMBER OF SHARES)	DECEMBER 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
ASSETS		
Portfolio at value:		
Mezzanine loans and debt securities (cost: 1998-$354,870; 1997-$181,184)	$339,163	$167,842
Commercial mortgage loans (cost: 1998-$232,745; 1997-$446,114)	233,186	447,244
Commercial mortgage-backed securities (cost: 1998-$115,174; 1997-$0)	113,674	--
Small Business Administration 7(a) loans (cost: 1998-$57,651; 1997-$41,103)	56,285	40,709
Equity interests in portfolio companies (cost: 1998-$27,618; 1997-$20,050)	49,391	39,906
Other portfolio assets (cost: 1998-$8,331; 1997-$2,269)	8,575	1,320
Total portfolio at value	800,274	697,021
Cash and cash equivalents	25,075	70,437
U.S. government securities	--	11,091
Other assets	30,730	29,226
Total assets	$856,079	$807,775
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Debentures and notes payable	$239,350	$308,821
Revolving lines of credit	95,000	38,842
Accounts payable and other liabilities	27,912	23,984
Dividends and distributions payable	1,700	9,068
Total liabilities	363,962	380,715
Commitments and Contingencies		
Preferred stock issued to Small Business Administration	7,000	7,000
Shareholders' equity:		
Common stock, $0.0001 par value, 100,000,000 shares authorized; 56,729,502 and 52,047,318 issued and outstanding at December 31, 1998 and 1997, respectively	6	5
Additional paid-in capital	526,824	451,044
Common stock held in deferred compensation trust (810,456 shares)	(19,431)	--
Notes receivable from sale of common stock	(23,735)	(29,611)
Net unrealized appreciation on portfolio	2,380	1,301
Distributions in excess of earnings	(927)	(2,679)
Total shareholders' equity	485,117	420,060
Total liabilities and shareholders' equity	$856,079	$807,775

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

68

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FOR THE YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Interest and related portfolio income:			
Interest	$79,921	$86,882	$77,541
Net premiums from loan dispositions	5,949	7,277	4,241
Net gain on securitization of commercial mortgage loans	14,812	--	--
Investment advisory fees and other income	6,056	3,246	3,155
Total interest and related portfolio income	106,738	97,405	84,937
Expenses:			
Interest on indebtedness	20,694	26,952	20,298
Salaries and employee benefits	11,829	10,258	8,774
General and administrative	11,921	8,970	8,289
Merger	--	5,159	--
Total operating expenses	44,444	51,339	37,361
Formula and cut-off awards	7,049	--	--
Portfolio income before net realized and unrealized gains	55,245	46,066	47,576
Net realized and unrealized gains:			
Net realized gains	22,541	10,704	19,155
Net unrealized gains (losses)	1,079	7,209	(7,412)
Total net realized and unrealized gains	23,620	17,913	11,743
Income before minority interests and income taxes	78,865	63,979	59,319
Minority interests	--	1,231	2,427
Income tax expense	787	1,444	1,945
Net increase in net assets resulting from operations	$78,078	$61,304	$54,947
Basic earnings per common share	$ 1.50	$ 1.24	$ 1.19
Diluted earnings per common share	$ 1.50	$ 1.24	$ 1.17
Weighted average common shares outstanding -- basic	51,941	49,218	46,172
Weighted average common shares outstanding -- diluted	51,974	49,251	46,733

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FOR THE YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Operations:			
Portfolio income before realized and unrealized gains	$ 55,245	$ 46,066	$ 47,576
Net realized gains	22,541	10,704	19,155
Net unrealized gains (losses)	1,079	7,209	(7,412)
Minority interests and income tax expense	(787)	(2,675)	(4,372)
Net increase in net assets resulting from operations	78,078	61,304	54,947
Shareholder distributions:			
Portfolio income	(49,397)	(38,751)	(39,030)
Excess of portfolio income	--	(605)	(2,533)
Net capital gains	(24,976)	(15,172)	(11,546)
Excess of net capital gains	(714)	--	--
Return of capital	--	(22,302)	(4,289)

Undistributed earnings	--	(8,848)	--
Preferred stock dividend	(230)	(220)	(220)
Net decrease in net assets resulting from shareholder distributions	(75,317)	(85,898)	(57,618)
Capital share transactions:			
Sale of common stock	69,675	--	22,365
Net decrease (increase) in notes receivable from sale of common stock	5,576	(14,120)	(8,176)
Issuance of common stock upon the exercise of stock options	221	28,426	12,176
Issuance of common stock in lieu of cash distributions	6,184	26,612	11,986
Purchase of common stock by deferred compensation trust	(19,431)	--	--
Other	71	1,602	(738)
Net increase in net assets resulting from capital share transactions	62,296	42,520	37,613
Total increase in net assets	$ 65,057	$ 17,926	$ 34,942
Net assets at beginning of year	$420,060	$402,134	$367,192
Net assets at end of year	$485,117	$420,060	$402,134
Net asset value per common share	$ 8.68	$ 8.07	$ 8.34
Common shares outstanding at end of year	55,919	52,047	48,238

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,		
(IN THOUSANDS)	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 78,078	$ 61,304	$ 54,947
Adjustments			
Net unrealized (gains) losses	(1,079)	(7,209)	7,412
Net gain on securitization of commercial mortgage loans	(14,812)	--	--
Depreciation and amortization	702	450	393
Amortization of loan discounts and fees	(6,032)	(10,804)	(9,027)
Deferred income taxes	--	1,087	(381)
Minority interests	--	1,231	2,427
Changes in other assets and liabilities	11,998	12,881	(10,606)
Net cash provided by operating activities	68,855	58,940	45,165
Cash flows from investing activities:			
Investments in small business concerns	(524,530)	(364,942)	(283,295)
Collections of investment principal	138,081	233,005	179,292
Proceeds from loan sales	81,013	53,912	27,715
Proceeds from securitization of commercial mortgage loans	223,401	--	--
Net redemption (purchase) of U.S. government securities	11,091	(10,301)	--
Collections of notes receivable from sale of common stock	5,591	6,534	2,199
Other investing activities	(2,539)	(182)	2,635
Net cash used in investing activities	(67,892)	(81,974)	(71,454)
Cash flows from financing activities:			
Sale of common stock	69,896	8,615	24,166
Purchase of common stock by deferred compensation trust	(19,431)	--	--
Common dividends and distributions paid	(69,536)	(58,194)	(47,089)

Special undistributed earnings distribution paid.....	(8,848)	--	--
Preferred stock dividends.....	(450)	(220)	(220)
Net (payments on) borrowings under debentures and notes payable.....	(69,471)	78,923	(35,202)
Net borrowings under (payments on) revolving lines of credit.....	56,158	(6,257)	110,460
Other financing activities.....	(4,643)	(1,237)	(3,029)
Net cash (used in) provided by financing activities.....	(46,325)	21,630	49,086
Net (decrease) increase in cash and cash equivalents.....	$ (45,362)	$ (1,404)	$ 22,797
Cash and cash equivalents at beginning of year.....	$ 70,437	$ 71,841	$ 49,044
Cash and cash equivalents at end of year.....	$ 25,075	$ 70,437	$ 71,841

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS

<TABLE>
<CAPTION>

PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT(2)	DECEMBER 31, 1998 COST	DECEMBER 31, 1998 VALUE
<S>	<C>	<C>	<C>
MEZZANINE LOANS AND DEBT SECURITIES AND EQUITY INTERESTS IN PORTFOLIO COMPANIES			
Acme Paging, L.P.	Debt Securities	$ 6,273	$ 6,273
	Partnership Interest	1,456	2,600
American Barbecue & Grill, Inc.	Loans	1,475	1,475
	Debt Securities	2,084	2,084
	Warrants	125	125
AMF Bowling, Inc. (1)	High Yield Debt	5,086	5,086
Arnold Moving Co., Inc.	Loans	570	570
ASW Holding Corporation	Warrants	25	25
Au Bon Pain Co., Inc. (1)	Debt Securities	7,427	7,427
	Warrants	227	8
Avborne, Inc.	Debt Securities	12,510	12,510
	Warrants	--	--
Brazos Sportswear, Inc. (1)	Common Stock (342,938 shares)	330	--
Candlewood Hotel Company (1)	Preferred Stock (3,250 shares)	3,250	3,250
Celebrities, Inc.	Debt Securities	339	339
	Warrants	12	12
CeraTech Holdings Corporation	Debt Securities	1,991	50
	Warrants	--	--
Cherry Tree Toys, Inc.	Debt Securities	1,557	1,557
	Common Stock (220 shares)	1	--
Convenience Corporation of America	Debt Securities	8,391	2,774
	Series A Preferred Stock (31,521 shares)	334	--
	Warrants	--	--
Cooper Natural Resources, Inc.	Debt Securities	3,450	3,450
	Warrants	--	1,138
CorrFlex Graphics, LLC	Loan	5,860	5,860
Cosmetic Manufacturing Resources, LLC	Debt Securities	2,948	2,948
	Options	--	--

Coverall North America	Loan	8,915	8,915
Csabai Canning Factory Rt.	Hungarian Quotas (9.2%)	700	700
DEH Printed Circuits, Inc.	Warrants	250	250
DeVlieg-Bullard, Inc. (1)	Warrants	350	133
Directory Investment Corporation	Common Stock (470 shares)	--	148

</TABLE>

<TABLE>
<S> <C> <C> <C>
(1) Public company.
(2) Common stock, preferred stock, warrants and equity interests are generally non-income producing and restricted.
</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT(2)	DECEMBER 31, 1998 COST	DECEMBER 31, 1998 VALUE
<S>	<C>	<C>	<C>
Directory Lending Corporation	Series A Common Stock (1,031 shares)	--	--
	Series B Common Stock (188 shares)	$ 235	$ 161
	Series C Common Stock (292 shares)	656	449
	Series A Preferred Stock (214 shares)	307	210
	Series B Preferred Stock (175 shares)	931	638
	Series C Preferred Stock (58 shares)	58	40
Drilltec Patents & Technologies Company, Inc.	Loan	10,020	10,020
ECM Enterprises	Loan	31	4
EDM Consulting, LLC	Loans	30	30
	Debt Securities	1,875	680
	Common Stock (100 shares)	250	--
El Dorado Communications, Inc.	Loans	306	306
Enterprise Software, Inc. (1)	Debt Securities	14,880	14,880
	Common Stock (147,975 shares)	1,176	683
	Warrants	--	--
Eparfin S.A.	Loan	29	29
Esquire Communications Ltd. (1)	Warrants	6	--
Everything Yogurt	Loan	34	34
Ex Terra Credit Recovery, Inc.	Series A Preferred Stock (500 shares)	497	497
	Common Stock (2,500 shares)	3	3
	Warrants	--	--
Fairchild Industrial Products Company	Debt Securities	5,702	5,702
	Warrants	280	3,629
FHM Distributions, Inc.	Loans	200	200
Galaxy American Communications, LLC	Debt Securities	30,703	30,703
	Warrants	--	--
Gibson Guitar Corporation	Debt Securities	15,080	15,080
	Warrants	525	1,000
Ginsey Industries, Inc.	Loans	5,000	5,000
	Convertible Debentures	500	500
	Warrants	--	--

Golden Eagle/Satellite Archery, LLC	Loans	1,390	1,390
	Convertible Debentures	2,248	2,242
Grant Broadcasting System II	Warrants	139	3,600
Grant Television, Inc.	Debt Securities	9,154	9,154
	Warrants	--	--
Han Hie	Loan	510	510
H.B.N. Communications, Inc.	Loan	233	233
Hotelevision, Inc.	Preferred Stock (1,000,000 shares)	1,000	1,000
In the Dough, Inc.	Loan	2	2

</TABLE>

<TABLE>
<S> <C> <C> <C>

(1) Public company.
(2) Common stock, preferred stock, warrants and equity interests are generally non-income producing and restricted.
</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT(2)	DECEMBER 31, 1998 COST	VALUE
<S>	<C>	<C>	<C>
Jack Henry & Associates, Inc. (1)	Common Stock (90,438 shares)	$ 26	$ 4,193
Jeff & Chris Mufflers, Inc.	Loan	93	93
JRI Industries, Inc.	Debt Securities	2,111	2,111
	Warrants	74	74
Julius Koch USA, Inc.	Debt Securities	4,692	4,692
	Warrants	324	2,100
Kirker Enterprises, Inc.	Loans	3,739	3,739
	Debt Securities	2,609	2,609
	Warrants	348	3,500
	Equity Interest	3	3
Kirkland's, Inc.	Debt Securities	6,283	6,283
	Warrants	96	2,850
Kyrus Corporation	Debt Securities	7,601	7,601
	Warrants	348	348
KZSF Broadcasting, Inc.	Loans	884	884
Liberty-Pittsburgh Systems, Inc.	Debt Securities	3,403	3,403
	Common Stock (64,535 shares)	142	142
Lingcomm, Inc.	Loan	207	207
Liqui-Dri Foods, Inc.	Loans	10,291	10,291
The Loewen Group, Inc. (1)	High Yield Debt	15,002	15,002
Love Funding Corporation	Series D Preferred Stock (26,000 shares)	359	213
May Investments	Loan	47	--
Meigher Communications, L.P.	Loan	2,918	2,918
Mid Atlantic Telecom Plus, LLC	Loan	10,434	10,434

Midview Associates, L.P.	Debt Securities	197	197
	Options	--	--
Mihadas	Loan	287	287
Mill-It Striping, Inc.	Common Stock (18 shares)	250	--
Monitoring Solutions, Inc.	Loans	17	17
	Debt Securities	1,823	219
	Common Stock (33,333 shares)	--	--
	Warrants	--	--
Morton Industrial Group (1)	Common Stock (5,835 shares)	241	82
New York Donut Corporation	Loan	61	61
Nobel Education Dynamics, Inc. (1)	Debt Securities	9,419	9,419
	Series D Convertible Preferred Stock (265,957 shares)	2,000	2,000
	Warrants	575	575
Norman's Yogurt, Inc.	Loan	8	8

</TABLE>

<TABLE>
<S> <C> <C> <C>

(1) Public company.

(2) Common stock, preferred stock, warrants and equity interests are generally non-income producing and restricted.

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT(2)	DECEMBER 31, 1998 COST	DECEMBER 31, 1998 VALUE
<S>	<C>	<C>	<C>
Northeast Broadcasting Group, L.P.	Debt Securities	$ 415	$ 415
Nursefinders, Inc.	Debt Securities	10,841	10,841
	Warrants	900	900
Old Mill Holdings, Inc.	Debt Securities	589	140
	Warrants	77	--
PAL Liberty, Inc.	Loan	229	229
David Peters	Loan	164	55
PIATL Holdings, Inc.	Loan	31	31
	Preferred Stock (276 shares)	160	222
	Common Stock (24 shares)	--	--
Pico Products, Inc. (1)	Debt Securities	4,091	4,091
	Common Stock (208,000 shares)	59	33
	Warrants	--	--
Precision Industries Co.	Debt Securities	9,580	9,580
	Common Stock (132,507 shares)	1,050	1,616
Progressive International Corporation	Debt Securities	3,680	3,680
	Preferred Stock (500 shares)	500	500
	Warrants	--	--
Quality Software Products Holdings, PLC (1)	Common Stock (94,479 shares)	901	557
Radio One of Atlanta, Inc.	Loans	2,000	2,000
	Debt Securities	9,972	9,972
	Common Stock (1,430 shares)	--	3,000
Randhawa Brothers Enterprises, Inc.	Loan	117	117

R.L. Singletary	Loan	98	98
Schwinn/GT	Debt Securities	9,605	9,605
	Warrants	395	395
Seasonal Expressions, Inc.	Series A Preferred Stock (1,000 shares)	993	993
Spa Lending Corporation	Preferred Stock (28,625 shares)	399	306
	Common Stock (6,208 shares)	24	--
SunStates Refrigerated Services, Inc.	Loans	1,830	341
	Debt Securities	2,445	676
Sydran Food Services II, L.P.	Debt Securities	11,881	11,881
	Options	--	--
Total Foam, Inc.	Debt Securities	1,562	106
	Common Stock (910 shares)	57	--
Unitel, Inc.	Debt Securities	3,579	3,579
	Warrants	360	360
Vianova Resins GmbH	Debt Securities	1,812	1,812
	Warrants	--	--

(1) Public company.
(2) Common stock, preferred stock, warrants and equity interests are generally non-income producing and restricted.

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT(2)	DECEMBER 31, 1998 COST	DECEMBER 31, 1998 VALUE
Vidon, Inc.	Loan	$ 259	$ 259
William R. Dye	Loan	265	265
Williams Brothers Lumber Company	Warrants	24	322
Wilton Industries, Inc.	Loan	12,000	12,000
WYCB Acquisition Corporation	Loan	3,812	3,812
Wyo-Tech Acquisition Corporation	Debt Securities	15,094	15,094
	Common Stock (99 shares)	100	100
	Preferred Stock (100 shares)	3,700	3,700
Total mezzanine loans and debt securities and equity interests in portfolio companies (94 investments)		$382,488	$388,554

	INTEREST RATE RANGES	NUMBER OF INVESTMENTS	DECEMBER 31, 1998 COST	DECEMBER 31, 1998 VALUE
COMMERCIAL MORTGAGE LOANS				
	Up to 6.99%	3	$ 1,327	$ 1,327
	7.00%- 8.99%	43	104,872	104,872
	9.00%-10.99%	102	69,635	70,076
	11.00%-12.99%	31	44,424	44,424
	13.00%-14.99%	4	12,362	12,362

	15.00% and above	1	125	125
Total commercial mortgage loans		184	$232,745	$233,186
COMMERCIAL MORTGAGE-BACKED SECURITIES				
Subordinated CMBS		1	$ 32,221	$ 32,221
Residual CMBS		1	70,771	70,771
Residual securitization spread		1	12,182	10,682
Total commercial mortgage-backed securities		3	$115,174	$113,674
SMALL BUSINESS ADMINISTRATION 7(A) LOANS				
	Up to 6.99%	12	$ 160	$ 115
	7.00%- 8.99%	12	134	57
	9.00%-10.99%	364	51,925	51,343
	11.00%-12.99%	53	5,148	4,592
	13.00%-14.99%	5	284	178
	15.00% and above	--	--	--
Total Small Business Administration 7(a) loans		446	$ 57,651	$ 56,285
Other portfolio assets		6	$ 8,331	$ 8,575
Total portfolio at value		733	$796,389	$800,274

(1) Public company.
(2) Common stock, preferred stock, warrants and equity interests are generally non-income producing and restricted.

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. MERGER

On December 31, 1997, Allied Capital Corporation ("Allied I"), Allied Capital Corporation II ("Allied II"), Allied Capital Commercial Corporation ("Allied Commercial"), and Allied Capital Advisers ("Advisers"), merged with and into Allied Capital Lending Corporation ("Allied Lending") (each a "Predecessor Company" and collectively the "Predecessor Companies") pursuant to an Agreement and Plan of Merger, dated as of August 14, 1997, as amended and restated as of September 19, 1997 in a stock-for-stock exchange (the "Merger"). Immediately following the Merger, Allied Lending changed its name to Allied Capital Corporation ("ACC" or the "Company").

The Merger was treated as a tax-free reorganization under Section 368 (a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code"). For federal income tax purposes, the Predecessor Companies carried forward the historical cost basis of their assets and liabilities to the surviving entity (ACC). For financial reporting purposes, the Predecessor Companies also carried forward the historical cost basis of their respective assets and liabilities at the time the Merger was effected. The consolidated financial statements reflect the operations of ACC with the years ended December 31, 1997 and 1996 restated as if the Predecessor Companies had merged as of the beginning of the earliest period presented.

Prior to the Merger, Allied I owned approximately 16 percent of Allied Lending's total shares outstanding. These shares were distributed to the Allied I shareholders in a dividend immediately prior to the Merger at a rate of 0.107448 shares of Allied Lending for each share of Allied I held on the record date. For financial reporting purposes, Allied I's ownership of Allied Lending has been eliminated for all periods presented.

NOTE 2. ORGANIZATION

Allied Capital Corporation, a Maryland corporation, is a closed-end management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). The Company has two wholly owned subsidiaries that have also elected to

be regulated as BDCs. Allied Investment Corporation is licensed under the Small Business Investment Act of 1958 as a Small Business Investment Company ("SBIC"). Allied Investment Corporation is the result of the merger of the Company's two wholly owned SBIC subsidiaries in July 1998 whereby Allied Investment Corporation merged with and into Allied Capital Financial Corporation ("Allied Financial"). Allied Financial then changed its name to Allied Investment Corporation ("Allied Investment"). Allied Capital SBLC Corporation ("Allied SBLC") is licensed by the Small Business Administration ("SBA") as a Small Business Lending Company and is a participant in the SBA Section 7(a) Guaranteed Loan Program. In addition, the Company has also established a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"). The Company also has several single-member limited liability companies established primarily to hold real estate properties.

Allied Capital Corporation and its subsidiaries, collectively, are hereinafter referred to as the "Company" or "ACC."

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company invests primarily in private, growing businesses in a variety of industries and in diverse geographic locations (primarily in the United States).

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements for the periods presented have been restated to include the accounts of the Predecessor Companies for all periods presented. Transaction fees and expenses related to the Merger were expensed in the fourth quarter of 1997. The consolidated financial statements include the accounts of the Company or its wholly owned or majority owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 1997 and 1996 balances to conform with the 1998 financial statement presentation.

VALUATION OF PORTFOLIO INVESTMENTS

Portfolio assets are carried at fair value as determined by the Board of Directors under the Company's valuation policy.

LOAN AND DEBT SECURITIES

The values of loans and debt securities are considered to be amounts which could be realized in the normal course of business which, generally, anticipates the Company holding the loan to maturity and realizing the face value of the loan. For loans and debt securities, value normally corresponds to cost unless the borrower's condition or external factors lead to a determination of value at a lower amount.

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. Loan origination fees, original issue discount, and market discount are amortized into interest income using the effective interest method.

EQUITY SECURITIES

Equity interests in portfolio companies for which there is no public market are valued based on various factors including a history of positive cash flow from operations, the market value of comparable publicly traded companies and other pertinent factors, such as recent offers to purchase a portfolio company's securities or other liquidation events. The determined values are generally discounted to account for liquidity issues and minority control positions.

The Company's equity interests in public companies that carry certain restrictions on sale are typically valued at a discount from the public market value of the security at the balance sheet date. Restricted and unrestricted publicly traded stocks may also be valued at a discount due to the investment size or market liquidity concerns.

COMMERCIAL MORTGAGE-BACKED SECURITIES

Commercial mortgage-backed securities consist of subordinated commercial mortgage-backed securities ("Subordinated CMBS"), residual interest in mortgage securitization ("Residual CMBS") and residual securitization spread.

SUBORDINATED CMBS

The Subordinated CMBS is carried at fair value. The Company recognizes income from Subordinated CMBS using the effective interest method, using the anticipated yield over the

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

projected life of the investment. Changes in estimated yields are due to revisions in estimates of future credit losses, actual losses incurred and actual prepayment speeds. Changes in estimated yield are currently recognized as an adjustment to the estimated yield over the remaining life of the Subordinated CMBS. The Company recognizes unrealized depreciation on its Subordinated CMBS whenever it determines that the value of its Subordinated CMBS is less than the carrying amount.

RESIDUAL CMBS

The Company values its residual interest in securitization and recognizes income using the same accounting policies used for the Subordinated CMBS.

RESIDUAL SECURITIZATION SPREAD (INTEREST-ONLY STRIP)

The residual securitization spread is carried at fair value based on the amortized cost of the residual securitization spread and the estimated future cash flows. The Company recognizes income using the effective interest method. At each reporting date, the effective yield is recalculated and used to recognize income until the next reporting date.

NET REALIZED AND UNREALIZED GAINS

Realized gains or losses are measured by the difference between the net proceeds from the sale and the cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the year, net of recoveries. Unrealized gains or losses reflect the change in portfolio investment values during the reporting period.

DEFERRED FINANCING COSTS

Financing costs are based on actual costs incurred in obtaining financing and are deferred and amortized as part of interest expense over the term of the related debt instrument.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may use derivative financial instruments to reduce interest rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for trading purposes.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in banks and all highly liquid investments with original maturities of three months or less.

DISTRIBUTIONS TO SHAREHOLDERS

Distributions to shareholders are recorded on the record date.

FEDERAL AND STATE INCOME TAXES

With the exception of Advisers, the Predecessor Companies qualified as regulated investment companies ("RIC") or a real estate investment trust ("REIT"); however, Advisers was a corporation

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

subject to federal and state income taxes. Income tax expense reported on the consolidated statement of operations relates to the operations of Advisers for all periods presented.

The Company and its wholly owned subsidiaries intend to comply with the requirements of the Code that are applicable to RICs and REITs. The Company and its wholly owned subsidiaries intend to distribute annually all of their taxable income to shareholders; therefore, the Company has made no provision for income taxes.

PER SHARE INFORMATION

Basic earnings per share is calculated using the weighted average number of shares outstanding for the period presented. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on Preferred Shares.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 4. PORTFOLIO

The Company's lending operations are conducted in three primary areas: mezzanine finance, commercial real estate finance, and SBA Section 7(a) guaranteed lending.

MEZZANINE FINANCE

Mezzanine investments are generally structured as loans that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, warrants or options to purchase a portion of the portfolio company's equity at a nominal price. Such an investment would typically have a maturity of five to ten years, with interest-only payments in the early years and payments of both principal and interest in the later years, although loan maturities and principal amortization schedules vary.

Equity investments consist primarily of securities issued by privately owned companies and may be subject to restrictions on their resale or otherwise illiquid. Equity securities generally do not produce a current return, but are held for investment appreciation and ultimate gain on sale.

At December 31, 1998 and 1997, approximately 98 percent of the Company's mezzanine loan portfolio was composed of fixed interest rate loans. The weighted average yield (at value) on the mezzanine portfolio at December 31, 1998 and 1997 was 14.6 percent, and 12.6 percent, respectively. At December 31, 1998 and 1997, mezzanine loans and debt securities with a cost basis of $20,977,000 and $13,661,000, respectively, were not accruing interest.

NOTE 4. PORTFOLIO, CONTINUED

The geographic and industry composition of the mezzanine portfolio at December 31, 1998 and 1997 was as follows:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
GEOGRAPHIC REGION		
Mid-Atlantic	28%	29%
Midwest	27	17
Southeast	23	27
West	11	13
International	7	6
Northeast	4	8
Total	100%	100%
INDUSTRY		
Consumer Products Manufacturing	25%	25%
Telecommunications	14	7
Business Services	11	7
Retail	9	14

Broadcasting	9	23
Industrial Products Manufacturing	8	9
Other	24	15
Total	100%	100%

</TABLE>

COMMERCIAL REAL ESTATE FINANCE

The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from the Resolution Trust Corporation, the Federal Deposit Insurance Corporation and other third party sellers including life insurance companies and banks.

At December 31, 1998 and 1997, approximately 68 percent and 32 percent, and 73 percent and 27 percent of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. The weighted average yield (at value) on the real estate portfolio as of December 31, 1998 and 1997 equaled 10.4 percent and 11.4 percent, respectively. As of December 31, 1998 and 1997, loans with a cost basis of $5,443,000 and $11,987,000, respectively, were not accruing interest.

NOTE 4. PORTFOLIO, CONTINUED

The geographic composition and the property types securing the commercial mortgage loan portfolio at December 31, 1998 and 1997 was as follows:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
GEOGRAPHIC REGION		
Mid-Atlantic	36%	38%
Southeast	23	14
West	22	18
Midwest	13	18
Northeast	6	12
Total	100%	100%
PROPERTY TYPE		
Hospitality	42%	34%
Office	29	32
Retail	14	17
Recreation	5	4
Other	10	13
Total	100%	100%

</TABLE>

COMMERCIAL MORTGAGE-BACKED SECURITIES

In December 1998, the Company purchased $67 million of Subordinated Commercial Mortgage Backed Securities ("Subordinated CMBS") for $32 million. The bonds owned by the Company of non-investment grade and unrated tranches are junior in priority for payment of principal to the more senior tranches of the related commercial securitization. Cash flow from the underlying mortgages generally is allocated first to the senior tranches, with the most senior tranches having a priority right to the cash flow. Then, any remaining cash flow is allocated, generally, among the other tranches in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the subordinate tranche will bear this loss first.

As of December 31, 1998, the estimated yield to maturity on the Subordinated CMBS was approximately 15 percent. The Company's estimated returns on its Subordinated CMBS are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples include the timing and magnitude of credit losses on the mortgage loans underlying the Subordinated CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events which

may alter these assumptions, no assurance can be given that the anticipated yields to maturity, will be achieved.

On January 30, 1998, the Company in conjunction with Business Mortgage Investors, Inc. ("BMI"), a private REIT managed by the Company, completed a $310 million asset securitization, whereby bonds totaling $239 million were sold in three classes rated "AAA", "AA" and "A" by Standard & Poor's Rating Services and Fitch IBCA, Inc. in a private placement. The three bond classes sold had an aggregate weighted average interest rate of approximately 6.38 percent.

NOTE 4. PORTFOLIO, CONTINUED

To effect the securitization, the Company and BMI sold a pool of 97 commercial mortgage loans totaling $310 million to a special purpose, bankruptcy remote entity which transferred the assets to a trust which issued the bonds. The Company contributed approximately 95%, or $295 million, of the total assets securitized, and received cash proceeds, net of costs of approximately $223 million. The Company retained a trust certificate for its residual interest (the "Residual CMBS") in the loan pool sold, and will receive interest income from this Residual CMBS as well as the net spread of the interest earned on the loans sold less the interest paid on the bonds over the life of the bonds (the "Residual Securitization Spread").

The Company accounted for the securitization in accordance with Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a result, the Company recorded a gain of $14.8 million net of the costs of the securitization and the cost of settlement of interest rate swaps. The gain arises from the difference between the carrying amount of the loans and the fair market value of the assets received (i.e., cash, Residual Securitization Spread, Residual CMBS and a servicing asset). As of December 31, 1998, the mortgage loan pool had an approximate weighted average stated interest rate of 9.4 percent. The value of the Residual CMBS was determined using a discount rate equal to the average interest rate of the underlying mortgage loans. The value of the Residual Securitization Spread was determined based on a constant prepayment rate of 7 percent and a discount rate of 12 percent.

SBA SECTION 7(A) GUARANTEED LENDING

The Company, through its wholly owned subsidiary, Allied SBLC, participates in the SBA's Section 7(a) Guaranteed Loan Program ("7(a) loans").

Pursuant to Section 7(a) of the Small Business Act of 1958, the SBA will guarantee 80 percent of any qualified loan up to $100,000 regardless of maturity, and 75 percent of any such loan over $100,000 regardless of maturity, to a maximum guarantee of $750,000 for any one borrower. SBA regulations define qualified small businesses generally as businesses with no more than $5 million in annual sales or no more than 500 employees.

The Company charges interest on the 7(a) loans at a variable rate, typically 1.75 percent to 2.75 percent above the prime rate, as published in The Wall Street Journal or other financial newspaper, adjusted monthly. All loans are payable in equal monthly installments of principal and interest from the date on which the loan was made to its maturity. At December 31, 1998 and 1997, approximately 96 percent and 92 percent of the Company's portfolio of 7(a) loans were variable interest rate loans.

As permitted by SBA regulations, the Company sells to investors, without recourse, the guaranteed portion of its loans while retaining the right to service 100 percent of such loans.

As of December 31, 1998 and 1997, 7(a) loans with a cost basis of $11,227,000 and $4,346,000, respectively, were not accruing interest.

NOTE 4. PORTFOLIO, CONTINUED

The geographic and industry composition of the SBA 7(a) portfolio at December 31, 1998 and 1997 was as follows:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
GEOGRAPHIC REGION		
Midwest	34%	36%
Mid-Atlantic	29	29
Southeast	16	18
West	14	7
Northeast	7	10
Total	100%	100%
INDUSTRY		
Retail	41%	37%
Hospitality	30	26
Consumer Services	6	4
Consumer Products Manufacturing	6	7
Business Services	4	6
Broadcasting	4	8
Other	9	12
Total	100%	100%

</TABLE>

NOTE 5. DEBT

At December 31, 1998 and 1997, the Company had the following credit facilities:

<TABLE>
<CAPTION>

	1998		1997	
	FACILITY AMOUNT	AMOUNT DRAWN	FACILITY AMOUNT	AMOUNT DRAWN
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Debentures and notes payable:				
Master loan and security agreement	$250,000	$ 6,000	$250,000	$ 23,116
Unsecured long-term notes payable	180,000	180,000	--	--
SBA debentures	74,650	47,650	54,300	54,300
OPIC loan	5,700	5,700	20,000	8,700
Master repurchase agreement	250,000	--	250,000	202,705
Senior note payable	--	--	20,000	20,000
Total debentures and notes payable	760,350	239,350	594,300	308,821
Revolving lines of credit	200,000	95,000	80,000	38,842
Total Debt	$960,350	$334,350	$674,300	$347,663

</TABLE>

MASTER LOAN AND SECURITY AGREEMENT

The Company, and BMI, established a facility to borrow up to $250,000,000, of which $100,000,000 is committed, using commercial mortgage loans as collateral under the agreement. The Company pledges commercial mortgage loans as collateral for the facility such that the amount

NOTE 5. DEBT, CONTINUED

borrowed is approximately equal to 80 percent to 90 percent of the value of the collateral pledged. The agreement generally requires interest only payments with all principal due at maturity. Principal may be repaid at any time without penalty. The agreement bears interest at the one-month London Interbank Offer Rate ("LIBOR") plus 1.0 percent, or 6.6 percent and 6.7 percent, at December 31, 1998 and 1997, respectively. Average debt outstanding, maximum amount borrowed, and weighted average interest rate charged on this facility for the years ended December 31, 1998 and 1997 were $21,932,000 and $17,899,000; $56,000,000 and $23,116,000; and 6.5 percent and 6.7 percent; respectively. The agreement matures on October 7, 1999.

UNSECURED LONG-TERM NOTES PAYABLE

In June 1998 the Company issued three classes of unsecured long-term notes held by private institutional investors. The notes have terms of 5 or 7 years with an aggregate principal balance of $180,000,000. The weighted average interest rate on the notes is 7.2 percent and interest only is payable semi-annually until maturity. The notes may be prepaid in whole or in part together with an interest premium as stipulated in the note agreement.

SBA DEBENTURES

At December 31, 1998 and 1997, the Company had drawn debentures totaling $47,650,000 and $54,300,000, respectively, payable to the SBA at interest rates ranging from 6.9 percent to 9.6 percent. Scheduled maturity dates are as follows: 1999 -- $0; 2000 -- $17,300,000; 2001 -- $9,350,000; 2002 -- $0; 2003 -- $0; and $21,000,000 thereafter. The debentures require semi-annual interest-only payments with all principal due upon maturity. The SBA debentures are subject to prepayment penalties if paid prior to maturity.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) LOAN

The Company has a loan agreement with OPIC to provide financing for international projects involving qualifying U.S. small businesses. Loans under this agreement bear interest at the U.S. Treasury rate plus 0.5 percent for the applicable period of the borrowing, or 6.6 percent and 6.8 percent at December 31,1998 and 1997, respectively. In addition, OPIC is entitled to receive from the Company a contingent fee at maturity of the loan equal to 5 percent of the return generated by the OPIC-related investments in excess of 7 percent. There are no required principal payments until the OPIC loans mature in January 2006.

MASTER REPURCHASE AGREEMENT

The Company and BMI can borrow up to $250,000,000, of which $100,000,000 is committed, through repurchase agreements using commercial mortgage loans as collateral. The Company pledges commercial mortgage loans as collateral for the facility such that the amount borrowed is approximately equal to 80 percent to 90 percent of the value of the collateral pledged. The terms of the master repurchase agreement require interest only payments with all principal due at maturity. Principal may be repaid at any time without penalty. The master repurchase agreement bears interest at the one-month LIBOR plus 1.13 percent, or 6.8 percent at December 31, 1998 and 1997. Average debt outstanding, maximum amount borrowed, and weighted average interest rate charged on the master repurchase agreement for the years ended December 31, 1998 and 1997 were $16,927,000 and

NOTE 5. DEBT, CONTINUED

$166,362,000; and $202,705,000 and $209,591,000; and 6.8 percent and 6.6 percent; respectively. The master repurchase agreement matured on January 31, 1999, and was not renewed by the Company.

SENIOR NOTE PAYABLE

At December 31, 1997, the Company had a $20,000,000 unsecured senior note payable to an insurance company with an interest rate of 9.15 percent, payable semi-annually. The note was paid-off in June 1998.

REVOLVING LINES OF CREDIT

Subsequent to the Merger, the Company repaid all of its previous unsecured revolving lines of credit and entered into a new $200,000,000 unsecured revolving line of credit. The new facility bears interest at LIBOR plus 1.25 percent, or 6.9 percent at December 31, 1998, and requires a commitment fee equal to 0.2 percent of the committed amount, and a facility fee equal to 0.15 percent of the initial commitment. The new line expires June 30, 1999. The line of credit requires monthly payments of interest and all principal is due upon its expiration.

The average debt outstanding on the revolving lines were $51,904,000 and $30,033,000 for the years ended December 31, 1998 and 1997, respectively. The maximum amount borrowed under these facilities and the weighted average interest rate for the years ended December 31, 1998 and 1997 were $105,000,000 and $45,759,000, and 6.8 percent and 8.1 percent, respectively.

The Company has plans to increase the capacity of its revolving line of credit in 1999, as well as extend the maturity date. The Company is currently negotiating with its lenders in order to accomplish these changes.

NOTE 6. INCOME TAXES

For the years ended December 31, 1998, 1997 and 1996, the Company's effective tax rate was 1.0 percent, 2.3 percent and 3.5 percent, respectively.

For the year ended December 31, 1998, the Company incurred income tax expense of $787,000 which resulted from the realization of a taxable net built-in gain associated with property owned by Advisers prior to the Merger.

For the years ended December 31, 1997 and 1996, the Company's income subject to federal and state taxes related to the income generated by the pre-Merger operations of Advisers. The income generated by the other Predecessor Companies is not subject to federal and state income taxes because these companies qualified as regulated investment companies or a real estate investment trust.

NOTE 7. PREFERRED STOCK

Allied Investment has outstanding a total of 60,000 shares of $100 par value, 3 percent cumulative preferred stock and 10,000 shares of $100 par value, 4 percent redeemable cumulative preferred stock issued to the SBA pursuant to Section 303(c) of the Small Business Investment Act of 1958, as amended. The 3 percent cumulative preferred stock does not have a required redemption date. Allied Investment has the option to redeem in whole or in part the preferred stock by paying the SBA the par

NOTE 7. PREFERRED STOCK, CONTINUED
value of such securities and any dividends accumulated and unpaid to the date of redemption. The 4 percent redeemable cumulative preferred stock has a required redemption date of June 4, 2005.

NOTE 8. SHAREHOLDERS' EQUITY

In 1998, the Company sold 3,565,000 shares of its common stock through an underwriter for net proceeds of $56,776,000, after costs of $3,384,000 which included a 5.0 percent fee paid to the underwriter. In 1998, the Company also sold 801,959 shares of its common stock to an institutional investor in two transactions. The net proceeds from the transactions were $12,899,000, after costs of $677,000 which included a weighted average discount of 4.0 percent.

In 1996, the Company completed two non-transferable subscription rights offerings to common shareholders. The Company issued 1,433,414 shares of common stock pursuant to these offerings raising net proceeds to the Company of $17,147,000, after costs including a 2.5 percent fee paid to eligible broker/dealers.

In 1996, the Company also sold 400,000 shares of its common stock through an underwriter for net proceeds of $5,218,000.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to the average of the closing sales prices reported for the Company's common stock for the five days on which trading in the shares takes place immediately prior to the dividend payment date. For the years ended December 31, 1998, 1997 and 1996 the Company issued 241,482, 550,971 and 913,206 shares, respectively, at an average price per share of $20.35, $15.67 and $13.13, respectively.

NOTE 9. EARNINGS PER COMMON SHARE

<TABLE>
<CAPTION>

	INCOME	SHARES	PER COMMON SHARE AMOUNT
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
1998			

Net increase in net assets resulting from operations...	$78,078		
Less: Preferred stock dividends...	(230)		
Income available to common shareholders...	$77,848		
BASIC EARNINGS PER COMMON SHARE...		51,941	$1.50
Options outstanding to officers...		33	
DILUTED EARNINGS PER COMMON SHARE...		51,974	$1.50
1997			
Net increase in net assets resulting from operations...	$61,304		
Less: Preferred stock dividends...	(220)		
Income available to common shareholders...	$61,084		
BASIC EARNINGS PER COMMON SHARE...		49,218	$1.24
Options outstanding to officers...		33	
DILUTED EARNINGS PER COMMON SHARE...		49,251	$1.24
1996			
Net increase in net assets resulting from operations...	$54,947		
Less: Preferred stock dividends...	(220)		
Income available to common shareholders...	$54,727		
BASIC EARNINGS PER COMMON SHARE...		46,172	$1.19
Options outstanding to officers...		561	
DILUTED EARNINGS PER COMMON SHARE...		46,733	$1.17

</TABLE>

NOTE 10. EMPLOYEE STOCK OWNERSHIP PLAN AND DEFERRED COMPENSATION PLAN

The Company has an employee stock ownership plan ("ESOP"). Pursuant to the ESOP, the Company is obligated to contribute 5 percent of each eligible participant's total cash compensation for the year to a plan account on the participant's behalf, which vests over a two-year period. ESOP contributions are used to purchase shares of the Company's common stock.

As of December 31, 1998 and 1997, the ESOP held 282,500 shares and 433,047 shares, respectively, of the Company's common stock, all of which had been allocated to participants' accounts. The plan is funded annually and the total ESOP contribution expense for the years ended December 31, 1998, 1997, and 1996 was $489,000, $351,000 and $1,018,000, respectively, net of forfeitures of $4,000, $0 and $36,000, respectively.

The Company also has a deferred compensation plan (the "DC Plan"). Eligible participants in the DC Plan may elect to defer some of their compensation and have such compensation credited to a participant account. All amounts credited to a participant's account shall be credited solely for purposes of accounting and computation and remain assets of the Company and subject to the claims of the Company's general creditors. Amounts credited to participants under the DC Plan are at all times 100 percent vested and non-forfeitable except for amounts credited to participants' accounts related to the Formula Award (see Note 12). A participant's account shall become distributable upon

NOTE 10. EMPLOYEE STOCK OWNERSHIP PLAN AND DEFERRED COMPENSATION PLAN, CONTINUED

his or her separation from service, retirement, disability, death, or at a future determined date. All DC Plan accounts will be distributed in the event of a change of control of the Company or in the event of the Company's insolvency. Amounts deferred by participants under the DC Plan are funded to a trust, the trustee of which administers the DC Plan on behalf of the Company.

NOTE 11. STOCK OPTION PLAN

In conjunction with the Merger, all stock option plans that existed for Allied Lending and the Predecessor Companies before the Merger ("Old Plans") were cancelled on December 31, 1997, and at a special meeting of shareholders on November 26, 1997, the Company's shareholders approved a new stock option plan ("ACC Plan") for the Company to be effected post-Merger.

THE ACC PLAN

The purpose of the ACC Plan is to provide officers and non-officer directors of the Company with additional incentives. Options may be granted from time to time on up to 6,250,000 shares, which represents approximately 11 percent of the outstanding shares as of December 31, 1998.

Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. If an optionee dies or becomes totally and permanently disabled before expiration of the options without fully exercising them, he or she or the executors or administrators or legatees or distributees of the estate shall, as may be provided at the time of the grant, have the right, within one year after the optionee's death or total and permanent disability, to exercise the options in whole or in part before the expiration of their term. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control. For the year ended December 31, 1998, the Company's compensation committee granted a total of 5,189,944 options to officers of the Company under the ACC Plan. The options awarded to officers were generally non-qualified stock options that vest over a five-year period from the grant date. The stock options have been granted at the market price on the date of grant with a weighted average exercise price equal to $20.14 per share. At December 31, 1998, options for 1,465,768 shares were vested. Options were exercised for 10,408 shares, and options were canceled for 65,638 shares during the year ended December 31, 1998.

OLD PLAN ACTIVITY

During 1997 and 1996, the Predecessor Companies granted 1,474,000 and 866,000 options, respectively, under the Old Plans at exercise prices ranging from $9.53 to $22.58 per share. Total shares issued pursuant to the exercise of stock options totaled 2,395,000 and 1,051,000 during 1997 and 1996, respectively.

NOTE 11. STOCK OPTION PLAN, CONTINUED

NOTES RECEIVABLE FROM THE SALE OF COMMON STOCK

The Company provides loans to officers for the exercise of options. The loans have varying terms not exceeding ten years, bear interest at the applicable federal interest rate in effect at the date of issue and have been recorded as a reduction to shareholders' equity. For the years ended December 31, 1998, 1997 and 1996, the Company had outstanding loans to officers of $23,735,000, $29,611,000 and $15,491,000, respectively. Officers with outstanding loans repaid principal of $5,591,000, $6,534,000, and $2,199,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The Company recognized interest income from these loans of $1,600,000, $1,031,000 and $529,000, respectively, during these same periods.

The Company accounts for its stock options as required by the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and no compensation cost has been recognized. Had compensation cost for the plan been determined consistent with SFAS No. 123 "Accounting for Stock Based Compensation," the Company's net increase in net assets resulting from operations and basic and diluted earnings per common share would have been reduced to the following pro forma amounts:

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Net increase in net assets resulting from operations:			
As reported	$78,078	$61,304	$54,947
Pro forma	$72,684	$60,656	$53,372
Basic earnings per common share:			

As reported	$ 1.50	$ 1.24	$ 1.19
Pro forma	$ 1.39	$ 1.23	$ 1.16
Diluted earnings per common share:			
As reported	$ 1.50	$ 1.24	$ 1.17
Pro forma	$ 1.39	$ 1.23	$ 1.14

Pro forma expenses are based on the underlying value of the options granted by the Company and the Predecessor Companies. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

NOTE 12. CUT-OFF AWARD AND FORMULA AWARD

The Predecessor Companies' existing stock option plans were canceled and the Company established a cut-off dollar amount for all existing, but unvested options as of the date of the Merger (the "Cut-off Award"). The Cut-off Award is computed for each unvested option as of the Merger date. The Cut-off Award is equal to the difference between the market price on August 14, 1997 (the Merger announcement date) of the shares of stock underlying the option less the exercise price of the option. The Cut-off Award is payable for each unvested option upon the future vesting date of that option. The Cut-off Award was designed to cap the appreciated value in unvested options at the Merger announcement date, in order to set the foundation to balance option awards upon the Merger. The Cut-off Award approximates $2.9 million in the aggregate and is expensed as the Cut-off Award vests. For the year ended December 31, 1998, $807,000 of the Cut-off Award vested.

NOTE 12. CUT-OFF AWARD AND FORMULA AWARD, CONTINUED

The Formula Award was established to compensate employees from the point when their unvested options would cease to appreciate in value (the Merger announcement date), up until the time at which they would be able to receive option awards in ACC post-Merger. In the aggregate, the Formula Award equaled 6 percent of the difference between an amount equal to the combined aggregated market capitalizations of the Predecessor Companies as of the close of the market on the day before the Merger date (December 30, 1997), less an amount equal to the combined aggregate market capitalizations of Allied Lending and the Predecessor Companies as of the close of the market on the Merger announcement date. Advisers' compensation committee allocated the Formula Award to individual officers on December 30, 1997. The amount of the Formula Award as computed at December 30, 1997 was $18,994,000. This amount was contributed to the Company's deferred compensation trust under the DC Plan (see Note 10) and was used to purchase shares of the Company's stock (included in common stock held in deferred compensation trust). The Formula Award vests equally in three installments on December 31, 1998, 1999 and 2000; provided, however, that such Formula Award vests immediately upon a change in control of the Company. The Formula Award will be expensed in each year in which it vests. For the year ended December 31, 1998, $6,242,000 was expensed as a result of the Formula Award. Vested Formula Awards are distributable to recipients at the Company's discretion, however, sale of the Company's stock by the recipients is restricted. Unvested Formula Awards are forfeited upon a recipient's separation from service and the related Company stock is retired. During 1998, $270,000 of the Formula Award was forfeited.

On January 4, 1999, the Company distributed shares of the Company's common stock with a value of $4,062,000 representing the portion of the Formula Award that vested on December 31, 1998.

NOTE 13. DIVIDENDS AND DISTRIBUTIONS

For the years ended December 31, 1998, 1997 and 1996, the Company declared the following distributions:

	1998		1997		1996	
	TOTAL	TOTAL PER	TOTAL	TOTAL PER	TOTAL	TOTAL PER

	AMOUNT	SHARE	AMOUNT	SHARE	AMOUNT	SHARE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First quarter	$18,025	$0.35	$14,347	$0.30	$11,158	$0.25
Second quarter	17,966	0.35	14,795	0.30	11,911	0.26
Third quarter	17,976	0.35	15,548	0.31	12,743	0.27
Fourth quarter	19,444	0.35	31,022	0.61	13,678	0.29
Annual extra distribution	1,676	0.03	1,118	0.02	7,908	0.16
Special undistributed earnings distribution	--	--	8,848	0.17	--	--
Total distributions to common shareholders	$75,087	$1.43	$85,678	$1.71	$57,398	$1.23

For income tax purposes, distributions for 1998, 1997 and 1996 were comprised of the following:

	1998		1997		1996	
	TOTAL AMOUNT	TOTAL PER SHARE	TOTAL AMOUNT	TOTAL PER SHARE	TOTAL AMOUNT	TOTAL PER SHARE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ordinary income	$49,397	$0.94	$39,356	$0.79	$41,563	$0.89
Long-term capital gains	25,690	0.49	31,037	0.62	15,835	0.34
Return of capital (tax)	--	--	6,437	0.13	--	--
Total distributions before special distribution	75,087	1.43	76,830	1.54	57,398	1.23
Special undistributed earnings distribution	--	--	8,848	0.17	--	--
Total distributions to common shareholders	$75,087	$1.43	$85,678	$1.71	$57,398	$1.23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13. DIVIDENDS AND DISTRIBUTIONS, CONTINUED

The following table summarizes the differences between financial statement net income and taxable income for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Financial statement net income	$ 78,078	$61,304	$54,947
Adjustments:			
Net unrealized (gains) losses	(1,079)	(7,209)	7,412
Amortization of discount	2,207	(1,124)	(2,779)
Net gain on securitization of commercial mortgage loans	(14,812)	--	--
Interest income from securitized commercial mortgage loans	4,910	--	--
Gains from disposition of portfolio assets	1,177	17,890	874
Expenses not deductible for tax:			
Merger expenses	--	5,159	--
Formula award	6,242	--	--
Other	1,393	853	2,306
Other	(3,029)	(9,050)	(1,372)
Income tax expense	--	1,444	1,945
Taxable income	$ 75,087	$69,267	$63,333

NOTE 14. CONCENTRATIONS OF CREDIT RISK

The Company places its cash with financial institutions and, at times, cash held in checking accounts in financial institutions may be in excess of the Federal Deposit Insurance Corporation insured limit. At December 31, 1998 and 1997, cash and cash equivalents consisted of the following:

	1998	1997
	(IN THOUSANDS)	
Cash and cash equivalents	$31,833	$76,791
Less escrows held	(6,758)	(6,354)
Total	$25,075	$70,437

NOTE 15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 1998, 1997 and 1996, the Company paid $21,708,000, $26,874,000 and $21,391,000, respectively, for interest and income taxes. During 1998, 1997 and 1996, the Company's non-cash financing activities totaled $6,237,000, $48,207,000 and $22,361,000, respectively, related primarily to common stock issuances resulting from stock option exercises and dividend reinvestment shares issued. During 1998, 1997 and 1996, the Company's non-cash investing activities totaled $1,265,000, $12,022,000 and $2,004,000 respectively.

NOTE 16. SELECTED QUARTERLY DATA (UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998			
	QTR 1	QTR 2	QTR 3	QTR 4
Total interest and related portfolio income	$36,897	$21,321	$22,546	$25,974
Portfolio income before realized and unrealized gains	$24,920	$ 9,148	$ 9,401	$11,776
Net increase in net assets resulting from operations	$32,065	$14,476	$14,906	$16,631
Basic earnings per common share	$ 0.62	$ 0.28	$ 0.29	$ 0.31
Diluted earnings per common share	$ 0.61	$ 0.28	$ 0.29	$ 0.31

	1997			
	QTR 1	QTR 2	QTR 3	QTR 4
Total interest and related portfolio income	$21,399	$24,911	$25,111	$25,984
Portfolio income before realized and unrealized gains	$11,968	$14,095	$12,093	$ 7,910
Net increase in net assets resulting from operations	$12,646	$18,296	$17,146	$13,216
Basic earnings per common share	$ 0.27	$ 0.37	$ 0.35	$ 0.25
Diluted earnings per common share	$ 0.27	$ 0.37	$ 0.35	$ 0.25

CONSOLIDATING BALANCE SHEET

	DECEMBER 31, 1998		
	ALLIED	ALLIED	CONSOLIDATED

	ACC	INVESTMENT	SBLC	OTHERS	ELIMINATIONS	TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Portfolio at value:						
Mezzanine loans and debt securities.....	$264,968	$ 74,195	$ --	$ --	$ --	$339,163
Commercial mortgage loans.....	206,463	--	--	26,723	--	233,186
Commercial mortgage-backed securities...	32,221	--	--	81,453	--	113,674
Small Business Administration 7(a) loans.....	--	--	56,285	--	--	56,285
Equity interests in portfolio companies.....	27,641	21,750	--	--	--	49,391
Investments in subsidiaries.....	159,945	--	--	(335)	(159,610)	--
Other portfolio assets.....	277	--	50	8,248	--	8,575
Total portfolio at value.....	691,515	95,945	56,335	116,089	(159,610)	800,274
Cash and cash equivalents.....	5,308	15,068	2,776	1,923	--	25,075
Intercompany notes and receivables.....	90,194	1,824	90	--	(92,108)	--
Other assets.....	16,822	1,932	9,360	2,734	(118)	30,730
Total assets.....	$803,839	$114,769	$68,561	$120,746	$(251,836)	$856,079
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities:						
Debentures and notes payable.....	$191,700	$ 47,650	$ --	$ --	$ --	$239,350
Revolving lines of credit.....	95,000	--	--	--	--	95,000
Accounts payable and other liabilities.....	25,003	858	1,655	396	--	27,912
Dividends and distributions payable.....	1,700	5,085	5,594	--	(10,679)	1,700
Intercompany notes and payables.....	5,319	98	46,116	30,001	(81,534)	--
	318,722	53,691	53,365	30,397	(92,213)	363,962
Commitments and contingencies						
Preferred stock issued to Small Business Administration.....	--	7,000	--	--	--	7,000
Shareholders' equity:						
Common stock.....	6	--	--	1	(1)	6
Additional paid-in capital.....	526,824	38,604	17,563	82,294	(138,461)	526,824
Common stock held in deferred compensation trust.....	(19,431)	--	--	--	--	(19,431)
Notes receivable from sale of common stock.....	(23,735)	--	--	--	--	(23,735)
Net unrealized appreciation (depreciation) on portfolio.....	2,380	1,486	(2,072)	(1,503)	2,089	2,380
Undistributed (distributions in excess of) earnings.....	(927)	13,988	(295)	9,557	(23,250)	(927)
Total shareholders' equity.....	485,117	54,078	15,196	90,349	(159,623)	485,117
Total liabilities and shareholders' equity.....	$803,839	$114,769	$68,561	$120,746	$(251,836)	$856,079

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1998					
	ACC	ALLIED INVESTMENT	ALLIED SBLC	OTHERS	ELIMINATIONS	CONSOLIDATED TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest and related portfolio income:						
Interest.....	$ 51,247	$11,836	$ 6,257	$10,581	$ --	$ 79,921
Intercompany interest income.....	4,846	--	--	--	(4,846)	--
Net premiums from loan dispositions.....	2,920	240	2,789	--	--	5,949

Net gain on securitization of commercial mortgage loans	--	--	--	14,812	--	14,812
Income from investments in wholly owned subsidiaries	48,873	--	--	--	(48,873)	--
Investment advisory fees and other income	4,343	9	837	867	--	6,056
Total interest and related portfolio income	112,229	12,085	9,883	26,260	(53,719)	106,738
Expenses:						
Interest on indebtedness	15,092	4,651	711	240	--	20,694
Intercompany interest on indebtedness	--	503	2,693	1,643	(4,839)	--
Salaries and employee benefits	11,829	--	--	--	--	11,829
General and administrative	9,417	437	944	1,123	--	11,921
Total operating expenses	36,338	5,591	4,348	3,006	(4,839)	44,444
Formula and cut-off awards	7,049	--	--	--	--	7,049
Portfolio income before realized and unrealized gains (losses)	68,842	6,494	5,535	23,254	(48,880)	55,245
Net realized and unrealized gains:						
Net realized gains (losses)	8,156	10,407	(39)	4,017	--	22,541
Net unrealized gains (losses)	956	(3,502)	(1,679)	(1,377)	6,681	1,079
Total net realized and unrealized gains (losses)	9,112	6,905	(1,718)	2,640	6,681	23,620
Income before minority interests and income taxes	77,954	13,399	3,817	25,894	(42,199)	78,865
Minority interests	--	--	--	--	--	--
Income tax expense	--	--	--	787	--	787
Net increase in net assets resulting from operations	$ 77,954	$13,399	$ 3,817	$25,107	$(42,199)	$ 78,078

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1998					
	ACC	ALLIED INVESTMENT	ALLIED SBLC	OTHERS	ELIMINATIONS	CONSOLIDATED TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:						
Net increase in net assets resulting from operations	$ 77,954	$ 13,399	$ 3,817	$ 25,107	$(42,199)	$ 78,078
Adjustments						
Net unrealized (gains) losses	(956)	3,502	1,679	1,377	(6,681)	(1,079)
Net gain on securitization of commercial mortgage loans	--	--	--	(14,812)	--	(14,812)
Depreciation and amortization	702	--	--	--	--	702

Amortization of loan discounts and fees	(4,741)	(583)	(708)	--	--	(6,032)
Changes in other assets and liabilities	3,267	908	(2,329)	10,152	--	11,998
Net cash provided by operating activities	76,226	17,226	2,459	21,824	(48,880)	68,855
Cash flows from investing activities:						
Investments in small business concerns	(426,797)	(18,870)	(57,725)	(25,333)	4,195	(524,530)
Collections of investment principal	112,535	21,210	4,183	153	--	138,081
Proceeds from loan sales	44,063	--	36,950	--	--	81,013
Proceeds from securitization of commercial mortgage loans	223,401	--	--	--	--	223,401
Net (purchase) redemption of U.S. government securities	--	11,091	--	--	--	11,091
Collections (advances) under intercompany notes	(42,170)	(19,756)	34,458	27,468	--	--
Collections of notes receivable from sale of common stock	5,591	--	--	--	--	5,591
Other investing activities	(2,539)	--	--	--	--	(2,539)
Net cash (used in) provided by investing activities	(85,916)	(6,325)	17,866	2,288	4,195	(67,892)
Cash flows from financing activities:						
Sale of common stock	69,896	--	--	--	--	69,896
Purchase of common stock by deferred compensation trust	(19,431)	--	--	--	--	(19,431)
Purchase of common stock of subsidiaries	(5,000)	--	5,000	--	--	--
Common dividends and distributions paid	(69,536)	--	--	--	--	(69,536)
Special undistributed earnings distribution paid	(8,848)	--	--	--	--	(8,848)
Dividends paid to parent company	--	(22,204)	(5,594)	(16,887)	44,685	--
Preferred stock dividends	--	(450)	--	--	--	(450)
Net payments on debentures and notes payable	(53,871)	(15,600)	--	--	--	(69,471)
Net borrowings under revolving lines of credit	74,706	--	(18,548)	--	--	56,158
Other financing activities	1,124	--	--	(5,767)	--	(4,643)
Net cash used in financing activities	(10,960)	(38,254)	(19,142)	(22,654)	44,685	(46,325)
Net (decrease) increase in cash and cash equivalents	(20,650)	(27,353)	1,183	1,458	--	(45,362)
Cash and cash equivalents at beginning of year	25,958	42,421	1,593	465	--	70,437
Cash and cash equivalents at end of year	$ 5,308	$ 15,068	$ 2,776	$ 1,923	$ --	$ 25,075

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ALLIED CAPITAL CORPORATION AND SUBSIDIARIES:

We have audited the consolidated balance sheet of Allied Capital Corporation and subsidiaries as of December 31, 1998 and 1997, including the consolidated statement of investments as of December 31, 1998, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements and supplementary consolidating financial information referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and supplementary consolidating financial information referred to below based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. These procedures included physical counts of investments. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Capital Corporation and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations, changes in net assets and cash flows for each of the three years in the period then ended in conformity with generally accepted accounting principles.

As discussed in Note 3, the consolidated financial statements include investments valued at $800,274,000 as of December 31, 1998 and $697,021,000 as of December 31, 1997, (93 percent and 86 percent, respectively, of total assets) whose values have been estimated by the board of directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the board of directors in arriving at its estimate of value of such investments and have inspected the underlying documentation, and in the circumstances we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, the board of directors' estimate of values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary consolidating balance sheet and related consolidating statements of operations and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.
/s/ Arthur Anderson

Vienna, Virginia
February 18, 1999

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION 1999.

ALLIED CAPITAL CORPORATION

STATEMENT OF ADDITIONAL INFORMATION
, 1999

This Statement of Additional Information ("SAI") is not a prospectus, and should be read in conjunction with the prospectus dated , 1999 relating to this offering and the accompanying prospectus supplement, if any. You can obtain a copy of the prospectus by calling Allied Capital Corporation at 1-888-818-5298 and asking for Investor Relations. Terms not defined herein have the same meaning as given to them in the prospectus.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

GENERAL INFORMATION AND HISTORY

This SAI contains information with respect to Allied Capital Corporation (the "Company"). The Company changed its name from "Allied Capital Lending Corporation" to "Allied Capital Corporation," effective upon the merger, which was consummated on December 31, 1997. The Company is a registered investment adviser. The Company was initially organized as a corporation in the District of Columbia in 1976 and was reincorporated in the state of Maryland in 1990.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Company is to achieve current income and capital gains. The Company seeks to achieve its investment objective by lending to and investing primarily in private, growing businesses in a variety of industries and in diverse geographic locations primarily in the United States. We focus on investments in three primary areas: mezzanine finance, commercial real estate finance and SBA 7(a) lending. Our investment portfolio consists primarily of small and medium-sized subordinated loans with equity features, small and medium-sized commercial mortgage loans, and small senior loans. At December 31, 1998, our investment portfolio totaled $800.3 million. A discussion of the selected financial data, supplementary financial information and management's discussion and analysis of financial condition and results of operations is included in the prospectus. In addition to its core lending business, the Company also provides advisory services to private investment funds.

MANAGEMENT

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Under Commission rules applicable to BDCs, we are required to set forth certain information regarding the compensation of certain executive officers and directors. The following table sets forth compensation paid by the Company in all capacities during the year ended December 31, 1998, to the directors and the three highest paid executive officers of the Company (collectively, the "Compensated Persons").

COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND POSITION	AGGREGATE COMPENSATION FROM THE COMPANY(1)	SECURITIES UNDERLYING OPTIONS/SARS(4)	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF COMPANY EXPENSES	DIRECTORS FEES PAID BY THE COMPANY(5)
<S>	<C>	<C>	<C>	<C>
William L. Walton, Chairman and Chief Executive Officer(2)	$2,158,599	754,188	$ --	$17,667
Joan M. Sweeney, Managing Director(2)	1,178,920	374,275	--	0
G. Cabell Williams III, Managing Director(2)	896,873	278,403	--	0
Brooks H. Browne, Director	10,500	--	--	10,500
John D. Firestone, Director	11,500	--	--	11,500
Anthony T. Garcia, Director	12,500	--	--	12,500
Lawrence I. Hebert, Director	8,500	--	--	8,500
John I. Leahy, Director	17,167	--	--	17,167
Robert E. Long, Director	18,667	--	--	18,667
Warren K. Montouri, Director	15,667	--	--	15,667

Guy T. Steuart II, Director.....	11,000	--	--	11,000
T. Murray Toomey, Director.....	7,500	--	--	7,500
Laura W. van Roijen, Director.....	8,500	--	--	8,500
George C. Williams, Jr. Director, Chairman Emeritus(3).....	626,206	151,395	--	18,167

---

(1) There were no perquisites paid by the Company in excess of the lesser of $50,000 or 10% of the Compensated Person's total salary and bonus for the year.

(2) The following table provides detail for 1998 as to the aggregate compensation of the three highest paid executive officers of the Company.

	SALARY	BONUS	VESTED FORMULA AWARD	CUT-OFF AWARD	ESOP CONTRIBUTION	DEFERRED COMPENSATION CONTRIBUTION	DIRECTORS FEES
Mr. Walton.....	$351,517	$525,000	$1,056,683	$170,156	$8,000	$29,576	$17,667
Ms. Sweeney.....	222,191	275,000	619,154	38,965	8,000	15,610	--
G. Cabell Williams III.....	225,327	275,000	287,523	88,257	8,000	12,766	--

The Formula Award, which totaled approximately $19 million in the aggregate, vests in three equal installments on December 31, 1998, 1999, and 2000, and will be expensed for financial reporting purposes similarly. The amount of the Formula Award expensed in 1998 for financial reporting purposes for Mr. Walton, Ms. Sweeney and Mr. Williams was $1,472,451, $862,761 and $400,664, respectively. The amount expensed was based on the value of the Company's common stock at the date of the Formula Award contribution to the deferred compensation plan in January 1998. On January 4, 1999, the first vested installment of the Formula Award was generally distributed to participants at the market value of the Company's common stock on that day. The distribution amount for Mr. Walton, Ms. Sweeney and Mr. Williams was $1,056,683, $619,154 and $287,523, respectively. The Company distributed the vested shares to brokerage accounts for the participants that restrict the sale of the vested shares.

The Cut-Off Award, which totaled $2.9 million in the aggregate, will be paid to individuals on the respective vesting date of any options under the Old Plans which were canceled in connection with the merger. See "-- Cut-Off Award and Formula Award."

(3) In addition to director's fees, Mr. Williams received $144,000 in consulting fees, $32,686 in Cut-Off Award and $431,353 in vested Formula Award. The amount of the Formula Award expensed in 1998 for Mr. Williams was $601,068.

(4) See "Stock Option Awards" for terms of options granted in 1998. The Company does not maintain a restricted stock plan or a long-term incentive plan.

(5) Consists only of directors' fees paid by the Company during 1998. Such fees are also included in the column titled "Aggregate Compensation from the Company."

COMPENSATION OF DIRECTORS

During the first quarter of 1998, each director received a fee of $1,000 for each meeting of the board of directors or any separate committee meeting attended, and $500 for each committee meeting attended on the same day as a board of directors meeting. Beginning in April 1998, each director received $1,000 for each board or committee meeting attended, except with respect to the members

of the executive committee, who each received an annual retainer of $10,000 in lieu of fees paid for each executive committee meeting attended. For 1998, this annual retainer was prorated. Non-officer directors are eligible for stock option awards under the Company's current stock option plan, provided that the Commission grants exemptive relief to permit such awards. No grants have been made to non-officer directors under the Company's stock option plan. See "-- Stock Option Awards" and "Management -- Compensation Plans -- Stock Option Plan" in the prospectus.

STOCK OPTION AWARDS

The following table sets forth the details relating to option grants in 1998 to the Company's Compensated Persons and the potential realizable value of each grant, as prescribed to be calculated by the Commission.

OPTION GRANTS DURING 1998

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED IN 1998(2)	EXERCISE PRICE PER SHARE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION OVER 10-YEAR TERM(3)	
					5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
William L. Walton.....	659,188	12.7%	$21.375	1/8/08	$8,861,216	$22,456,060
	95,000	1.8	$17.875	12/8/08	$1,067,942	$ 2,706,374
Joan M. Sweeney.....	319,275	6.2	$21.375	1/8/08	$4,291,893	$10,876,500
	55,000	1.1	$17.875	12/8/08	$ 618,282	$ 1,566,848
G. Cabell Williams III....	223,403	4.3	$21.375	1/8/08	$3,003,122	$ 7,610,501
	55,000	1.1	$17.875	12/8/08	$ 618,282	$ 1,566,848
George C. Williams, Jr.	141,395	2.7	$21.375	1/8/08	$1,900,720	$ 4,816,797
	10,000	0.2	$17.875	12/8/08	$ 112,415	$ 284,881

</TABLE>

---

(1) Options granted in 1998 generally vest in six equal installments beginning on the date of grant, with full vesting occurring on the fifth anniversary of the grant date or change of control of the Company.

(2) In 1998, the Company granted options to purchase a total of 5,189,944 shares.

(3) Potential realizable value is calculated on 1998 options granted, and is net of the option exercise price but before any tax liabilities that may be incurred. These amounts represent certain assumed rates of appreciation, as mandated by the Commission. Actual gains, if any, or stock option exercises are dependent on the future performance of the shares, overall market conditions, and the continued employment by the Company of the option holder. The potential realizable value will not necessarily be realized.

CUT-OFF AWARD AND FORMULA AWARD

As discussed in the prospectus, prior to the merger options had been granted under the Old Plans to various employees of Advisers, who were also officers of the predecessor companies. In preparation for the merger, the compensation committee of Advisers, in conjunction with the compensation committee of the other predecessor companies, determined that the five Old Plans should be terminated upon the merger, so that the new merged Company would be able to develop a new plan that would incent all officers and directors with a single equity security. The existence of the Old Plans had resulted in certain inequities in option grants among the various officers of the predecessor companies simply because of the differences in the underlying equity securities.

To balance stock option awards among employees, and to account for the deviations caused by the existence of five plans by five different publicly traded stocks, two special awards were developed to be granted in lieu of options under the Old Plans that were foregone upon the merger and the cancellation of the Old Plans.

Cut-Off Award. The first award established a cut-off dollar amount as of the date of the announcement of the merger (August 14, 1997) that was computed for all outstanding, but unvested options that were canceled as of the date of the merger (the "Cut-Off Award"). The Cut-Off Award was designed to cap the appreciated value in unvested options as of the merger announcement date in order to set the foundation to balance option awards upon the merger. The Cut-Off Award, in the aggregate, was computed to be $2.9 million, and is equal to the difference between the market price of the shares of stock underlying the canceled options under the Old Plans at August 14, 1997, less the exercise prices of the options. The Cut-Off Award is payable for each canceled option as the canceled options would have vested and will vest automatically in the event of a change of control. The Cut-Off Award is only payable if the award recipient is employed by the Company on the future vesting date. The following table indicates the Cut-Off Award for each Compensated Person, and the related vesting schedule.

<TABLE>
<CAPTION>

CUT-OFF AWARD RECIPIENT	1998	1999	2000	2001	2002
<S>	<C>	<C>	<C>	<C>	<C>
William L. Walton	$170,157	$170,157	$170,157	$ 0	$ 0
Joan M. Sweeney	38,964	37,678	36,602	2,026	0
G. Cabell Williams III	88,257	46,802	39,677	21,152	18,916
George C. Williams, Jr	32,686	4,688	52,373	0	0

</TABLE>

Formula Award. The second award (the "Formula Award") was designed to compensate officers from the point when their unvested options ceased to appreciate in value pursuant to the Cut-Off Award (i.e., August 14, 1997) up until the time at which they would be able to receive option awards in the Company after the merger became effective. In the aggregate, the Formula Award equaled six percent (6%) of the difference between the combined aggregate market capitalizations of the predecessor companies as of the close of the market on December 30, 1997, and the combined aggregate market capitalizations of the predecessor companies on August 14, 1997. In total, the combined aggregate market capitalization of the predecessor companies increased by $319 million from August 14, 1997 to December 30, 1997, and the aggregate Formula Award was approximately $19 million.

The Formula Award was designed as a long-term incentive compensation program to be a replacement for canceled stock options and to balance share ownership among key officers for past and prospective service. The terms of the Formula Award required that the award be contributed to the Company's deferred compensation plan, and be used to purchase shares of the Company in the open market.

The Formula Award vests and accrues equally over a three-year period, on the anniversary of the merger date (December 31, 1997), and vests automatically in the event of a change of control of the Company. If an officer terminates employment with the Company prior to the vesting of any part of the Formula Award, that amount will be forfeited to the Company. Assuming all officers meet the vesting requirement, the Company will accrue the Formula Award over the three-year period in equal amounts of approximately $6.4 million, less any forfeitures. For the year ended December 31, 1998, $6.2 million, net of forfeitures of $0.3 million, was expensed for the Formula Award. The following table indicates the Formula Award for each Compensated Person, and the related vesting schedule.

<TABLE>
<CAPTION>

FORMULA AWARD RECIPIENT	1998	1999	2000
<S>	<C>	<C>	<C>
William L. Walton	$1,472,451	$1,472,451	$1,472,451
Joan M. Sweeney	862,761	862,761	862,761
G. Cabell Williams III	400,664	400,664	400,664
George C. Williams, Jr	601,068	601,068	601,068

</TABLE>

On January 4, 1999, the portion of the Formula Award that vested on December 31, 1998 was generally distributed to participants in the form of shares of the Company's common stock. These shares are held in restricted accounts at a brokerage firm.

COMMITTEES OF THE BOARD OF DIRECTORS

The Company's board of directors has established an Executive Committee, an

Audit Committee, a Nominating Committee and a Compensation Committee.

The Executive Committee has and may exercise those rights, powers and authority of the board of directors as the board of directors may from time to time grant to it, except where action by the board of directors is required by statute, an order of the Commission or the Company's charter or bylaws. In addition, the Executive Committee is authorized to approve all investments over $10 million, or any investment that possesses unusual risk/reward characteristics. The Executive Committee consists of Messrs. Walton, Leahy, Long, Montouri, and Williams. The Executive Committee met sixteen times during 1998.

The Audit Committee recommends the selection of independent public accountants for the Company, reviews with such independent public accountants the planning, scope and results of their audit of the Company's financial statements and the fees for services performed, reviews with the independent public accountants the adequacy of internal control systems, reviews the annual financial statements and receives the Company's audit reports and financial statements. The Audit Committee consists of Messrs. Browne, Leahy and Steuart. The Audit Committee met twice during 1998.

The Compensation Committee determines the compensation for the Company's executive officers and the amount of salary and bonus to be included in the compensation package for each of the Company's officers and employees. In addition, the Compensation Committee approves stock option grants for the Company's officers under the Company's Stock Option Plan. The Compensation Committee consists of Messrs. Browne, Long, Firestone and Garcia. The Compensation Committee met four times during 1998.

The Nominating Committee recommends candidates for election as directors. The Nominating Committee consists of Messrs. Walton, Hebert, Toomey and Steuart, and Ms. van Roijen. The Nominating Committee met once in 1998.

CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

As of March 19, 1999, there were no persons that owned 25% or more of the Company's outstanding voting securities, and no person would be deemed to control the Company, as such term is defined in the 1940 Act.

The following table sets forth, at March 19, 1999, the beneficial ownership of each current director, the Chief Executive Officer, the Company's executive officers, and the executive officers and directors as a group. The address for each director and executive officer is 1919 Pennsylvania Avenue, NW, Washington, DC 20006. At this time the Company is unaware of any shareholder owning 5% or more of the outstanding shares of common stock of the Company. Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has sole voting and investment power.

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED BENEFICIALLY	PERCENTAGE OF CLASS (1)
<S>	<C>	<C>
DIRECTORS:		
William L. Walton	779,650(2,3)	1.3%
Brooks H. Browne	40,056	*
John D. Firestone	19,332	*
Anthony T. Garcia	52,507	*
Lawrence I. Hebert	16,800	*
John I. Leahy	16,818	*
Robert E. Long	9,796	*
Warren K. Montouri	196,182	*
Guy T. Steuart II	317,180(4)	*
T. Murray Toomey, Esq.	32,666(5)	*
Laura W. van Roijen	28,302	*
George C. Williams, Jr.	380,277(2)	*
EXECUTIVE OFFICERS:		
Philip A. McNeill	196,038(2)	*
Penni F. Roll	64,444(2)	*
John M. Scheurer	369,573(2)	*
Joan M. Sweeney	319,933(2)	*
G. Cabell Williams III	732,153(2,3)	1.2%
All directors and executive officers as a group (17 in number)	3,252,237(6)	5.5%

</TABLE>

---

* Less than 1%

(1) Based on a total of 58,765,691 shares of the Company's common stock issued and outstanding on March 19, 1999 and shares of the Company's common stock issuable upon the exercise of immediately exercisable stock options held by each individual executive officer. At this time, no options have been granted to non-officer directors.

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

<TABLE>
<CAPTION>

	OWNED DIRECTLY	OPTIONS EXERCISABLE WITHIN 60 DAYS OF MARCH 19, 1999	ALLOCATED TO ESOP ACCOUNT
<S>	<C>	<C>	<C>
Mr. Walton	261,566	235,564	547
Mr. Williams, Jr.	284,346	95,931	--
Mr. McNeill	112,337	76,677	7,024
Ms. Roll	35,975	25,959	2,510
Mr. Scheurer	235,267	114,876	19,430
Ms. Sweeney	196,355	115,592	7,986
Mr. Williams III	365,998	83,635	61,636

</TABLE>

(3) Includes 282,520 shares held by the ESOP, of which Messrs. Walton and Williams III are co-trustees. Participants in the ESOP may direct the voting of these shares; however, if a participant does not direct the voting, the co-trustees of the ESOP will vote the shares on behalf of the participants. Messrs. Walton and Williams III disclaim beneficial ownership of such shares. As of December 31, 1998, all shares held in the ESOP had been allocated.

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

(5) Shares are held by a trust for the benefit of Mr. Toomey and his wife.

(6) Includes a total of 748,234 shares underlying stock options exercisable within 60 days of March 19, 1999, which are assumed to be outstanding for the purpose of calculating the group's percentage ownership, and 282,520 shares held by the ESOP.

INVESTMENT ADVISORY SERVICES

The Company is internally managed and therefore has not entered into any advisory agreement with, nor pays advisory fees to, an outside investment adviser. The Company is a registered investment adviser under the Advisers Act and provides advisory services to other entities. The Company currently has 73 investment and other portfolio management professionals, who manage the investments of the Company as well as the investments of other managed entities, as well as 33 other professional employees and staff. All investments of the Company must be approved by the Company's investment committee, which is composed of senior investment professionals of the Company. In addition, in certain instances where risk/return characteristics warrant and for every transaction larger than $10 million, the executive committee of the board of directors must also approve the transaction. See "Management" in the prospectus.

SAFEKEEPING, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

The investments of the Company and its subsidiaries are held in safekeeping by Riggs Bank N.A. ("Riggs") at 808 17th Street, N.W., Washington, D.C. 20006. LaSalle National Bank, located at 25 Northwest Point Boulevard, Suite 800, Elk Grove Village, Illinois 60007, serves as the trustee and custodian with respect to assets of the Company held for securitization purposes. American Stock Transfer & Trust Company, 40 Wall Street, 46th Floor, New York, New York 10005 acts as the Company's transfer, dividend paying and reinvestment plan agent and registrar.

ACCOUNTING SERVICES

Arthur Andersen LLP ("Andersen") has served as the independent accountant to the Company since December 31, 1997. Prior to the year ended December 31, 1997, Allied Lending's financial statements were audited by Matthews, Carter and Boyce, P.C., or its predecessor ("Matthews"). On December 12, 1997, Matthews resigned, effective upon the consummation of the merger, and Andersen was engaged and continues as the independent accountants of the Company. The decision to change accountants was recommended by the Company's Audit Committee

and was approved by the board of directors of the Company.

For the year ended December 31, 1996, and up to the date of resignation of Matthews, there were no disagreements with Matthews on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Matthews, would have caused it to make reference to the subject matter of the disagreement in connection with its report. The independent accountants' report on the 1996 financial statements did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. Each of Andersen and Matthews has advised the Company that neither it nor any present member or associate of the relevant firm has any financial interest, direct or indirect, in the Company or its subsidiaries.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since the Company generally acquires and disposes of its investments in privately negotiated transactions, it infrequently uses brokers in the normal course of business.

TAX STATUS

The following discussion is a general summary of the material federal income tax considerations applicable to the Company and to an investment in the common stock and does not purport to be a complete description of the income tax considerations applicable to such an investment. The discussion is based upon the Code, Treasury Regulations, and administrative and judicial interpretations, each as of the date of this SAI and all of which are subject to change. You should consult your own tax advisor with respect to tax considerations which pertain to your purchase of common stock.

This summary assumes that the investors in the Company hold shares as capital assets. This summary does not discuss all aspects of federal income taxation relevant to holders of the common stock in light of particular circumstances, or to certain types of holders subject to special treatment under federal income tax laws, including dealers in securities and financial institutions. This summary does not discuss any aspects of foreign, state or local tax laws.

The Company. The Company has elected for each taxable year to be treated as a "regulated investment company" or "RIC" under Subchapter M of the Code and intends to continue to maintain that status. If the Company qualifies as a RIC and distributes to stockholders in a timely manner at least 90% of its "investment company taxable income," as defined in the Code (i.e., net investment income, including accrued original issue discount, and net short-term capital gains) (the "90% Distribution Requirement") each year, it will not be subject to federal income tax on the portion of its investment company taxable income and net capital gains (net long-term capital gain in excess of net short-term capital loss) it distributes to stockholders. In addition, if the Company distributes in a timely manner 98% of its capital gain net income for each one-year period ending on December 31, and distributes 98% of its net ordinary income for each calendar year (as well as any income not distributed in prior years), it will not be subject to the 4% nondeductible federal excise tax imposed with respect to certain undistributed income of RICs. The Company generally endeavors to distribute to stockholders all of its investment company taxable income and its net capital gain, if any, for each taxable year so that such Company will not incur income and excise taxes on its earnings.

In order to qualify as a RIC for federal income tax purposes, the Company must, among other things: (a) continue to qualify as a BDC under the 1940 Act, (b) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities, or other income derived with respect to its business of investing in such stock or securities (the "90% Income Test"); and (c) diversify its holdings so that at the end of each quarter of the taxable year (i) at least 50% of the value of the Company's assets consists of cash, cash items, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the Company's assets or 10% of the outstanding voting securities of the issuer, and (ii) no more than 25% of the value of the Company's assets is invested in the securities of one issuer (other than U.S. government securities or securities of other RICs) or of two or more issuers that are controlled (as determined under applicable Code rules) by the Company and are engaged in the same or similar or related trades or businesses. The failure of one or more of the Company's subsidiaries to continue to qualify as RICs could adversely affect the Company's ability to satisfy the foregoing diversification requirements.

If the Company acquires or is deemed to have acquired debt obligations that were issued originally at a discount or that otherwise are treated under

applicable tax rules as having original issue discount, it must include in income each year a portion of the original issue discount that accrues over the life of the obligation regardless of whether cash representing such income is received by the relevant entity in the same taxable year and to make distributions accordingly.

Although it does not presently expect to do so, the Company is authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, the Company is not permitted to make distributions to stockholders while the Company's debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, the Company's ability to dispose of assets to meet its distribution requirements may be limited by other requirements relating to its status as a RIC, including the diversification requirements. If the Company disposes of assets in order to meet distribution requirements, the Company may make such dispositions at times which, from an investment standpoint, are not advantageous.

If the Company fails to satisfy the 90% Distribution Requirement or otherwise fails to qualify as a RIC in any taxable year, it will be subject to tax in that year on all of its taxable income, regardless of whether it makes any distributions to its stockholders. In that case, all of the Company's distributions to its stockholders will be characterized as ordinary income (to the extent of the Company's current and accumulated earnings and profits). In contrast, as is explained below, if the Company qualifies as a RIC, a portion of its distributions may be characterized as long-term capital gain in the hands of stockholders.

U.S. Stockholders. Other than distributions properly designated as "capital gain dividends" as is described below, dividends to U.S. Stockholders (as defined below) of the investment company taxable income of the Company will be taxable as ordinary income to stockholders to the extent of the Company's current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares. A "U.S. Stockholder" is a stockholder who is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created in or organized under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust subject to the supervision of a court within the United States and the control of a United States person. Distributions of the Company's net capital gain properly designated by the Company as "capital gain dividends" will be taxable to stockholders as a long-term capital gain regardless of the stockholder's holding period for his or her shares. Distributions in excess of the Company's earnings and profits will first reduce the adjusted tax basis of the stockholder's shares and, after the adjusted basis is reduced to zero, will constitute capital gains to the stockholder. For a summary of the tax rates applicable to capital gains, including capital gains dividends, see discussion below.

To the extent that the Company retains any net capital gain, it may designate such retained gain as "deemed distributions" and pay a tax thereon for the benefit of its stockholders. In that event, the stockholders will be required to report their share of retained net capital gain on their tax returns as if it had been distributed to them and report a credit, or claim or refund for the tax paid thereon by the Company. The amount of the deemed distribution net of such tax will be added to the stockholder's cost basis for his or her shares. Since the Company expects to pay tax on net capital gain at its regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on net capital gain, the amount of tax that individual stockholders will be treated as having paid will exceed the amount of tax that such stockholders would be required to pay on net capital gain.

Stockholders who are not subject to federal income tax or tax on capital gains should be able to file a Form 990T or an income tax return on the appropriate form that allows them to recover the taxes paid on their behalf.

Any dividend declared by the Company in October, November, or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by the stockholders on December 31 of the year in which the dividend was declared.

You should consider the tax implications of buying shares just prior to a distribution. Even if the price of the shares includes the amount of the

forthcoming distribution, you may be taxed upon receipt of the distribution and will not be entitled to offset the distribution against the tax basis in your shares.

You may recognize taxable gain or loss if you sell or exchange your shares. Any gain arising from (or, in the case of distributions in excess of earnings and profits, treated as arising from) the sale or exchange of shares generally will be a capital gain or loss. This capital gain or loss normally will be treated as a long-term capital gain or loss if you have held your shares for more than one year; otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or exchange of shares held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received with respect to such shares and, for this purpose, the special rules of Section 246(c)(3) and (4) of the Code generally apply in determining the holding period of shares. It is unclear how any such long-term capital loss offsets capital gains taxable at different rates. All or a portion of any loss realized upon a taxable disposition of shares of the Company may be disallowed if other shares of the Company are purchased (under a DRIP plan or otherwise) within 30 days before or after the disposition.

In general, net capital gain (the excess of net long-term capital gain over net short-term capital loss) of non-corporate taxpayers currently is subject to a maximum federal income tax rate of 28% (subject to reduction in many situations) while other income may be taxed at rates as high as 39.6%. Capital gains derived from the disposition of assets held for more than 18 months generally are subject to federal income tax at the rate of 20%. Corporate taxpayers currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Tax rates imposed by states and local jurisdictions on capital gain and ordinary income may differ.

The Company will send to each of its stockholders, as promptly as possible after the end of each fiscal year, a notice detailing, on a per share and per distribution basis, the amounts includible in such stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS. Distributions may also be subject to additional state, local, and foreign taxes depending on a stockholder's particular situation. The Company's ordinary income dividends to its corporate shareholders may, if certain conditions are met, qualify for the dividends received deduction to the extent that the Company has received qualifying dividend income during the taxable year; capital gain dividends distributed by the Company are not eligible for the dividends received deduction.

Non-U.S. Stockholders. A Stockholder that is not a U.S. Stockholder (a "Non-U.S. Stockholder") generally is subject to withholding of United States federal income tax at a 30% rate (or lower applicable treaty rate) on dividends from the Company (other than capital gain dividends) that are not "effectively connected" with a United States trade or business carried on by such stockholder. Accordingly, investment in the Company is likely to be appropriate for a Non-U.S. Stockholder only if such person can utilize a foreign tax credit or corresponding tax benefit in respect of such United States withholding tax.

Non-effectively connected capital gain dividends and gains realized from the sale of stock will not be subject to United States federal income tax in the case of (i) a Non-U.S. Stockholder that is a corporation and (ii) a Non-U.S. Stockholder that is not present in the United States for more than 182 days during the taxable year (assuming that certain other conditions are met). However, certain Non-U.S. Stockholders may nonetheless be subject to backup withholding on capital gain dividends and gross proceeds paid to them upon the sale of their stock. See "Backup Withholding" below.

If income from the Company or gains realized from the sale of stock is effectively connected with a Non-U.S. Stockholder's United States trade or business, then such amounts will be subject to

United States federal income tax at the tax rates applicable to United States persons. Non-U.S. Stockholders that are corporations may be also subject to an additional "branch profits tax" with respect to income from the Company that is effectively connected with a United States trade or business.

The United States Treasury Department recently issued Treasury regulations generally effective for payments made after December 31, 1999 concerning the withholding of tax and information reporting for certain amounts paid to nonresident alien individuals and foreign corporations (the "Final Withholding Regulations"). Among other things, the Final Withholding Regulations may require Non-U.S. Stockholders to furnish new certification of their foreign status not later than December 31, 1999. Prospective investors should consult their tax advisors concerning the applicability and effect of the Final Withholding

Regulations on an investment in stock.

The tax consequences to a Non-U.S. Stockholder entitled to claim the benefits of an applicable tax treaty may be different from those described in this section. An applicable tax treaty may reduce the rate or the scope of U.S. taxation imposed on the income of an eligible Non-U.S. Stockholder. Non-U.S. Stockholders may be required to provide appropriate documentation to establish their entitlement to the benefits of such a treaty. Foreign investors are advised to consult their tax advisors with respect to the tax implications of purchasing, holding and disposing of stock.

Backup Withholding. The Company may be required to withhold United States federal income tax at a rate of 31% ("backup withholding") from dividends and redemption proceeds paid to non-corporate stockholders. This tax may be withheld from dividends if (i) the stockholder fails to furnish the Company with its correct taxpayer identification number, (ii) the IRS notifies the Company that the stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect or (iii) when required to do so, the stockholder fails to certify that he or she is not subject to backup withholding. Redemption proceeds may be subject to withholding under the circumstances described in (i) above.

The Company may be required to report annually to the IRS and to each Non-U.S. Stockholder the amount of dividends paid to such stockholder and the amount, if any, of tax withheld pursuant to the backup withholding rules with respect to such dividends. This information may also be made available to the tax authorities in the Non-U.S. Stockholder's country of residence.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from payments made to a stockholder may be refunded or credited against such stockholder's United States federal income tax liability, if any, provided that the required information is furnished to the IRS.

YOU SHOULD CONSULT YOUR OWN TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN THE COMPANY, INCLUDING THE POSSIBLE EFFECT OF ANY PENDING LEGISLATION OR PROPOSED REGULATION.

PART C

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS

1. FINANCIAL STATEMENTS.

The following financial statements of Allied Capital Corporation (the "Company" or the "Registrant") are included in this registration statement in "Part A: Information Required in a Prospectus":

<TABLE>
<CAPTION>

</TABLE>

2. EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
a.1(1)	Articles of Amendment and Restatement of the Articles of Incorporation.
a.2(2)	Articles of Merger.

b.(3)	Bylaws.
c.	Not applicable.
d.(6)	Specimen certificate of the Company's Common Stock, par value $0.0001, the rights of holders of which are defined in Exhibits a.1, a.2 and b.
e.(3)	Dividend Reinvestment Plan.
f.1(4)	Form of debenture between certain subsidiaries of ACC and the U.S. Small Business Administration.
f.2*	Credit Agreement dated as of March 9, 1999 between the Company, as borrower, each of the financial institutions initially a signatory thereto, as Lenders, and Nationsbank, N.A., as administrative agent, Nationsbanc Montgomery Securities LLC, as sole lead arranger and sole book manager, First Union National Bank, as syndication agent, BankBoston, N.A., as documentation agent, Riggs Bank, N.A., as managing agent, and Chevy Chase Bank, F.S.B. and Credit Lyonnais New York Branch, as co-agents.
f.3(7)	Note Agreement dated as of April 30, 1998.
f.4(5)	Loan Agreement between Allied I and Overseas Private Investment Corporation, dated April 10, 1995. Letter dated December 11, 1997 evidencing assignment of Loan Agreement from Allied I to the Company.
f.6(8)	Amended and Restated Master Loan & Security Agreement dated October 7, 1997 among the Company, BMI and Morgan Stanley Mortgage Capital, Inc.
f.7.a(6)	Sale and Servicing Agreement dated, as of January 1, 1998, among Allied Capital CMT, Inc., Allied Capital Commercial Mortgage Trust 1998-1 and Allied Capital Corporation and LaSalle National Bank and ABN AMRO Bank N.V.

EXHIBIT NUMBER	DESCRIPTION
f.7.b(6)	Indenture dated as of January 1, 1998, between the Allied Capital Commercial Mortgage Trust 1998-1 and LaSalle National Bank.
f.7.c(6)	Amended and Restated Trust Agreement, dated January 1, 1998 between Allied Capital CMT, LaSalle National Bank Inc. and Wilmington Trust Company.
f.7.d(6)	Guaranty dated as of January 1, 1998 by the Company.
g.	Not applicable.
h.1*	Form of Underwriting Agreement, if applicable.
i.1(3)	Employee Stock Ownership Plan, as amended on December 31, 1997.
i.1a(7)	First Amendment to the Allied Capital Corporation Employee Stock Ownership Plan dated April 30, 1998.
i.2(10)	Amended and Restated Deferred Compensation Plan dated December 30, 1998.
i.3(9)	Stock Option Plan.
i.4	Description of Formula Award and Cut-Off Award Arrangements. A discussion of the Formula and Cut-off Awards is set forth on pages 49 and 50 of the Prospectus to the Registration Statement and pages B-4 through B-6 of the SAI.
j.1(6)	Form of Custody Agreement with Riggs Bank N.A. with respect to safekeeping.
j.2(6)	Form of Custody Agreement with LaSalle National Bank.
l.*	Opinion of counsel and consent to its use.
m.	Not applicable.
n.1*	Consent of Arthur Andersen LLP, independent public accountants.
n.2*	Consent of Sutherland, Asbill & Brennan LLP (included in Exhibit l).
o.	Not applicable.
p.	Not applicable.
q.	Not applicable.
r.*	Financial Data Schedule.

---

*	Filed herewith.
(1)	Incorporated by reference to exhibit 3(i) filed with Allied Lending's Annual Report on Form 10-K for the year ended

December 31, 1996.
(2) Incorporated by reference from Appendix B to the Company's registration statement on Form N-14 filed on September 26, 1997 (File No. 333-36459).
(3) Incorporated by reference to the exhibit of the same name filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
(4) Incorporated by reference to the exhibit of the same name filed with Allied I's Annual Report on Form 10-K for the year ended December 31, 1996.
(5) Incorporated by reference to the exhibit f.7 filed with Allied I's Pre-Effective Amendment No. 2 to the registration statement on Form N-2 on January 24, 1996 (File No. 33-64629). Assignment to the Company is incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
(6) Incorporated by reference to the exhibit of the same name to the Company's registration statement on Form N-2 filed on the Company's behalf with the Commission on May 5, 1998 (File No. 333-51899).
(7) Incorporated by reference to the exhibit of same name filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
(8) Incorporated by reference to the exhibit of the same name filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998.
(9) Incorporated by reference to Exhibit 4 of the Allied Capital Corporation Stock Option Plan registration statement on Form S-8, filed on behalf of such Plan on February 3, 1998 (File No. 333-45525).
(10) Incorporated by reference to the exhibit of the same name filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
</TABLE>

ITEM 25. MARKETING ARRANGEMENTS

The information contained under the heading "Plan of Distribution" on page 59 of the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in the accompanying prospectus supplement, if any.

ITEM 26. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

<TABLE>
<S> <C>
Commission registration fee*..... $ 28,902
NASD filing fee*..... $ 10,896
Nasdaq National Market Additional Listing Fee*..... $ 17,500
Accounting fees and expenses..... $100,000
Legal fees and expenses..... $300,000
Printing and engraving..... $250,000
Miscellaneous fees and expenses..... $ 2,702
Total..... $710,000
</TABLE>

---

* Estimated for filing purposes.

All of the expenses set forth above shall be borne by the Company.

ITEM 27. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

Direct Subsidiaries

The following list sets forth each of the Company's subsidiaries, the state or country under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by the Company in such subsidiary:

<TABLE>
<S> <C>
Allied Investment Corporation (Maryland)..... 100%
Allied Capital SBLC Corporation (Maryland)..... 100%
Allied Capital REIT, Inc. ("Allied REIT") (Maryland)..... 100%
Allied Capital Holdings LLC (Delaware)..... 100%
PC Acquisition Corporation (Maryland)..... 100%

</TABLE>

Allied Capital Beteiligungsberatung GmbH (Germany)..... 100%
</TABLE>

Each of the Company's subsidiaries are consolidated with the Company for financial reporting purposes, except as noted below.

Indirect Subsidiaries

The Company indirectly controls the entities set forth below through Allied REIT. Allied REIT owns either all of the membership interests (in the case of a limited liability company, "LLC") or all of the outstanding voting stock (in the case of a corporation) of each entity. The following list sets forth each of Allied REIT's subsidiaries, the state under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by Allied REIT of such subsidiary:

<TABLE>
<S> <C>
Allied Capital Property LLC (Delaware)..... 100%
Allied Capital Equity LLC (Delaware)..... 100%
9586 I-25 East Frontage Road, Longmont, CO 80504 LLC
  (Delaware)..... 100%
8930 Stanford Boulevard LLC (Delaware)..... 100%
Allied Capital CMT, Inc. (Delaware)..... 100%
</TABLE>

Allied REIT also indirectly owns Allied Capital Commercial Mortgage Trust 1998-1, a Delaware business trust that is wholly owned by Allied Capital CMT, Inc. ("CMT"). Each subsidiary of Allied

REIT and CMT is not required to maintain financial and other reports required under the Securities Act because each does not have a class of securities registered under the Securities Act.

The Company indirectly controls Allied Capital SBLC Holdings LLC (Delaware) through Allied Capital SBLC Corporation, which owns 100% of the membership interests. The Company indirectly controls Allied Investment Holdings LLC (Delaware) through Allied Investment Corporation, which owns 100% of the membership interests.

Other Entities Deemed to be Controlled by the Company

The Company provides investment advisory services to the certain entities and therefore may be deemed to control such entities and their respective subsidiaries. The following list sets forth each such entity and its respective subsidiaries and the state under whose laws the entity or subsidiary is organized:

Allied Capital Germany Fund LLC (Delaware)(1, 2)

Allied Capital Syndication LLC(2)

Business Mortgage Investors, Inc. (Maryland)(1)
  Wholly owned subsidiaries of Business Mortgage Investors, Inc.:
    BMI Holdings, Inc. (Maryland)
    BMI Funding, Inc. (Delaware)
  Indirect subsidiary of Business Mortgage Investors, Inc.
    BMI Funding LLC (Delaware), of which BMI Funding, Inc. owns substantially all membership interests

The Company has also established certain limited purpose entities in order to facilitate certain portfolio transactions.

---

(1) By so including these entities herein, the Registrant does not concede that it controls such entities.

(2) Subsidiary does not consolidate for financial reporting purposes.

ITEM 28. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the approximate number of record holders of the Company's Common Stock at March 19, 1999.

<TABLE>
<CAPTION>

TITLE OF CLASS	NUMBER OF RECORD HOLDERS
<S>	<C>

Common Stock, $0.0001 par value..... 4,500
</TABLE>

ITEM 29. INDEMNIFICATION

The Annotated Code of Maryland, Corporations and Associations (the "Maryland Law"), Section 2-418 provides that a Maryland corporation may indemnify any director of the corporation and any person who, while a director of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, made a party to any proceeding by reason of service in that capacity unless it is established that the act or omission of the director was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; or the director actually received an improper personal benefit in money, property or services; or, in the case of any criminal proceeding, the director had reasonable cause to believe that the act or omission was unlawful. Indemnification may be made against judgments, penalties, fines, settlements, and reasonable expenses actually

incurred by the director in connection with the proceeding, but if the proceeding was one by or in the right of the corporation, indemnification may not be made in respect of any proceeding in which the director shall have been adjudged to be liable to the corporation. Such indemnification may not be made unless authorized for a specific proceeding after a determination has been made, in the manner prescribed by the law, that indemnification is permissible in the circumstances because the director has met the applicable standard of conduct. On the other hand, the director must be indemnified for expenses if he or she has been successful in the defense of the proceeding or as otherwise ordered by a court. The law also prescribes the circumstances under which the corporation may advance expenses to, or obtain insurance or similar cover for, directors.

The law also provides for comparable indemnification for corporate officers and agents.

The Articles of Incorporation of the Company provide that its directors and officers shall, and its agents in the discretion of the board of directors may, be indemnified to the fullest extent permitted from time to time by the laws of Maryland (with such power to indemnify officers and directors limited to the scope provided for in Section 2-418 as currently in force). The Company's Bylaws, however, provide that the Company may not indemnify any director or officer against liability to the Company or its security holders to which he or she might otherwise be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of such disabling conduct.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described above, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of the court of the issue.

The Company carries liability insurance for the benefit of its directors and officers on a claims-made basis of up to $5,000,000, subject to a $250,000 retention and the other terms thereof.

The Agreement and Plan of Merger (the "Merger Agreement") by and among Advisers, Allied I, Allied II, Allied Lending and Allied Commercial provides that, from and after consummation of the Merger the Company shall indemnify any person who at the date of the Merger Agreement, or had been at any time prior to such date or who becomes prior to the effective time of the merger, an officer or director of Allied I, Allied II, Allied Commercial or Advisers, or any of their respective subsidiaries, from any and all liabilities resulting from their acts and omissions prior to the effective time of the merger to the full extent permitted by Maryland Law and the 1940 Act, including but not limited to acts and omissions arising out of or pertaining to the merger, and shall maintain in

effect for at least 72 months directors' and officers' liability insurance policies with respect to matters occurring prior to the effective time of the merger.

ITEM 30. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

Not applicable.

ITEM 31. LOCATION OF ACCOUNTS AND RECORDS

The Company maintains at its principal office physical possession of each account, book or other document required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder.

ITEM 32. MANAGEMENT SERVICES

Not applicable.

ITEM 33. UNDERTAKINGS

The Registrant hereby undertakes:

(1) to suspend the offering of shares until the prospectus is amended if subsequent to the effective date of this Registration Statement, its net asset value declines more than ten percent from its net asset value as of the effective date of this Registration Statement;

(2) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act of 1933 if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(3) that, for the purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act of 1933 shall be deemed to be part of this Registration Statement as of the time it was declared effective;

(4) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(5) that, for the purpose of determining any liability under the Securities Act of 1933, each post effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof; and

(6) to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information.

Subject to the terms and conditions of Section 15(d) of the Securities Exchange Act of 1934, the registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that section.

Insofar as indemnification for liability arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions of its charter and bylaws permitting indemnification, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Washington, in the District of Columbia, on the 26th day of March, 1999.

ALLIED CAPITAL CORPORATION

By: /s/ William L. Walton

William L. Walton
Chief Executive Officer and
President

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints William L. Walton and Joan M. Sweeney and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Registration Statement, and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on March 26, 1999.

<TABLE>
<CAPTION>

SIGNATURE	TITLE
<C>	<S>
/s/ William L. Walton William L. Walton	Chairman of the Board, Chief Executive Officer, and President
/s/ Brooks H. Browne Brooks H. Browne	Director
/s/ John D. Firestone John D. Firestone	Director
/s/ Anthony T. Garcia Anthony T. Garcia	Director

/s/ Lawrence I. Hebert Lawrence I. Hebert	Director
/s/ John I. Leahy John I. Leahy	Director
/s/ Robert E. Long Robert E. Long	Director

SIGNATURE	TITLE
/s/ Warren K. Montouri Warren K. Montouri	Director
/s/ Guy T. Steuart II Guy T. Steuart II	Director
/s/ T. Murray Toomey T. Murray Toomey	Director
/s/ Laura W. van Roijen Laura W. van Roijen	Director
/s/ George C. Williams George C. Williams	Director
/s/ Penni F. Roll Penni F. Roll	Principal and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
Ex - 99.2f.2	Credit Agreement dated as of March 9, 1999
Ex - 99.2h.1	Form of Underwriting Agreement
Ex - 99.2l	Opinion of counsel and consent to its use
Ex - 99.2n.1	Consent of Arthur Andersen LLP, independent public accountants.
Ex - 99.2r	Financial Data Schedule

EXHIBIT F.2

CREDIT AGREEMENT

among

ALLIED CAPITAL CORPORATION,
Borrower

NATIONSBANK, N.A.,
Administrative Agent

NATIONSBANC MONTGOMERY SECURITIES LLC,
Sole Lead Arranger and Sole Book Manager

FIRST UNION NATIONAL BANK,
Syndication Agent

BANKBOSTON, N.A.,
Documentation Agent

RIGGS BANK, N.A.,
Managing Agent

CHEVY CHASE BANK, F.S.B.
and
CREDIT LYONNAIS NEW YORK BRANCH,
Co-Agents

and

THE LENDERS NAMED HEREIN,
Lenders

UP TO $400,000,000

DATED AS OF MARCH 9, 1999

TABLE OF CONTENTS

</TABLE>

<TABLE>
<S> <C>

Exhibit A	-	Form of Assignment and Acceptance Agreement
Exhibit B	-	Form of Notice of Borrowing
Exhibit C	-	Form of Notice of Continuation
Exhibit D	-	Form of Notice of Conversion
Exhibit E-1	-	Form of Revolving Note
Exhibit E-2	-	Form of Swing Line Note
Exhibit F	-	Form of Opinion of Counsel
Exhibit G	-	Form of Compliance Certificate

CREDIT AGREEMENT

THIS AGREEMENT is entered into as of March 9, 1999, by and among ALLIED CAPITAL CORPORATION, a corporation organized under the laws of the State of Maryland ("BORROWER"), certain Lenders (hereinafter defined), certain Agents (hereinafter defined), and NATIONSBANK, N.A., as a Lender and as Administrative Agent (hereinafter defined) for itself and the other Lenders (hereinafter defined).

RECITALS

A. Borrower has requested that the Lenders extend credit to Borrower, providing for a revolving loan facility in the amount of $315,000,000, as such amount may be increased to $400,000,000 in accordance with the terms of SECTION 2.12, for the purpose of funding Borrower's working capital requirements and for general corporate purposes of Borrower and its Subsidiaries (hereinafter defined).

B. Upon and subject to the terms and conditions of this Agreement, the Lenders are willing to extend such credit to Borrower.

Accordingly, in consideration of the mutual covenants contained herein, Borrower, Agents, Administrative Agent, and the Lenders agree as follows.

SECTION 1 DEFINITIONS AND TERMS.

1.1 DEFINITIONS. In addition to terms defined elsewhere herein, the following terms shall have the following meanings for the purposes of this Agreement:

"ADJUSTED EBIT" means, for any period with respect to Borrower and its Consolidated Subsidiaries, income after deduction of all expenses and other proper charges other than taxes and Interest Expense, all as determined in accordance with GAAP.

"ADJUSTED EURODOLLAR RATE" means, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by Administrative Agent to be equal to the quotient obtained by dividing (a) the Eurodollar Rate for such Eurodollar Loan for such Interest Period by (b) one minus the Reserve Requirement for such Eurodollar Loan for such Interest Period.

"ADMINISTRATIVE AGENT" means NationsBank, N.A., and its permitted successor or successors as administrative agent for the Lenders under this Agreement.

"AFFECTED LENDER" has the meaning given that term in SECTION 4.7.

"AFFILIATE" means any Person: (a) directly or indirectly controlling, controlled by, or under common control with such Person; (b) directly or indirectly owning or holding 5.0% or more of any equity interest in such Person; or (c) 5.0% or more of whose voting stock or other equity interest is directly or indirectly owned or held by such Person. For purposes of this definition, (x) "control" (including with correlative meanings, the terms "controlling," "controlled by," and "under common control with") means the possession directly or indirectly of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or by contract or otherwise, other than by investment advisory

contracts entered into in the ordinary course of business of Borrower or a Subsidiary of Borrower, and (y) neither Administrative Agent nor any Lender shall be deemed to be an "Affiliate" of Borrower.

"AGENTS" means, collectively, Syndication Agent, Documentation Agent, Managing Agent, and Co-Agents.

"AGREEMENT" means this Credit Agreement (as the same may thereafter be amended, modified, supplemented, or restated from time to time).

"AGREEMENT DATE" means the date as of which this Agreement is dated.

"APPLICABLE LAW" means all applicable provisions of constitutions, statutes, rules, regulations, and orders of all governmental bodies and all orders and decrees of all courts, tribunals, and arbitrators.

"ARRANGER" means NationsBanc Montgomery Securities LLC and its successors and assignees in its capacity as "Lead Arranger."

"ASSET COVERAGE RATIO" shall mean, on a consolidated basis for Borrower and its Consolidated Subsidiaries, the ratio which the value of total assets, less all liabilities and indebtedness not represented by senior securities (all as determined pursuant to the Investment Company Act and any orders of the Securities and Exchange Commission issued to Borrower thereunder), bears to the aggregate amount of senior securities representing indebtedness of Borrower and its Consolidated Subsidiaries.

"ASSIGNMENT AND ACCEPTANCE AGREEMENT" means an Assignment and Acceptance Agreement among a Lender, an Eligible Assignee, and Administrative Agent, substantially in the form of EXHIBIT A or such other form as may be agreed to by such Lender, such Eligible Assignee and Administrative Agent.

"BASE RATE" means the per annum rate of interest equal to the greater of (a) the Prime Rate or (b) the Federal Funds Rate for such day plus 0.5%. Any change in the Base Rate resulting for such day from a change in the Prime Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Prime Rate or Federal Funds Rate.

"BASE RATE LOAN" means a Loan bearing interest at a rate based on the Base Rate.

"BENEFIT ARRANGEMENT" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"BOOK VALUE" means, at any date of determination with respect to any asset, the value thereof as the same would be reflected on a consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at such time in accordance with GAAP.

"BORROWER" is defined in the preamble to this Agreement and includes any permitted successors of Borrower.

"BUSINESS DAY" means (a) any day other than a Saturday, Sunday, or other day on which banks in New York City, New York are authorized or required to close and (b) in addition to the foregoing, with

reference to a Eurodollar Loan, any such day that is also a day on which dealings in Dollar deposits are carried out in the London interbank market and commercial banks are open for international business in London.

"CAPITALIZED LEASE OBLIGATION" means Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such Indebtedness shall be the capitalized amount of such obligations determined in accordance with such principles.

"CO-AGENTS" means, collectively, Chevy Chase Bank, F.S.B. and Credit Lyonnais New York Branch and their respective permitted successors or assigns as "Co-Agents" under this Agreement.

"COMMERCIAL MORTGAGE LOAN" means a loan secured by a Lien on improved real estate used for commercial purposes.

"COMMITMENT" means, as to each Lender, such Lender's obligation to make Loans pursuant to SECTION 2.1 in an amount up to, but not exceeding, the amount set forth for such Lender on SCHEDULE 2 as such Lender's "Commitment Amount" or as set forth in the applicable Assignment and Acceptance Agreement, as the same may be reduced from time to time pursuant to SECTION 2.10 or as appropriate to reflect any assignments to or by such Lender effected in accordance with SECTION 12.4.

"COMMITMENT PERCENTAGE" means, as to each Lender, the ratio, expressed as a percentage, of (a) the amount of such Lender's Commitment to (b) the sum of the aggregate amount of the Commitments of all Lenders hereunder; provided, however, that if at the time of determination, the Commitments have terminated or been reduced to zero, the "COMMITMENT PERCENTAGE" of each Lender shall be the Commitment Percentage of such Lender in effect immediately prior to such termination or reduction.

"COMPLIANCE CERTIFICATE" means a certificate signed by the chief financial officer of Borrower, substantially in the form of EXHIBIT G.

"CONSOLIDATED DEBT" shall mean as of the date of any determination thereof, the aggregate unpaid amount of all Debt of Borrower and its Consolidated Subsidiaries determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED SHAREHOLDERS' EQUITY," as of the date of determination thereof, shall mean the total shareholders' equity of Borrower and its Consolidated Subsidiaries as the same would appear on a consolidated balance sheet of Borrower and its Consolidated Subsidiaries prepared as of such date in accordance with GAAP, including, in any case, common stock of Borrower (valued at cost) held in the Allied Capital Corporation Deferred Compensation Trust and Permitted Preferred Stock of Borrower and its Consolidated Subsidiaries, but excluding any stock, common or preferred, not both issued and outstanding.

"CONSOLIDATED SUBSIDIARIES" shall mean any Subsidiary which is required to be consolidated on financial statements of Borrower prepared in accordance with GAAP.

"CONTINGENT OBLIGATION" as applied to any Person, means any direct or indirect liability, contingent or otherwise, of that Person: (a) with respect to any indebtedness, lease, dividend, or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected

(in whole or in part) against loss with respect thereto; (b) with respect to any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; (c) under Interest Rate Agreements; or (d) under any foreign exchange contract, currency swap agreement, or other similar agreement or arrangement designed to protect that Person against fluctuations in currency values. "Contingent Obligations" shall include (i) the direct or indirect guaranty, endorsement (other than for collection or deposit in the ordinary course of business), comaking, discounting with recourse, or sale with recourse by such Person of the obligation of another, (ii) the obligation to make take or pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement, and

(iii) any liability of such Person for the obligations of another through any agreement to purchase, repurchase, or otherwise acquire such obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation, or to maintain the solvency, financial condition, or any balance sheet item or level of income of another. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed. The amount of any Contingent Obligation outstanding under CLAUSE (c) shall be determined in accordance with the definition of Interest Rate Agreement. The amount of any Contingent Obligation outstanding under CLAUSE (d) shall be the net amount determined in good faith by Administrative Agent using any convention or method used by Administrative Agent in quantifying its own exposure under such agreements or arrangements.

"CONTINUE," "CONTINUATION," and "CONTINUED" each refers to the continuation of a Eurodollar Loan from one Interest Period to another Interest Period pursuant to SECTION 2.8.

"CONVERT," "CONVERSION," and "CONVERTED" each refers to the conversion of a Loan of one Type into a Loan of another Type pursuant to SECTION 2.9.

"CREDIT EVENT" means any of the following: (a) the making (or deemed making) of any Loan and (b) the Conversion of a Loan.

"CREDIT RATING" means, at any time as to any Person, the lowest rating assigned by a Rating Agency to each series of rated senior unsecured long term indebtedness of such Person.

"DEBT" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money and under repurchase agreements;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business, but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capitalized Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); and

(e) any Contingent Obligation of such Person with respect to liabilities of a type described in any of CLAUSES (a) through (d) hereof.

"Debt" of any Person shall include all obligations of such Person of the character described in CLAUSES (a) through (e) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"DEFAULT" means any of the events specified in SECTION 10.1, whether or not there has been satisfied any requirement for the giving of notice, the lapse of time, or both.

"DEFAULTING LENDER" has the meaning given that term in SECTION 3.13.

"DOCUMENTATION AGENT" means BankBoston, N.A. and its permitted successors or assigns as "Documentation Agent" under this Agreement.

"DOLLARS" or "$" means the lawful currency of the United States of America.

"EFFECTIVE DATE" means the later of: (a) the Agreement Date; and (b) the date on which all of the conditions precedent set forth in SECTION 5.1 shall have been satisfied or waived but (c) must be, if at all, a Business Day occurring no later than March 31, 1999.

"ELIGIBLE ASSIGNEE" means (i) a Lender; (ii) an Affiliate of a Lender; and (iii) any other Person approved by Administrative Agent and (unless an Event of Default has occurred and is continuing at the time any assignment is effected in accordance with SECTION 12.4) Borrower, such approval not to be unreasonably withheld or delayed by Borrower or Administrative Agent and such approval to be deemed given by Borrower if no objection is received by the assigning Lender and Administrative Agent from Borrower within five Business Days after notice of such proposed assignment has been provided by the assigning Lender to Borrower; provided, however, that neither Borrower nor an Affiliate of Borrower shall qualify as an Eligible Assignee.

"ENVIRONMENTAL LAWS" means any Applicable Law relating to environmental protection or the manufacture, storage, disposal, or clean-up of Hazardous Materials, including, without limitation, the following: Clean Air Act, 42 U.S.C. 7401 et seq.; Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq.; Solid Waste Disposal Act, 42 U.S.C. 6901 et seq.; Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq.; National Environmental Policy Act, 42 U.S.C. 4321 et seq.; regulations of the Environmental Protection Agency, and any applicable rule of common law and any judicial interpretation thereof relating primarily to the environment or Hazardous Materials.

"EQUITY ISSUANCE" means any issuance or sale by a Person of its capital stock or other similar equity security, or any warrants, options, or similar rights to acquire, or securities convertible into or exchangeable for, such capital stock or other similar equity security.

"ERISA" means the Employee Retirement Income Security Act of 1974, as in effect from time to time.

"ERISA GROUP" means Borrower, any Subsidiary, and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together

with Borrower or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

"EURODOLLAR LOAN" means a Loan bearing interest at a rate based on the Eurodollar Rate.

"EURODOLLAR RATE" means, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Dow Jones Markets Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "EURODOLLAR RATE" shall mean, for any Eurodollar Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%).

"EVENT OF DEFAULT" means any of the events specified in SECTION 10.1, provided that, any requirement for notice or lapse of time or any other condition has been satisfied.

"EXCHANGE ACT" has the meaning given that term in SECTION 10.1(m).

"EXISTING CREDIT AGREEMENT" means that certain Second Amended and Restated Credit Agreement dated as of June 4, 1998, by and among Borrower, each of the financial institutions initially a signatory thereto, BankBoston, N.A., a national banking association, as Disbursing Agent, First Union National Bank, a national banking association, as Syndication Agent, NationsBank, N.A., a national banking association, as Co-Agent and Riggs Bank, N.A., a national banking association, as Managing Agent.

"EXTENSION REQUEST" has the meaning given that term in SECTION 2.13.

"FEDERAL FUNDS RATE" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to Administrative Agent (in its individual capacity) on such day on such transactions as determined by Administrative Agent.

"FEES" means the fees and commissions provided for or referred to in SECTION 3.8 and any other fees payable by Borrower hereunder or under any other Loan Document.

"FORECLOSURE PROPERTY" means assets acquired by foreclosure (or sale in lieu of foreclosure) of any Investment (other than Investments in a Consolidated Subsidiary) of Borrower or any of its Subsidiaries.

"GAAP" means, subject to SECTION 1.3, accounting principles as promulgated from time to time in statements, opinions and pronouncements by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board and in such statements, opinions and pronouncements of such other entities with respect to financial accounting of for-profit entities as shall be accepted by a substantial segment of the accounting profession in the United States.

"GOVERNMENTAL APPROVALS" means all authorizations, consents, approvals, licenses, and exemptions of, registrations and filings with, and reports to, all Governmental Authorities.

"GOVERNMENTAL AUTHORITY" means any national, state, or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public, or statutory instrumentality, authority, body, agency, bureau, or entity (including, without limitation, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, or the Federal Reserve Board, any central bank, or any comparable authority) or any arbitrator with authority to bind a party at law.

"HAZARDOUS MATERIALS" means all or any of the following: (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable Environmental Laws as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, "TLCP" toxicity, or "EP toxicity"; (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, or synthetic gas and drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources; (c) any flammable substances or explosives or any radioactive materials; (d) asbestos in any form; or (e) electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million.

"INDEBTEDNESS" means, with respect to a Person, at the time of computation thereof, all of the following (without duplication): (a) obligations of such Person in respect of money borrowed; (b) obligations of such Person (other than trade debt incurred in the ordinary course of business), whether or not for money borrowed (i) represented by notes payable or drafts accepted, in each case representing extensions of credit, (ii) evidenced by bonds, debentures, notes, or similar instruments, (iii) consisting of repurchase agreements, whether on a recourse or a non-recourse basis, or (iv) constituting purchase money indebtedness, conditional sales contracts, title retention debt instruments, or other similar instruments, upon which interest charges are customarily paid or that are issued or assumed as full or partial payment for property; (c) Capitalized Lease Obligations of such Person; (d) all reimbursement obligations

of such Person under any letters of credit or acceptances (whether or not the same have been presented for payment), and all obligations of such Person as the issuer of any letters of credit or acceptances (whether or not the same have been presented for payment); and (e) all Indebtedness of other Persons which (i) such Person has guaranteed or which is otherwise recourse to such Person or (ii) are secured by a Lien on any property of such Person.

"INTELLECTUAL PROPERTY" has the meaning given that term in SECTION 6.1(r).

"INTERCREDITOR AGREEMENT" means an intercreditor agreement pursuant to which the Lenders and the holders of any other Debt of Borrower have agreed to share payments made by any Consolidated Subsidiary under a Subsidiary Bank Guaranty, a Subsidiary Senior Note Guaranty, or any other guaranty of any Debt of Borrower on an equal and ratable basis.

"INTEREST EXPENSE" means, with respect to a Person and for any period, the total consolidated interest expense (including, without limitation, capitalized interest expense and interest expense attributable to Capitalized Lease Obligations) of such Person and in any event shall include all interest expense with respect to any Indebtedness in respect of which such Person is wholly or partially liable.

"INTEREST PERIOD" means, with respect to any Eurodollar Loan, each period commencing on the date such Eurodollar Loan is made or the last day of the next preceding Interest Period for such Loan and ending on the numerically corresponding day in the first, second, third, or sixth calendar month thereafter, as Borrower may select in a Notice of Borrowing, Notice of Continuation or Notice of Conversion, as the case may be, except that each Interest Period for a Eurodollar Loan that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) if any Interest Period would otherwise end after the Termination Date, such Interest Period shall end on the Termination Date, (ii) each Interest Period that would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day), and (iii) notwithstanding the immediately preceding CLAUSE (i), no Interest Period for any Eurodollar Loan shall have a duration of less than one month and, if the Interest Period for any Eurodollar Loan would otherwise be a shorter period, such Loan shall not be available hereunder for such period.

"INTEREST RATE AGREEMENT" means any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, or other similar contractual agreement or arrangement entered into with a nationally recognized financial institution then having an Investment Grade Rating for the purpose of protecting against fluctuations in interest rates. For the purposes of this Agreement, the amount of any obligation under any Interest Rate Agreement shall be the amount determined in respect thereof as of the end of the most recently ended fiscal quarter of such Person, based on the assumption that such Interest Rate Agreement had terminated at the end of such fiscal quarter, and in making such determination, if such Interest Rate Agreement provides for the netting of amounts payable by and to such Person thereunder or if such Interest Rate Agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"INTERNAL REVENUE CODE" means the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

"INVESTMENT" means, with respect to any Person and whether or not such investment constitutes a controlling interest in such Person (a) the purchase or other acquisition of any share of capital stock, evidence of Indebtedness or other security issued by any other Person; (b) any loan, advance, or extension of credit to, or contribution (in the form of money or goods) to the capital of or the acquisition of a sale leaseback asset from and the lease thereof to, any other Person; (c) any guaranty of the Indebtedness of any other Person; (d) any other investment in any other Person; and (e) any commitment or option to make an Investment in any other Person.

"INVESTMENT COMPANY ACT" means the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

"INVESTMENT GRADE RATING" means a Credit Rating of BBB- or higher by S&P, Baa3 or higher by Moody's, or the equivalent or higher of either such rating by another Rating Agency.

"LENDERS" means, on any date of determination, the financial institutions named on SCHEDULE 2 (as the same may be amended from time to time by Administrative Agent to reflect the assignments made in accordance with SECTION 12.4(a) of this Agreement), and subject to the terms and conditions of this Agreement, their respective successors and assigns.

"LENDING OFFICE" means, for each Lender and for each Type of Loan, the "LENDING OFFICE" of such Lender (or of an Affiliate of such Lender) designated for such Type of Loan on SCHEDULE 2 or in the applicable Assignment and Acceptance Agreement or such other office of such Lender (or an Affiliate of such Lender) as such Lender may from time to time specify to Administrative Agent and Borrower by written notice in accordance with the terms hereof as the office by which its Loans of such Type are to be made and maintained.

"LENDING PARTY" has the meaning given that term in SECTION 12.7.

"LIEN" as applied to the property of any Person means: (a) any security interest, encumbrance, mortgage, deed to secure debt, deed of trust, pledge, lien, charge, ground lease, or lease constituting a Capitalized Lease Obligation, conditional sale or other title retention agreement, or other security title or encumbrance of any kind in respect of any property of such Person, or upon the income or profits therefrom; (b) any arrangement, express or implied, under which any property of such Person is transferred, sequestered, or otherwise identified for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to the payment of the general, unsecured creditors of such Person; (c) the filing of any financing statement under the Uniform Commercial Code or its equivalent in any jurisdiction; and (d) any agreement by such Person to grant, give, or otherwise convey any of the foregoing.

"LOANS" means any amount disbursed (a) by one or more Lenders to Borrower under the Loan Documents (whether under the Revolving Facility or the Swing Line Subfacility), whether such amount constitutes an original disbursement of funds or the continuation of any amount outstanding, or (b) by any Lender in accordance with, and to satisfy the obligations of any Borrower or any Subsidiary of Borrower under, any Loan Document.

"LOAN DOCUMENTS" means (a) this Agreement and the Notes, (b) all agreements, documents, or instruments in favor of Administrative Agent or the Lenders ever delivered pursuant to this Agreement or otherwise delivered in connection with all or any part of the Obligations on and after the Effective Date, (c) any Interest Rate Agreement between Borrower or any of its Subsidiaries and any Lender or any Affiliate of any Lender, and (d) any and all future renewals, extensions, restatements, reaffirmations, amendments of, or supplements to, all or any part of the foregoing.

"MANAGING AGENT" means Riggs Bank N.A. and its permitted successors or assigns as "Managing Agent" under this Agreement.

"MATERIAL ADVERSE EFFECT" means a materially adverse effect on (a) the business, assets, liabilities, financial condition, results of operations, or business prospects of Borrower and its Consolidated Subsidiaries taken as a whole, (b) the ability of Borrower to perform its obligations under any Loan Document to which it is a party which does not result from a material adverse effect on the items described in the immediate preceding CLAUSE (a), (c) the validity or enforceability of any of the Loan Documents, (d) the rights and remedies of the Lenders and Administrative Agent under any of such Loan Documents, or (e) the timely payment of the principal of or interest on the Loans or other amounts payable in connection therewith. Except with respect to representations made or deemed made by Borrower or any Subsidiary in any of the other Loan

Documents to which it is a party, all determinations of materiality shall be made by the Requisite Lenders in their reasonable judgment unless expressly provided otherwise.

"MATERIAL CONTRACT" means any contract or other arrangement (other than Loan Documents), whether written or oral, to which Borrower or any Subsidiary is a party as to which the breach, nonperformance, cancellation, or failure to renew by any party thereto could have a Material Adverse Effect.

"MATERIAL PLAN" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of $5,000,000.

"MATERIAL SUBSIDIARY" means, as of the date of any determination thereof, any Subsidiary which has total assets having a value (determined in accordance with the market valuation method pursuant to GAAP) greater than or equal to $20,000,000.

"MAXIMUM AMOUNT" and "MAXIMUM RATE" respectively mean, for each Lender, the maximum non-usurious amount and the maximum non-usurious rate of interest which, under Applicable Law, such Lender is permitted to contract for, charge, take, reserve, or receive on the Obligations.

"MONEY MARKET RATE" means, as to any Swing Line Loan made pursuant to SECTION 2.2, a rate per annum equal to the sum of (a) 1.50% and (b) the rate per annum equal to NationsBank's cost of funds.

"MOODY'S" means Moody's Investors Services, Inc.

"MORTGAGE REPURCHASE FACILITY" means financing agreements providing for (i) the pledge and assignment of Commercial Mortgage Loans owned by Borrower and its Consolidated Subsidiaries as security for loans to Borrower and its Consolidated Subsidiaries, or (ii) the sale of such Commercial Mortgage Loans to a commercial lender pursuant to an agreement under which such loans shall be repurchased by Borrower or a Consolidated Subsidiary at a future date.

"MULTIEMPLOYER PLAN" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"NATIONSBANK" means NationsBank, N.A. and its permitted successors and assigns.

"NET PROCEEDS" means, with respect to an Equity Issuance by a Person, the aggregate amount of all cash (including any cash received by way of deferred payment pursuant to a promissory note, or otherwise, but only as and when received) received by such Person in respect of such Equity Issuance net of investment banking fees, legal fees, accountants fees, underwriting discounts and commissions and other customary fees and expenses actually incurred by such Person in connection with such Equity Issuance.

"NON-RECOURSE INDEBTEDNESS" means Indebtedness secured by Real Estate Assets if recourse for the payment of such Indebtedness is limited to such Real Estate Assets.

"NOTES" means, at the time of any determination thereof, all outstanding and unpaid Revolving Notes and Swing Line Notes.

"NOTICE OF BORROWING" means a notice in the form of EXHIBIT B to be delivered to the Administrative Agent pursuant to SECTION 2.3(a) evidencing Borrower's request for a borrowing of Loans.

"NOTICE OF CONTINUATION" means a notice in the form of EXHIBIT C to be delivered to the Administrative Agent pursuant to SECTION 2.8 evidencing Borrower's request for the Continuation of a Eurodollar Loan.

"NOTICE OF CONVERSION" means a notice in the form of EXHIBIT D to be delivered to the Administrative Agent pursuant to SECTION 2.9 evidencing Borrower's request for the Conversion of a Loan from one Type to another Type.

"NOTICE OF DEFAULT" has the meaning given that term in SECTION 11.3.

"PARTICIPANT" has the meaning given that term in SECTION 12.4(d).

"OBLIGATIONS" means, individually and collectively: (a) the aggregate principal balance of and all accrued and unpaid interest on, all Loans and (b) all other indebtedness, liabilities, obligations, covenants and duties of Borrower owing to Administrative Agent or any Lender of every kind, nature and description, under or in respect of this Agreement or any of the other Loan Documents, including, without limitation, all Fees and indemnification obligations, whether direct or indirect, absolute or contingent, due or not due, contractual or tortious, liquidated or unliquidated, and whether or not evidenced by any promissory note.

"OFFERING MEMORANDUM" means the Confidential Offering Memorandum dated January 1999, for the Allied Capital Corporation $300,000,000 senior revolving credit facility relating to the syndication of the credit facility evidenced by this Agreement.

"OTHER RELEVANT SUBSIDIARY" means any Subsidiary, individually or together with other Subsidiaries, the occurrence of any of the events described in SECTIONS 10.1(f) or 10.1(g) with respect to which could reasonably be expected to have a Material Adverse Effect.

"OTHER TAXES" has the meaning given that term in SECTION 4.6(b).

"PBGC" means the Pension Benefit Guaranty Corporation and any successor agency.

"PERMITTED LIENS" means, as to any Person: (a) Liens securing taxes, assessments, and other charges or levies imposed by any Governmental Authority (excluding any Lien imposed pursuant to any of the provisions of ERISA) or the claims of materialmen, mechanics, carriers, warehousemen, or landlords for labor, materials, supplies, or rentals incurred in the ordinary course of business, which are not at the time required to be paid or discharged under SECTION 7.6; (b) Liens consisting of deposits or pledges made, in the ordinary course of business, in connection with, or to secure payment of, obligations under workmen's compensation, unemployment insurance, or similar Applicable Laws; (c) Liens in favor of Administrative Agent for the benefit of the Lenders; and (d) covenants, restrictions, rights of way, easements, and other matters of public record, and other matters to which like properties are commonly subject, that singly or in the aggregate do not materially and adversely affect the value or marketability of, or materially interfere with the use or enjoyment of any asset of such Person.

"PERMITTED PREFERRED STOCK" means (i) preferred stock that is issued from time to time by a Subsidiary to the United States Small Business Administration having an aggregate stated value not exceeding $7,000,000 at any one time outstanding, or (ii) preferred stock that is issued from time to time by a Subsidiary for the purpose of qualifying such Subsidiary as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code and having an aggregate stated value not exceeding $500,000 at any one time outstanding; provided that, in any event Permitted Preferred Stock shall not include any Voting Stock.

"PERSON" means an individual, corporation, partnership, limited liability company, association, trust or unincorporated organization, or a government or

any agency or political subdivision thereof.

"PLAN" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"POST-DEFAULT RATE" means, in respect of any principal of any Loan or any other Obligation that is not paid when due (whether at stated maturity, by acceleration, by optional or mandatory prepayment or otherwise), a rate per annum equal to the lesser of (i) the Maximum Rate and (ii) the sum of 2.0% plus the Base Rate as in effect from time to time.

"PRIME RATE" means the per annum rate of interest established from time to time by NationsBank as its prime rate, which rate may not be the lowest rate of interest charged by NationsBank to its customers.

"PRINCIPAL DEBT" means, at any time of determination thereof, the aggregate unpaid principal balance of all Loans.

"PRINCIPAL OFFICE" means the principal office of NationsBank, presently located at 901 Main Street, 66th Floor, Dallas, Texas 75202.

"PRIORITY DEBT" means the sum of (i) all Secured Indebtedness of Borrower and its Consolidated Subsidiaries, and (ii) all unsecured Debt of Consolidated Subsidiaries (excluding in each case, Debt owing to Borrower or another Consolidated Subsidiary).

"QUARTERLY DATE" means the last Business Day of March, June, September, and December in each year, the first of which shall be March 31, 1999.

"RATING AGENCY" means S&P, Moody's or any other nationally recognized securities rating agency selected by Borrower and acceptable to the Requisite Lenders.

"REAL ESTATE" means fee ownership or co-ownership of, or leaseholds of, land or improvements thereon.

"REAL ESTATE ASSETS" means (i) Real Estate securing Investments made in the ordinary course of business, (ii) Commercial Mortgage Loans, and (iii) Related Collateral.

"REGISTER" has the meaning given that term in SECTION 12.4(b).

"REIT" means Allied Capital REIT, Inc., a Maryland corporation.

"RELATED COLLATERAL" means, in respect of any Commercial Mortgage Loan: (i) any and all documents, instruments, agreements, records, or other collateral of any kind evidencing, securing, guaranteeing, or otherwise relating to such Commercial Mortgage Loan, including, without limitation, all promissory notes or other negotiable instruments, mortgages, deeds of trust, or similar instruments, assignments of leases or rents or other collateral assignments, financing statements, guaranties, indemnities, servicing agreements, servicing records, files, surveys, certificates, affidavits, title abstracts, title insurance policies and commitments, correspondence, opinions, appraisals, closing documents, computer programs, computer storage media, data bases, accounting records, and other books and records relating thereto, (ii) any and all mortgage guaranties and insurance (issued by governmental agencies or otherwise) and mortgage insurance certificates or other documents evidencing such mortgage guaranties or insurance relating to any such Commercial Mortgage Loan and all claims and payments thereunder, (iii) any and all other insurance policies and insurance proceeds relating to such Commercial Mortgage Loan or the related real property, (iv) all "general intangibles" as defined in the Uniform Commercial Code relating to or constituting any and all of the foregoing, and (v) any and all replacements, substitutions, or distributions on or proceeds of any and all of the foregoing.

"REQUISITE LENDERS" means (a) on any date of determination prior to the Termination Date, those Lenders holding 66 2/3% or more of the aggregate Commitments of all Lenders; and (b) on any date of determination on or after the Termination Date, those Lenders holding 66 2/3% of the aggregate unpaid principal balance of all outstanding Loans.

"RESERVE REQUIREMENT" means, at any time, the maximum rate at which reserves (including, without limitation, any marginal, special, supplemental, or emergency reserves) are required to be maintained under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) by member banks of the Federal Reserve System against, in the case of Eurodollar Loans, "Eurocurrency liabilities" (as such term is used in Regulation D of the Board of Governors of the Federal Reserve System, as amended). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks with respect to any category of liabilities which includes deposits by reference to which the Adjusted Eurodollar Rate is to be determined, or (ii) any category of extensions of credit or other assets which include Eurodollar Loans. The Adjusted Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Reserve Requirement.

"RESPONSE DATE" has the meaning given that term in SECTION 2.13.

"REVOLVING FACILITY" means the credit facility as described in and subject to the limitations of SECTION 2, including the Swing Line Facility.

"REVOLVING LOAN" means any Loan under the Revolving Facility other than a Swing Line Loan.

"REVOLVING NOTE" has the meaning given that term in SECTION 2.10(a).

"RIC" means a Person qualifying for treatment as a "regulated investment company" under the Internal Revenue Code.

"SBA" means the Small Business Administration.

"SBA ACT" means the Small Business Investment Act of 1958, as amended.

"SBIC" means Allied Investment Corporation, a Maryland corporation.

"SBLC" means Allied Capital SBLC Corporation, a Maryland corporation.

"SECURED INDEBTEDNESS" means, with respect to any Person, any Indebtedness of such Person that is secured in any manner by any Lien.

"SENIOR DEBT" means Debt under the Senior Note Agreement or any similar facility entered into by Borrower or its Consolidated Subsidiaries.

"SENIOR NOTE AGREEMENT" means the Note Agreement, dated as of April 30, 1998, among Borrower and the purchasers parties thereto, pursuant to which Borrower has issued its $140,000,000 7.055% Senior Notes, Series A, due May 30, 2003, its $30,000,000 7.168% Senior Notes, Series B, due May 30, 2005, and its $10,000,000 9.530% Senior Notes, Series C, due May 30, 2005, and any replacement thereof.

"SENIOR NOTE HOLDER" means any registered holder of a note or notes issued under the Senior Note Agreement.

"SENIOR NOTES" means the notes issued by Borrower pursuant to the Senior Note Agreement.

"SOLVENT" means, when used with respect to any Person, that (a) the fair value and the fair salable value of its assets (excluding any Indebtedness due from any affiliate of such Person) are each in excess of the fair valuation of its total liabilities (including all contingent liabilities); (b) such Person is able to pay its debts or other obligations in the ordinary course as they mature; and (c) the Person has capital not unreasonably small to carry on its business and all business in which it proposes to be engaged.

"S&P" means Standard & Poor's Rating Group, a division of McGraw-Hill Companies, Inc.

"SPECIAL PURPOSE SUBSIDIARY" means a Subsidiary (other than a Consolidated Subsidiary) of Borrower the sole purpose of which is to purchase assets from Borrower or a Subsidiary of Borrower and to effect a sale to a third party (directly or through one or more Subsidiaries of such purchasing Subsidiary) of the assets so purchased or of securities or Debt secured by or evidencing an interest in such assets or in the holder thereof, and matters incidental to the foregoing.

"SUBORDINATED DEBT" means Indebtedness of Borrower or any of its Subsidiaries that is subordinated in right of payment and otherwise to the Loans and the other Obligations in a manner satisfactory to Administrative Agent and the Requisite Lenders in their sole and absolute discretion.

"SUBSIDIARY" means, for any Person, any corporation, partnership, limited liability company, or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions of such corporation, partnership, or other entity (without regard to the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such

Person or by such Person and one or more Subsidiaries of such Person. Notwithstanding the foregoing, a portfolio Investment of Borrower or a Subsidiary shall not be a Subsidiary of Borrower or such Subsidiary.

"SUBSIDIARY BANK GUARANTY" means any agreement pursuant to which a Consolidated Subsidiary has guaranteed the Debt of Borrower under the Notes.

"SUBSIDIARY SENIOR NOTE GUARANTY" means any agreement pursuant to which a Consolidated Subsidiary has guaranteed the Debt of Borrower under the Senior Notes.

"SWING LINE COMMITMENT" means an amount (subject to reduction or cancellation as herein provided) equal to $25,000,000.

"SWING LINE LOAN" means any Loan made under the Swing Line Subfacility.

"SWING LINE NOTE" has the meaning given that term in SECTION 2.10(b).

"SWING LINE SUBFACILITY" means the subfacility under the Revolving Facility (the portion of the Loans attributable to which may never exceed in the aggregate $25,000,000), as described in, and subject to the limitations of, SECTION 2.2.

"SWING PRINCIPAL DEBT" means, on any date of determination, the aggregate unpaid principal amount of all Loans outstanding under the Swing Line Subfacility.

"SYNDICATION AGENT" means First Union National Bank and its permitted successors or assigns as "Syndication Agent" under this Agreement.

"TAXES" has the meaning given that term in SECTION 4.6.

"TERMINATION DATE" means the earlier of either (a) March 9, 2001, (or such later date to which the Termination Date is extended pursuant to the provisions of SECTION 2.13) or (b) such earlier date upon which the whole of the Commitments are terminated pursuant to SECTIONS 2.11 or otherwise.

"TYPE" with respect to any Loan, refers to whether such Loan is a Eurodollar Loan or Base Rate Loan.

"UNFUNDED LIABILITIES" means, with respect to any Plan at any time, the amount (if any) by which (a) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (b) the fair market

value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"UNRESTRICTED SUBSIDIARY" means a Subsidiary of Borrower (a) that is not a Consolidated Subsidiary or (b) is a Consolidated Subsidiary the sole purpose of which is to acquire, hold, manage, and dispose of Foreclosure Property, and matters incidental to such purposes.

"VOTING STOCK" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

"WHOLLY OWNED" when used in connection with any Subsidiary means any corporation, partnership, limited liability company, or other entity of which all of the equity securities or other ownership interests (other than Permitted Preferred Stock and, in the case of a corporation, directors' qualifying shares) are so owned or controlled.

"YEAR 2000 PROBLEM" has the meaning given that term in SECTION 6.1(w).

"YEAR 2000 COMPLIANT" has the meaning given that term in SECTION 6.1(w).

1.2 GENERAL; REFERENCES TO TIMES. References in this Agreement to "Sections," "Exhibits," and "Schedules" are to sections, exhibits, and schedules herein and hereto unless otherwise indicated. References in this Agreement to any document, instrument, or agreement (a) shall include all exhibits, schedules, and other attachments thereto, (b) shall include all documents, instruments, or agreements issued or executed in replacement thereof, to the extent permitted hereby and (c) shall mean such document, instrument, or agreement, or replacement or predecessor thereto, as amended, supplemented, restated, or otherwise modified from time to time to the extent permitted hereby and in effect at any given time. Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, the feminine and the neuter. Unless explicitly set forth to the contrary, a reference to "Subsidiary" means a Subsidiary of Borrower or a Subsidiary of such Subsidiary and a reference to an "Affiliate" means a reference to an Affiliate of Borrower. Titles and captions of Sections, subsections, and clauses in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement. Unless otherwise indicated, all references to time are references to Dallas, Texas, time.

1.3 ACCOUNTING PRINCIPLES. All accounting and financial terms used in the Loan Documents and the compliance with each financial covenant therein shall be determined in accordance with GAAP, and, all accounting principles shall be applied on a consistent basis so that the accounting principles in a current period are comparable in all material respects to those applied during the preceding comparable period. If Borrower or any Lender determines that a change in GAAP from that in effect on the date hereof has altered the treatment of certain financial data to its detriment under this Agreement, such party may, by written notice to the others and Administrative Agent not later than 30 days after Borrower's delivery of any financial statements pursuant to SECTION 8.1 or 8.2 reflecting such change in GAAP, request renegotiation of the financial covenants affected by such change. If Borrower and Requisite Lenders have not agreed on revised covenants within 30 days after delivery of such notice, then, for purposes of this Agreement, GAAP will mean generally accepted accounting principles on the date just prior to the date on which the change that gave rise to the renegotiation occurred.

SECTION 2 CREDIT FACILITY.

2.1 LOANS. Subject to the terms and conditions hereof, during the period from the Effective Date to but excluding the Termination Date, each Lender severally and not jointly agrees to make Revolving Loans to Borrower in an aggregate principal amount at any one time outstanding up to, but not exceeding, the amount of such Lender's Commitment; provided, however, that in no event

shall the aggregate principal amount of all outstanding Loans exceed the aggregate amount of the Commitments as in effect from time to time. Subject

to the terms and conditions of this Agreement, during the period from the Effective Date to but excluding the Termination Date, Borrower may borrow, repay and reborrow Revolving Loans hereunder.

2.2 SWING LINE SUBFACILITY.

(a) For the convenience of the parties and as an integral part of the transactions contemplated by the Loan Documents, NationsBank, solely for its own account, may make any requested Loan of $250,000 or a greater integral multiple thereof, subject to those terms and conditions applicable to Loans set forth in CLAUSES (a) and (b) of the first sentence of SECTION 5.2, directly to Borrower as a Swing Line Loan without requiring any other Lender to fund its ratable portion thereof unless and until SECTION 2.2(b) is applicable; provided that: (i) each such Swing Line Loan must occur on a Business Day prior to, and not on or after, the Termination Date; (ii) the aggregate Swing Principal Debt outstanding on any date of determination shall not exceed the Swing Line Commitment; (iii) on any date of determination, the aggregate principal amount of all Loans shall never exceed the aggregate amount of the Commitments of the Lenders; (iv) at the time of such Swing Line Loan, no Default or Event of Default shall have occurred and be continuing; (v) each Swing Line Loan shall be at a rate per annum equal to the lesser of (a) the Money Market Rate, and (b) the Maximum Rate; provided that at any time after Revolving Lenders are deemed to have purchased pursuant to SECTION 2.2(b) a participation in any Swing Line Borrowing, such Borrowing shall bear interest at the Post-Default Rate; and (vi) no additional Swing Line Loan shall be made at any time after any Lender has refused, notwithstanding the requirements of SECTION 2.2(b), to purchase a participation in any Swing Line Loan as provided in such Section, and until such purchase shall occur or until the Swing Line Loan has been repaid. Each Swing Line Loan under the Swing Line Subfacility shall be available and may be prepaid on same day telephonic notice from Borrower to NationsBank, so long as such notice is received by NationsBank prior to 1:00 p.m. Dallas, Texas time. Each Swing Line Loan shall be repaid in full, together with all accrued and unpaid interest thereon, not later than the tenth Business Day after the date on which such Swing Line Loan was funded.

(b) If Borrower fails to repay any Swing Line Loan as provided herein (and in any event upon the earlier to occur of a Default or the Termination Date), Administrative Agent shall timely notify each Lender of such failure and of the date and amount not paid. No later than the close of business on the date such notice is given (if such notice was given prior to 12:00 noon on any Business Day, or, if made at any other time, on the next Business Day following the date of such notice), each Lender shall be deemed to have irrevocably and unconditionally purchased and received from NationsBank a pro rata (in proportion to their respective Commitments) undivided interest and participation in such Swing Line Loan, and each Lender shall make available to NationsBank in immediately available funds such Lender's ratable part of such unpaid principal amount. All such amounts payable by any Lender shall include interest thereon from the date on which such payment is payable by such Lender to, but not including, the date such amount is paid by such Lender to Administrative Agent, at the Federal Funds Rate. If such Lender does not promptly pay such amount upon Administrative Agent's demand therefor, and until such time as such Lender makes the required payment, NationsBank shall be deemed to continue to have outstanding a Swing Line Loan in the amount of such unpaid obligation. Each payment by Borrower of all or any part of any Swing Line Loan shall be paid to Administrative Agent for the ratable benefit of NationsBank and those Lenders who have funded their participations in such Swing Line Loan under this SECTION 2.2(b); provided that, with respect to any such participation, all interest accruing on the Swing Principal Debt to which

such participation relates prior to the date of funding such participation shall be payable solely to NationsBank for its own account.

2.3 BORROWING PROCEDURES. The following procedures apply to all Loans (except Swing Line Loans).

(a) Requesting Loans. Borrower shall give Administrative Agent notice pursuant to a Notice of Borrowing or telephonic notice of each borrowing of Loans. Each Notice of Borrowing shall be delivered to Administrative Agent before 12:00 noon (a) in the case of Eurodollar Loans, on the date two Business Days prior to the proposed date of such borrowing and (b) in the case of Base Rate Loans, on the proposed date of such borrowing. Any such telephonic notice shall include all information to be specified in a written Notice of Borrowing and shall be promptly confirmed in writing by Borrower pursuant to a Notice of Borrowing sent to Administrative Agent by telecopy on the same day of the giving of such telephonic notice. Administrative Agent will transmit by telecopy the Notice of Borrowing (or the information contained in such Notice of Borrowing) to each Lender promptly upon receipt by Administrative Agent (but in any event not later than 1:00 p.m. on the date of receipt thereof). Each Notice of Borrowing or telephonic notice of each borrowing shall be irrevocable once given and binding on Borrower.

(b) Disbursements of Loan Proceeds. No later than 3:00 p.m. on the date specified in the Notice of Borrowing, each Lender will make available for the account of its applicable Lending Office to Administrative Agent at the Principal Office, in immediately available funds, the proceeds of the Revolving Loan to be made by such Lender. With respect to Revolving Loans to be made after the Effective Date, unless Administrative Agent shall have been notified by any Lender prior to the specified date of borrowing that such Lender does not intend to make available to Administrative Agent the Revolving Loan to be made by such Lender on such date, Administrative Agent may assume that such Lender will make the proceeds of such Revolving Loan available to Administrative Agent on the date of the requested borrowing as set forth in the Notice of Borrowing and Administrative Agent may (but shall not be obligated to), in reliance upon such assumption, make available to Borrower the amount of such Revolving Loan to be provided by such Lender. Subject to satisfaction of the applicable conditions set forth in SECTION 5 for such borrowing, Administrative Agent will make the proceeds of such borrowing available to Borrower no later than 4:00 p.m. on the date and at the account specified by Borrower in such Notice of Borrowing.

2.4 RATES AND PAYMENT OF INTEREST ON LOANS.

(a) Rates. Borrower promises to pay to Administrative Agent for the account of each Lender, interest on the unpaid principal amount of each Revolving Loan for the period from and including the date of the making of such Revolving Loan to but excluding the date such Revolving Loan shall be paid in full, at the following per annum rates:

(i) during such periods as such Revolving Loan is a Base Rate Loan, the lesser of (A) the Base Rate (as in effect from time to time) and (B) the Maximum Rate; and

(ii) during such periods as such Revolving Loan is a Eurodollar Loan, the lesser of (A) the sum of the Adjusted Eurodollar Rate for such Revolving Loan for the Interest Period therefor, plus 1.25% and (B) the Maximum Rate.

Notwithstanding the foregoing, (i) during the continuance of an Event of Default, and prior to maturity or acceleration of the Obligations, Borrower hereby promises to pay to Administrative Agent for account of

each Lender interest at 2% per annum in excess of the rates otherwise payable hereunder on the aggregate outstanding principal of all Revolving Loans made by such Lender and on any other amount payable by Borrower hereunder or under the Note held by such Lender (including without limitation, the Swing Principal Debt, and overdue accrued but unpaid interest to the extent permitted under Applicable Law), and (ii) upon the maturity or acceleration of the Obligations in accordance with the terms hereof, Borrower promises to pay to Administrative Agent for the account of each Lender interest at the Post-Default Rate on such amounts.

(b) Payment of Interest. Accrued interest on each Revolving Loan shall be payable as provided in each of the following clauses which apply to such Revolving Loan: (i) in the case of a Base Rate Loan, monthly on the last Business Day of each calendar month, (ii) in the case of a Eurodollar Loan, on the last day of each Interest Period therefor; provided that, with respect to Eurodollar Loans having an Interest Period in excess of three months, then accrued interest shall also be due and payable at the end of each three-month period occurring after the commencement of such Interest Period until such Eurodollar Rate borrowing is paid or converted, (iii) in the case of a Eurodollar Loan, upon the payment, prepayment or Continuation thereof or the Conversion of such Loan to a Loan of another Type (but only on the principal amount so paid, prepaid, Continued, or Converted), and (iv) in the case of any Base Rate Loan, upon the payment or prepayment thereof in full. Interest payable during the continuance of an Event of Default but prior to maturity or acceleration of the Obligations shall be payable in accordance with the immediately preceding sentence. Interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to Borrower. All determinations by Administrative Agent of an interest rate hereunder shall be conclusive and binding on the Lenders and Borrower for all purposes, absent manifest error.

2.5 NUMBER OF INTEREST PERIODS. There may be no more than ten different Interest Periods for Eurodollar Loans outstanding at the same time.

2.6 REPAYMENT OF LOANS. Borrower shall repay the entire outstanding principal amount of, and all accrued but unpaid interest on, the Loans on the Termination Date.

2.7 PREPAYMENTS.

(a) Optional. Subject to SECTION 4.5, Borrower may prepay any Loan made to it at any time without premium or penalty.

(b) Mandatory.

(i) If at any time the aggregate principal amount of all outstanding Loans exceeds the aggregate amount of the Commitments of the Lenders in effect at such time, or the Swing Principal Debt exceeds the Swing Line Commitment, then Borrower shall immediately pay to Administrative Agent for the respective accounts of the appropriate Lenders the amount of such excess; and

(ii) If (A) as a result of any asset disposition by Borrower or any of its Subsidiaries, Borrower or any such Subsidiary is required to redeem or prepay (or to offer to redeem or prepay) any Debt (other than the Obligations) by a particular date (the "SUBJECT DATE") in an amount equal to all or a portion of the net cash proceeds received by such entity from such asset disposition (the "ASSET DISPOSITION PROCEEDS"), and (B) such obligations to redeem or prepay (or to offer to redeem or prepay) such other Debt may be avoided by prepayment of the Obligations in an amount equal to such Asset Disposition Proceeds on or prior to the Subject Date, then not less than 30 days prior to the Subject Date, Borrower shall pay to Administrative Agent (for the ratable benefit of Lenders) a mandatory prepayment of the Obligations (and the Commitment shall be

concurrently reduced) in an amount equal to such Asset Disposition Proceeds.

If Borrower is required to pay any outstanding Eurodollar Loans by reason of this Section prior to the end of the applicable Interest Period therefor, then Borrower shall pay all amounts due under SECTION 4.5.

2.8 CONTINUATION. So long as no Default or Event of Default shall have occurred and be continuing, Borrower may on any Business Day, with respect to any Eurodollar Loan, elect to maintain such Eurodollar Loan or any portion thereof as a Eurodollar Loan, as applicable, by selecting a new Interest Period for such Loan. Each new Interest Period selected under this Section shall commence on the last day of the immediately preceding Interest Period. Each selection of a new Interest Period shall be made by Borrower giving to Administrative Agent a Notice of Continuation not later than 12:00 noon on the second Business Day prior to the date of any such Continuation. Such notice by Borrower of a Continuation shall be by telephone or telecopy, confirmed immediately in writing if by telephone, in the form of a Notice of Continuation, specifying (a) the proposed date of such Continuation, (b) the Eurodollar Loan, and portion thereof subject to such Continuation and (c) the duration of the selected Interest Period, all of which shall be specified in such manner as is necessary to comply with all limitations on Loans outstanding hereunder. Each Notice of Continuation shall be irrevocable by and binding on Borrower once given. Promptly after receipt of a Notice of Continuation (and in any event not later than 1:00 p.m. on the date of receipt thereof), Administrative Agent shall notify each Lender by telex or telecopy, or other similar form of transmission of the proposed Continuation. If Borrower shall fail to select in a timely manner a new Interest Period for any Eurodollar Loan in accordance with this Section, such Loan will automatically, on the last day of the current Interest Period therefor, Convert into a Base Rate Loan.

2.9 CONVERSION. Borrower may on any Business Day, upon Borrower's giving of a Notice of Conversion to Administrative Agent, Convert all or a portion of a Revolving Loan of one Type into a Revolving Loan of another Type. Any Conversion of a Eurodollar Loan into a Base Rate Loan shall be made on, and only on, the last day of an Interest Period for such Eurodollar Loan. Each such Notice of Conversion shall be given by Borrower not later than 12:00 noon (a) on the Business Day prior to the date of any proposed Conversion into Base Rate Loans or (b) on the second Business Day prior to the date of any proposed Conversion into Eurodollar Loans. Promptly upon receipt of a Notice of Conversion (and in any event not later than 1:00 p.m. on the date of receipt thereof), Administrative Agent shall notify each Lender by telecopy or other similar form of transmission of the proposed Conversion. Subject to the restrictions specified above, each Notice of Conversion shall be by telephone or telecopy confirmed immediately in writing if by telephone, in the form of a Notice of Conversion, specifying (1) the requested date of such Conversion, (2) the Type of Revolving Loan to be Converted, (3) the portion of such Type of Revolving Loan to be Converted, (4) the Type of Revolving

Loan into which such Revolving Loan is to be Converted, and (5) if such Conversion is into a Eurodollar Loan, the requested duration of the Interest Period of such Revolving Loan. Each Notice of Conversion shall be irrevocable by and binding on Borrower once given. Notwithstanding the foregoing, the right to convert from a Base Rate Loan to a Eurodollar Loan, or to continue a Eurodollar Loan, shall not be available during the occurrence of a Default or an Event of Default.

2.10 NOTES.

(a) Revolving Note. The Loans (other than Swing Line Loans) made by each Lender shall, in addition to this Agreement, also be evidenced by a promissory note of Borrower substantially in the form of EXHIBIT E-1 (each a "REVOLVING NOTE"), payable to the order of such Lender. The Revolving Note issued by Borrower to each Lender shall be in a principal amount equal to the amount of such Lender's Commitment as originally in effect.

(b) Swing Line Note. The Swing Line Loans made by NationsBank pursuant to SECTION 2.2, in addition to this Agreement, shall be evidenced by a promissory note of Borrower substantially in the form of EXHIBIT E-2 (the "SWING LINE NOTE") hereto. The Swing Line Note issued by Borrower to NationsBank shall be in a principal amount equal to the Swing Line

Commitment, as originally in effect.

(c) Records; Endorsement on Transfer. The date, amount, interest rate, Type and duration of Interest Periods (if applicable) of each Loan made by each Lender, and each payment made on account of the principal thereof, shall be recorded by such Lender on its books and such entries shall be prima facie evidence of such matters. Prior to the transfer of any Note, the Lender shall endorse such items on such Note or any allonge thereof; provided that, the failure of such Lender to make any such recordation or endorsement shall not affect the obligations of Borrower to make a payment when due of any amount owing hereunder or under such Note in respect of the Loans evidenced by such Note.

2.11 REDUCTIONS OF THE COMMITMENT. Borrower shall have the right to terminate or reduce the aggregate unused amount of the Commitments of the Lenders (other than the portion of the Commitments applicable to Swing Line Loans) at any time and from time to time without penalty or premium upon not less than five Business Days prior written notice to Administrative Agent of each such termination or reduction, which notice shall specify the effective date thereof and the amount of any such reduction and shall be irrevocable once given and effective only upon receipt by Administrative Agent. Administrative Agent will promptly transmit such notice to each Lender. The Swing Line Commitment shall be automatically and permanently reduced from time to time, on the date of each reduction in the Commitments of the Lenders, by the amount, if any, by which the Swing Line Commitment exceeds the aggregate Commitments of the Lenders then in effect. The Commitments, once terminated or reduced, may not be increased or reinstated.

2.12 INCREASES OF COMMITMENTS. Borrower may from time to time request any one or more Lenders to increase their respective Commitments or request other financial institutions first approved by Administrative Agent to agree to a Commitment, so that the total Commitments may be increased to no more than $400,000,000. That increase must be effected by an amendment that is executed in accordance with SECTION 12.5 by Borrower, Administrative Agent, and the one or more Lenders who have agreed to increase their Commitments or by new Lenders who have agreed to new Commitments in accordance with SECTION 12.5. In the event the total Commitments are increased, Borrower shall execute and deliver to each Lender extending

such additional Commitment a Revolving Note in the stated amount of its new or increased Commitment. No Lender is obligated to increase its Commitment under any circumstances, and no Lender's Commitment may be increased except by its execution of an amendment to this Agreement in accordance with SECTION 12.5. Each new Lender providing such additional Commitment shall be a "Lender" hereunder, entitled to the rights and benefits, and subject to the duties, of a Lender under the Loan Documents. In such case, each Lender's Commitment Percentage shall be recalculated to reflect the new proportionate share of the revised total Commitments and the Lender responsible for the additional Commitments (the "PURCHASING LENDER") shall, immediately upon receiving notice from Administrative Agent, pay to each Lender an amount equal to its pro rata share of the Revolving Loans outstanding as of such date. All such payments shall reduce the outstanding principal balance of the Revolving Note of each Lender receiving such payments and shall represent Revolving Loans to Borrower under the purchasing Lender's Revolving Note. The purchasing Lender shall be entitled to share ratably in interest accruing on the balances purchased, at the rates provided herein for such balances, from and after the date of purchase. All new Revolving Loans occurring after an increase of the total Commitments shall be funded in accordance with the Lender's revised Commitment Percentages.

2.13 OPTIONAL RENEWAL OF COMMITMENTS.

(a) Optional Renewal Procedures. Borrower may request that the Termination Date be extended for all or a portion of the Commitment to a date which is no later than one year after the then-current Termination Date; provided that, (i) any such extension request shall be made in writing (an "EXTENSION REQUEST") by Borrower and delivered to Administrative Agent no more than 60 days prior to (but no later than 30 days prior to) the then-current Termination Date; and (ii) no more than one such Extension Request may be made by Borrower. Promptly upon receipt of an Extension Request, Administrative Agent shall notify the Lenders of such request.

(i) Lenders' Response to Extension Request. The Lenders may, at their option, accept or reject such Extension Request by giving written notice to Administrative Agent delivered no earlier than 60 days prior to (but no later than 15 days prior to) the then-effective Termination Date (the date that is 15 days prior to the then effective Termination Date being the "RESPONSE DATE"). If any Lender shall fail to give such notice to Administrative Agent by the Response Date, such Lender shall be deemed to have rejected the requested extension. If the Extension Request is not consented to by Requisite Lenders by the Response Date, the Extension Request will be rejected, and this Agreement will terminate on the Termination Date. If the Requisite Lenders consent to the Extension Request by the Response Date, the Termination Date for those Lenders consenting to the extension (for purposes of this SECTION 2.13(a), the "ACCEPTING LENDERS") shall be automatically extended to the date which is one year after the then-current Termination Date.

(ii) Additional Procedures to Extend the Rejected Amount. If the Extension Request is consented to by Requisite Lenders, but fewer than all Lenders (any Lender not consenting to the Extension Request being referred to in this SECTION 2.13(a) as a "REJECTING LENDER"), then Administrative Agent shall, within 48 hours of making such determination, notify the Accepting Lenders and Borrower of the aggregate Commitments held by the Rejecting Lenders (as used in this SECTION 2.13(a), the "REJECTED AMOUNT"). Each Accepting Lender shall have the right, but not the obligation, to elect to increase its respective Commitment by an amount not to exceed the Rejected Amount, which election shall be made by notice from each Accepting Lender to the Administrative Agent given not later than ten

days after the date notified by Administrative Agent, specifying the amount of such proposed increase in such Accepting Lender's Commitment. If the aggregate amount of the proposed increases in the Commitment of all Accepting Lenders making such an election does not equal or exceed the Rejected Amount, then Borrower shall have the right to add one or more financial institutions (which are not Rejecting Lenders and which are Eligible Assignees) as Lenders (as used in this SECTION 2.13(a), a "PURCHASING LENDER") to replace such Rejecting Lenders, which Purchasing Lenders shall have aggregate Commitments not greater than those of the Rejecting Lenders (less any increases in the Commitment of Accepting Lenders, as described in the following CLAUSE (iii)). The transfer of Commitments and outstanding Loans from Rejecting Lenders to Purchasing Lenders or Accepting Lenders shall take place on the effective date of, and pursuant to the execution, delivery, and acceptance of, an Assignment and Acceptance Agreement in accordance with the procedures set forth in SECTION 12.4.

(iii) Adjustments to, and Terminations of, Commitments.

(A) If less than 100% (but at least 66 2/3%) of the Commitments is extended (whether by virtue of Borrower's failure to request an extension of the full Commitments or by virtue of any Lender not consenting to any Extension Request), then the Commitments shall automatically be reduced on the Termination Date on which the applicable approved extension is effective by an amount equal to (as the case may be) (i) the portion of the Commitments not requested to be extended by Borrower in its Extension Request or (ii) the amount of the Rejected Amount (to the extent not replaced by Accepting Lenders or Purchasing Lenders pursuant to the procedures set forth in the foregoing SECTION 2.13(a)(ii)). Each Rejecting Lender shall have no further obligation or Commitment following the Termination Date on which the applicable approved extension is effective, other than any obligation accruing prior to such date as provided herein.

(B) If the aggregate amount of the proposed increases in

the Commitments of all Accepting Lenders making an election to increase their respective Commitments is in excess of the Rejected Amount, then (i) the Rejected Amount shall be allocated pro rata among such Accepting Lenders based on the respective amounts of the proposed increases to Commitments elected by such Accepting Lenders; and (ii) the respective Commitments of each such Accepting Lender shall be increased by the respective amount allocated pursuant to CLAUSE (i) of this SECTION 2.13(a)(iii)(B), such that, after giving effect to the approved extensions and all such terminations and increases, no reduction will occur in the aggregate amount of the Commitments.

(C) If the aggregate amount of the proposed increases to the Commitments of all Accepting Lenders making such an election to so increase their respective Commitments equals the Rejected Amount, then the respective Commitments of such Accepting Lenders shall be increased by the respective amounts of their proposed increases, such that, after giving effect to the approved extensions and all such terminations and increases, no reduction will occur in the aggregate amount of the Commitments.

(D) If the aggregate amount of the proposed increases to the Commitments of all Accepting Lenders making such an election is less than the Rejected Amount, then (i) the respective Commitments of each such Accepting Lender shall be increased by the respective amount of its proposed increase; and (ii) the amount of the Commitments shall be reduced by the amount of the Rejected Amount (to the extent not replaced by the Accepting Lenders or the Purchasing Lenders, if any).

(b) No Obligation to Renew. Borrower acknowledges that (i) neither Administrative Agent nor any Lender has made any representations to Borrower regarding its intent to agree to any extensions set forth in this Section, (ii) neither Administrative Agent nor any Lender shall have any obligation to extend the Commitments (or any portion thereof), and (iii) Administrative Agent's and Lenders' agreement to one or more extensions shall not commit Administrative Agent or the Lenders to any additional extensions.

SECTION 3 PAYMENTS, FEES AND OTHER GENERAL PROVISIONS.

3.1 PAYMENTS. Each payment or prepayment on the Obligations shall be made in Dollars, without deduction, setoff, or counterclaim, and is due and must be paid at Administrative Agent's Principal Office in Dallas, Texas in funds which are or will be available for immediate use by Administrative Agent by 12:00 noon on the day due. Payments made after 12:00 noon shall be deemed made on the Business Day next following. Administrative Agent shall pay to each Lender any payment or prepayment to which such Lender is entitled hereunder on the same day Administrative Agent shall have received the same from Borrower; provided such payment or prepayment is received by Administrative Agent prior to 12:00 noon, and otherwise before 12:00 noon on the Business Day next following. If and to the extent Administrative Agent shall not make such payments to the Lenders when due as set forth in the preceding sentence, such unpaid amounts shall accrue interest, payable by Administrative Agent, at the Federal Funds Rate from the due date until (but not including) the date on which Administrative Agent makes such payments to the Lenders.

3.2 PRO RATA TREATMENT. Except to the extent otherwise provided herein: (a) each borrowing from the Lenders under SECTION 2.1 shall be made from the Lenders, each payment of the Fees under SECTION 3.6(a) shall be made for account of the Lenders, and each termination or reduction of the amount of the Commitments under SECTION 2.11 shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitment Percentages; (b) each payment or prepayment of principal of Revolving Loans shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Revolving Loans held by them; provided that, if immediately prior to giving effect to any such payment in respect of any Revolving Loans the outstanding principal amount of the Revolving Loans shall not be held by the Lenders pro rata in accordance with their

respective Commitment Percentages in effect at the time such Revolving Loans were made, then such payment shall be applied to the Revolving Loans in such manner as shall result, as nearly as is practicable, in the outstanding principal amount of the Revolving Loans being held by the Lenders pro rata in accordance with their respective Commitment Percentages; (c) each payment of interest on Revolving Loans shall be made for account of the Lenders pro rata in accordance with the amounts of interest on such Revolving Loans then due and payable to the respective Lenders; and (d) the making, Conversion and Continuation of Revolving Loans of a particular Type (other than Conversions provided for by SECTION 4.4) shall be made pro rata among the Lenders according to the amounts of their respective Commitment Percentages (in the case of making of Revolving Loans) or their respective

Revolving Loans (in the case of Conversions and Continuations of Revolving Loans) and the then current Interest Period for each Lender's portion of each Revolving Loan of such Type shall be coterminous.

3.3 SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment (whether voluntary, involuntary, or otherwise, including, without limitation, as a result of exercising its rights under SECTION 3.4) which is in excess of its ratable share of any such payment, such Lender shall purchase from the other Lenders such participations as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such recovery. Borrower agrees that any Lender so purchasing a participation from another Revolver Lender pursuant to this Section may, to the fullest extent permitted by Applicable Law, exercise all of its rights of payment (including the right of offset) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation.

3.4 OFFSET. Upon the occurrence and during the continuance of an Event of Default, each Lender shall be entitled to exercise (for the benefit of the Lenders in accordance with SECTION 3.3) the rights of offset and/or banker's lien against each and every account and other property, or any interest therein, which any Borrower may now or hereafter have with, or which is now or hereafter in the possession of, such Lender to the extent of the full amount of the Obligations.

3.5 BOOKING BORROWINGS. To the extent permitted by Applicable Law, any Lender may make, carry, or transfer its Loans at, to, or for the account of any of its branch offices or the office of any of its Affiliates; provided that, no Affiliate shall be entitled to receive any greater payment under SECTION 4 than the transferor Lender would have been entitled to receive with respect to such Loans.

3.6 SEVERAL OBLIGATIONS. No Lender shall be responsible for the failure of any other Lender to make a Loan or to perform any other obligation to be made or performed by such other Lender hereunder, and the failure of any Lender to make a Loan or to perform any other obligation to be made or performed by it hereunder shall not relieve the obligation of any other Lender to make any Loan or to perform any other obligation to be made or performed by such other Lender.

3.7 MINIMUM AMOUNTS.

(a) Borrowings and Conversions. Each borrowing of Base Rate Loans shall be in an aggregate minimum amount of $1,000,000 and integral multiples of $1,000,000 in excess thereof. Each borrowing of Eurodollar Loans, and each Conversion of Loans to Eurodollar Loans shall be in an aggregate minimum amount of $1,000,000 and integral multiples of $1,000,000 in excess of that amount.

(b) Prepayments. Each voluntary prepayment of Loans shall be in an aggregate minimum amount of $1,000,000.

(c) Reductions of Commitments. Each reduction of the Commitments under SECTION 2.11 shall be in an aggregate minimum amount of $5,000,000 and integral multiples of $1,000,000 in excess thereof.

3.8 FEES.

(a) Facility Fee. Borrower agrees to pay to Administrative Agent for the account of the Lenders a facility fee in an amount equal to 0.25% multiplied by the amount of the average daily Commitment (whether used or unused), in each case during the period from and including the last payment date (or in respect of the initial payment, the Effective Date) to and excluding the payment date for such installment. Such facility fee shall be payable quarterly in arrears on each Quarterly Date and on the Termination Date, beginning with March 31, 1999.

(b) Upfront Fee. Borrower agrees to pay an upfront fee to Administrative Agent for the account of Lenders in the amount stated next to such Lender's name on the attached SCHEDULE 2.

(c) Administrative and Other Fees. Borrower agrees to pay the administrative and other fees of Administrative Agent set forth in that certain separate letter agreement dated January 15, 1999, among Borrower, Administrative Agent, and Arranger.

3.9 COMPUTATIONS. Unless otherwise expressly set forth herein, any accrued interest on any Base Rate Loan due hereunder shall be computed on the basis of a 365/366 day year, and in all other instances, any accrued interest on any Eurodollar Loan, any Fees or other Obligations due hereunder shall be computed on the basis of a year of 360 days and the actual number of days elapsed.

3.10 MAXIMUM RATE. Regardless of any provision contained in any Loan Document, neither Administrative Agent nor any Lender shall ever be entitled to contract for, charge, take, reserve, receive, or apply, as interest on the Obligations, or any part thereof, any amount in excess of the Maximum Rate, and, if the Lenders ever do so, then such excess shall be deemed a partial prepayment of principal and treated hereunder as such and any remaining excess shall be refunded to Borrower. In determining if the interest paid or payable exceeds the Maximum Rate, Borrower and the Lenders shall, to the maximum extent permitted under applicable Law, (a) treat all Loans as but a single extension of credit (and Lenders and Borrower agree that such is the case and that provision herein for multiple Loans is for convenience only), (b) characterize any nonprincipal payment as an expense, fee, or premium rather than as interest, (c) exclude voluntary prepayments and the effects thereof, and (d) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the Obligations; provided that, if the Obligations are paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Amount, the Lenders shall refund such excess, and, in such event, the Lenders shall not, to the extent permitted by Applicable Law, be subject to any penalties provided by any Applicable Laws for contracting for, charging, taking, reserving, or receiving interest in excess of the Maximum Amount.

3.11 INTEREST RECAPTURE. If the designated rate applicable to any Loan exceeds the Maximum Rate, the rate of interest on such Loan shall be limited to the Maximum Rate, but any subsequent reductions in such designated rate shall not reduce the rate of interest thereon below the Maximum Rate until the total amount of interest accrued thereon equals the amount of interest which would have accrued thereon if such designated rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of the Principal Debt, the total amount of interest paid or accrued is less than the amount of interest which would have accrued if such designated rates had at all times been in effect, then, at such time and to the extent permitted by law, Borrower shall pay an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if such designated rates had at all times been in effect and

the amount of interest which would have accrued if the Maximum Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on the Principal Debt.

3.12 AGREEMENT REGARDING INTEREST AND CHARGES. The parties hereto hereby agree and stipulate that the only charge imposed upon Borrower for the use of money in connection with this Agreement is and shall be the interest specifically described in SECTION 2.4(a). Notwithstanding the foregoing, the parties hereto further agree and stipulate that all agency fees, syndication fees, facility fees, underwriting fees, default charges, late charges, funding or "breakage" charges, increased cost charges, attorneys' fees and reimbursement for costs and expenses paid by Administrative Agent or any Lender to third parties or for damages incurred by Administrative Agent or any Lender, are charges made to compensate Administrative Agent or any such Lender for underwriting or administrative services and costs or losses performed or incurred, and to be performed or incurred, by Administrative Agent and the Lenders in connection with this Agreement and shall under no circumstances be deemed to be charges for the use of money.

3.13 DEFAULTING LENDERS.

(a) Generally. If for any reason any Lender (a "DEFAULTING LENDER") shall fail or refuse to perform any of its obligations under this Agreement or any other Loan Document to which it is a party within the time period specified for performance of such obligation or, if no time period is specified, if such failure or refusal continues for a period of two Business Days after notice from Administrative Agent, then, in addition to the rights and remedies that may be available to Administrative Agent or Borrower under this Agreement or Applicable Law, such Defaulting Lender's right to participate in the administration of the Loans, this Agreement, and the other Loan Documents, including without limitation, any right to vote in respect of, to consent to, or to direct any action or inaction of Administrative Agent or to be taken into account in the calculation of the Requisite Lenders, shall be suspended during the pendency of such failure or refusal. If a Lender is a Defaulting Lender because it has failed to make timely payment to Administrative Agent of any amount required to be paid to Administrative Agent hereunder (without giving effect to any notice or cure periods), in addition to other rights and remedies which Administrative Agent or Borrower may have under the immediately preceding provisions or otherwise, Administrative Agent shall be entitled (i) to collect interest from such Defaulting Lender on such delinquent payment for the period from the date on which the payment was due until the date on which the payment is made at the Federal Funds Rate, and (ii) to withhold or setoff and to apply in satisfaction of the defaulted payment and any related interest, any amounts otherwise payable to such Defaulting Lender under this Agreement or any other Loan Document. Any amounts received by Administrative Agent in respect of a Defaulting Lender's Loans shall not be paid to such Defaulting Lender and shall be held uninvested by Administrative Agent and either applied against the purchase price of such Loans under the following SUBSECTION (b) or paid to such Defaulting Lender upon the Defaulting Lender's curing of its default. Borrower shall not have any liability in respect of such action by Administrative Agent.

(b) Purchase of Defaulting Lender's Commitment. Any Lender who is not a Defaulting Lender shall have the right, but not the obligation, in its sole discretion, to acquire all of a Defaulting Lender's Commitment. Any Lender desiring to exercise such right shall give written notice thereof to Administrative Agent no sooner than two Business Days and not later than ten Business Days after such Defaulting Lender became a Defaulting Lender. If more than one Lender exercises such right, each such Lender shall have the right to acquire an amount of such Defaulting Lender's Commitment in proportion to the Commitments of the other Lenders exercising such right. Upon any such purchase,

the Defaulting Lender's interest in the Revolving Loans and its rights hereunder (but not its liability in respect thereof or under the Loan Documents or this Agreement to the extent the same relate to the period prior to the effective date of the purchase) shall terminate on the date

of purchase, and the Defaulting Lender shall promptly execute all documents reasonably requested to surrender and transfer such interest to the purchaser thereof including an appropriate Assignment and Acceptance Agreement and, notwithstanding SECTION 12.4(a), shall pay to Administrative Agent an assignment fee in the amount of $3,500. The purchase price for the Commitment of a Defaulting Lender shall be equal to the amount of the principal balance of the Revolving Loans (together with the principal amount of any funded participations in any Swing Line Loans held by the Defaulting Lender pursuant to SECTION 2.2(b)) outstanding and owed by Borrower to the Defaulting Lender. Prior to payment of such purchase price to a Defaulting Lender, Administrative Agent shall apply against such purchase price any amounts retained by Administrative Agent pursuant to the second to last sentence of the immediately preceding SUBSECTION (a). The Defaulting Lender shall be entitled to receive amounts owed to it by Borrower under the Loan Documents which accrued prior to the date of the default by the Defaulting Lender, to the extent the same are received by Administrative Agent from or on behalf of Borrower. There shall be no recourse against any Lender or Administrative Agent for the payment of such sums except to the extent of the receipt of payments from any other party or in respect of the Revolving Loans or the principal amount of any funded participations in any Swing Line Loan. If, prior to a Lender's acquisition of a Defaulting Lender's Commitment pursuant to this subsection, such Defaulting Lender shall cure the event or condition which caused it to become a Defaulting Lender and shall have paid all amounts owing by it hereunder as a result thereof, then such Lender shall no longer have the right to acquire such Defaulting Lender's Commitment.

SECTION 4 YIELD PROTECTION, ETC.

4.1 INCREASED COST AND REDUCED RETURN.

(a) If, after the date hereof, the adoption of any Applicable Law, rule, or regulation, or any change in any Applicable Law, or any change in the interpretation or administration thereof by any Governmental Authority, or compliance by any Lender (or its applicable Lending Office) with any request or directive (whether or not having the force of law) of any such Governmental Authority:

(i) shall subject such Lender (or its applicable Lending Office) to any tax, duty, or other charge with respect to any Eurodollar Loans, its Note, or its obligation to make Eurodollar Loans, or change the basis of taxation of any amounts payable to such Lender (or its applicable Lending Office) under the Loan Documents in respect of any Eurodollar Loans (other than taxes imposed on the overall net income of such Lender by the jurisdiction in which such Lender has its principal office or such applicable Lending Office);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the Reserve Requirement utilized in the determination of the Adjusted Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (or its applicable Lending Office), including the Commitment of such Lender hereunder; or

(iii) shall impose on such Lender (or its applicable Lending Office) or on the London interbank market any other condition affecting the Loan Documents or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender (or its applicable Lending Office) of making, Converting into, Continuing, or maintaining any Eurodollar Loans or to reduce any sum received or receivable by such Lender (or its applicable Lending Office) under the Loan Documents with respect to any Eurodollar Loans, then Borrower shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction. If any Lender requests compensation by Borrower under this SECTION 4.1(a), Borrower may, by notice to such Lender (with a copy to Administrative Agent), suspend

the obligation of such Lender to make or Continue Revolving Loans of the Type with respect to which such compensation is requested, or to Convert Revolving Loans of any other Type into Revolving Loans of such Type, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of SECTION 4.4 shall be applicable); provided that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) If, after the date hereof, any Lender shall have determined that the adoption of any Applicable Law, regarding capital adequacy or any change therein or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority (excluding those of the foregoing applying to a Lender solely by reason of a formal determination by the applicable regulator that such Lender is in a financially troubled condition) has or would have the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change, request, or directive (taking into consideration its policies with respect to capital adequacy), then from time to time upon demand Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) Each Lender shall promptly notify Borrower and Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section and will designate a different applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to it. Any Lender claiming compensation under this Section shall furnish to Borrower and Administrative Agent a statement setting forth the additional amount or amounts to be paid to it hereunder which shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

4.2 LIMITATION ON TYPES OF LOANS. If on or prior to the first day of any Interest Period for any Eurodollar Loan:

(a) Administrative Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) the Requisite Lenders determine (which determination shall be conclusive) and notify Administrative Agent that the Adjusted Eurodollar Rate will not adequately and fairly reflect the cost to the Lenders of funding Eurodollar Loans for such Interest Period;

then Administrative Agent shall give Borrower prompt notice thereof specifying the relevant Revolving Loans and the relevant amounts or periods, and so long as such condition remains in effect, the Lenders shall be under no obligation to make additional Eurodollar Loans, Continue Eurodollar Loans, or to Convert Base Rate Loans into Eurodollar Loans, and Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Loans, either prepay such Loans or Convert such Loans into Base Rate Loans in accordance with the terms of this Agreement.

4.3 ILLEGALITY. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its applicable Lending Office to make, maintain, or fund Eurodollar Loans hereunder, then such Lender shall promptly notify Borrower thereof and such Lender's obligation to make or Continue Eurodollar Loans and to Convert other Base Rate Loans into Eurodollar Loans shall be suspended until such time as such Lender may again make, maintain, and fund Eurodollar Loans (in which case the provisions of SECTION 4.4

shall be applicable).

4.4 TREATMENT OF AFFECTED LOANS. If the obligation of any Lender to make a Eurodollar Loan or to Continue, or to Convert Base Rate Loans into Eurodollar Loans shall be suspended pursuant to SECTION 4.1, 4.2, or 4.3 hereof, such Lender's Eurodollar Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Eurodollar Loans (or, in the case of a Conversion required by SECTION 4.3 hereof, on such earlier date as such Lender may specify to Borrower with a copy to Administrative Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in SECTION 4.1, 4.2, or 4.3 hereof that gave rise to such Conversion no longer exist:

(a) to the extent that such Lender's Eurodollar Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Eurodollar Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or Continued by such Lender as Eurodollar Loans shall be made or Continued instead as Base Rate Loans, and all Loans of such Lender that would otherwise be Converted into Eurodollar Loans shall be Converted instead into (or shall remain as) Base Rate Loans.

If such Lender gives notice to Borrower (with a copy to Administrative Agent) that the circumstances specified in SECTION 4.1, 4.2, or 4.3 hereof that gave rise to the Conversion of such Lender's Eurodollar Loans pursuant to this SECTION 4.4 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Loans made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Loans, to the extent necessary so that, after giving effect thereto, all Revolving Loans held by the Lenders holding Eurodollar Loans and by such Lender are held pro rata (as to principal amounts, Types, and Interest Periods) in accordance with their respective Commitments.

4.5 COMPENSATION. Upon the request of any Lender, Borrower shall pay to such Lender such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost, or expense (including loss of anticipated profits) incurred by it as a result of:

(a) any payment, prepayment (including, without limitation, any principal reduction effected pursuant to SECTION 2.12 as a result of an increase in the Commitment), or Conversion of a Eurodollar Loan for any reason (including, without limitation, the acceleration of the Revolving Loans pursuant to SECTION 10.2) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by Borrower for any reason (including, without limitation, the failure of any condition precedent specified in SECTION 5 to be satisfied) to borrow, Convert, Continue, or prepay a Eurodollar Loan on the date for such borrowing, Conversion, Continuation, or prepayment specified in the relevant notice of borrowing, prepayment, Continuation, or Conversion under this Agreement.

4.6 TAXES.

(a) Any and all payments by Borrower to or for the account of any Lender or Administrative Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and Administrative Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender (or its applicable Lending Office) or Administrative Agent (as the case may be) is organized or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as

"TAXES"). If Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under this Agreement or any other Loan Document to any Lender or Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 4.6) such Lender or Administrative Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with Applicable Law, and (iv) Borrower shall furnish to Administrative Agent, at its address referred to in SECTION 12.1, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, Borrower agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Agreement or any other Loan Document or from the execution or delivery of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "OTHER TAXES").

(c) Borrower agrees to indemnify each Lender and Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this SECTION 4.6) paid by such Lender or Administrative Agent (as the case may be) and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender listed on the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by Borrower or Administrative

Agent (but only so long as such Lender remains lawfully able to do so), shall provide Borrower and Administrative Agent with (i) Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Agreement or any of the other Loan Documents.

(e) For any period with respect to which a Lender has failed to provide Borrower and Administrative Agent with the appropriate form pursuant to SECTION 4.6(d) (unless such failure is due to a change in treaty, law, or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under SECTION 4.6(a) or 4.6(b) with respect to Taxes imposed by the United States; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this SECTION 4.6, then such Lender will agree to use reasonable efforts to change the jurisdiction of its applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

(g) Within 30 days after the date of any payment of Taxes, Borrower

shall furnish to Administrative Agent the original or a certified copy of a receipt evidencing such payment.

(h) Without prejudice to the survival of any other agreement of Borrower hereunder, the agreements and obligations of Borrower contained in this SECTION 4.6 shall survive the termination of the Commitments and the payment in full of the Notes.

4.7 REMOVAL OF LENDERS. If (a) a Lender or a Participant requests compensation pursuant to SECTIONS 4.1 or 4.6 and the Requisite Lenders are not also doing the same, or (b) the obligation of a Lender to make Eurodollar Loans or to Continue, or to Convert Loans into Eurodollar Loans shall be suspended pursuant to SECTION 4.1 or SECTION 4.3, but the obligation of the Requisite Lenders shall not have been suspended under such Sections, Borrower may either (A) demand that such Lender or Participant (the "AFFECTED LENDER"), and upon such demand the Affected Lender shall promptly, assign its Commitment and all of its Loans to an Eligible Assignee subject to and in accordance with the provisions of SECTION 12.4 for a purchase price equal to the aggregate principal balance of Loans then owing to the Affected Lender (together with any participation held by the affected Lender in any Swing Line Loan pursuant to SECTION 2.2(b)) plus any accrued but unpaid interest thereon, accrued but unpaid Fees owing to the Affected Lender, and any amounts owing the Affected Lender under SECTION 4, or (B) pay to the Affected Lender the aggregate principal balance of Loans (together with any participation held by the Affected Lender in any Swing Line Loan pursuant to SECTION 2.2(b)) then owing to the Affected Lender plus any accrued but unpaid interest thereon, accrued but unpaid Fees owing to

the Affected Lender, and any amounts owing the Affected Lender under SECTION 4, whereupon the Affected Lender shall no longer be a party hereto or have any rights or obligations hereunder or under any of the other Loan Documents, subject to the survival of certain provisions as set forth in SECTION 12.9. Each of Administrative Agent and the Affected Lender shall reasonably cooperate in effectuating the replacement of an Affected Lender under this Section, but at no time shall Administrative Agent, the Affected Lender, or any other Lender be obligated in any way whatsoever to initiate any such replacement or to assist in finding an Eligible Assignee. The exercise by Borrower of its rights under this Section shall be at Borrower's sole cost and expenses and at no cost or expense to Administrative Agent, the Affected Lender, or any of the other Lenders. The terms of this Section shall not in any way limit Borrower's obligation to pay to any Affected Lender compensation owing to such Affected Lender pursuant to SECTION 4.

SECTION 5 CONDITIONS PRECEDENT.

5.1 INITIAL CONDITIONS PRECEDENT. The obligation of the Lenders to effect the occurrence of the first Credit Event hereunder is subject to the following conditions precedent:

(a) Administrative Agent shall have received each of the following, in form and substance satisfactory to the Lenders:

(i) Counterparts of this Agreement executed by each of the parties hereto;

(ii) Notes executed by Borrower, payable to each Lender and complying with the terms of SECTIONS 2.10(a) and 2.10(b);

(iii) Copies (certified by the Secretary or Assistant Secretary of Borrower) of the Articles of Incorporation and Bylaws of Borrower;

(iv) An opinion of Sutherland, Asbill & Brennan LLP, counsel to Borrower, addressed to Administrative Agent and the Lenders, in substantially the form of EXHIBIT F;

(v) A certificate of incumbency signed by the Secretary or Assistant Secretary of Borrower with respect to each of the officers of Borrower authorized to execute and deliver the Loan Documents and

the officers of Borrower then authorized to deliver Notices of Borrowing, Notices of Continuation, and Notices of Conversion;

(vi) Copies (certified by the Secretary or Assistant Secretary of Borrower) of all corporate action taken by Borrower to authorize the execution, delivery, and performance of the Loan Documents;

(vii) A copy of each of the documents, instruments, and agreements evidencing any of the Indebtedness described on SCHEDULE 6.1(g) and a copy of each Material Contract described on SCHEDULE 6.1(h), certified as true, correct, and complete by the chief financial officer of Borrower;

(viii) The Fees then due under SECTION 3.6;

(ix) A pro-forma Compliance Certificate calculated as of December 31, 1998; and

(x) Such other documents, agreements and instruments as Administrative Agent on behalf of the Lenders may reasonably request.

(b) In the good faith judgment of Administrative Agent and the Lenders:

(i) There shall not have occurred or become known to Administrative Agent or the Lenders, from and including September 30, 1998, any event, condition, situation, or status since the date of the information contained in the financial and business projections, budgets, pro forma data and forecasts concerning Borrower and its Subsidiaries delivered to Administrative Agent and the Lenders prior to the Agreement Date that has had or could reasonably be expected to result in a Material Adverse Effect;

(ii) No litigation, action, suit, investigation, or other arbitral, administrative, or judicial proceeding shall be pending or threatened which could reasonably be expected to (A) result in a Material Adverse Effect or (B) restrain or enjoin, impose materially burdensome conditions on, or otherwise materially and adversely affect the ability of Borrower to fulfill its obligations under the Loan Documents;

(iii) Borrower and its Subsidiaries shall have received all approvals, consents, and waivers, and shall have made or given all necessary filings and notices as shall be required to consummate the transactions contemplated hereby without the occurrence of any default under, conflict with, or violation of (A) any Applicable Law or (B) any agreement, document, or instrument to which Borrower or any Subsidiary is a party or by which any of them or their respective properties is bound, except for such approvals, consents, waivers, filings and notices the receipt, making, or giving of which would not reasonably be likely to (1) have a Material Adverse Effect, or (2) restrain or enjoin, impose materially burdensome conditions on, or otherwise materially and adversely affect the ability of Borrower to fulfill its obligations under the Loan Documents; and

(iv) There shall not have occurred or exist any other material disruption of financial or capital markets that could reasonably be expected to materially and adversely affect the transactions contemplated by the Loan Documents.

(c) Borrower shall have produced evidence satisfactory to Administrative Agent and the Lenders that (i) Borrower and its Subsidiaries are taking all necessary and appropriate steps to ascertain the extent of, and to quantify and successfully address, business and financial risks facing Borrower and its Subsidiaries as a result of the Year 2000 Problem, including the risks resulting from the failure of key vendors and customers of Borrower and its Subsidiaries to successfully address the Year 2000 Problem, and (ii) Borrower's and its Subsidiaries' material computer applications and those of its key vendors and customers will, on a timely basis, adequately address the Year 2000 Problem.

(d) The loans outstanding under the Existing Credit Agreement shall be paid in full and the Existing Credit Agreement terminated.

5.2 CONDITIONS PRECEDENT TO ALL LOANS. The obligation of the Lenders to make any Loans is subject to the further conditions precedent that: (a) no Default or Event of Default shall have occurred and be

continuing as of the date of the making of such Loan or would exist immediately after giving effect thereto; (b) the representations and warranties made or deemed made by Borrower and its Subsidiaries in the Loan Documents to which any of them is a party, shall be true and correct on and as of the date of the making of such Loan with the same force and effect as if made on and as of such date except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and accurate on and as of such earlier date) and except for changes in factual circumstances specifically and expressly permitted hereunder; and (c) in the case of the borrowing of Loans (other than Swing Line Loans), Administrative Agent shall have received a timely Notice of Borrowing. Each Credit Event shall constitute a certification by Borrower to the effect set forth in the preceding sentence (both as of the date of the giving of notice relating to such Credit Event and, unless Borrower otherwise notifies Administrative Agent prior to the date of such Credit Event, as of the date of the occurrence of such Credit Event). In addition, if such Credit Event is the making of a Loan, Borrower shall be deemed to have represented to Administrative Agent and the Lenders at the time such Loan is made that all conditions to the making of such Loan contained in SECTION 5 have been satisfied. Each condition precedent in this Agreement is material to the transactions contemplated in this Agreement, and time is of the essence in respect of each thereof. Subject to the prior approval of Requisite Lenders, the Lenders may fund any Loan without all conditions being satisfied, but, to the extent permitted by Applicable Law, the same shall not be deemed to be a waiver of the requirement that each such condition precedent be satisfied as a prerequisite for any subsequent funding or issuance, unless Requisite Lenders specifically waive each such item in writing.

SECTION 6 REPRESENTATIONS AND WARRANTIES.

6.1 REPRESENTATIONS AND WARRANTIES. In order to induce Administrative Agent and each Lender to enter into this Agreement and to make Loans, Borrower represents and warrants to Administrative Agent and each Lender as follows:

(a) Organization; Power; Qualification. Except as disclosed on SCHEDULE 6.1(a), each of Borrower and its Subsidiaries is a corporation, partnership, or other legal entity, duly organized or formed, validly existing and in good standing under the jurisdiction of its incorporation or formation, has the power and authority to own or lease its respective properties and to carry on its respective business as now being and hereafter proposed to be conducted, and is duly qualified and is in good standing as a foreign corporation, partnership, or other legal entity, and authorized to do business, in each jurisdiction in which the character of its properties or the nature of its business requires such qualification or authorization and where the failure to be so qualified or authorized would have, in each instance a Material Adverse Effect.

(b) Ownership Structure. As of the Agreement Date, SCHEDULE 6.1(b) correctly sets forth the corporate structure and ownership interests of the Subsidiaries including the correct legal name of each Subsidiary, its jurisdiction of formation, the Persons holding equity interests in such Subsidiary, and their percentage equity or voting interest in such Subsidiary. As of the Agreement Date, SBLC, SBIC, 8930 Stanford Boulevard LLC, REIT, and Allied Capital CMT Inc. are the only Material Subsidiaries. Except as set forth in such Schedule, and except for Permitted Preferred Stock:

(i) no Consolidated Subsidiary has issued to any third party any securities convertible into such Consolidated Subsidiary's capital stock or other equity interests or any options, warrants, or other rights to acquire any securities convertible into such capital stock or other equity interests, and

(ii) the outstanding capital stock of, or other equity interests in, each Consolidated Subsidiary are owned by Borrower and its Consolidated Subsidiaries indicated on such Schedule free and clear of all Liens, warrants, options and rights of others of any kind whatsoever. All such outstanding capital stock and other equity interests have been validly issued and, in the case of capital stock, are fully paid and nonassessable.

(c) Authorization of Agreement, Notes, Loan Documents and Borrowings. Borrower has the right and power, and has taken all necessary action to authorize it, to borrow hereunder. Borrower has the right and power, and has taken all necessary action to authorize it to execute, deliver, and perform each of the Loan Documents to which it is a party in accordance with their respective terms and to consummate the transactions contemplated hereby and thereby. The Loan Documents have been duly executed and delivered by the duly authorized officers of Borrower, and each is a legal, valid, and binding obligation of Borrower, enforceable against it in accordance with its respective terms.

(d) Compliance of Agreement, Notes, Loan Documents, and Borrowing with Laws, etc. The execution, delivery and performance of this Agreement, the Notes, and the other Loan Documents in accordance with their respective terms, and the borrowings hereunder do not and will not, by the passage of time, the giving of notice, or otherwise: (i) require any Governmental Approval, other than such as have been obtained and are in full force and effect, or violate any Applicable Law (including all Environmental Laws) relating to Borrower or any Subsidiary; (ii) conflict with, result in a breach of, or constitute a default under the articles of incorporation or the bylaws of Borrower or the organizational documents of any Subsidiary, or any indenture, agreement, or other instrument to which Borrower or any Subsidiary is a party or by which it or any of its respective properties may be bound; or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by Borrower or any Subsidiary.

(e) Compliance with Law; Governmental Approvals. Borrower and each Subsidiary is in compliance with each Governmental Approval applicable to it and in compliance with all other Applicable Law relating to it, except for noncompliances which, and Governmental Approvals the failure to possess which, would not, individually or in the aggregate, cause a Default or Event of Default or have a Material Adverse Effect.

(f) Ownership of Assets; Liens. Each of Borrower and its Consolidated Subsidiaries has good title to all of its assets. There are no Liens against any of such assets except for Liens permitted by SECTION 9.3.

(g) Indebtedness. SCHEDULE 6.1(g) is, as of the Effective Date, a complete and correct listing of all Indebtedness of Borrower and its Subsidiaries, including all guaranties of Borrower and its Subsidiaries and all letters of credit and acceptance facilities extended to Borrower or any Subsidiary.

(h) Material Contracts. SCHEDULE 6.1(h) is a true, correct, and complete listing of all Material Contracts as of the Effective Date.

(i) Litigation. There are no actions, suits, or proceedings pending (nor, to the knowledge of Borrower or any Subsidiary, are there any actions, suits, or proceedings threatened, nor is there any basis therefor) against or in any other way relating adversely to or affecting

Borrower or any Subsidiary or any of its respective property in any court or before any arbitrator of any kind or before or by any other Governmental Authority which is reasonably likely to be adversely determined and result in a Material Adverse Effect, and there are no strikes, slow downs, work stoppages or walkouts or other labor disputes in progress or threatened relating to Borrower or any Subsidiary.

(j) Taxes. All federal, state, and other tax returns of Borrower and its Consolidated Subsidiaries required by Applicable Law to be filed have been duly filed, and all federal, state, and other taxes, assessments and other governmental charges or levies upon Borrower and any of its Consolidated Subsidiaries and their respective properties, income, profits, and assets which are due and payable have been paid, except any such nonpayment which is at the time permitted under SECTION 7.6. None of the United States income tax returns of Borrower and its Consolidated Subsidiaries are under audit as of the Agreement Date. All charges, accruals, and reserves on the books of Borrower and each of its Consolidated Subsidiaries in respect of any taxes or other governmental charges are in accordance with GAAP.

(k) Financial Statements: No Material Adverse Change. Borrower has furnished to each Lender copies of (i) the audited consolidated balance sheets of Borrower and its Consolidated Subsidiaries for the fiscal year ending December 31, 1997, and the related consolidated statements of operations, changes in net assets, and cash flows for the fiscal year ending on such date, with the opinion thereon of Arthur Andersen, LLP, and (ii) the unaudited consolidated balance sheets of Borrower and its Consolidated Subsidiaries for the three-fiscal quarter period ending September 30, 1998, and the related consolidated statements of operations, changes in net assets, and cash flows for the three-fiscal quarter period ending on such date. Such balance sheets and statements (including in each case related schedules and notes) present fairly, in accordance with GAAP consistently applied throughout the periods involved, the consolidated financial position of Borrower as at their respective dates and the results of operations, changes in net assets, and cash flows for such periods (subject, as to interim statements, to changes resulting from normal year-end audit adjustments). Neither Borrower nor any of its Consolidated Subsidiaries has on the Agreement Date any material contingent liabilities, other liabilities, liabilities for taxes, unusual or long-term commitments or unrealized or forward anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said financial statements. Since September 30, 1998 there has been no material adverse change in the consolidated financial condition, results of operations, business or prospects of Borrower and its Consolidated Subsidiaries taken as a whole. Each of Borrower and its Consolidated Subsidiaries is Solvent.

(l) ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan except for noncompliances which would not, individually or in the aggregate, cause a Default or an Event of Default or have a Material Adverse Effect. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting

of a bond or other security under ERISA or the Internal Revenue Code, or (iii) incurred any liability under Title IV of ERISA, other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(m) Absence of Defaults. Neither Borrower nor any Material Subsidiary is in default under its articles of incorporation, bylaws, partnership agreement, or other similar organizational documents, and no event has occurred, which has not been remedied, cured or waived: (i) which constitutes a Default or an Event of Default; or (ii) which

constitutes, or which with the passage of time, the giving of notice, a determination of materiality, the satisfaction of any condition, or any combination of the foregoing, would constitute, a default or event of default by Borrower or any Subsidiary under any Indebtedness, Material Contract, any other agreement (other than this Agreement) or judgment, decree, or order to which Borrower or any Subsidiary is a party or by which Borrower or any Subsidiary or any of their respective properties may be bound where such default or event of default could, individually or in the aggregate, have a Material Adverse Effect.

(n) Environmental Laws. Borrower and its Subsidiaries have obtained all Governmental Approvals which are required under Environmental Laws, and are in compliance with all terms and conditions of such Governmental Approvals, which the failure to obtain or to comply with could reasonably be expected to have a Material Adverse Effect. Each of Borrower and its Subsidiaries is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules, and timetables contained in the Environmental Laws the failure with which to comply could have a Material Adverse Effect. Neither Borrower nor any Subsidiary is aware of, or has received notice of, any past, present, or future events, conditions, circumstances, activities, practices, incidents, actions, or plans which, with respect to Borrower or any of its Subsidiaries may interfere with or prevent compliance or continued compliance with Environmental Laws, or may give rise to any common-law or legal liability, or otherwise form the basis of any claim, action, demand, suit, proceeding, hearing, study, or investigation, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, or industrial, toxic, or other Hazardous Materials that could be reasonably expected to have a Material Adverse Effect; and there is no civil, criminal, or administrative action, suit, demand, claim, hearing, notice, or demand letter, notice of violation, investigation, or proceeding pending or, to the knowledge of Borrower or any Subsidiary, after due inquiry, threatened, against Borrower or any of its Subsidiaries relating in any way to Environmental Laws that could be reasonably expected to have a Material Adverse Effect.

(o) Investment Company; Public Utility Holding Company. Borrower is a "business development company" within the meaning of the Investment Company Act. Neither Borrower nor any Subsidiary is (i) a "holding company" or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (ii) except for other Subsidiaries that are business development companies, subject to any other Applicable Law which purports to regulate or restrict its ability to borrow money or to consummate the transactions contemplated by this Agreement or to perform its obligations under any Loan Document to which it is a party.

(p) Margin Stock. Neither Borrower nor any Subsidiary is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying "margin stock" within the meaning of Regulation U (as enacted by the Board of Governors of the Federal Reserve System, as amended). "Margin Stock" (as defined in Regulation U) constitutes less than 25% of those assets of Borrower or any Subsidiary which are subject to any limitation on sale, pledge, or other restrictions hereunder.

(q) Affiliate Transactions. Except as permitted by SECTION 9.8, neither Borrower nor any Subsidiary is a party to or bound by any agreement or arrangement (whether oral or written) to which any Affiliate of Borrower or any Subsidiary is a party. Neither Borrower nor any Subsidiary is a party to any agreement or arrangement which restricts or prohibits the payment of dividends or the repayment of inter-company loans by a Subsidiary to Borrower, except for SBA approval of dividends paid by SBIC, which Borrower has no reason to believe will not be granted by the

SBA.

(r) Intellectual Property. Borrower and each Subsidiary owns or has the right to use, under valid license agreements or otherwise, all patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights, trade secrets and copyrights (collectively, "INTELLECTUAL PROPERTY") used in the conduct of its businesses as now conducted and as contemplated by the Loan Documents, which the failure to own or have the right to use could reasonably be expected to have a Material Adverse Effect, without known conflict with any patent, license, franchise, trademark, trade secret, trade name, copyright, or other proprietary right of any other Person.

(s) Accuracy and Completeness of Information. All written information, reports and other papers and data furnished to Administrative Agent or any Lender by, on behalf of, or at the direction of, Borrower or any Subsidiary were, at the time the same were so furnished, complete and correct in all material respects, to the extent necessary to give the recipient a true and accurate knowledge of the subject matter, or, in the case of financial statements, present fairly, in accordance with GAAP consistently applied throughout the periods involved, the financial position of the Persons involved as at the date thereof and the results of operations for such periods. As of the Agreement Date, no fact is known to Borrower or any Subsidiary which has had, or may in the future have (so far as Borrower or any Subsidiary can reasonably foresee), a Material Adverse Effect which has not been set forth in the financial statements referred to in SECTION 6.1(k) or in such information, reports or other papers or data or otherwise disclosed in writing to Administrative Agent and the Lenders prior to the Effective Date. No document furnished or written statement made to Administrative Agent or any Lender in connection with the negotiation, preparation of execution of this Agreement or any of the other Loan Documents contains or will contain any untrue statement of a fact material to the creditworthiness of Borrower or any Subsidiary or omits or will omit to state a material fact necessary in order to make the statements contained therein not misleading. Notwithstanding the first and third sentences of this SECTION 6.1(s), as to projected financial information, Borrower represents and warrants only that such information, at the time furnished to Administrative Agent or any Lender, was prepared in good faith based on reasonable assumptions under the circumstances.

(t) RIC Status. Each of Borrower, SBLC, and SBIC qualifies as a RIC.

(u) Not Plan Assets. The assets of Borrower or any Subsidiary do not and will not constitute "plan assets," within the meaning of ERISA, the Internal Revenue Code and the respective regulations promulgated thereunder. The execution, delivery and performance of this Agreement, and

the borrowing and repayment of amounts hereunder, do not and will not constitute "prohibited transactions" under ERISA or the Internal Revenue Code.

(v) Business. As of the Agreement Date, Borrower and its Subsidiaries are substantially engaged in the businesses described in the Offering Memorandum.

(w) Year 2000 Compliance. Borrower has (i) initiated a review and assessment of all areas within its and each of its Subsidiaries' business and operations (including those affected by suppliers and vendors) that could be adversely affected by the "YEAR 2000 PROBLEM" (that is, the risk that computer applications used by Borrower or any of its Subsidiaries (or its suppliers and vendors) may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999), (ii) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. Borrower reasonably believes that all computer applications (including those of its suppliers and vendors) that are material to its or any of its Subsidiaries' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "YEAR 2000 COMPLIANT"), except to the extent

that a failure to do so could not reasonably be expected to have Material Adverse Effect.

6.2 SURVIVAL OF REPRESENTATIONS AND WARRANTIES, ETC. All statements contained in any certificate, financial statement or other instrument delivered by or on behalf of Borrower or any Subsidiary to Administrative Agent or any Lender pursuant to or in connection with this Agreement or any of the other Loan Documents (including, but not limited to, any such statement made in or in connection with any amendment thereto or any statement contained in any certificate, financial statement, or other instrument delivered by or on behalf of Borrower prior to the Agreement Date and delivered to Administrative Agent or any Lender in connection with closing the transactions contemplated hereby) shall constitute representations and warranties made by Borrower under this Agreement. All representations and warranties made under this Agreement and the other Loan Documents shall be deemed to be made at and as of the Agreement Date, the Effective Date, and at and as of the date of the occurrence of any Credit Event, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and accurate on and as of such earlier date) and except for changes in factual circumstances specifically permitted hereunder. All such representations and warranties shall survive the effectiveness of this Agreement, the execution and delivery of the Loan Documents, and the making of the Loans.

SECTION 7 AFFIRMATIVE COVENANTS.

For so long as this Agreement is in effect and thereafter until the payment in full of the Obligations, unless the Requisite Lenders (or, if required pursuant to SECTION 12.5, all of the Lenders) shall otherwise consent in the manner provided for in SECTION 12.5, Borrower shall:

7.1 PRESERVATION OF EXISTENCE AND SIMILAR MATTERS. Except as otherwise permitted under SECTION 9.5, preserve and maintain, and Borrower shall cause each Material Subsidiary to preserve and maintain, its respective existence, rights, franchises, licenses, and privileges in the jurisdiction of its incorporation or formation and qualify and remain qualified and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification and authorization and where the failure to be so authorized and qualified could have a Material Adverse Effect.

7.2 COMPLIANCE WITH APPLICABLE LAW AND MATERIAL CONTRACTS. Comply, and Borrower shall cause each Material Subsidiary to comply, with (a) all Applicable Laws (including without limitation ERISA, Environmental Laws, and the Investment Company Act), including the obtaining of all Governmental Approvals, the failure with which to comply could have a Material Adverse Effect, and (b) all terms and conditions of all Material Contracts to which it is a party.

7.3 MAINTENANCE OF PROPERTY. In addition to the requirements of any of the other Loan Documents, (a) protect and preserve, and Borrower shall cause each Material Subsidiary to protect and preserve, all of its material properties, including, but not limited to, all Intellectual Property, and maintain in good repair, working order, and condition all tangible properties, ordinary wear and tear excepted, and (b) from time to time make or cause to be made, and Borrower shall cause each Material Subsidiary to make, all needed and appropriate repairs, renewals, replacements, and additions to such properties, so that the business carried on in connection therewith may be properly and effectively conducted at all times.

7.4 CONDUCT OF BUSINESS. Together with its Subsidiaries, at all times carry on their business described in the Offering Memorandum.

7.5 INSURANCE. In addition to the requirements of any of the other Loan Documents, maintain, and Borrower shall cause each Material Subsidiary to maintain, insurance with financially sound and reputable insurance companies against such risks and in such amounts as is customarily maintained by Persons engaged in similar businesses or as may be required by Applicable Law.

7.6 PAYMENT OF TAXES AND CLAIMS. Pay or discharge, and Borrower shall

cause each Material Subsidiary to pay and discharge, when due (a) all taxes, assessments, and governmental charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it, and (b) all lawful claims of materialmen, mechanics, carriers, warehousemen, and landlords for labor, materials, supplies, and rentals which, if unpaid, might become a Lien on any properties of such Person; provided, however, that this Section shall not require the payment or discharge of any such tax, assessment, charge, levy, or claim which is being contested in good faith by appropriate proceedings which operate to suspend the collection thereof and for which adequate reserves have been established on the books of Borrower or such Subsidiary, as applicable, in accordance with GAAP.

7.7 VISITS AND INSPECTIONS. Permit, and Borrower shall cause each Material Subsidiary to permit, representatives or agents of Administrative Agent or any Lender, from time to time, as often as may be reasonably requested and at the expense of Administrative Agent (unless an Event of Default shall be continuing in which case the exercise by Administrative Agent of its rights under this Section shall be at the expense of Borrower), but only during normal business hours, to: (a) visit and inspect all properties of Borrower and each Material Subsidiary; (b) inspect and make extracts from their respective books and records, including, but not limited to, management letters prepared by independent accountants; and (c) discuss with its principal officers and its independent accountants, its business, assets, liabilities, financial conditions, results of operations, and business prospects. If requested by Administrative Agent, Borrower shall execute an authorization letter addressed to its accountants authorizing Administrative Agent or any Lender to discuss the financial affairs of Borrower and any Material Subsidiary with its accountants.

7.8 USE OF PROCEEDS. Use the proceeds of Loans for working capital and general corporate purposes of Borrower and its Subsidiaries. Borrower shall not, and Borrower shall not permit any Subsidiary to, use any part of such proceeds to purchase or carry, or to reduce or retire or refinance any credit incurred

to purchase or carry, any margin stock (within the meaning of Regulations T, U, and X of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

7.9 ENVIRONMENTAL MATTERS. Comply, and Borrower shall cause all of its Subsidiaries to comply, with all Environmental Laws, the failure with which to comply could have a Material Adverse Effect. If Borrower or any Subsidiary shall (a) receive notice that any violation of any Environmental Law may have been committed or is about to be committed by such Person, (b) receive notice that any administrative or judicial complaint or order has been filed or is about to be filed against Borrower or any Subsidiary alleging violations of any Environmental Law or requiring Borrower or any Subsidiary to take any action in connection with the release of Hazardous Materials, or (c) receive any notice from a Governmental Authority or private party alleging that Borrower or any Subsidiary may be liable or responsible for costs associated with a response to or cleanup of a release of a Hazardous Materials or any damages caused thereby, and such notices, individually or in the aggregate, could have a Material Adverse Effect, Borrower shall provide Administrative Agent with a copy of such notice within ten days after the receipt thereof by Borrower or any of the Subsidiaries. Borrower and the Subsidiaries shall promptly take all actions necessary to prevent the imposition of any Liens on any of their respective properties arising out of or related to any Environmental Laws.

7.10 BOOKS AND RECORDS. Maintain, and Borrower shall cause each of the Subsidiaries to maintain, books and records pertaining to its business operations in such detail, form and scope as is consistent with good business practice in accordance with GAAP.

7.11 STATUS OF RIC AND BDC. At all times maintain, and cause SBLC and SBIC to maintain, its status as a RIC under the Internal Revenue Code, and as a "business development company" under the Investment Company Act.

7.12 ERISA EXEMPTIONS. Not, and Borrower shall not permit any Subsidiary to, permit any of its respective assets to become or be deemed to be "plan assets" within the meaning of ERISA, the Internal Revenue Code and the respective regulations promulgated thereunder.

7.13 FURTHER ASSURANCES. At Borrower's cost and expense, upon the request of Administrative Agent, duly execute and deliver or cause to be duly executed and delivered, to Administrative Agent and the Lenders such further instruments, documents, and certificates, and do and cause to be done such further acts that may be necessary or advisable in the opinion of Administrative Agent to carry out more effectively the provisions and purposes of this Agreement and the other Loan Documents.

7.14 YEAR 2000 COMPLIANCE. Borrower will promptly notify Administrative Agent in the event Borrower discovers or determines that any computer application (including those of its suppliers and vendors) that is material to its or any of its Subsidiaries' business and operations will not be Year 2000 Compliant on a timely basis, except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect.

SECTION 8 INFORMATION.

For so long as this Agreement is in effect and thereafter until payment in full of the Obligations, unless the Requisite Lenders (or, if required pursuant to SECTION 12.5, all of the Lenders) shall otherwise consent in

the manner set forth in SECTION 12.5, Borrower shall furnish to each Lender (or to Administrative Agent if so provided below) at its Lending Office:

8.1 QUARTERLY FINANCIAL STATEMENTS. As soon as available and in any event within 45 days after the close of each of the first, second, and third fiscal quarters of Borrower, the consolidated and consolidating balance sheets of Borrower and its Consolidated Subsidiaries as at the end of each such period and the related consolidated and consolidating statements of operations, changes in net assets, and cash flows of Borrower and its Consolidated Subsidiaries for each such period, setting forth in each case in comparative form the figures for the corresponding periods of the previous fiscal year, all of which shall be certified by the chief financial officer of Borrower, in his or her opinion, to present fairly, in accordance with GAAP, the consolidated financial position of Borrower and its Consolidated Subsidiaries as at the date thereof and the results of operations for such period (subject to normal year-end audit adjustments).

8.2 YEAR-END STATEMENTS. As soon as available and in any event within 90 days after the end of each fiscal year of Borrower, the consolidated and consolidating balance sheets of Borrower and its Consolidated Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of operations, changes in net assets, and cash flows of Borrower and its Consolidated Subsidiaries for such fiscal year, setting forth in comparative form the figures as at the end of and for the previous fiscal year, all of which shall be certified by (a) the chief financial officer of Borrower, in his or her opinion, to present fairly, in accordance with GAAP, the financial position of Borrower and its Consolidated Subsidiaries as at the date thereof and the result of operations for such period and (b) independent certified public accountants of recognized national standing acceptable to the Requisite Lenders, whose opinion shall be unqualified and in scope and substance satisfactory to the Requisite Lenders and who shall have authorized Borrower to deliver such financial statements and opinion thereon to Administrative Agent and the Lenders pursuant to this Agreement.

8.3 COMPLIANCE CERTIFICATE; ASSET REPORTS.

(a) At the time the financial statements are furnished pursuant to SECTIONS 8.1 and 8.2, a Compliance Certificate: (a) setting forth in reasonable detail as at the end of such quarterly accounting period or fiscal year, as the case may be, the calculations required to establish whether or not Borrower and its Consolidated Subsidiaries were in compliance with the covenants contained in SECTION 9.1, (b) stating that, to the best of his or her knowledge, information, and belief, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default and its nature, when it occurred, and whether it is continuing and the steps being taken by Borrower with respect to such event, condition, or failure. At the time the financial statements are furnished pursuant to SECTION 8.2, Borrower will deliver to the

Lenders a certificate of the independent accountants performing the audit of such financial statements acknowledging that Borrower was in compliance with the financial covenants of SECTION 9.1, and setting forth the procedures used to make such determination.

(b) Within 45 days after the end of each of the first three fiscal quarters of each fiscal year, and within 90 days after the end of the last fiscal quarter of each fiscal year, the following reports with respect to Investments of Borrower and its Consolidated Subsidiaries, as of the end of such fiscal quarter, in form and scope acceptable to Administrative Agent:

(i) a consolidated statement of Investments as presented in Borrower's consolidated financial statements;

(ii) a report of unrealized and realized gains (losses) (with detail as to unrealized gains and losses by portfolio company for mezzanine Investments and in the aggregate for Commercial Mortgage Loans, small business loans, and other Investments); and

(iii) a delinquency report identifying loans over 120 days past-due.

8.4 OTHER INFORMATION.

(a) Not later than 90 days prior to the last day of each fiscal year of Borrower, pro forma projected consolidated financial statements for Borrower and its Consolidated Subsidiaries reflecting the forecasted financial condition and results of operations of Borrower and its Consolidated Subsidiaries on a quarterly basis for the next succeeding year, accompanied by calculations establishing whether or not Borrower would be in compliance on a pro forma basis with the covenants contained in SECTION 9.1, in each case in form and detail reasonably acceptable to the Administrative Agent;

(b) promptly upon receipt thereof, copies of all reports, if any, submitted to Borrower or its Board of Directors by its independent public accountants, including, without limitation, any management report;

(c) within five Business Days of the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent), reports on Forms 10-K, 10-Q, and 8-K (or their equivalents) and all other periodic reports which Borrower shall file with the Securities and Exchange Commission (or any Governmental Authority substituted therefor) or any national securities exchange;

(d) promptly upon the mailing thereof to the shareholders of Borrower generally, copies of all financial statements, reports, and proxy statements so mailed and promptly upon the issuance thereof copies of all press releases issued by Borrower;

(e) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent, or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer, any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives

notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or

Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer of Borrower setting forth details as to such occurrence and action, if any, which Borrower or applicable member of the ERISA Group is required or proposes to take;

(f) to the extent Borrower or any Subsidiary is aware of the same, prompt notice of the commencement of any proceeding or investigation by or before any Governmental Authority and any action or proceeding in any court or other tribunal or before any arbitrator against or in any other way relating adversely to, or adversely affecting, Borrower or any Subsidiary or any of their respective properties, assets, or businesses which, if determined or resolved adversely to such Person, could have a Material Adverse Effect; and prompt notice of the receipt of notice that any United States income tax returns of Borrower or any of its Subsidiaries are being audited;

(g) to the extent not previously delivered to the Lenders, a copy of the articles of incorporation, bylaws, partnership agreement, or other similar organizational documents of Borrower, any Material Subsidiary, and any amendment thereto, in each case within five Business Days of the effectiveness thereof;

(h) prompt notice of any change in the business, assets, liabilities, financial condition, results of operations, or business prospects of Borrower or any Subsidiary which has had or may have a Material Adverse Effect,

(i) prompt notice of the occurrence of any Default or Event of Default or any event which constitutes or which with the passage of time, the giving of notice, or otherwise, would constitute a default or event of default by Borrower or any Subsidiary under any Material Contract to which any such Person is a party or by which any such Person or any of its respective properties may be bound;

(j) prompt notice of any order, judgment, or decree in excess of $5,000,000 having been entered against Borrower or any Subsidiary or any of their respective properties or assets;

(k) prompt notice, which notice shall, in the case of a Material Subsidiary, be delivered no later than five days following the occurrence, of the acquisition, incorporation, or other creation of any Subsidiary, the purpose for such Subsidiary, the nature of the assets and liabilities thereof, and whether such Subsidiary is a Material Subsidiary;

(l) at the time the quarterly financial statements are furnished in accordance with SECTION 8.1, a list of the Persons who are Material Subsidiaries as of the date of the balance sheet included in such quarterly financial statements;

(m) promptly upon entering into any Material Contract after the Agreement Date, a copy to Administrative Agent of such Material Contract; and

(n) from time to time and promptly upon each request, such data, certificates, reports, statements, opinions of counsel, documents, or further information regarding the business, assets, liabilities, financial condition, results of operations, or business prospects of Borrower or any of its Material Subsidiaries as Administrative Agent or any Lender may reasonably request.

SECTION 9 NEGATIVE COVENANTS.

For so long as this Agreement is in effect and thereafter until the payment in full of the Obligations, unless the Requisite Lenders (or, if required pursuant to SECTION 12.5, all of the Lenders) shall otherwise consent in the manner set forth in SECTION 12.5, Borrower shall not, directly or indirectly:

9.1 FINANCIAL COVENANTS. Permit:

(a) Ratio of Consolidated Debt to Consolidated Shareholders' Equity. The ratio of Consolidated Debt to Consolidated Shareholders' Equity to exceed 1.50 to 1.00 at the end of any fiscal quarter.

(b) Minimum Tangible Net Worth. Consolidated Shareholders' Equity to be less than (i) $375,000,000 plus (ii) 75% of the Net Proceeds of all Equity Issuances effected by Borrower or any of its Consolidated Subsidiaries at any time after September 30, 1998 (excluding the Net Proceeds of any Equity Issuance by a Consolidated Subsidiary to a Consolidated Subsidiary or to Borrower).

(c) Ratio of Adjusted EBIT to Interest Expense. The ratio of the Adjusted EBIT to Interest Expense of Borrower and its Consolidated Subsidiaries, determined on a consolidated basis as of the last day of each fiscal quarter for the period of four successive fiscal quarters ended on such day, to be less than 1.80 to 1.00 at the end of such fiscal quarter.

(d) Priority Debt. The aggregate principal amount of Priority Debt to exceed 25% of Consolidated Shareholders' Equity; provided that, in the case of any determination of Priority Debt made prior to April 30, 2001, outstanding Indebtedness of Borrower or its Consolidated Subsidiaries secured by Real Estate Assets in an aggregate principal amount of up to $200,000,000 shall be excluded from Priority Debt.

(e) Asset Coverage Ratio. The Asset Coverage Ratio to be less than 2 to 1.

9.2 INTEREST RATE AGREEMENTS. Enter into, or permit any Consolidated Subsidiary to enter into, any Interest Rate Agreement except in the ordinary course of business pursuant to bona fide hedging transactions and not for speculation.

9.3 LIENS; AGREEMENTS REGARDING LIENS; OTHER MATTERS.

(a) Create, assume, or incur, or permit or suffer to exist (or permit any Consolidated Subsidiary to create, incur, assume, or permit or suffer to exist) any Lien upon any of its assets, including, without limitation, the equity interests of Borrower or any Subsidiary in their respective Subsidiaries, other than:

(i) the Permitted Liens;

(ii) Liens arising in connection with purchase money Indebtedness, conditional sale agreements, and Capitalized Lease Obligations incurred for the acquisition of furniture, fixtures, equipment, or leasehold improvements in the ordinary course of business;

(iii) Liens in existence on the Agreement Date and securing the Indebtedness described as being secured on SCHEDULE 6.1(g);

(iv) Liens on Real Estate Assets securing Non-Recourse Indebtedness, so long as such Non-Recourse Indebtedness is permitted within the limitations of SECTION 9.1;

(v) Liens securing Indebtedness under Mortgage Repurchase Facilities or Interest Rate Agreements; provided that, (i) the Lien of any such Mortgage Repurchase Facility shall extend only to the Commercial Mortgage Loans which are financed or refinanced under such Mortgage Repurchase Facility and the Related Collateral, (ii) the aggregate advances under such Mortgage Repurchase Facility shall not exceed 80% of the aggregate unpaid principal amount of the Commercial Mortgage Loans securing such Mortgage Repurchase Facility, (iii) the Lien securing any Interest Rate Agreement shall extend only to Commercial Mortgage Loans and Related Collateral, and (iv) all Indebtedness secured by such Liens must be permitted within the limitations of SECTION 9.1; and

(vi) Liens securing the Obligations, if any.

(b) Except for SBA consents that may be required for SBIC, create or otherwise cause or suffer to exist or become effective, or permit any Subsidiary to create or otherwise cause or suffer to exist or become effective, any consensual encumbrance or restriction of any kind on the ability of any Subsidiary to: (i) pay dividends or make any other distribution on any of such Subsidiary's capital stock or other equity interests owned by Borrower or any other Subsidiary of Borrower; (ii) pay any Indebtedness owed to Borrower or any other Subsidiary; (iii) make loans or advances to Borrower or any other Subsidiary; or (iv) transfer any of its property or assets to Borrower or any other Subsidiary.

(c) Create, incur, assume, or permit to exist, directly or indirectly, or permit any Consolidated Subsidiary, directly or indirectly, to create, incur, assume, or permit to exist (upon the happening of a contingency or otherwise) any Lien (except Liens permitted by SECTION 9.3(a)) on or with respect to any property that secures Debt of Borrower or its Consolidated Subsidiaries, including, without limitation, Debt outstanding under the Senior Notes or the Senior Note Agreement, unless Borrower makes, or causes to be made, effective provision whereby the Obligations will be equally and ratably secured with any and all other Debt of Borrower or its Consolidated Subsidiaries thereby secured; provided that, such security is granted pursuant to an agreement reasonably satisfactory to the Requisite Lenders.

9.4 DISTRIBUTIONS TO SHAREHOLDERS. If an Event of Default specified in SECTION 10.1(a) or SECTION 10.1(b) occurs and is not cured within ten Business Days thereafter, if a Default or an Event of Default specified in SECTION 10.1(f) or SECTION 10.1(g) shall have occurred and be continuing, or if as a result of the occurrence of any other Event of Default the Obligations have been accelerated pursuant to SECTION 10.2(a), make (a) any dividend or other distribution on account of any of its capital stock; (b) any acquisition for value of any capital stock of Borrower; or (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire any capital stock of Borrower.

9.5 MERGER, CONSOLIDATION AND SALES OF ASSETS.

(a) (i) Enter into, or permit any Consolidated Subsidiary to enter into, any transaction of merger or consolidation; (ii) liquidate, wind-up, or dissolve itself (or suffer any liquidation or dissolution) or permit any Consolidated Subsidiary to do any of the foregoing; (iii) convey, sell, lease, sublease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, or the capital stock of or other equity interests in any of its Consolidated Subsidiaries, in each case whether now owned or hereafter acquired (a "SALE") or permit any Consolidated Subsidiary to do any of the foregoing; provided, however, that, so long as no Default or Event of Default is or would be in existence at the time of such event or immediately after giving effect thereto:

(A) any Consolidated Subsidiary may merge or consolidate with or into, or effect a Sale to, Borrower or any Wholly Owned Subsidiary, so long as (1) in any merger or consolidation involving Borrower, Borrower shall be the surviving or continuing corporation and (2) in any merger or consolidation involving a Wholly Owned Subsidiary (and not Borrower), a Wholly Owned Subsidiary shall be the surviving or continuing corporation;

(B) in addition to the transactions permitted under CLAUSE (E) below, Borrower may convey, sell, lease, sublease, transfer, or otherwise dispose of, in one transaction or a series of transactions, its business or assets, or the capital stock of or other equity interests in any of its Consolidated Subsidiaries, in each case whether now owned or hereafter acquired, to any of its Consolidated Subsidiaries, so long as (1) the Book Value of such assets sold (in one or a series of transactions) in a given fiscal year does not exceed 15% of the total assets of Borrower determined at the close of the immediately preceding fiscal year, or (2) the operations of such assets sold generated does not exceed 15% of the consolidated operating profit of Borrower during the immediately preceding fiscal year;

(C) a Consolidated Subsidiary may liquidate;

(D) Borrower or any Consolidated Subsidiary may merge or consolidate with any other corporation; provided that, Borrower or a Wholly Owned Subsidiary shall be the continuing or surviving corporation and;

(E) Borrower or any Consolidated Subsidiary may effect a Sale of Investments (other than Investments in a Consolidated Subsidiary) or Foreclosure Property to third parties, to any Special Purpose Subsidiary, or (solely with respect to Foreclosure Property) to any Unrestricted Subsidiary in arm's length transactions on a non-recourse basis, so long as the purchaser of such Investment or Foreclosure Property does not and will not have a claim against or interest in any other assets of Borrower or any Consolidated Subsidiary to support the value of the assets so sold or to enhance the creditworthiness of securities or Debt secured by or evidencing an interest in such assets or in the holder thereof; and

(F) Borrower or any Consolidated Subsidiary may effect a Sale of capital stock or other equity interests in an Unrestricted Subsidiary to third parties in arm's length transactions;

or (b) permit any Consolidated Subsidiary to issue any Voting Stock of such Consolidated Subsidiary except to satisfy the rights of minority shareholders to receive issuances of stock, which are non-

dilutive to Borrower and/or any Consolidated Subsidiary; provided that, the foregoing restrictions do not apply to issuances of Voting Stock to Borrower or to a Wholly Owned Subsidiary or the issuance of directors' qualifying shares.

As used in this Section, a sale of assets will be deemed a "substantial part" of the assets of Borrower and its Consolidated Subsidiaries if (y) the Book Value of such assets sold (in one or a series of transactions) in a given fiscal year (except those assets transferred pursuant to CLAUSE (B), (E), or (F) above sold in the ordinary course of business) exceeds 15% of the total assets of Borrower and its Consolidated Subsidiaries determined at the close of the immediately preceding fiscal year, or (z) the operations of such assets sold (except those assets transferred pursuant to CLAUSE (B), (E), or (F) above sold in the ordinary course of business) generated 15% or more of the consolidated operating profit of Borrower and its Consolidated Subsidiaries during the immediately preceding fiscal year.

9.6 FISCAL YEAR. Change its fiscal year from that in effect as of the Agreement Date.

9.7 MODIFICATIONS TO MATERIAL CONTRACTS. Enter into, or permit any

Subsidiary to enter into, any amendment or modification to any Material Contract which could have a Material Adverse Effect or default in the performance of any obligations of Borrower or any Subsidiary under any Material Contract or permit any Material Contract to be canceled or terminated prior to its stated maturity.

9.8 TRANSACTIONS WITH AFFILIATES. Permit to exist or enter into, and will not permit any of its Subsidiaries to permit to exist or enter into, any transaction (including the purchase, sale, lease, or exchange of any property or the rendering of any service) with any Affiliate of Borrower or with any director, officer, or employee of Borrower, any Subsidiary, or any other Affiliate, except transactions involving consideration in aggregate amount for all such transactions not in excess of $5,000,000 per fiscal year, and transactions in the ordinary course of, and pursuant to the reasonable requirements of the, business of Borrower or any of its Subsidiaries and upon fair and reasonable terms which are no less favorable to Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate.

9.9 SUBSIDIARY SENIOR NOTE GUARANTY. Permit any Consolidated Subsidiary to guarantee (including without limitation, any Subsidiary Senior Note Guaranty) or assume or agree to become liable in any way, either directly or indirectly, for any Debt of Borrower or any Consolidated Subsidiary (other than a Consolidated Subsidiary of the guarantor provided such Debt does not constitute Senior Debt), unless and until Borrower shall first furnish to Administrative Agent (a) an unconditional Subsidiary Bank Guaranty, (b) an Intercreditor Agreement, and (c) an opinion of counsel to the effect that such Subsidiary Bank Guaranty has been duly authorized, executed, and delivered by such Consolidated Subsidiary and constitutes the legal, valid, and binding obligation of such Consolidated Subsidiary, enforceable against such Consolidated Subsidiary in accordance with the terms thereof, and covering such other matters as the Requisite Lenders may reasonably request.

9.10 PAYMENT OF OBLIGATION. Borrower shall pay the Obligations in accordance with the terms and provisions of the Loan Documents. Borrower and its Consolidated Subsidiaries shall not (a) if an Event of Default shall have occurred and be continuing, make any voluntary prepayment of principal of, or interest on, any other Debt (other than the Obligations), whether subordinate to the Obligations or not or (b) use proceeds from the Loans to make any payment or prepayment of principal of, or interest on, or sinking fund payment in respect of any other Debt of Borrower or any of its Subsidiaries (other than Debt in respect of the Amended and Restated Master Loan and Security Agreement dated as of October 7, 1998, among Borrower, Business

Mortgage Investors, Inc., and Morgan Stanley Capital Inc., as amended from time to time, and any renewals, extensions, or replacements thereof).

SECTION 10 DEFAULT.

10.1 EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of Applicable Law or pursuant to any judgment or order of any Governmental Authority:

(a) Default in Payment of Principal. Borrower shall fail to pay when due (whether upon demand, at maturity, by reason of acceleration, or otherwise) the principal of any of the Loans.

(b) Default in Payment of Other Amounts. Borrower shall fail to pay when due any interest on any of the Loans or any of the other payment Obligations (other than the principal of any Loan) owing by Borrower under this Agreement or any other Loan Document and such failure shall continue for a period of three Business Days after the earlier of (i) the date upon which Borrower obtains knowledge of such failure or (ii) the date upon which Borrower has received written notice of such failure from Administrative Agent.

(c) Default in Performance. (i) Borrower shall fail (or, where applicable, shall fail to cause any Subsidiary) to perform or observe any term, covenant, condition or agreement on its part to be performed or observed contained in SECTIONS 7.11, 7.12, or 8.4(i), or in SECTION 9 or

(ii) Borrower shall fail (or, where applicable, shall fail to cause any Subsidiary) to perform or observe any term, covenant, condition, or agreement contained in this Agreement or any other Loan Document to which it is a party and not otherwise mentioned in this Section and in the case of this CLAUSE (ii) such failure shall continue for a period of 30 days after the earlier of (x) the date upon which Borrower obtains knowledge of such failure or (y) the date upon which Borrower has received written notice of such failure from Administrative Agent.

(d) Misrepresentations. Any written statement, representation, or warranty made or deemed made by or on behalf of Borrower or any Subsidiary under this Agreement or under any other Loan Document, or any amendment hereto or thereto, or in any other writing or statement at any time furnished or made or deemed made by or on behalf of Borrower or any Subsidiary to Administrative Agent or any Lender in connection with this Agreement or the other Loan Documents, shall at any time prove to have been incorrect or misleading in any material respect when furnished or made.

(e) Indebtedness Cross-Default.

(i) Borrower or any Consolidated Subsidiary shall fail to pay when due and payable the principal of, or interest on, any Indebtedness (other than the Loans) or any Contingent Obligations having an aggregate outstanding principal amount of $5,000,000 or more, or

(ii) the maturity of any Indebtedness (other than the Loans) of Borrower or any Consolidated Subsidiary having an aggregate outstanding principal amount of $5,000,000 or more shall have (x) been accelerated in accordance with the provisions of any indenture,

contract, or instrument evidencing, providing for the creation of, or otherwise concerning such Indebtedness or (y) been required to be prepaid prior to the stated maturity thereof; or

(iii) any other event shall have occurred and be continuing with respect to any Indebtedness (other than the Loans) of Borrower or any Consolidated Subsidiary having an aggregate outstanding principal amount of $5,000,000 or more which, with or without the passage of time, the giving of notice, or otherwise, would permit any holder or holders of such Indebtedness, any trustee or agent acting on behalf of such holder or holders, or any other Person to accelerate the maturity of any such Indebtedness or require any such Indebtedness to be prepaid prior to its stated maturity.

(f) Voluntary Bankruptcy Proceeding. Borrower, any Consolidated Subsidiary, or any Other Relevant Subsidiary shall: (i) commence a voluntary case under the Bankruptcy Code of 1978, as amended or other federal bankruptcy laws (as now or hereafter in effect); (ii) file a petition seeking to take advantage of any other Applicable Laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts; (iii) consent to, or fail to contest in a timely and appropriate manner, any petition filed against it in an involuntary case under such bankruptcy laws or other Applicable Laws or consent to any proceeding or action described in the immediately following subsection; (iv) apply for or consent to, or fail to contest in a timely and appropriate manner, the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of itself or of a substantial part of its property, domestic or foreign; (v) admit in writing its inability to pay its debts as they become due; (vi) make a general assignment for the benefit of creditors; (vii) make a conveyance fraudulent as to creditors under any Applicable Law; or (viii) take any corporate or similar action for the purpose of effecting any of the foregoing.

(g) Involuntary Bankruptcy Proceeding. A case or other proceeding shall be commenced against Borrower, any Consolidated Subsidiary or any Other Relevant Subsidiary, in any court of competent jurisdiction seeking: (i) relief under the Bankruptcy Code of 1978, as amended or other federal bankruptcy laws (as now or hereafter in effect) or under any other

Applicable Laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts; or (ii) the appointment of a trustee, receiver custodian, liquidator or the like of such Person, or of all or any substantial part of the assets domestic or foreign, of such Person, and such case or proceeding is not dismissed within 60 days after it is commenced.

(h) Contest of Loan Documents. Borrower or any Subsidiary shall disavow, revoke, or terminate any Loan Document to which it is a party or shall otherwise challenge or contest in any action, suit, or proceeding in any court or before any Governmental Authority the validity or enforceability of this Agreement, any Note, or any other Loan Document.

(i) Judgment. A judgment or order for the payment of money shall be entered against Borrower or any Consolidated Subsidiary by any court or other tribunal which exceeds, individually or together with all other such judgments or orders entered against Borrower and its Consolidated Subsidiaries, $5,000,000 in amount (or which shall otherwise have a Material Adverse Effect) and such judgment or order shall continue unpaid for a period of 30 days without being stayed or dismissed through appropriate appellate proceedings.

(j) Attachment. A warrant, writ of attachment, execution, or similar process shall be issued against any property of Borrower or any Consolidated Subsidiary which exceeds, individually or together with all other such warrants, writs, executions, and processes, $5,000,000 in amount and such warrant, writ, execution, or process shall not be discharged, vacated, stayed, or bonded for a period of 30 days; provided, however, that if a bond has been issued in favor of the claimant or other Person obtaining such warrant, writ, execution, or process, the issuer of such bond shall execute a waiver or subordination agreement in form and substance satisfactory to Administrative Agent pursuant to which the issuer of such bond subordinates its right of reimbursement, contribution, or subrogation to the Obligations and waives or subordinates any Lien it may have on the assets of Borrower or any of its Consolidated Subsidiaries.

(k) ERISA. Any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $5,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of $5,000,000.

(l) Loan Documents. An Event of Default (as defined therein) shall occur under any of the other Loan Documents.

(m) Change of Control.

(i) Any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT")) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person will be deemed to have "beneficial ownership" of all securities that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 25% of the total voting power of the then outstanding voting stock of Borrower; or

(ii) During any twelve-month period (commencing on or after the

Agreement Date), a majority of the Board of Directors of Borrower shall no longer be composed of individuals (A) who were members of such Board of Directors on the first date of such period, (B) whose election or nomination to such Board of Directors was approved by individuals referred to in CLAUSE (A) above constituting at the time of such election or nomination at least a majority of such Board of Directors or (c) whose election or nomination to such Board of Directors was approved by individuals referred to in CLAUSES (A) and (B) above constituting at the time of such election or nomination at least a majority of such Board of Directors.

(n) Dissolution. Any order, judgment, or decree is entered against Borrower, any Material Subsidiary or any Other Relevant Subsidiary decreeing the dissolution or split up of such Person, and such order remains undischarged or unstayed for a period in excess of 30 days.

(o) Payment of Certain Other Agreements. The payment directly or indirectly (including, without limitation, any payment in respect of any sinking fund, defeasance, or redemption) by Borrower or any of its Consolidated Subsidiaries of any Debt, including without limitation, the Senior Notes, in a manner or at a time during which such payment is not permitted under the terms of the Loan Documents, or under any instrument or document evidencing or creating such Debt.

10.2 REMEDIES UPON EVENT OF DEFAULT. Upon the occurrence of an Event of Default the following provisions shall apply:

(a) Acceleration; Termination of Facilities.

(i) Automatic. Upon the occurrence of an Event of Default specified in SECTIONS 10.1(f) or 10.1(g), (A)(i) the principal of, and all accrued interest on, the Loans and the Notes at the time outstanding and (ii) all of the other Obligations of Borrower, including, but not limited to, the other amounts owed to Lenders and Administrative Agent under this Agreement, the Notes, or any of the other Loan Documents shall become immediately and automatically due and payable by Borrower without presentment, demand, protest, or other notice of any kind, all of which are expressly waived by Borrower and (B) each of the Commitments (including the Swing Line Commitment) and the obligation of Lenders to make Loans shall immediately and automatically terminate;

(ii) Optional. If any other Event of Default shall have occurred and be continuing, Administrative Agent may, and at the direction of the Requisite Lenders shall (subject to the terms of SECTION 11): (A) declare (1) the principal of, and accrued and unpaid interest on, the Loans and the Notes at the time outstanding and (2) all of the other Obligations, including, but not limited to, the other amounts owed to the Lenders and Administrative Agent under this Agreement, the Notes, or any of the other Loan Documents, to be forthwith due and payable; whereupon the same shall immediately become due and payable without presentment, demand, protest, or other notice of any kind, all of which are expressly waived by Borrower and (B) terminate the Commitments and the obligation of Lenders to make Loans hereunder.

(b) Loan Documents. The Requisite Lenders may direct Administrative Agent to, and Administrative Agent if so directed shall (subject to the terms of SECTION 11), exercise any and all of its rights under any and all of the other Loan Documents.

(c) Applicable Law. The Requisite Lenders may direct Administrative Agent to, and Administrative Agent if so directed shall, exercise all other rights and remedies it may have under any Applicable Law, including without limitation, (i) reduce any claim to judgment; (ii) to the extent permitted by Applicable Law, exercise (or request each Lender to, and each Lender shall be entitled to, exercise) the rights of offset or banker's Lien against the interest of Borrower and each Consolidated Subsidiary in and to every account and other property of Borrower and each Consolidated

Subsidiary which are in the possession of Administrative Agent or any Lender to the

extent of the full amount of the Obligations (to the extent permitted by Applicable Law, Borrower and each Consolidated Subsidiary being deemed directly obligated to each Lender in the full amount of the Obligations for such purposes); and (iii) exercise any and all other legal or equitable rights afforded by the Loan Documents, the Applicable Laws of the State of Texas, or any other applicable jurisdiction as Administrative Agent shall deem appropriate, or otherwise, including, but not limited to, the right to bring suit or other proceedings before any Governmental Authority either for specific performance of any covenant or condition contained in any of the Loan Documents or in aid of the exercise of any right granted to Administrative Agent or any Lender in any of the Loan Documents.

10.3 REMEDIES UPON CERTAIN DEFAULTS. Upon the occurrence of a Default specified in SECTIONS 10.1(f) or 10.1(g), the Commitments (including the Swing Line Commitment) shall immediately and automatically terminate.

10.4 ALLOCATION OF PROCEEDS. If an Event of Default shall have occurred and be continuing and the maturity of the Notes has been accelerated, all payments received by Administrative Agent under any of the Loan Documents, in respect of any principal of or interest on the Obligations or any other amounts payable by Borrower hereunder or thereunder, shall be applied by Administrative Agent in the following order and priority:

(a) amounts due to Administrative Agent and the Lenders in respect of Fees and expenses due under SECTION 12.2;

(b) payments of interest on the Revolving Loans and the Swing Line Loans to be applied for the ratable benefit of Lenders and NationsBank (as the Lender under the Swing Line Subfacility, and any participating Lenders under the Swing Line Facility pursuant to SECTION 2.2(b));

(c) payments of outstanding Swing Principal Debt; provided that, such payments shall be made solely to NationsBank, unless the Lenders have purchased participations in the Swing Principal Debt in accordance with SECTION 2.2(b), in which case such payment shall be allocated pro rata among NationsBank and the participating Lenders;

(d) payments of principal outstanding under the Revolving Loans, to be applied for the ratable benefit of the Lenders;

(e) amounts due to Administrative Agent and the Lenders pursuant to SECTION 12.8;

(f) payments of all other amounts due under any of the Loan Documents, if any, to be applied for the ratable benefit of the Lenders; and

(g) any amount remaining after application as provided above, shall be paid to Borrower or whomever else may be legally entitled thereto.

10.5 PERFORMANCE BY ADMINISTRATIVE AGENT. If Borrower shall fail to perform any covenant, duty, or agreement contained in any of the Loan Documents, Administrative Agent may perform or attempt to perform such covenant, duty, or agreement on behalf of Borrower after the expiration of any cure or grace periods set forth herein. In such event, Borrower shall, at the request of Administrative Agent, promptly pay any amount reasonably expended by Administrative Agent in such performance or attempted performance to

Administrative Agent, together with interest thereon at the applicable Post-Default Rate from the date of such expenditure until paid. Notwithstanding the foregoing, neither Administrative Agent nor any Lender shall have any liability or responsibility whatsoever for the performance of any obligation of Borrower under this Agreement or any other Loan Document.

10.6 RIGHTS CUMULATIVE. The rights and remedies of Administrative Agent and the Lenders under this Agreement and each of the other Loan Documents shall be cumulative and not exclusive of any rights or remedies which any of them may otherwise have under Applicable Law.

10.7 COMPANY WAIVERS. To the extent permitted by Applicable Law, Borrower and each Subsidiary hereby waive presentment and demand for payment, protest, notice of intention to accelerate, notice of acceleration, and notice of protest and nonpayment, and agree that their respective liability with respect to the Obligations (or any part thereof) shall not be affected by any renewal or extension in the time of payment of the Obligations (or any part thereof), by any indulgence, or by any release or change in any security for the payment of the Obligations (or any part thereof).

10.8 DELEGATION OF DUTIES AND RIGHTS. The Lenders may perform any of their duties or exercise any of their rights under the Loan Documents by or through their respective representatives.

10.9 NOT IN CONTROL. Nothing in any Loan Document shall, or shall be deemed to (a) give Administrative Agent or any Lender the right to exercise control over the assets (including real property), affairs, or management of Borrower or any Subsidiary, (b) preclude or interfere with compliance by Borrower or any Subsidiary with any Applicable Law, or (c) require any act or omission by Borrower or any Subsidiary that may be harmful to Persons or property. Any "Material Adverse Event" or other materiality qualifier in any representation, warranty, covenant, or other provision of any Loan Document is included for credit documentation purposes only and shall not, and shall not be deemed to, mean that Administrative Agent or any Lender acquiesces in any non-compliance by Borrower or any Subsidiary with any Applicable Law or document, or that any Agent or any Lender does not expect Borrower or any Subsidiary to promptly, diligently, and continuously carry out all appropriate removal, remediation, and termination activities required or appropriate in accordance with all Environmental Laws. Administrative Agent and the Lenders have no fiduciary relationship with or fiduciary duty to Borrower or any Subsidiary arising out of or in connection with the Loan Documents, and the relationship between Administrative Agent and the Lenders, on the one hand, and Borrower and its Subsidiaries, on the other hand, in connection with the Loan Documents is solely that of debtor and creditor. The power of Administrative Agent and the Lenders under the Loan Documents is limited to the rights provided in the Loan Documents, which rights exist solely to assure payment and performance of the Obligations and may be exercised in a manner calculated by Administrative Agent and Lenders in their respective good faith business judgment.

10.10 COURSE OF DEALING. The acceptance by Administrative Agent or the Lenders at any time and from time to time of partial payment on the Obligations shall not be deemed to be a waiver of any Default then existing. No waiver by Administrative Agent, Requisite Lenders, or the Lenders of any Default shall be deemed to be a waiver of any other then-existing or subsequent Default. No delay or omission by Administrative Agent, Requisite Lenders, or the Lenders in exercising any right under the Loan Documents shall impair such right or be construed as a waiver thereof or any acquiescence therein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof, or the exercise of any other right under the Loan Documents or otherwise.

10.11 CUMULATIVE RIGHTS. All rights available to Administrative Agent and the Lenders under the Loan Documents are cumulative of and in addition to all other rights granted to Administrative Agent and the Lenders at law or in equity, whether or not the Obligations are due and payable and whether or not Administrative Agent or the Lenders have instituted any suit for collection, foreclosure, or other action in connection with the Loan Documents.

SECTION 11 AGREEMENT AMONG LENDERS.

11.1 APPOINTMENT, POWERS, AND IMMUNITIES. Each Lender hereby irrevocably appoints and authorizes Administrative Agent to act as its agent under this Agreement and the other Loan Documents with such powers and discretion as are specifically delegated to Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Administrative Agent (which term as used in this sentence and in SECTION 11.5 and the first sentence of SECTION 11.6 hereof shall include its Affiliates and its own and its Affiliates' officers, directors, employees, and agents): (a) shall not have any duties or responsibilities except those expressly set forth in this Agreement and shall not be a trustee or fiduciary for any Lender; (b) shall not be responsible to the Lenders for any recital, statement, representation, or warranty (whether written or oral) made in or in connection with any Loan Document or any certificate or other document referred to or provided for in, or received by any of them under, any Loan Document, or for the value, validity, effectiveness, genuineness, enforceability, or sufficiency of any Loan Document, or any other document referred to or provided for therein or for any failure by any party hereto or any other Person to perform any of its obligations thereunder; (c) shall not be responsible for or have any duty to ascertain, inquire into, or verify the performance or observance of any covenants or agreements by the parties hereto or the satisfaction of any condition or to inspect the property (including the books and records) of Borrower or its Subsidiaries or Affiliates; (d) shall not be required to initiate or conduct any litigation or collection proceedings under any Loan Document; and (e) shall not be responsible for any action taken or omitted to be taken by it under or in connection with any Loan Document, except for its own gross negligence or willful misconduct. Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care.

11.2 RELIANCE BY ADMINISTRATIVE AGENT. Administrative Agent shall be entitled to rely upon any certification, notice, instrument, writing, or other communication (including, without limitation, any thereof by telephone or telecopy) believed by it to be genuine and correct and to have been signed, sent, or made by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel (including counsel for the parties hereto), independent accountants, and other experts selected by Administrative Agent. Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until Administrative Agent receives and accepts an Assignment and Acceptance executed in accordance with SECTION 12.4. As to any matters not expressly provided for by this Agreement, Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Requisite Lenders, and such instructions shall be binding on all of the Lenders; provided, however, that Administrative Agent shall not be required to take any action that exposes Administrative Agent to personal liability or that is contrary to any Loan Document or Applicable Law or unless it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking any such action.

11.3 DEFAULTS. Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or Event of Default unless Administrative Agent has received written notice from a Lender or Borrower specifying such Default or Event of Default and stating that such notice is a "NOTICE OF DEFAULT". In the event that Administrative Agent receives such a notice of the occurrence of a Default or Event of Default, Administrative Agent shall give prompt notice thereof to the Lenders. Administrative Agent shall (subject to SECTION 11.2 hereof) take such action with respect to such Default or Event of Default as shall reasonably be directed by the Requisite Lenders; provided that, unless and until Administrative Agent shall have received such directions, Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders.

11.4 RIGHTS AS LENDER. With respect to its Commitment and the Loans made

by it, NationsBank (and any successor acting as Administrative Agent), in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as Administrative Agent, and the term "LENDER" or "LENDERS" shall, unless the context otherwise indicates, include Administrative Agent in its individual capacity. NationsBank (and any successor acting as Administrative Agent) and its Affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in, provide services to, and generally engage in any kind of lending, trust, or other business with any party hereto or any of its Subsidiaries or Affiliates as if it were not acting as Administrative Agent (collectively, "other activities"), and NationsBank (and any successor acting as Administrative Agent) and its Affiliates may accept fees and other consideration from any party hereto or any of its Subsidiaries or Affiliates for services in connection with this Agreement or otherwise without having to account for the same to the Lenders. Without limiting the rights of the Lenders specifically set forth in the Loan Documents, Administrative Agent and its Affiliates shall not be responsible to account to Lenders for such other activities, and no Lender shall have any interest in any other activities, any present or future guaranties by or for the account of Borrower which are not contemplated or included in the Loan Documents, any present or future offset exercised by Administrative Agent and its Affiliates in respect of such other activities, any present or future property taken as security for any such other activities, or any property now or hereafter in the possession or control of Administrative Agent or its Affiliates which may be or become security for the obligations of Borrower arising under the Loan Documents by reason of the general description of indebtedness secured or of property contained in any other agreements, documents or instruments related to any such other activities; provided that, if any payments in respect of such guaranties or such property or the proceeds thereof shall be applied to reduction of the obligations of Borrower arising under the Loan Documents, then each Lender shall be entitled to share in such application ratably.

11.5 INDEMNIFICATION. The Lenders agree to indemnify Administrative Agent (to the extent not reimbursed under SECTION12.2 or SECTION 12.8, but without limiting the obligations of Borrower under such Section) ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' fees), or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Administrative Agent (including by any Lender) in any way relating to or arising out of any Loan Document or the transactions contemplated thereby or any action taken or omitted by Administrative Agent under any Loan Document; provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of Administrative Agent. Without limitation of the foregoing, each Lender agrees to reimburse Administrative Agent promptly upon demand for its ratable share of any costs or expenses payable by Borrower under SECTION 12.2, to the extent that Administrative Agent is not promptly reimbursed

for such costs and expenses by Borrower. The agreements contained in this Section shall survive payment in full of the Obligations.

11.6 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS. Each Lender agrees that it has, independently and without reliance on Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the parties hereto and their Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under the Loan Documents. Except for notices, reports, and other documents and information expressly required to be furnished to the Lenders by Administrative Agent hereunder, Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition, or business of any party hereto or any of its Subsidiaries or Affiliates that may come into the possession of Administrative Agent or any of its Affiliates.

11.7 RESIGNATION OF ADMINISTRATIVE AGENT. Administrative Agent may resign at any time by giving notice thereof to the Lenders and Borrower. Upon any such resignation, the Requisite Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so

appointed by the Requisite Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a commercial bank organized under the laws of the United States of America having combined capital and surplus of at least $100,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor, such successor shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges, and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this SECTION 11 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

11.8 RELATIONSHIP OF LENDERS. Nothing herein shall be construed as creating a partnership or joint venture among Administrative Agent and the Lenders.

11.9 BENEFITS OF AGREEMENT. None of the provisions of this SECTION 11 shall inure to the benefit of Borrower or any Subsidiary of Borrower or any other Person other than the Lenders; consequently, either Borrower or any Subsidiary or any other Person shall be entitled to rely upon, or to raise as a defense, in any manner whatsoever, the failure of Administrative Agent or any Lender to comply with such provisions.

11.10 OBLIGATIONS SEVERAL. The obligations of the Lenders hereunder are several, and each Lender hereunder shall not be responsible for the obligations of the other Lenders hereunder, nor will the failure of one Lender to perform any of its obligations hereunder relieve the other Lenders from the performance of their respective obligations hereunder.

11.11 AGENTS. None of the Lenders identified in this Agreement as "Syndication Agent," "Documentation Agent," "Managing Agent," or "Co-Agents" shall have any rights, powers, obligations, liabilities, responsibilities, or duties under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "Syndication Agent," "Documentation

Agent," "Managing Agent," or "Co-Agent" shall have or be deemed to have any fiduciary relationship with any Lender.

SECTION 12 MISCELLANEOUS.

12.1 NOTICES. Unless otherwise provided herein, communications provided for hereunder shall be in writing and shall be mailed, telecopied or delivered as follows:

If to Borrower:

Allied Capital Corporation
1919 Pennsylvania Avenue, N.W.
3rd Floor
Washington, DC 20006
Attention: Joan M. Sweeney, Managing Director
Telecopy: (202) 973-6351
Telephone: (202) 973-6381

If to Administrative Agent:

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attention: Shelly K. Harper
Telecopy: (214) 508-0604
Telephone: (214) 508-0567

If to a Lender:

To such Lender's address or telecopy number, as applicable, set forth on SCHEDULE 2 hereto or in the applicable Assignment and

or, as to each party at such other address as shall be designated by such party in a written notice to the other parties delivered in compliance with this SECTION 12.1. All such notices and other communications shall be effective (i) if mailed, when received; (ii) if telecopied, when transmitted; or (iii) if hand delivered, when delivered. Notwithstanding the immediately preceding sentence, all notices or communications to Administrative Agent or any Lender under SECTION 2 shall be effective only when actually received. Neither Administrative Agent nor any Lender shall incur any liability to Borrower (nor shall Administrative Agent incur any liability to the Lenders) for acting upon any telephonic notice referred to in this Agreement which Administrative Agent or such Lender, as the case may be, believes in good faith to have been given by a Person authorized to deliver such notice or for otherwise acting in good faith under hereunder, except in the case of gross negligence or willful misconduct.

12.2 EXPENSES. Borrower agrees to pay on demand all costs and expenses of Administrative Agent in connection with the syndication, preparation, execution, delivery, administration, modification, and amendment of this Agreement, the other Loan Documents, and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for Administrative Agent (including

the cost of internal counsel) with respect thereto and with respect to advising Administrative Agent as to its rights and responsibilities under the Loan Documents. Borrower further agrees to pay on demand all costs and expenses of Administrative Agent and the Lenders, if any (including, without limitation, reasonable attorneys' fees and expenses and the cost of internal counsel), in connection with the enforcement (whether through negotiations, legal proceedings, or otherwise) of the Loan Documents and the other documents to be delivered hereunder. All costs and expenses of Administrative Lender and Lenders described in this SECTION 12.2 are part of the Obligations and, if Borrower shall not have paid such costs and expenses on or before the 60th day from the date an invoice is presented to Borrower, Administrative Agent is hereby irrevocably authorized to fund such obligation as a Swing Line Loan to the extent of availability under the Swing Line Subfacility.

12.3 JURISDICTION; CONSENT TO SERVICE OF PROCESS; WAIVER OF JURY TRIAL.

(a) BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT OR FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN NEW YORK CITY, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT ANY AGENT OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS AGAINST BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(b) BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS IN ANY NEW YORK STATE OR FEDERAL COURT. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(c) BORROWER AND EACH OTHER PARTY HERETO CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 12.1. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY TO THIS AGREEMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(d) EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (1) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO

ENFORCE THE FOREGOING WAIVER AND (2) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

12.4 SUCCESSORS AND ASSIGNS.

(a) Each Lender may assign to one or more Eligible Assignees all or a portion of its rights, obligations, or rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment or its Revolving Loans); provided, however, that

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender or an assignment of all of a Lender's rights and obligations under this Agreement, any such partial assignment shall be in an amount at least equal to $10,000,000 or an integral multiple of $1,000,000 in excess thereof;

(iii) each such assignment by a Lender shall be of a constant, and not varying, percentage of all of its rights and obligations under this Agreement and each Note; and

(iv) the parties to such assignment shall execute and deliver to Administrative Agent for its acceptance an Assignment and Acceptance in the form of EXHIBIT A hereto, together with any Note subject to such assignment and a processing fee of $3,500.

Upon execution, delivery, and acceptance of such Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement. Upon the consummation of any assignment pursuant to this Section, the assignor, Administrative Agent and Borrower shall make appropriate arrangements so that, if required, new Notes are issued to the assignor and the assignee. If the assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to Borrower and Administrative Agent certification as to exemption from deduction or withholding of Taxes in accordance with SECTION 4.6.

(b) Administrative Agent shall maintain at its address referred to in SECTION 12.1 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Revolving Loans owing to, each Lender from time to time (the "REGISTER"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and Borrower, Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(c) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee, Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form

of EXHIBIT A hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the parties thereto and Borrower.

(d) Each Lender may sell participations to one or more Persons (each a "PARTICIPANT") in all or a portion of its rights, obligations or rights and obligations under this Agreement (including all or a portion of its Commitment or its Loans); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Participant shall be entitled to the benefit of the yield protection provisions contained in SECTION 5 and the right of set-off contained in SECTION 3.4 (provided that Borrower shall not be obligated to pay any amount in excess of the amount that would be due to such Lender from whom such participation was purchased under such Sections as though no participation had been sold), and (iv) Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of Borrower relating to its Loans and its Note and to approve any amendment, modification, or waiver of any provision of this Agreement (other than amendments, modifications, or waivers decreasing the amount of principal of or the rate at which interest is payable on such Loans or Note, extending any scheduled principal payment date or date fixed for the payment of interest on such Loans or Note, or extending its Commitment).

(e) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any "operating circular" issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

(f) Any Lender may furnish any information concerning Borrower or any of its Subsidiaries in the possession of such Lender from time to time to Eligible Assignees and Participants (including prospective assignees and participants), subject, however, to the provisions of SECTION 12.7.

12.5 AMENDMENTS. Any provision of this Agreement or any other Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and is:

(a) Executed by Borrower, Administrative Agent, and the particular existing or new Lender if it purports (subject to SECTION 2.12) to increase that Lender's Commitment or add such new Lender as a new Lender pursuant to SECTION 2.12.

(b) Executed by Borrower, Administrative Agent, and executed or approved in writing by all Lenders if action of all Lenders is specifically provided in any Loan Document or if it purports to (i) increase the Commitments of the Lenders (except increases in accordance with SECTION 2.12), (ii) reduce the principal of or rate of interest on any Revolving Loan or any fees or other amounts payable hereunder, (iii) postpone any date fixed for the payment of any scheduled installment of principal of or interest on any Revolving Loan or any fees or other amounts payable hereunder or for termination of any Commitment, or (iv) change the percentage of the Commitments or of the unpaid principal amount of the Notes, or the number of Lenders, which shall be required for the Lenders or any of them to take any action under this Section or any other provision of this Agreement.

(c) Otherwise (i) for this Agreement, executed by Borrower, Administrative Agent, and Requisite Lenders, (ii) for other Loan Documents (other than Interest Rate Agreements), approved in writing by Requisite Lenders and executed by Borrower, Administrative Agent, and any other party to that Loan Document, or (iii) for Interest Rate Agreements, executed by the parties to such agreement.

12.6 NONLIABILITY OF AGENT AND LENDERS. The relationship between Borrower and the Lenders and Administrative Agent shall be solely that of borrower and lender. Neither Administrative Agent nor any Lender shall have any fiduciary responsibilities to Borrower and no provision in this Agreement or in any of the other Loan Documents, and no course of dealing between or among any of the parties hereto, shall be deemed to create any fiduciary duty owing by Administrative Agent or any Lender to any Lender, Borrower or any Subsidiary. Neither Administrative Agent nor any Lender undertakes any responsibility to Borrower to review or inform Borrower of any matter in connection with any phase of Borrower's business or operations.

12.7 CONFIDENTIALITY. Administrative Agent and each Lender (each, a "LENDING PARTY") agrees to keep confidential any information furnished or made available to it by Borrower pursuant to this Agreement that is marked confidential; provided that nothing herein shall prevent any Lending Party from disclosing such information (a) to any other Lending Party or any affiliate of any Lending Party, or any officer, director, employee, agent, or advisor of any Lending Party or affiliate of any Lending Party, (b) to any other Person if reasonably incidental to the administration of the credit facility provided herein, (c) as required by any law, rule, or regulation, (d) upon the order of any court or administrative agency, (e) upon the request or demand of any regulatory agency or authority, (f) that is or becomes available to the public or that is or becomes available to any Lending Party other than as a result of a disclosure by any Lending Party prohibited by this Agreement, (g) in connection with any litigation to which such Lending Party or any of its affiliates may be a party, (h) to the extent necessary in connection with the exercise of any remedy under this Agreement or any other Loan Document, and (i) subject to provisions substantially similar to those contained in this Section, to any actual or proposed participant or assignee.

12.8 INDEMNIFICATION.

(A) BORROWER AGREES TO INDEMNIFY AND HOLD HARMLESS ADMINISTRATIVE AGENT AND EACH LENDER AND EACH OF THEIR AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ATTORNEYS, AND ADVISORS (EACH, AN "INDEMNIFIED PARTY") FROM AND AGAINST ANY AND ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES) THAT MAY BE INCURRED BY OR ASSERTED OR AWARDED AGAINST ANY INDEMNIFIED PARTY, IN EACH CASE ARISING OUT OF OR IN CONNECTION WITH OR BY REASON OF (INCLUDING, WITHOUT LIMITATION, IN CONNECTION WITH ANY INVESTIGATION, LITIGATION, OR PROCEEDING OR PREPARATION OF DEFENSE IN CONNECTION THEREWITH) THE LOAN DOCUMENTS, ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE ACTUAL OR PROPOSED USE OF THE PROCEEDS OF THE LOANS, EXCEPT TO THE EXTENT SUCH CLAIM, DAMAGE, LOSS, LIABILITY, COST, OR EXPENSE IS FOUND IN A FINAL, NON-APPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION TO HAVE RESULTED FROM SUCH INDEMNIFIED PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN THE CASE OF AN INVESTIGATION, LITIGATION OR OTHER PROCEEDING TO WHICH THE INDEMNITY IN THIS SECTION 12.8 APPLIES, SUCH INDEMNITY SHALL BE EFFECTIVE WHETHER OR NOT SUCH INVESTIGATION, LITIGATION OR PROCEEDING IS BROUGHT BY BORROWER, ITS DIRECTORS, SHAREHOLDERS OR CREDITORS OR AN INDEMNIFIED PARTY OR ANY OTHER PERSON

OR ANY INDEMNIFIED PARTY IS OTHERWISE A PARTY THERETO AND WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREBY ARE CONSUMMATED. BORROWER AGREES NOT TO ASSERT ANY CLAIM AGAINST ADMINISTRATIVE AGENT, ANY LENDER, ANY OF THEIR AFFILIATES, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, ATTORNEYS, AGENTS, AND ADVISERS, ON ANY THEORY OF LIABILITY, FOR SPECIAL, INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGES ARISING OUT OF OR OTHERWISE RELATING TO THE LOAN DOCUMENTS, ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE ACTUAL OR PROPOSED USE OF THE PROCEEDS OF THE LOANS.

(B) WITHOUT PREJUDICE TO THE SURVIVAL OF ANY OTHER AGREEMENT OF BORROWER HEREUNDER, THE AGREEMENTS AND OBLIGATIONS OF BORROWER CONTAINED IN THIS SECTION 12.8 SHALL SURVIVE THE PAYMENT IN FULL OF THE LOANS AND ALL OTHER AMOUNTS PAYABLE UNDER THIS AGREEMENT.

12.9 TERMINATION; SURVIVAL. At such time as (a) all of the Commitments have been terminated, (b) none of the Lenders is obligated any longer under this Agreement to make any Loans and (c) all Obligations (other than obligations which survive as provided in the following sentence) have been paid and satisfied in full, this Agreement shall terminate. Notwithstanding any termination of this Agreement, or of the other Loan Documents, the indemnities to which Administrative Agent and the Lenders are entitled under the provisions of SECTIONS 11.5, 12.2, and 12.8 and any other provision of this Agreement and the other Loan Documents, and the waivers of jury trial and submission to jurisdiction contained in SECTION 12.3, shall continue in full force and effect and shall protect Administrative Agent and the Lenders against events arising after such termination as well as before.

12.10 SEVERABILITY OF PROVISIONS. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions or affecting the validity or enforceability of such provision in any other jurisdiction.

12.11 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

12.12 COUNTERPARTS. This Agreement and any amendments, waivers, consents or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument.

12.13 ENTIRETY. THE RIGHTS AND OBLIGATIONS OF BORROWER AND ITS SUBSIDIARIES, LENDERS, AND ADMINISTRATIVE AGENT SHALL BE DETERMINED SOLELY FROM WRITTEN AGREEMENTS, DOCUMENTS, AND INSTRUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN SUCH PARTIES ARE SUPERSEDED BY AND MERGED INTO SUCH WRITINGS. THIS AGREEMENT (AS AMENDED IN WRITING FROM TIME TO TIME) AND THE OTHER WRITTEN LOAN DOCUMENTS EXECUTED BY BORROWER OR ANY OF ITS SUBSIDIARIES, ANY LENDER, AND/OR ADMINISTRATIVE AGENT, (TOGETHER WITH ALL COMMITMENT LETTERS AND FEE LETTERS ONLY AS THEY RELATE TO THE PAYMENT OF FEES AFTER THE CLOSING DATE) REPRESENT THE FINAL AGREEMENT BETWEEN BORROWER AND ITS SUBSIDIARIES, LENDERS, AND ADMINISTRATIVE AGENT, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR,

CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN SUCH PARTIES.

12.14 CONSTRUCTION. Administrative Agent, Borrower, and each Lender acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by the Agents, Borrower, and each Lender.

12.15 DISCHARGE ONLY UPON PAYMENT IN FULL; REINSTATEMENT IN CERTAIN CIRCUMSTANCES. The obligations of Borrower and each Subsidiary under the Loan Documents shall remain in full force and effect until termination of the Commitments and payment in full of the Loans and of all interest, fees, and other amounts of the Obligations then due and owing, except that SECTIONS 4, 11, and 12, and any other provisions under the Loan Documents expressly intended to survive by the terms hereof or by the terms of the applicable Loan Documents, shall survive such termination. If at any time any payment of the principal of or interest on any Note or any other amount payable by Borrower or its Subsidiaries under any Loan Document is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of such entity or otherwise, the obligations of such entity under the Loan Documents with respect to such payment shall be reinstated as though such payment had been due but not

made at such time.

12.16 EXISTING CREDIT AGREEMENT. Upon payment in full of the "OBLIGATIONS" (as defined in the Existing Credit Agreement, the "EXISTING OBLIGATIONS") as required by SECTION 5.1(d) as a condition precedent to the first Credit Event, Borrower and those Lenders who are party to the Existing Credit Agreement (the "EXISTING LENDERS") agree as follows: (a) the Existing Obligations arising under the Existing Credit Agreement and the related "Loan Documents" (as defined in the Existing Credit Agreement, the "EXISTING LOAN DOCUMENTS"), other than any indebtedness and obligations described in the proviso to CLAUSE (b) below, shall be terminated and satisfied in full and the Existing Lenders shall release and discharge Borrower from the Existing Obligations arising under the Existing Loan Agreement, the Existing Loan Documents, and any and all other claims, demands, causes of action of every kind and character (known or unknown) at law or in equity, arising out of or in any way related to the foregoing; and (b) Borrower hereby confirms that the Existing Credit Agreement and Existing Lenders' obligations to make advances and to fund the loan thereunder are terminated as of the Effective Date; provided that, any provisions of the Existing Credit Agreement or the Existing Loan Documents expressly intended to survive termination, shall survive repayment of the Existing Obligations and termination of the Existing Credit Agreement. Upon satisfaction of the Existing Obligations, Borrower shall release and discharge Existing Lenders from the Existing Credit Agreement and the Existing Loan Documents and any and all claims, demands, causes of action of every kind and character (known or unknown) at law or in equity, arising out of or in any way related to the foregoing. Nothing in this SECTION 12.16 shall be deemed to release, discharge, or modify the Obligation or Commitments under this Agreement and the related Loan Documents.

REMAINDER OF PAGE INTENTIONALLY BLANK.
SIGNATURE PAGE FOLLOWS.

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

ALLIED CAPITAL CORPORATION

By /s/ KELLY A. ANDERSON

Name: KELLY A. ANDERSON

Title: PRINCIPAL and TREASURER

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

NATIONSBANK, N.A., as Administrative Agent
and as a Lender

By /s/ SHELLY K. HARPER

Name: SHELLY K. HARPER

Title: VICE PRESIDENT

73

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

BANKBOSTON, N.A., as a Lender

By /s/ DEIRDRE M. HOLLAND

Name: DEIRDRE M. HOLLAND

Title: VICE PRESIDENT

CREDIT AGREEMENT

74

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

RIGGS BANK N.A., as a Lender

By /s/ DAVID H. OLSON

Name: DAVID H. OLSON

Title: VICE PRESIDENT

CREDIT AGREEMENT

75

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

FIRST UNION NATIONAL BANK, as a Lender

By /s/ JANE W. WORKMAN

Name: JANE W. WORKMAN

Title: SENIOR VICE PRESIDENT

CREDIT AGREEMENT

76

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as

Administrative Agent, and certain other Agents and Lenders named therein.

CHEVY CHASE BANK, F.S.B., as a Lender

By /s/ WILLIAM W. PALMER, III

Name: WILLIAM W. PALMER, III

Title: VICE PRESIDENT

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

CREDIT LYONNAIS NEW YORK BRANCH, as a Lender

By /s/ W. JAY BUCKLEY

Name: W. JAY BUCKLEY

Title: VICE PRESIDENT

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

BRANCH BANKING & TRUST CO., as a Lender

By /s/ CORY BOYTE

Name: CORY BOYTE

Title: VICE PRESIDENT

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

FIRSTRUST BANK, as a Lender

By /s/ EDWARD D'ANCONA

Name: EDWARD D'ANCONA

Title: EXECUTIVE VICE PRESIDENT

Signature Page to that certain Credit Agreement dated as of March 9, 1999, among Allied Capital Corporation, as Borrower, NationsBank, N.A., as Administrative Agent, and certain other Agents and Lenders named therein.

LASALLE NATIONAL BANK, as a Lender

By /s/ DAVID H. SHERER
Name: DAVID H. SHERER
Title: VICE PRESIDENT

SCHEDULE 2

LENDERS AND COMMITMENTS

<TABLE>
<CAPTION>

NAME AND ADDRESS OF LENDERS	REVOLVING FACILITY COMMITTED SUMS	COMMITMENT PERCENTAGE	UPFRONT FEE
<S>	<C>	<C>	<C>
NationsBank, N.A. Financial Services 901 Main Street, 66th Floor Dallas, Texas 75202-3748 Attn: Shelly K. Harper Tel: 214-508-0567 Fax: 214-508-0604 Email: shelly.k.harper@nationsbank.com	$ 52,500,000.00	16.666667%	$131,250.00
BankBoston, N.A. 100 Federal Street Mail Stop 01-10-08 Boston, MA 02110 Attn: Deirdre Holland Tel: 617-434-0419 Fax: 617-434-1537 Email: dmholland@bkb.com	$ 50,000,000.00	15.873016%	$125,000.00
First Union National Bank One First Union Center, NC0610 301 South College Street Charlotte, NC 28288 Attn: Raj Shah Tel: 704-374-6230 Fax: 704-383-7611 Email: raj.shah@capmark.funb.com	$ 50,000,000.00	15.873016%	$125,000.00
Riggs Bank N.A. 808 17th Street NW 10th Floor Washington, DC 20006 Attn: David Olson Tel: 202-835-5105 Fax: 202-835-5977 Email: david_olson@riggsbank.com	$ 50,000,000.00	15.873016%	$125,000.00

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS OF LENDERS	REVOLVING FACILITY COMMITTED SUMS	COMMITMENT PERCENTAGE	UPFRONT FEE
<S>	<C>	<C>	<C>
Chevy Chase Bank, F.S.B. 8401 Connecticut Avenue 9th Floor Chevy Chase, MD 20815 Attn: William Palmer Tel: 301-986-7452 Fax: 301-986-7038 Email: wpalmer@chevychasebank.com	$ 30,000,000.00	9.523810%	$ 60,000.00
Credit Lyonnais New York Branch 1301 Avenue of the Americas 12th Floor New York, NY 10019 Attn: W. Jay Buckley Tel: 212-261-7340 Fax: 212-261-3401 Email: buckley@clamericas.com	$ 30,000,000.00	9.523810%	$ 60,000.00
Branch Banking & Trust Co. 110 S. Stratford Road Suite 301 Winston-Salem, NC 27104 Attn: Cory Boyte Tel: 336-733-3259 Fax: 336-733-3254 Email: cboyte@bbtnet.com	$ 25,000,000.00	7.936508%	$ 37,500.00
LaSalle National Bank 135 South LaSalle Street Suite 362 Chicago, IL 60603 Attn: David H. Sherer Tel: 312-904-2722 Fax: 312-904-2982 Email: david.sherer@abnamro.com	$ 20,000,000.00	6.349206%	$ 30,000.00
Firstrust Bank 15 E. Ridge Pike Conshohocken, PA 19428 Attn: Marissa Mignogna Tel: 610-238-5029 Fax: 610-238-5066 Email: mmignogn@firstrust.com	$ 7,500,000.00	2.380952%	$ 9,375.00
Totals	$ 315,000,000.00	100.00%	$ 703,125.00

</TABLE>

84

SCHEDULE 6.1(a)

QUALIFICATION

No representations or warranties are made under SECTION 6.1(a) as to the following Subsidiary:

Allied Capital Beteiligungsberatung GmgH

85

SCHEDULE 6.1(b)

OWNERSHIP STRUCTURE

1. CONSOLIDATED SUBSIDIARIES.

<TABLE>
<CAPTION>

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OF VOTING STOCK OWNED BY BORROWER AND EACH OTHER SUBSIDIARY
<S>	<C>	<C>
Allied Investment Corporation	Maryland	100%
Allied Investment Holdings LLC	Delaware	100%
Allied Capital SBLC Corporation	Maryland	100%
Allied Capital SBLC Holdings LLC	Delaware	100%
Allied Capital Holdings LLC	Delaware	100%
PC Acquisition Corporation	Maryland	100%
Allied Capital REIT, Inc.	Maryland	100%
Allied Capital Property LLC	Delaware	100%
Allied Capital Equity LLC	Delaware	100%
9586 I-15 East Frontage Road, Longmont, CO 80504 LLC	Delaware	100%
8930 Stanford Boulevard LLC	Delaware	100%
Allied Capital Beteiligungs Beratung GmbH	Republic of Germany	100%
Allied Capital CMT Inc.	Delaware	100%
Allied Capital Commercial Mortgage Trust 1998-1	Delaware	100%

</TABLE>

2. UNCONSOLIDATED SUBSIDIARIES.

NAME OF SUBSIDIAR	JURISDICTION OF INCORPORATION	PERCENTAGE OF VOTING STOCK OWNED BY BORROWER AND EACH OTHER SUBSIDIARY
Allied Capital CMT, Inc.	Delaware	100%
Allied Capital Commercial Mortgage Trust 1998-1	Delaware	100%
Allied Capital Germany Fund LLC	Delaware	100%

SCHEDULE 6.1(g)

INDEBTEDNESS

1. Allied Capital Corporation, TIAA, Lincoln, Hancock, Sun America, Mass Mutual, American General, Allstate, Nationwide and GE Financial - Note Agreement dated April 30, 1998, in the outstanding principal amount of $180,000,000.

2. Allied Capital Corporation and Overseas Private Investment Corporation - Loan Agreement dated April 10, 1995, as amended, in an aggregate principal amount up to $20,000,000.

3. Debentures issued by Allied Investment Corporation, and held by the U.S. Small Business Administration, in the outstanding principal amount of $47,650,000.

4. Redeemable preferred stock issued by Allied Investment Corporation, and held by the U.S. Small Business Administration, in the outstanding principal amount of $7,000,000.

5. Allied Capital Corporation, Business Mortgage Investors, Inc., and Morgan Stanley Capital, Inc. - Master Loan & Security Agreement dated as of October 7, 1998, as amended, in an aggregate principal amount up to $250,000,000 (collateralized by Liens on multifamily and commercial mortgage loans and the documents related thereto including, without limitation, promissory notes, servicing agreements, mortgage guaranties and insurance, loan files, documents, and instruments, as well as all general intangibles and replacements, substitutions, distributions on or proceeds from any of the foregoing).

6. Allied Investment Corporation (as successor to Allied Investment Corporation II) - Demand Note Payable to Allied Capital Corporation (as successor to Allied Capital Corporation II) in an aggregate principal amount up to $25,000,000.

7. Allied Capital SBLC Corporation Demand Note Payable to Allied Capital Corporation in an aggregate principal amount up to $75,000,000.

8. Allied Capital Equity, LLC Demand Note Payable to Allied Capital Corporation in an aggregate principal amount up to $1,000,000.

SCHEDULE 6.1(h)

MATERIAL CONTRACTS

Borrower has no Material Contracts other than agreements and instruments relating to Indebtedness of Borrower or its Subsidiaries set forth on Schedule 6.1(g).

EXHIBIT A

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

Reference is made to the Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT") among ALLIED CAPITAL CORPORATION, a Maryland corporation (the "BORROWER"), certain Agents and other lenders named therein (the "LENDERS"), and NATIONSBANK, N.A., as administrative agent for the Lenders (the "ADMINISTRATIVE AGENT"). Terms defined in the Credit Agreement are used herein with the same meaning, except that all references to "Loan Documents" shall expressly exclude Interest Rate Agreements entered into by Assignor, Assignee, or their Affiliates.

The "ASSIGNOR" and the "ASSIGNEE" referred to on SCHEDULE 1 agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, without recourse and without representation or warranty except as expressly set forth herein, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement and the other Loan Documents as of the date hereof equal to the percentage interest specified on SCHEDULE 1 of all outstanding rights and obligations under the Credit Agreement and the other Loan Documents. After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Revolving Loans owing to the Assignee will be as set forth on SCHEDULE 1.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any party to the Credit Agreement or the performance or observance by any party to the Credit Agreement of any of its obligations under the Loan Documents or any other instrument or document furnished pursuant thereto; and (iv) attaches the Note held by the Assignor and requests that the Administrative Agent exchange such Note for new Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and to the Assignor in an amount equal to the Commitment retained by the Assignor, if any, as specified on SCHEDULE 1.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent annual and quarterly financial statements referred to in ARTICLE 8 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion

under the Credit Agreement as are delegated to the Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed

by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service or other forms required under SECTION 4.6.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Administrative Agent for acceptance and recording by the Administrative Agent. The effective date for this Assignment and Acceptance (the "EFFECTIVE DATE") shall be the date of acceptance hereof by the Administrative Agent, unless otherwise specified on SCHEDULE 1.

5. Upon such acceptance and recording by the Administrative Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Administrative Agent, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of SCHEDULE 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused SCHEDULE 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

SCHEDULE 1
TO
ASSIGNMENT AND ACCEPTANCE AGREEMENT
(Page 1 of 2)

<TABLE>
<S> <C>

1. Assigned Interest:

(a) Assignor's Commitment prior to giving effect to the Assignment to Assignee $ ----------

(b) Aggregate Loans owed to Assignor (inclusive of participations in Swing Line Loans, if any), immediately prior to giving effect to the assignment to Assignee $ ----------

(c) Aggregate Revolving Loans owed to Assignor immediately prior to giving effect to the assignment to Assignee $ ----------

(d) Percentage Interest in Commitment and Loans being assigned to Assignee by Assignor ____ %

2. Adjustments after giving effect to Assignment between Assignor and Assignee:

(a) Assignor's Commitment $ ____

(b) Assignee's Commitment acquired from Assignor pursuant to this Assignment $ ____

(c) Assignor's aggregate Loans (inclusive of participations in Swing Line Loans, if any) $ ____

(d) Assignee's Loans (inclusive of participations in Swing Line Loans, if any) acquired from Assignor pursuant to this Assignment $ ____

(e) Assignor's aggregate Revolving Loans $ ____

(f) Assignee's Revolving Loans acquired from Assignor pursuant to the Assignment $ ____

3. Effective Date (if other than date of acceptance by Administrative Agent): * ____ ---,-----

</TABLE>

---

* This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Administrative Agent.

92

SCHEDULE 1
TO
ASSIGNMENT AND ACCEPTANCE AGREEMENT
(Page 2 of 2)

[NAME OF ASSIGNOR], as Assignor

By: _____
Name: _____
Title: _____

Dated:_____, 19__

[NAME OF ASSIGNEE], as Assignee

By: _____
Name: _____
Title: _____

Dated:_____, 19__

Domestic Lending Office:

Eurodollar Lending Office:

93

If SECTION 12.4(a) and CLAUSE (iii) of the definition of "ELIGIBLE ASSIGNEE" of the Agreement so require, Borrower and Administrative Agent consent to this Assignment and Acceptance.

ALLIED CAPITAL CORPORATION, as Borrower

By: _____

Name: _____

Title: _____

Dated:_____, 19__

NATIONSBANK, N.A., as Administrative Agent

By: _____

Name: _____

Title: _____

Dated:_____, 19__

94

EXHIBIT B

FORM OF NOTICE OF BORROWING

------------------, -----

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attention: Shelly K. Harper

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among Allied Capital Corporation (the "BORROWER"), certain Agents and other lenders named therein (the "LENDERS"), and NationsBank, N.A., as administrative agent for the Lenders (the "ADMINISTRATIVE AGENT"). Capitalized terms used herein, and not otherwise defined herein, have their respective meanings given them in the Credit Agreement.

The undersigned hereby gives you notice pursuant to the Credit Agreement that it requests a Loan (other than a Swing Line Loan) under the Credit Agreement, and in that connection sets forth below the terms on which such Loan is requested to be made:

<TABLE>

<S>		<C>	
(A)	Date of Loan*	(A)	----------
(B)	Amount of Loan**	(B)	----------
(C)	Type of Loan***	(C)	----------
(D)	For a Eurodollar Loan, the Interest Period****	(D)	----------

</TABLE>

On the date the rate is set, please confirm the interest rate below and return by facsimile transmission to _____.

The proceeds of this borrowing of Loans will be used for the following purpose:

The Borrower requests that the proceeds of this borrowing of Loans be made available by: _____.

The Borrower hereby certifies to Administrative Agent and the Lenders that as of the date hereof and as of the date of the making of the requested Loans and after giving effect thereto, (a) no Default or Event of Default has or shall have occurred and be continuing, and (b) the representations and warranties made or deemed made by the Borrower and its Subsidiaries in the Loan Documents to which any of them is a party, are and shall be true and correct, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties were true and accurate on and as

of such earlier date) and except for changes in factual circumstances specifically and expressly permitted under the Credit Agreement. In addition, the Borrower certifies to the Administrative Agent and the Lenders that all conditions to the making of the requested Loans contained in Article 5 of the Credit Agreement will have been satisfied at the time such Loans are made.

If notice of the requested borrowing of Loans was previously given by telephone, this notice is to be considered the written confirmation of such telephone notice required by Section 2.3(a) of the Credit Agreement.

ALLIED CAPITAL CORPORATION

By: _____
Name: _____
Title: _____

* Must be a Business Day occurring prior to the Termination Date and otherwise consistent with SECTION 2.3(a) of the Credit Agreement.
** Not less than $1,000,000 or a greater integral multiple of $1,000,000.
*** Eurodollar Loan or Base Rate Loan.
**** Eurodollar Loan -- 1, 2, 3, or 6 months.
In no event may the Interest Period end after the Termination Date.

EXHIBIT C

FORM OF NOTICE OF CONTINUATION

_____, _____

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attention: Shelly K. Harper

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among Allied Capital Corporation (the "BORROWER"), certain Agents and other lenders named therein (the "LENDERS"), and NationsBank, N.A., as administrative agent for the Lenders (the "ADMINISTRATIVE AGENT"). Capitalized terms used herein, and not otherwise defined herein, have

their respective meanings given them in the Credit Agreement.

Pursuant to Section 2.8 of the Credit Agreement, the Company hereby requests a Continuation of a borrowing of Eurodollar Loans under the Credit Agreement, and in that connection sets forth below the information relating to such Continuation as required by such Section of the Credit Agreement:

1. The proposed date of such Continuation is _____, ____.

2. The aggregate principal amount of Eurodollar Loans subject to the requested Continuation is $_____ and was originally borrowed by the Company on _____.

3. The portion of such principal amount subject to such Continuation is $_____.

4. The current Interest Period for each of the Eurodollar Loans subject to such Continuation ends on _____, ____.

5. The duration of the new Interest Period for each of such Eurodollar Loans or portion thereof subject to such Continuation is:

[CHECK ONE BOX ONLY] [ ] one month
[ ] two months
[ ] three months
[ ] six months

The Company hereby certifies to Administrative Agent and the Lenders that as of the date hereof, as of the proposed date of the requested Continuation, and after giving effect to such Continuation, no Default or Event of Default has or shall have occurred and be continuing.

If notice of the requested Continuation was given previously by telephone, this notice is to be considered the written confirmation of such telephone notice required by Section 2.8 of the Credit Agreement.

ALLIED CAPITAL CORPORATION

By: _____
Name: _____
Title: _____

EXHIBIT D

FORM OF NOTICE OF CONVERSION

_____, _____

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attention: Shelly K. Harper

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented, or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among Allied Capital Corporation (the "BORROWER"), certain Agents and other lenders named therein (the "LENDERS"), and NationsBank, N.A., as administrative agent for the Lenders (the "ADMINISTRATIVE AGENT"). Capitalized terms used herein, and not otherwise defined herein, have their respective meanings given them in the Credit Agreement.

Pursuant to Section 2.9 of the Credit Agreement, the Company hereby requests a Conversion of a borrowing of Loans of one Type into Loans of another Type under the Credit Agreement, and in that connection sets forth below the information relating to such Conversion as required by such Section of the Credit Agreement:

1. The proposed date of such Conversion is _____, _____.

2. The Loans to be Converted pursuant hereto are currently:

[CHECK ONE BOX ONLY]

[ ] Base Rate Loans
[ ] Eurodollar Loans

3. The aggregate principal amount of Loans subject to the requested Conversion is $_____ and was originally borrowed by the Company on _____, _____.

4. The portion of such principal amount subject to such Conversion is $_____.

5. The amount of such Loans to be so Converted is to be converted into Loans of the following Type:

[CHECK ONE BOX ONLY]

[ ] Base Rate Loans
[ ] Eurodollar Loans

[CHECK ONE BOX ONLY]

[ ] one month
[ ] two months
[ ] three months
[ ] six months

The Company hereby certifies to Administrative Agent and the Lenders that as of the date hereof and as of the date of the requested Conversion and after giving effect thereto, (a) no Default or Event of Default has or shall have occurred and be continuing, and (b) the representations and warranties made or deemed made by the Company and its Subsidiaries in the Loan Documents to which any of them is a party, are and shall be true and correct, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties were true and accurate on and as of such earlier date) and except for changes in factual circumstances specifically and expressly permitted under the Credit Agreement.

If notice of the requested Conversion was given previously by telephone, this notice is to be considered the written confirmation of such telephone notice required by Section 2.9 of the Credit Agreement.

ALLIED CAPITAL CORPORATION

By: _____
Name: _____
Title: _____

EXHIBIT E-1

FORM OF REVOLVING NOTE

$_____ March 9, 1999

FOR VALUE RECEIVED, the undersigned, ALLIED CAPITAL CORPORATION, a Maryland corporation (the "BORROWER), hereby promises to pay to the order of _____ (the "LENDER"), in care of NationsBank, N.A., as Administrative Agent (the "ADMINISTRATIVE AGENT") at_____ _____, or at such other address as may be specified by the Administrative Agent to Borrower, the principal sum of _____ AND ___/100 DOLLARS (or such lesser amount as shall equal the aggregate unpaid principal amount of Loans made by the Lender to Borrower under the Credit Agreement), on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest on the unpaid principal amount owing hereunder, at the rates and on the dates provided in the Credit Agreement.

The date, amount of each Loan made by the Lender to Borrower, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof, provided that, the failure of the Lender to made any such recordation or endorsement shall not affect the obligations of Borrower to make a payment when due of any amount owing under the Credit Agreement or hereunder in respect of such Loans made by the Lender.

This Note is one of the "Notes" referred to in the Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among Borrower, Administrative Agent, certain other Agents, Lender, and the other lenders party thereto. Terms used but not otherwise defined in this Note have the respective meanings assigned to them in the Credit Agreement. Reference is made to the Credit Agreement for provisions affecting this note regarding applicable interest rates, principal and interest payment dates, final maturity, voluntary and mandatory prepayments, acceleration of maturity, exercise of rights, payment of attorneys' fees, court costs and other costs of collection, certain waivers by Borrower and others now or hereafter obligated for payment of any sums due hereunder and security for the payment hereof.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Loans upon the terms and conditions specified therein.

Except as permitted by Section 12.4 of the Credit Agreement, this Note may not be assigned by the Lender to any other Person.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE, AND WITHOUT REFERENCE TO CONFLICT OF LAWS PRINCIPLES OR PROVISIONS.

Borrower hereby waives presentment for payment, demand, notice of demand, notice of non-payment, protest, notice of protest and all other similar notices.

Time is of the essence for this Note.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note under seal as of the date first written above.

ALLIED CAPITAL CORPORATION

By: _____

Name: _____

Title: _____

ATTEST:

By:

Name:

Title:

[CORPORATE SEAL]

102

SCHEDULE OF LOANS

This Note evidences Loans made under the within-described Credit Agreement to Borrower, on the dates and in the principal amounts set forth below, subject to the payments and prepayments of principal set forth below:

<TABLE>

<S>	<C>	<C>	<C>	<C>
	PRINCIPAL	AMOUNT PAID	UNPAID PRINCIPAL	NOTATION
DATE OF LOAN	AMOUNT OF LOAN	OR PREPAID	AMOUNT	MADE BY

</TABLE>

103

EXHIBIT E-2

FORM OF SWING LINE NOTE

$25,000,000 March 9, 1999

FOR VALUE RECEIVED, the undersigned, ALLIED CAPITAL CORPORATION, a Maryland corporation (the "BORROWER"), hereby promises to pay to the order of NATIONSBANK, N.A. (the "LENDER"), on the Termination Date, the lesser of (i) TWENTY-FIVE MILLION AND NO/100 DOLLARS ($25,000,000) and (ii) the aggregate principal amount of Loans under the Swing Line Subfacility disbursed by the Lender to Borrower and outstanding and unpaid on the Termination Date (together with accrued and unpaid interest thereon)

This Note is one of the "Notes" referred to in the Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among Borrower, NationsBank, N.A., as Administrative Agent, certain other Agents, Lender, and the other lenders party thereto. Terms used but not otherwise defined in this Note have the respective meanings assigned to them in the Credit Agreement. Reference is made to the Credit Agreement for provisions affecting this note regarding applicable interest rates, terms, and conditions of Swing Line Loans, principal and interest payment dates, final maturity, voluntary and mandatory prepayments, acceleration of maturity, exercise of rights, payment of attorneys' fees, court costs, and other costs of collection, certain waivers by Borrower and others now or hereafter obligated for payment of any sums due hereunder and security for the payment hereof.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Loans upon the terms and conditions specified therein.

Except as permitted by Section 12.4 of the Credit Agreement, this Note may not be assigned by the Lender to any other Person.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE, AND WITHOUT REFERENCE TO CONFLICT OF LAWS PRINCIPLES OR PROVISIONS.

Borrower hereby waives presentment for payment, demand, notice of demand, notice of non-payment, protest, notice of protest and all other similar notices.

Time is of the essence for this Note.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note under seal as of the date first written above.

ALLIED CAPITAL CORPORATION	ATTEST:
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
	[CORPORATE SEAL]

EXHIBIT F

FORM OF OPINION OF COUNSEL

March 10, 1999

NationsBank, N.A., as Administrative Agent
Each Lender named in SCHEDULE 2 to the Credit Agreement referred to below

RE: CREDIT AGREEMENT FOR ALLIED CAPITAL CORPORATION

Ladies and Gentlemen:

We have acted as counsel to Allied Capital Corporation ("BORROWER") in connection with the execution and delivery of the Credit Agreement, dated as of March 9, 1999 (the "CREDIT AGREEMENT"), between Borrower, NationsBank, N.A., as Administrative Agent, and the lenders named therein ("Lenders"). This opinion letter is being delivered to you pursuant to SECTION 5.1 (a)(iv) of the Credit Agreement. Capitalized terms used herein have the same meanings as are ascribed to them in the Credit Agreement unless otherwise defined herein.

1. EXAMINATION. We have examined the documents listed below in this PARAGRAPH 1 and such other documents, records and matters of law as we have deemed necessary for purposes of this opinion letter:

1.1 the Credit Agreement;

1.2 the Notes;

1.3 the Charter and By-Laws of Borrower;

1.4 a Certificate of Existence and Good Standing with respect to Borrower issued by the Maryland State Department of Assessments and Taxation on March 5, 1999;

2. OPINIONS. Based upon our examination described in PARAGRAPH 1 above, but subject to the assumptions, limitations, and qualifications set forth in PARAGRAPH 4 below, we are of the opinion that:

2.1 Borrower is a corporation duly incorporated under the laws of the State of Maryland, is in good standing and has a legal corporate existence in the State of Maryland and has the corporate power and authority to execute and deliver, and to perform its obligations under, the Credit Agreement and the Notes.

2.2 The execution and delivery by Borrower of the Credit Agreement and the Notes and the performance by Borrower of its obligations thereunder (a) have been duly authorized by all necessary corporate action on the part of Borrower, (b) do not violate (i) any provision of Borrower's Charter or By-Laws, (ii) the General Corporation Law of the State of Maryland, (iii) any applicable statute or regulation of the State of New York that a lawyer in such state exercising customary professional diligence would reasonably recognize as being directly applicable, (iv) to our knowledge, any order or ruling of any court or other governmental body of the United States or the State of Maryland applicable to Borrower, or (v) to our knowledge, any written agreement to which Borrower is a party, (c) to our knowledge, do not result in the creation of any Lien on any asset of Borrower, and (d) do not require any Governmental Approvals, or, to our knowledge, approvals of any other Person, other than such as have been obtained

and are in full force and effect.

105

2.3 The Credit Agreement and the Notes constitute the valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms.

2.4 Borrower has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended, and to our knowledge has not withdrawn that election.

3. CONFIRMATION REGARDING LITIGATION. Although we are not the sole outside counsel engaged by Borrower, we have been engaged by Borrower on various matters, including securities law disclosure matters of Borrower. We hereby confirm to you that, to the best of our knowledge and without any independent investigation, there are no actions or proceedings pending against Borrower by or before any court which we have advised Borrower should be disclosed in any report required to be filed by Borrower with the Securities and Exchange Commission.

4. ASSUMPTIONS. LIMITATIONS QUALIFICATIONS. Our opinions herein are rendered upon the assumptions and are subject to the limitations and qualifications set forth below in this PARAGRAPH 4:

4.1 As to factual matters relating to our opinions herein, we have relied upon statements, certificates, and other assurances of public officials and of officers and other representatives of Borrower, upon such other certificates as we deemed appropriate and upon the representations, warranties, and covenants of Borrower set forth in the Credit Agreement, which factual matters have not been independently established or verified by us.

4.2 We have assumed (a) the genuineness of all signatures (other than those of Borrower) on all documents submitted to us for examination, (b) the truthfulness of all facts stated in such documents, (c) the legal capacity of all natural persons, (d) the authenticity of all documents submitted to us as originals, (e) the conformity to original documents of all documents submitted to us as copies and the authenticity of the originals of such copied documents, and (f) that all certificates issued by public officials have been properly issued.

4.3 We have assumed, without independent check or verification, that each Lender has all requisite power and authority to execute, deliver, and perform its obligations under the Credit Agreement, and that the Credit Agreement has been duly authorized by all necessary action on the part of such Lender, has been duly executed and delivered by such Lender and constitutes the legal, valid, and binding obligation of such Lender, enforceable against such Lender in accordance with its terms.

4.4 Our opinions herein are subject to the effect of (a) laws relating to bankruptcy, reorganization, insolvency, receivership, moratorium, fraudulent conveyance, or other similar laws now or hereafter in effect relating to or limiting creditors' rights generally, (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and (c) the exercise of judicial discretion. The use of the term "enforceable" in this opinion letter does not imply any opinion as to the availability of equitable remedies.

4.5 We express no opinion as to (i) the effect of the law of any jurisdiction, other than the State of New York, in which any Lender is located, including, but not limited to, any law which limits the rate of interest that such Lender may charge or collect, (ii) whether the Lenders may exercise their remedies under SECTION 10.2 of the Credit Agreement in respect of any Event of Default that is not material, (iii) whether any determination to be made conclusively by any Lender or Administrative Agent would be enforceable unless made reasonably and in good faith, or (iv) the effect of SECTION 3.3 of the Credit Agreement.

4.6 In basing the opinions and other matters set forth herein on "our knowledge", the words "our knowledge" signify that, in the course of our representation of Borrower in matters with respect

to which we have been engaged by Borrower as counsel, no information has come to our attention that would give us actual existing knowledge or actual existing notice that any such opinions or other matters are not accurate or that any of the documents, certificates, reports, and information on which we have relied are not accurate and complete. We have undertaken no independent investigation or verification of such matters. The words "our knowledge" and similar language used herein are intended to be limited to the knowledge of the lawyers within our firm having, in connection with our special representation in this matter, detailed knowledge of the transaction evidenced by the Credit Agreement and the Notes and the substance of this opinion.

4.7 We express no opinion as to the enforceability of any provisions in the Credit Agreement which purport to (a) indemnify any party, to the extent that such indemnification is prohibited by public policy considerations (although we are not aware of any public policy consideration imposing such a prohibition), or indemnify a party against its own negligence or willful misconduct, or (b) provide that any provision of the Credit Agreement may be waived only in writing, to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created that modifies any provision of the Credit Agreement.

4.8 We render no opinion as to matters involving the laws of any jurisdiction other than the laws of the State of New York, the General Corporation Laws of the State of Maryland, and the federal laws of the United States of America. Although the lawyers of this firm responsible for the preparation and review of this opinion letter, as well as other lawyers of this firm, are admitted to practice in other jurisdictions, we have neither examined nor considered the laws of any other jurisdiction in connection with this opinion letter.

4.9 The opinions expressed in this opinion letter are limited to the matters set forth in this opinion letter as of the date hereof, and no other opinions should be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof.

4.10 Our opinions expressed herein are rendered solely for the use of the Lenders, the Administrative Agent, any Eligible Assignees of the Lenders, and Haynes and Boone, LLP, as counsel to the Administrative Agent, and these opinions may not be relied on by any other persons without our prior written approval.

Very truly yours,

Sutherland, Asbill & Brennan LLP

By:

James D. Darrow

EXHIBIT G

FORM OF COMPLIANCE CERTIFICATE

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attention: Shelly K. Harper

Each of the Lenders Party to the Credit
Agreement referred to below

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of March 9, 1999 (as amended, restated, supplemented, or restated from time to time, the "CREDIT AGREEMENT"), by and among Allied Capital Corporation (the "BORROWER"), certain other Agents and the lenders named therein (the "LENDERS"), and NationsBank, N.A., as administrative agent for the Lenders (the "ADMINISTRATIVE

AGENT"). Capitalized terms used herein, and not otherwise defined herein, have their respective meanings given them in the Credit Agreement.

Pursuant to Section 8.3 of the Credit Agreement, the undersigned hereby certifies to the Lender as follows:

(1) The undersigned is the chief financial officer of Borrower.

(2) The undersigned has examined the books and records of Borrower and has conducted such other examinations and investigations as are reasonably necessary to provide this Compliance Certificate.

(3) To the best of the undersigned's knowledge, information and belief, no Default or Event of Default exists [if such is not the case, specify such Default or Event of Default and its nature, when if occurred and whether it is continuing and the steps being taken by Borrower with respect to such event, condition, or failure.]

(4) To the best of the undersigned's knowledge, information, and belief, the representations and warranties made or deemed made by Borrower and its Subsidiaries in the Loan Documents to which any of them is a party, are true and correct on and as of the date hereof except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and accurate on and as of such earlier date) and except for changes in factual circumstances specifically and expressly permitted under the Credit Agreement.

(5) Attached hereto as SCHEDULE 1 are the calculations required to establish whether or not Borrower and its Subsidiaries, were in compliance with the covenants contained in SECTIONS 9.1.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of the date first above written.

Name: _____

Title: _____

EXHIBIT EX-99.2h.1

FORM OF UNDERWRITING AGREEMENT

_____ SHARES

ALLIED CAPITAL CORPORATION

COMMON STOCK, $0.0001 PAR VALUE PER SHARE

UNDERWRITING AGREEMENT

dated _____, 1999

_____ SHARES

ALLIED CAPITAL CORPORATION

COMMON STOCK, $0.0001 PAR VALUE PER SHARE

UNDERWRITING AGREEMENT

_____, 1999

Ladies and Gentlemen:

Allied Capital Corporation, a Maryland corporation (the "COMPANY"), proposes to issue and sell to _____ (the "UNDERWRITER") an aggregate of _____ shares of its common stock, $0.0001 par value per share (the "FIRM SHARES").

The Company also proposes to issue and sell to the Underwriter not more than an additional _____ shares of its common stock, $0.0001 par value per share (the "ADDITIONAL SHARES"), if and to the extent that the Underwriter shall have determined to exercise the right to purchase such shares of common stock granted in Section 2 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "SHARES." The shares of common stock, $0.0001 par value per share, of the Company to be outstanding after giving effect to the sales contemplated hereby, are hereinafter referred to as the "COMMON STOCK."

The Company has filed with the Securities and Exchange Commission (the "COMMISSION") a registration statement relating to the Shares. The registration statement as amended at the time it becomes effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 497 under the Securities Act of 1933, as amended (the "SECURITIES ACT"), is hereinafter referred to as the "REGISTRATION STATEMENT"; the prospectus (as described in Rule 497 under the Securities Act) in the form first used to confirm sales of Shares is hereinafter referred to as the "DISTRIBUTED PROSPECTUS"; the prospectus included in the Registration Statement at the time of its effectiveness (including the information, if any, deemed to be a part of the Registration Statement at the time of effectiveness pursuant to Rule 497 under the Securities Act) is hereinafter referred to as the "FILED PROSPECTUS"; and the Distributed Prospectus and the Filed Prospectus, together with the Statement of Additional Information incorporated by reference therein, are hereinafter referred to collectively as the "PROSPECTUS."

1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to and agrees with the Underwriter that:

(a) The Registration Statement has become effective; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus and any amendment or supplement thereto will comply in all material respects with the Securities Act and with the provisions of the Investment Company Act of 1940, as amended (the "Investment Company Act") applicable to business development companies and with the applicable rules and regulations of the Commission thereunder, respectively and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus or any amendment or supplement thereto based upon information relating to the Underwriter furnished to the Company in writing by the Underwriter expressly for use therein.

(c) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(d) Each subsidiary of the Company has been duly incorporated or formed, is validly existing as a corporation or a limited liability company, as applicable, is in good standing under the laws of the jurisdiction of its incorporation or formation, as applicable, has the power and

authority to own its property and to conduct its business, in each case as described in the Prospectus, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole; all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly by the Company, free and clear of all liens, encumbrances, equities or claims, except with respect to the employee-owned shares of preferred stock of Allied Capital REIT, Inc. and the Preferred Stock of Allied Investment Corporation owned by the U.S. Small Business Administration (the "SBA");

(e) This Agreement has been duly authorized, executed and delivered by the Company.

(f) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus.

(g) The shares of Common Stock outstanding prior to the issuance of the Shares have been duly authorized and are validly issued, fully paid and non-assessable.

(h) The Shares have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(i) The Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), and is listed on the Nasdaq National Market, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the Nasdaq National Market, nor has the Company received any notification that the

Commission or the National Association of Securities Dealers, Inc. is contemplating terminating such registration or listing.

(j) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares.

(k) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(l) There are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(m) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 497 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(n) The operations of the Company and its subsidiaries are in compliance in all material respects with the provisions of the Investment Company Act applicable to business development companies and the rules and regulations of the Commission thereunder.

(o) To the best of its knowledge, the Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic

5

substances or wastes, pollutants or contaminants ("ENVIRONMENTAL LAWS"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(p) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company (except for sales of Common Stock aggregating less than 100,000 shares) or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement.

(q) The Company has elected to be regulated as a business development company under the Investment Company Act and has not withdrawn that election, and the Commission has not ordered that such election be withdrawn. All required action has or will have been taken by the Company under the Securities Act, the Investment Company Act, and the rules and regulations of the Commission thereunder, respectively, to make the public offering and consummate the sale of the Shares as provided in this Agreement.

(r) The Company owns or possesses or has obtained all governmental licenses, permits, consents, orders, approvals and other authorizations, whether international or domestic, necessary to carry on its business as contemplated, except to

the extent that the failure to own or possess or have obtained such authorizations would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(s) There are no material restrictions, limitations or regulations with respect to the ability of the Company or its subsidiaries to invest its assets as described in the Prospectus, other than as described therein.

(t) The Company is organized and operated in conformance with the requirements of the Investment Company Act and the requirements to be taxed as a Regulated Investment Company (Sections 851 et seq. of the Internal Revenue Code of 1986, as amended (the "CODE")). The Company's method of operation will permit it to continue to meet the requirements for qualification as a business development company under the Investment Company Act and taxation as a Regulated Investment Company under the Code.

(u) The only significant subsidiaries for purposes of Rule 405 under the Securities Act are Allied Investment Corporation and Allied Capital REIT, Inc.

2. AGREEMENTS TO SELL AND PURCHASE. The Company hereby agrees to sell to the Underwriter, and the Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees to purchase from the Company the number of Firm Shares set forth in Schedules I hereto opposite its name at $_____ a share ("PURCHASE PRICE").

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the Underwriter the Additional Shares, and the Underwriter shall have a one-time right to purchase up to _____ Additional Shares at the Purchase

Price. If the Underwriter elects to exercise such option, the Underwriter shall so notify the Company in writing not later than 30 days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by the Underwriter and the date on which such shares are to be purchased. Such date may be the same as the Closing Date (as defined below) but not earlier than the Closing Date nor later than ten business days after the

date of such notice. Additional Shares may be purchased as provided in Section 4 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares.

The Company hereby agrees that, without the prior written consent of the Underwriter, it will not, during the period ending 90 days after the date of the Prospectus, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the sale by the Underwriter of any share of Common Stock pursuant to the Underwriting Agreement, (B) any issuance of shares of Common Stock, options, or other securities or rights pursuant to any employee or director compensation, option, savings, benefit or other plan of the Company existing as of the date of the Underwriting Agreement, (C) any issuances upon exercise, conversion or exchange of any securities or obligations outstanding on the date of the Underwriting Agreement, and (D) an additional issuance of equity securities aggregating not more than $_____.

3. TERMS OF PUBLIC OFFERING. The Company is advised by you that the Underwriter proposes to make a public offering of Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable. The Company is further advised by you that the Shares are to be offered to the public initially at $_____ a share (the "PUBLIC OFFERING PRICE") and to certain dealers selected by you at a price that represents a concession not in excess of $____ a share under the Public Offering Price, and that any Underwriter may allow, and such dealers may reallow, a concession, not in excess of $____ a share, to certain brokers and dealers.

4. PAYMENT AND DELIVERY. Payment for the Firm Shares shall be made to the Company by the wire transfer of immediately available funds to the order of the Company against delivery of such Firm Shares for the account of the Underwriter at ____ a.m., _____ time, on _____, 1998, or at such other time on the same or such other date, not later than 10:30 a.m., _____ time, on _____, 1998, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "CLOSING DATE."

Payment for any Additional Shares shall be made to the Company in by the wire transfer of immediately available funds to the order of the Company against delivery of such Additional Shares for the account of the Underwriter at _____ a.m., _____ time, on the date specified in the notice described in Section 2 or at such other time on the same or on such other date, in any event not later than 10:30 a.m., _____ time, on _____, 1998, as

shall be designated in writing by the Underwriter. The time and date of such payment are hereinafter referred to as the "OPTION CLOSING DATE."

Certificates for the Firm Shares and Additional Shares shall be in definitive form and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and Additional Shares shall be delivered to you on the Closing Date or the

Option Closing Date, as the case may be, for the account of the Underwriter, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriter duly paid, against payment of the Purchase Price therefor.

5. CONDITIONS TO THE UNDERWRITER'S OBLIGATIONS. The obligations of the Company to sell the Shares to the Underwriter and the obligation of the Underwriter to purchase and pay for the Shares on the Closing Date are subject to the condition that the Registration Statement shall have become effective not later than _____ (New York City time) on the date hereof. The obligations of the Underwriter are subject to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

(b) The Underwriter shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the effect set forth in Section 5(a) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date and

that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

The officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

(c) The Underwriter shall have received on the Closing Date an opinion of Sutherland Asbill & Brennan LLP, outside counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business, in each case as described in the Prospectus, and is duly qualified to transact business and is in good standing in the District of Colombia and the States of Illinois, Michigan and California;

(ii) each of Allied Investment Corporation and Allied Capital REIT, Inc. (collectively, the "SUBSIDIARIES") of the Company has been duly incorporated, is validly existing as a corporation, is in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business, in each case as described in the Prospectus, and Allied Investment is duly qualified to transact business and is in good standing in the District of Columbia and the State of California, as applicable;

(iii) the authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus;

(iv) the shares of Common Stock outstanding immediately prior to the issuance of the Shares have been duly authorized and are validly issued, fully paid and non-assessable;

(v) all of the issued shares of capital stock of each Subsidiary are owned of record directly by the Company, and to such counsel's knowledge, are free and clear of all liens, encumbrances, equities or claims, except with respect to the employee-owned shares of preferred stock of Allied Capital REIT, Inc. and the Preferred Stock of Allied Investment Corporation owned by the SBA.

(vi) the Shares have been duly authorized and, when issued and delivered against payment therefor in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights under provisions of applicable law or the certificate of incorporation or bylaws of the Company or, to the best of such counsel's knowledge, any agreement or other instrument binding upon the Company or any of its Subsidiaries;

(vii) this Agreement has been duly authorized, executed and delivered by the Company;

(viii) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or, to the best of such counsel's knowledge, any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or, to the best of such counsel's knowledge, any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the National Association of Securities Dealers, Inc. or the securities or Blue Sky laws of the various states or of any foreign jurisdiction in connection with the offer and sale of the Shares by the Underwriter;

(ix) the statements (A) in the Prospectus under the captions "Certain Government Regulations," "Description of Capital Stock," "Taxation" and "Underwriting," (B) in the Statement of Additional Information under the caption "Tax Status" and (C) in the Registration Statement in Item 29, in each case insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings

and fairly summarize the matters referred to therein;

(x) to such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described and to such counsel's knowledge, there are no statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required;

(xi) the Company has elected to be regulated as a business development company under the provisions of the Investment Company Act applicable to business

development companies and the Commission has not ordered that such election be withdrawn, and all action under the Securities Act necessary to make the public offering and consummate the sale of the Shares as provided in this Agreement has been taken by the Company; and

(xii) such counsel (A) is of the opinion that the Registration Statement and the Prospectus (except for financial statements and schedules and other financial and statistical data included therein as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder, (B) has no reason to believe that (except for financial statements and schedules and other financial and statistical data as to which such counsel need not express any belief) the Registration Statement and the prospectus included therein at the time the Registration Statement became effective contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (C) has no reason to believe that (except for financial statements and schedules and other financial and statistical data as to which such counsel need not express any belief) the Prospectus contains any untrue statement of a material fact or omits to state a

material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading and (D) is of the opinion that the Distributed Prospectus is not materially different from the Filed Prospectus.

(d) The Underwriter shall have received on the Closing Date an opinion of counsel for the Underwriter, dated the Closing Date, covering the matters referred to in Sections 5(c)(vi), 5(c)(vii), 5(c)(ix) (but only as to the statements in the Prospectus under "Description of Capital Stock" and "Underwriters") and 5(c)(xii) above. With respect to Section 5(c)(xii) above, Sutherland Asbill & Brennan LLP and counsel to the Underwriter may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and review and discussion of the contents thereof, but are without independent check or verification, except as specified. The opinion of Sutherland, Asbill & Brennan LLP described in Section 5(c) above shall be rendered to the Underwriter at the request of the Company and shall so state therein.

(e) The Underwriter shall have received, on each of the date hereof and the Closing Date, a letter dated he date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriter, from Arthur Anderson LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(f) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between you and the Company and certain of its executive officers relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on the Closing Date.

(g) The obligation of the Underwriter to purchase Additional Shares hereunder is

subject to the delivery to the Underwriter on the Option Closing Date of such documents as it may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares and other matters related to the issuance of the Additional Shares.

6. COVENANTS OF THE COMPANY. In further consideration of the agreements of the Underwriter herein contained, the Company covenants with the Underwriter as follows:

(a) To furnish to you, without charge, three signed copies of the Registration Statement (including exhibits thereto) and to furnish to you in _____, without charge, prior to 11:00 a.m. _____ time on the business day next succeeding the date of this Agreement, or as soon as practicable, and during the period mentioned in Section 6(c) below, as many copies of the Distributed Prospectus, the Statement of Additional Information and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object, and to file with the Commission within the applicable period specified in Rule 497 under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) If, during such period after the first date of the public offering of the Shares as in the opinion of counsel for the Underwriter the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriter, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriter and to the dealers (whose names and addresses you will furnish to the Company) to which Shares may have been sold by you on behalf of the Underwriter and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law.

(d) To endeavor to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request.

(e) To make generally available to the Company's security holders and to you as soon as practicable an earning statement covering the twelve-month period ending _____ __1999 that satisfies the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(f) To use its best efforts to maintain its qualification as a regulated investment company under Subchapter M of the Code.

(g) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses

incident to the performance of its obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel and the Company's accountants in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Prospectus and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriter and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriter, including any transfer or other taxes payable thereon, if applicable, (iii) the cost of printing or producing any Blue Sky or Legal Investment memorandum in connection with the offer and sale of the Shares under state securities laws and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in Section 6(d) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriter in connection with such qualification and in connection with the Blue Sky or Legal Investment memorandum, (iv) all filing fees and the reasonable fees and disbursements of counsel to the Underwriter incurred in connection with the review and qualification of the offering of the Shares by the National Association of

Securities Dealers, Inc., (v) all costs and expenses incident to listing the Shares on the Nasdaq National Market, (vi) the cost of printing certificates representing the Shares, (vii) the costs and charges of any transfer agent, registrar or depository, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and the cost of any aircraft chartered in connection with the road show, and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that except as provided in this Section, Section 7 entitled "Indemnity and Contribution", and the last paragraph of Section 9 below, the Underwriter will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Shares by them and any advertising expenses connected with any offers they may make.

7. INDEMNIFICATION.

(a) Indemnification of the Underwriter. The Company agrees to indemnify and hold harmless the Underwriter, its officers and employees, and each person, if any, who controls the Underwriter within the meaning of the Securities Act and the Exchange Act against any loss, claim, damage, liability or expense, as incurred, to which the Underwriter or such controlling person may become subject, under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based (i) upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, or any amendment thereto, including any information deemed to be a part thereof pursuant to Rule 430A or Rule 434 under the Securities Act, or the omission or alleged omission therefrom

12

of a material fact required to be stated therein or necessary to make the statements therein not misleading; or (ii) upon any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; or (iii) in whole or in part upon any inaccuracy in the representations and warranties of the Company contained herein; or (iv) in whole or in part upon any failure of the Company to perform its obligations hereunder or under law; or (v) any act or failure to act or any alleged act or failure to act by the Underwriter in connection with, or relating in any manner to, the Common Stock or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon any matter covered by clause (i) or (ii) above, provided that the Company shall not be liable under this clause (v) to the extent that a court of competent jurisdiction shall have determined by a final judgment that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by the Underwriter through its gross negligence or willful misconduct; and to reimburse the Underwriter and each such controlling person for any and all expenses (including the fees and disbursements of counsel chosen by the Underwriter) as such expenses are reasonably incurred by the Underwriter or such controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the foregoing indemnity agreement shall not apply to any loss, claim, damage, liability or expense to the extent, but only to the extent, arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by the Underwriter expressly for use in the Registration Statement, any preliminary prospectus or the Prospectus (or any amendment or supplement thereto); and provided, further, that with respect to any preliminary prospectus, the foregoing indemnity agreement shall not inure to the benefit of the Underwriter from whom the person asserting any loss, claim, damage, liability or expense purchased Common Shares, or any person controlling the Underwriter, if copies of the Prospectus were

timely delivered to the Underwriter pursuant to Section 2 and a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of the Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Common Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage, liability or expense. The indemnity agreement set forth in this Section 7(a) shall be in addition to any liabilities that the Company may otherwise have.

(b) Indemnification of the Company, its Directors and Officers. The Underwriter agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act, against any loss, claim, damage, liability or expense, as incurred, to which the Company, or any such director, officer or controlling person may become subject, under the Securities Act, the Exchange Act, or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Underwriter), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon

any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or arises out of or is based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any preliminary prospectus, the Prospectus (or any amendment or supplement thereto), in reliance upon and in conformity with written information furnished to the Company by the Underwriter expressly for use therein; and to reimburse

the Company, or any such director, officer or controlling person for any legal and other expense reasonably incurred by the Company, or any such director, officer or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action. The Company hereby acknowledges that the only information that the Underwriter has furnished to the Company expressly for use in the Registration Statement, any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) are the statements set forth (A) as the last [two] paragraphs on the inside front cover page of the Prospectus concerning stabilization [and passive market making] by the Underwriter and (B) in the table in the first paragraph and as the second paragraph [second and [___] paragraphs] under the caption "Underwriting" in the Prospectus; and the Underwriter confirms that such statements are correct. The indemnity agreement set forth in this Section 7(b) shall be in addition to any liabilities that the Underwriter may otherwise have.

(c) Notifications and Other Indemnification Procedures. Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party for contribution or otherwise than under the indemnity agreement contained in this Section 7 or to the extent it is not prejudiced as a proximate result of such failure. In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in, and, to the extent that it shall elect, jointly with all other indemnifying parties similarly notified, by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that a conflict may arise between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the

defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of such indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 7 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the

14

indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with local counsel), approved by the indemnifying party (the Underwriter in the case of Section 7(b) and Section 8), representing the indemnified parties who are parties to such action) or (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying party.

(d) Settlements. The indemnifying party under this Section 7 shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party against any loss, claim, damage, liability or expense by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by Section 7(c) hereof, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or consent to the entry of judgment in any pending or threatened

action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity was or could have been sought hereunder by such indemnified party, unless such settlement, compromise or consent includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

8. CONTRIBUTION.

If the indemnification provided for in Section 7 is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount paid or payable by such indemnified party, as incurred, as a result of any losses, claims, damages, liabilities or expenses referred to therein (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriter, on the other hand, from the offering of the Common Shares pursuant to this Agreement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriter, on the other hand, in connection with the statements or omissions or inaccuracies in the representations and warranties herein which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriter, on the other hand, in connection with the offering of the Common Shares pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Common Shares pursuant to this Agreement (before deducting expenses) received by the Company, and the total underwriting discount received by the Underwriter, in each case as set forth on the front cover page of the Prospectus (or, if Rule 434 under the Securities Act is used, the corresponding location on the Term Sheet) bear to the aggregate initial public offering price of the Common Shares as set

forth on such cover. The relative fault of the Company, on the one hand, and the Underwriter, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact or any such inaccurate or alleged inaccurate representation or warranty relates to information supplied by the Company, on the one hand, or the Underwriter, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 7(c), any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in Section 7(c) with respect to notice of commencement of any action shall apply if a claim for contribution is to be made under this Section 8; provided, however, that no additional notice shall be required with respect to any action for which notice has been given under Section 7(c) for purposes of indemnification.

The Company and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 8.

Notwithstanding the provisions of this Section 8, the Underwriter shall not be required to contribute any amount in excess of the underwriting commissions received by the Underwriter in connection with the Common Shares underwritten by it and distributed to the public. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each officer and employee of the Underwriter and each person, if any, who controls the Underwriter within the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as the Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company with the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as the Company.

9. TERMINATION. This Agreement shall be subject to termination by notice given by you to the Company, if (a) after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, Inc., the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and (b) in the case of any of the events specified in clauses 8(a)(i) through 8(a)(iv), such event, singly or together with any other such event, makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

10. EFFECTIVENESS. This Agreement shall become effective upon

the execution and delivery hereof by the parties hereto.

11. COUNTERPARTS. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

12. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

13. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

ALLIED CAPITAL CORPORATION

By: _____

Name: _____

Title: _____

Accepted as of the date hereof

_____

By: _____

Name: _____

Title: _____

SCHEDULE I

UNDERWRITER

Underwriter	Aggregate Principal Amount of Securities to be Purchased
----------	----------
----------.....	
Total Firm Shares.....	
	==========

EXHIBIT A

_____, 1999

Ladies and Gentlemen:

The undersigned understands that_____

(the "UNDERWRITER") proposes to enter into an Underwriting Agreement (the "UNDERWRITING AGREEMENT") with Allied Capital Corporation, a Maryland corporation (the "COMPANY") providing for the public offering (the "PUBLIC OFFERING") by the Underwriter of _____ shares (the "SHARES") of the common stock, $0.0001 par value per share, of the Company (the "COMMON STOCK").

To induce the Underwriter to continue its efforts in connection with the Public Offering, the undersigned hereby agrees that, without the prior written consent of the Underwriter, it will not, during the period commencing on the date hereof and ending 90 days after the date of the final prospectus relating to the Public Offering (the "PROSPECTUS"), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (a) the sale of any Shares to the Underwriter pursuant to the Underwriting Agreement or (b) transactions relating to shares of Common Stock or other securities acquired in open market transactions after the completion of the Public Offering.

Whether or not the Public Offering actually occurs depends on a number of factors, including market conditions. Any Public Offering will only be made pursuant to an Underwriting Agreement, the terms of which are subject to negotiation between the Company and the Underwriter.

Very truly yours,

Name

EXHIBIT EX-99.2L

Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

March 26, 1999

STEVEN B. BOEHM

DIRECT LINE: (202) 383-0176

Internet: sboehm@sablaw.com

Allied Capital Corporation
1919 Pennsylvania Avenue, N.W.
3rd Floor
Washington, D.C. 20006

Ladies and Gentlemen:

We have acted as counsel to Allied Capital Corporation, a Maryland corporation (the "Company") in connection with the offering from time to time by the Company of up to 6,000,000 shares of the Company's common stock, par value $0.0001 per share (the "Shares"), which offering is the subject of a registration statement on Form N-2 (the "Registration Statement"), under the Securities Act of 1933, as amended (the "Act") being filed by the Company. The Registration Statement provides that the shares may be offered in amounts, at prices, and on terms to be set forth in one or more supplements (each a "Prospectus Supplement") to the final prospectus (the "Prospectus").

We have participated in the preparation of the Registration Statement and have examined originals or copies, certified or otherwise identified to our satisfaction by public officials or officers of the Company as authentic copies of originals, of (i) the Company's charter (the "Charter") and its bylaws, (ii) resolutions of the board of directors of the Company relating to the authorization of the preparation and filing of the Registration Statement and approving the offer and the issuance of the Shares, and (iii) such other documents as in our judgment were necessary to enable us to render the opinions expressed below. In our review and examination of all such documents, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents and records submitted to us as originals, and the conformity with authentic originals of all documents and records submitted to us as copies. To the extent we have deemed appropriate, we have relied upon certificates of public officials and certificates and statements of corporate officers of the Company as to certain factual matters.

We assume that prior to the issuance of any Shares there will exist, under the Charter of the Company, the requisite number of authorized but unissued shares of common stock of the Company. In addition, we assume that underwriting agreements for the offerings of the Shares (an "Underwriting Agreement") will be valid and legally binding agreements that conform to the description thereof set forth in the applicable Prospectus Supplement.

We assume that the issuance, sale and amount of the Shares to be offered from time to time will be authorized and determined by proper action of the Board of Directors of the Company in accordance with the parameters described in the Registration Statement (each, a "Board Action") and in accordance with the Company's Charter and Bylaws and with applicable Maryland law.

This opinion is limited to the laws of the State of Maryland, and we express no opinion with respect to the laws of any other jurisdiction. The opinions expressed in this letter are based on our review of the General Corporate Law of Maryland.

Based upon and subject to the foregoing and our investigation of such matters of law as we have considered advisable, we are of the opinion that:

1. The Company is a corporation duly incorporated and existing under the laws of the State of Maryland.

2. Upon due authorization by Board Action of the issuance of the Shares, and upon the consummation of sale of Shares and the payment of the consideration therefor in accordance with the terms and provisions of such Board Action, the Registration Statement (as declared effective under the Act), the Prospectus or the applicable Prospectus Supplement and, if applicable, an Underwriting Agreement, the Shares will be duly authorized, validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm in the "Legal Matters" section of the prospectus included in the Registration Statement. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,
Sutherland Asbill & Brennan LLP

By: /s/ Steven B. Boehm

Steven B. Boehm

SSB/gth

EXHIBIT EX-99.2n.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated February 18, 1999, and to all references to our firm included in this registration statement.

/s/ Arthur Andersen

Vienna, VA
March 26, 1999

<TABLE> <S> <C>

<ARTICLE> 6
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALLIED CAPITAL CORPORATION AND SUBSIDIARIES' CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENTS OF OPERATIONS, CHANGES IN NET ASSETS AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS INCORPORATED BY REFERENCE IN FORM N-2.
</LEGEND>
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	DEC-31-1998
<INVESTMENTS-AT-COST>	796,389
<INVESTMENTS-AT-VALUE>	800,274
<RECEIVABLES>	0
<ASSETS-OTHER>	30,730
<OTHER-ITEMS-ASSETS>	25,075
<TOTAL-ASSETS>	856,079
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	239,350
<OTHER-ITEMS-LIABILITIES>	124,612
<TOTAL-LIABILITIES>	363,962
<SENIOR-EQUITY>	6
<PAID-IN-CAPITAL-COMMON>	526,824
<SHARES-COMMON-STOCK>	55,919
<SHARES-COMMON-PRIOR>	52,047
<ACCUMULATED-NII-CURRENT>	(927)
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	0
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	2,380
<NET-ASSETS>	485,117
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	79,921
<OTHER-INCOME>	26,817
<EXPENSES-NET>	51,493
<NET-INVESTMENT-INCOME>	55,245
<REALIZED-GAINS-CURRENT>	22,541
<APPREC-INCREASE-CURRENT>	1,079
<NET-CHANGE-FROM-OPS>	78,078
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	49,627
<DISTRIBUTIONS-OF-GAINS>	25,690
<DISTRIBUTIONS-OTHER>	0

<NUMBER-OF-SHARES-SOLD>	4,374
<NUMBER-OF-SHARES-REDEEMED>	810
<SHARES-REINVESTED>	241
<NET-CHANGE-IN-ASSETS>	65,057
<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	2,679
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	3,123
<INTEREST-EXPENSE>	20,694
<GROSS-EXPENSE>	51,493
<AVERAGE-NET-ASSETS>	452,588
<PER-SHARE-NAV-BEGIN>	8.07
<PER-SHARE-NII>	1.06
<PER-SHARE-GAIN-APPREC>	0.45
<PER-SHARE-DIVIDEND>	1.43
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	8.68
<EXPENSE-RATIO>	0.11
<AVG-DEBT-OUTSTANDING>	372,388
<AVG-DEBT-PER-SHARE>	7.16

</TABLE>