

Results.



2005 ANNUAL REPORT

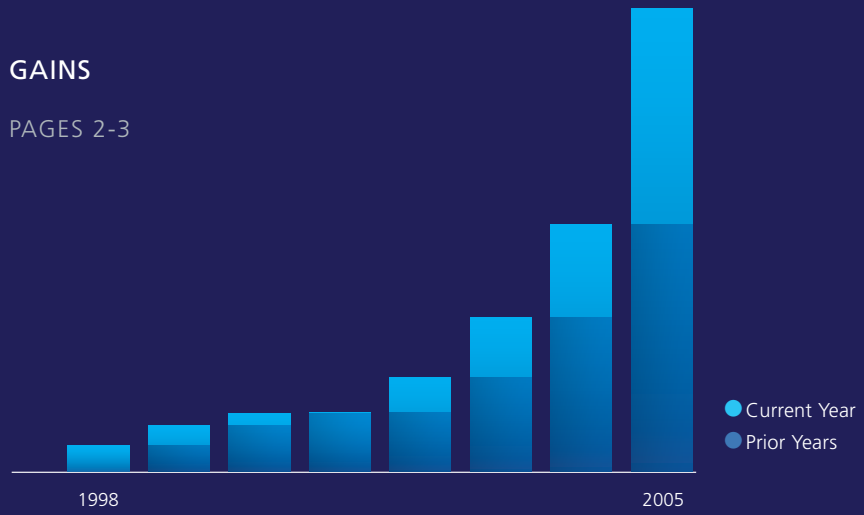
Allied Capital, one of the nation's most established business development companies (BDCs), has been investing in American businesses for almost a half century. Congress created BDCs to provide capital and assistance to mid-sized American companies that often lack access to needed resources. Since our founding in 1958, Allied Capital has been doing just that, investing more than \$9 billion in thousands of companies, helping them grow and prosper, and supporting a strong American economy.

FINANCIAL HIGHLIGHTS

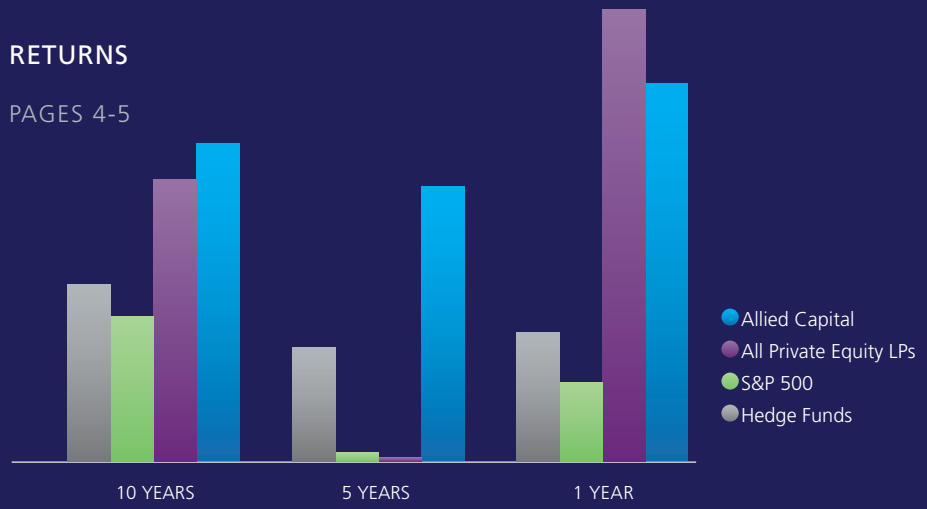
(in thousands, except per share amounts)

As of and for the years ended December 31,	2005	2004	2003
Portfolio at value	\$3,606,355	\$3,013,411	\$2,584,599
Total assets	\$4,025,880	\$3,260,998	\$3,019,870
Total debt outstanding	\$1,284,790	\$1,176,568	\$ 954,200
Shareholders' equity	\$2,620,546	\$1,979,778	\$1,914,577
Net asset value per common share	\$ 19.17	\$ 14.87	\$ 14.94
Total interest and related portfolio income	\$ 374,152	\$ 367,090	\$ 329,229
Net investment income	\$ 137,226	\$ 200,958	\$ 195,130
Net realized gains	\$ 273,496	\$ 117,240	\$ 75,347
Net change in unrealized appreciation or depreciation	\$ 462,092	\$ (68,712)	\$ (78,466)
Net income	\$ 872,814	\$ 249,486	\$ 192,011
Diluted earnings per common share	\$ 6.36	\$ 1.88	\$ 1.62
Net investment income and net realized gains per common share	\$ 2.99	\$ 2.40	\$ 2.28
Dividends per common share	\$ 2.33	\$ 2.30	\$ 2.28
Weighted average common shares outstanding—diluted	137,274	132,458	118,351

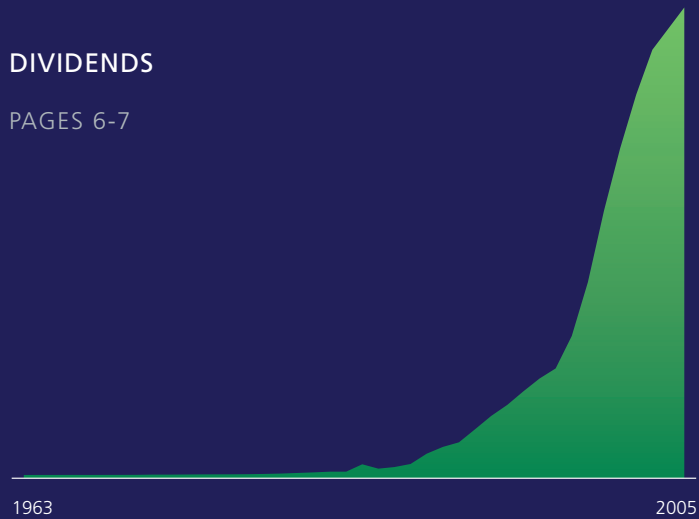
GAINS
PAGES 2-3



RETURNS
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DIVIDENDS
PAGES 6-7



▶ Gains

Allied Capital is a private equity investor. We invest in long-term debt and equity securities that are structured to provide current income and net realized gains. Our investment approach is a balanced one that includes making debt and buyout investments.

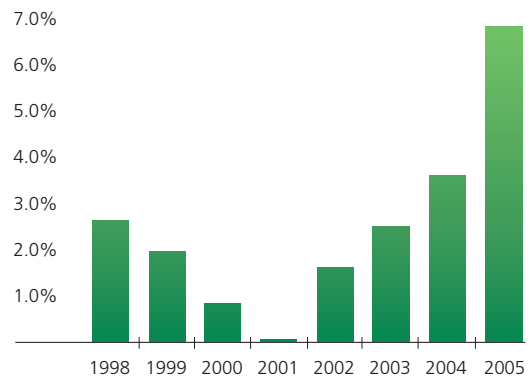
Buyout investments are structured to earn predictable, current interest and fee income, complemented by the opportunity for significant long-term gains as a portfolio company grows. We are a proactive investor and partner with our portfolio companies and we seek to increase their value over time.

Our investment in a portfolio company is more than just a financial relationship. As a BDC, we have a regulatory mandate to make available significant managerial assistance to our portfolio companies. We do this in areas such as corporate finance, marketing, human resources and general business guidance. By providing this managerial assistance, we work to help maximize portfolio company performance, which may increase our investment returns over time through the net realized gains we may collect upon exit.

In addition to our private debt and equity investing activities, we also have been an opportunistic investor in real estate throughout our history, most recently as a CMBS investor. We entered CMBS investing in 1998 during a market trough and exited in 2005 at what we believed to be a market top. We realized a \$228 million gain on the sale of our CMBS/CDO portfolio. We believe this provides a clear example of our overall investment strategy to selectively pursue attractive investment opportunities as they arise.

Our track record of harvesting net realized gains from the portfolio since 1998 is presented on the opposite page. Since the beginning of 1998, we have realized \$575.1 million in net realized gains, including \$273.5 million in 2005. Net realized gains provide a meaningful component of the total return from our portfolio and we believe that our ability to generate such net realized gains has provided stability for the dividend we pay to shareholders.

NET REALIZED GAINS AS PERCENTAGE OF TOTAL ASSETS



Depicts net realized gains as a percentage of year-end total assets for each of the years shown.

IN MILLIONS

\$600

NET REALIZED GAINS

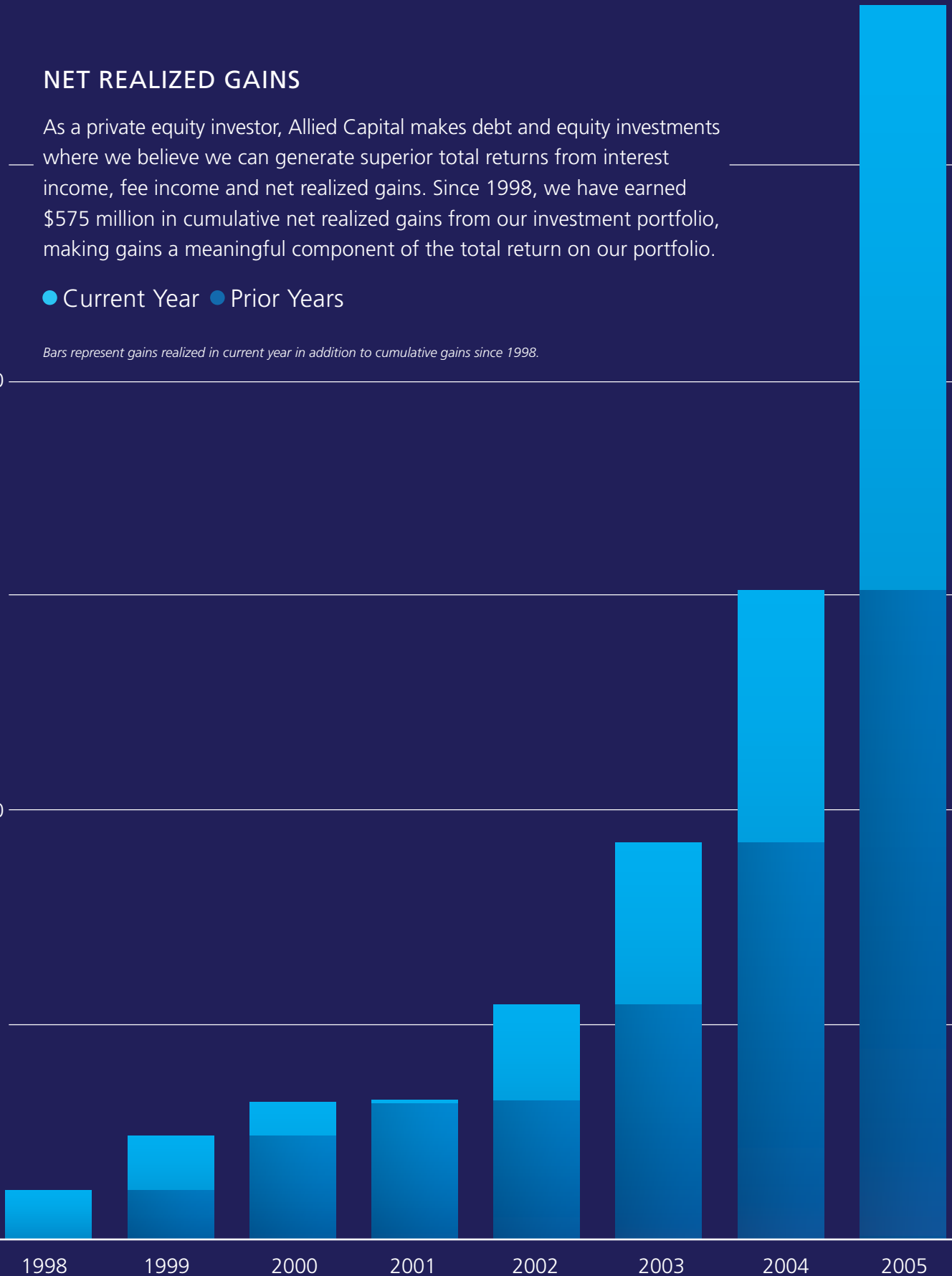
As a private equity investor, Allied Capital makes debt and equity investments where we believe we can generate superior total returns from interest income, fee income and net realized gains. Since 1998, we have earned \$575 million in cumulative net realized gains from our investment portfolio, making gains a meaningful component of the total return on our portfolio.

● Current Year ● Prior Years

Bars represent gains realized in current year in addition to cumulative gains since 1998.

\$400

\$200



1998

1999

2000

2001

2002

2003

2004

2005

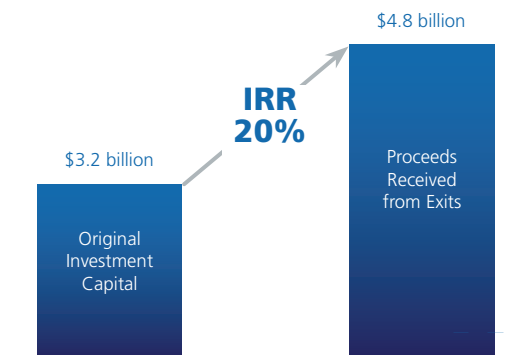
▶ Returns

Allied Capital generally invests in established middle market companies with experienced and capable management teams, dominant or defensible market positions, stable operating margins, significant cash flow and high returns on invested capital. In order to find the best investment opportunities that fit these criteria, we cast a wide net, review many deals, reject the vast majority, and ultimately close approximately 2% to 3% of deals reviewed.

We are a total return investor and we pursue both current income and net realized gains through our balanced approach of debt and buyout investing. We emphasize quality asset selection over quantity and follow consistent investment guidelines that emphasize preservation of capital, high returns on invested capital, ability to generate free cash flow, and the potential for future realized gains. Our approach is a disciplined one that maintains a centralized, credit-based approval process and requires extensive due diligence. We believe the results of this approach have made us a leader in middle market private equity investing.

A private equity investor's performance is generally measured by the returns earned on its portfolio, or the portfolio internal rate of return, or "IRR." After all, it is the gross return on the portfolio that drives investor returns, or in our case, the total return to our shareholders. Our portfolio aggregate cash flow IRR for investment exits since the Allied Capital merger on December 31, 1997, through December 31, 2005, is shown in the chart on this page. The portfolio's IRR has been approximately 20%*, which reflects the benefits of our balanced portfolio approach, effective investment selection and post-investment value creation as a private equity investor. In gross dollars, we invested \$3.2 billion, and received proceeds including invested capital, interest, fees and net gains totaling \$4.8 billion. Roughly 92% of the \$3.2 billion invested was in companies we financed after the merger. The average holding period for these investments was approximately three years.*

PORTFOLIO RETURNS



Depicts the aggregate cash flow internal rate of return on Allied Capital portfolio exits of private finance and CMBS/CDO investments since December 31, 1997, through December 31, 2005. The aggregate cash flow IRR for private finance investments was approximately 18% and for CMBS/CDO investments was approximately 24% for the same period.

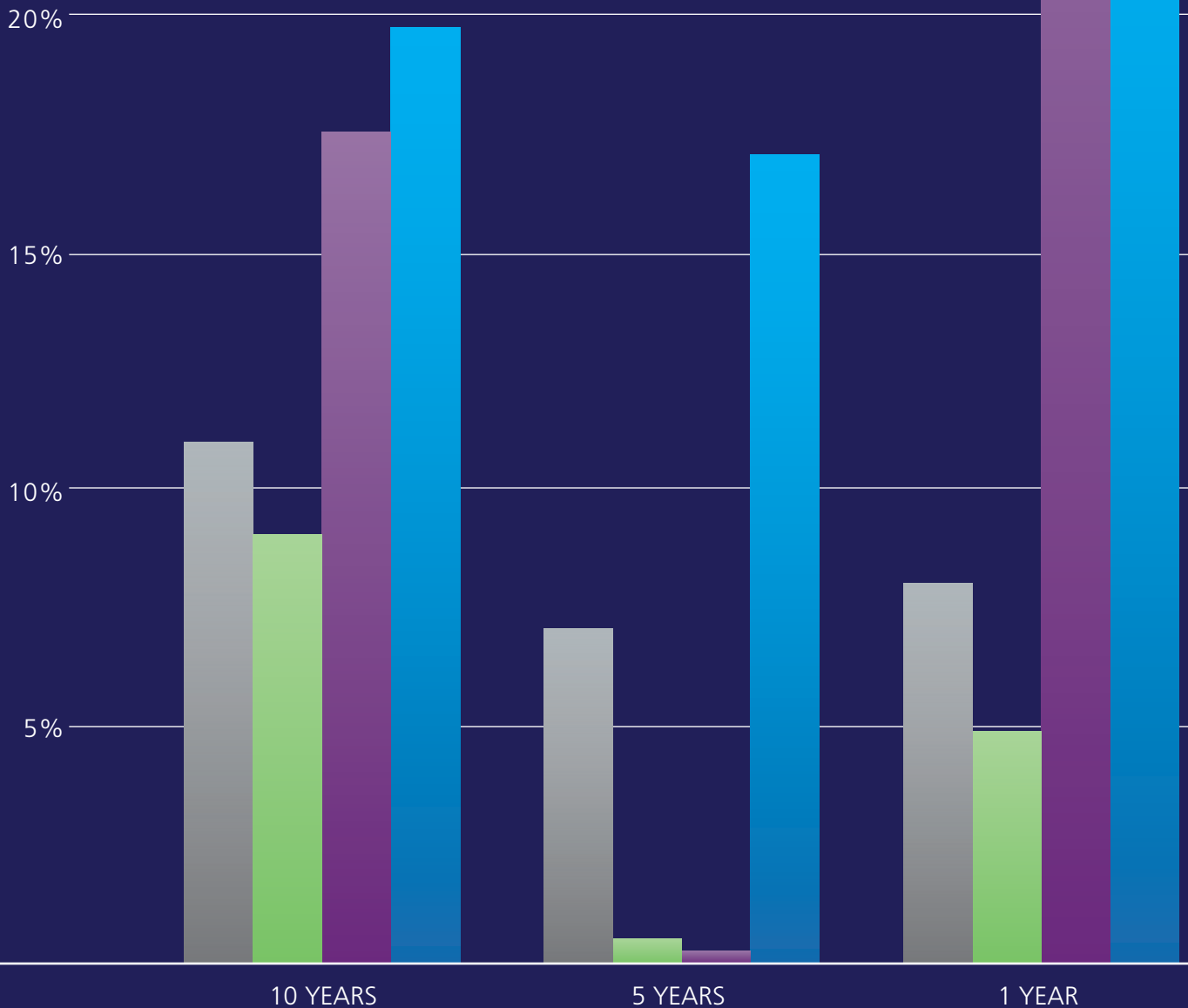
* Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of our debt investment or sale of an equity investment, or through the determination that no further consideration was collectible and, thus, a loss may have been realized. These IRR results represent historical results and historical results are not necessarily indicative of future results. FTI Consulting, Inc., ("FTI"), has provided confidential, non-public, limited consulting procedures to Allied Capital. Based on these limited consulting procedures and the assumptions, methodologies, conditions and disclaimers noted in FTI's report to Allied Capital, nothing came to FTI's attention which would lead them to believe that, taken as a whole, the Portfolio Aggregate Cash Flows IRR or the weighted average holding period is unreasonable or requires a material modification. The results of this consulting are intended only for Allied Capital and its designees. While FTI agrees to disclosure of the consulting results, FTI disclaims any responsibility for, reliance on or use of this information by any third party or individual other than Allied Capital and the intended recipients of the consulting work.

SHAREHOLDER RETURNS

30% — In 2005, our total return to shareholders was 23.5%, as compared to about 8% for hedge funds, 5% for the S&P 500, and 28% for private equity partnerships. Over the past five and ten years, our total return to shareholders has been 17.1% and 19.8%, respectively, outperforming all of these indices.

25% — ● Hedge Funds ● S&P 500 ● All Private Equity LPs ● Allied Capital

Total returns for the S&P 500 and Allied Capital stock are calculated assuming all dividends are reinvested. Returns for All Private Equity LPs reflect the latest available information from Thomson Venture Economics/IVCA and are based on aggregate portfolio cash flow returns, net of management fees, expenses, and carried interest, and include the residual value of the funds' portfolio holdings. Hedge fund returns are sourced from the Hennessee Group.



▶ Dividends

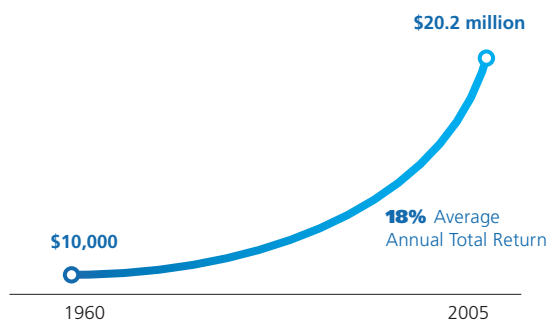
Allied Capital's portfolio earns net investment income through interest income received on loans and debt securities and through fees and other income. Our portfolio is also designed to earn net realized gains over time. It is the combination of these sources of taxable income, on an annual basis, that helps to pay a recurring quarterly dividend.

In 2005, we were able to increase the visibility for future dividends by generating significant "spillover" taxable income. For the year, our taxable income available for dividends exceeded dividends paid by approximately \$160 million. This excess income will be carried forward into 2006, where it will be available to pay 2006 dividends. Spillover income is essentially taxable income that has been earned in advance of future dividend payments.

As a regulated investment company, Allied Capital distributes substantially all of its taxable income to shareholders in the form of quarterly cash dividends. Our dividend record is noteworthy in that we began paying quarterly dividends in 1963 and have consistently sustained or grown the sum of our quarterly dividends annually. Only approximately 2% of all NYSE-listed companies have provided such an outstanding record of long-term dividend payments.*

The dividend is also a meaningful component of our total return to shareholders. The graph above illustrates that a \$10,000 investment in Allied Capital stock at the time of our IPO in 1960, with all dividends reinvested, would have been worth \$20.2 million at December 31, 2005, representing an 18% average annual total return for shareholders.

LONG-TERM GROWTH



As of December 31, 2005; assumes all dividends are reinvested and reflects share price appreciation.

*Source: ©200510 CRSP®, Center for Research in Security Prices, Graduate School of Business, The University of Chicago used with permission. All rights reserved. www.crsp.uchicago.edu.

IN MILLIONS

\$300

DIVIDENDS PAID

Allied Capital's results have produced reliable and growing dividend income for our shareholders—we have been paying steady or increasing regular quarterly dividends annually since 1963. Over the years, those distributions have resulted in almost \$2 billion in distributions to our shareholders.

Dividends paid include all regular quarterly and extra dividends paid by Allied Capital (old) prior to the December 31, 1997 merger of the five affiliated Allied Capital companies, as well as the dividends paid by Allied Capital (new) post-merger. Data excludes any special dividends, the merger-related dividends in 1997, and paid-in-kind distributions.

\$200

\$100

1963

2005



DEAR FELLOW SHAREHOLDERS:

During 2005, our continued success in the private equity marketplace drove superior results for our company—and for our shareholders.

We generated a record level—over \$400 million—of net investment income and net realized gains in 2005. With the sale of our CMBS/CDO portfolio and other portfolio company exits, net gains totaled \$273.5 million, an all-time high. We also grew our private finance portfolio by 51% to \$3.5 billion, funding \$1.5 billion in new investments.

With this investment performance, we paid a record \$315 million in dividends to shareholders. And because we earned more in taxable income than we paid in dividends, we are carrying over approximately \$160 million from 2005 to pay 2006 dividends. Our total return to shareholders in 2005 was 23.5%, versus 4.9% for the S&P 500.

2006 is off to a good start too, highlighted by a potential gain of approximately \$415 million on the anticipated sale of our majority equity interest in Advantage Sales & Marketing.

Our results in 2005 demonstrate two important competitive advantages that we enjoy as a private equity investor. The first is our team of talented professionals, with experience and expertise in both business and credit disciplines. The second is our conservative capital base, which, as a publicly traded business development company, consists primarily of permanent equity capital.

The quality of our people and our balance sheet forms the bedrock of our investment strategy. Our flexibility to deploy our human and financial capital opportunistically to those areas of the private equity business that offer the most promising risk/return profile is a significant competitive advantage. This is evidenced by our track record in commercial mortgage-backed securities, traditional debt investments and, more recently, buyout investments.

We laid the foundation for this strategy back in 1997 with the merger of five public Allied Capital companies into one entity. Our goal was to create a larger and more flexible platform for growth—a platform that would be

more efficient, that would enable us to attract and retain top-notch talent, and that would provide the resources to increase both the size of our investments and the size of the companies in which we could invest.

As I stated in our annual report that year, in my first letter as your chairman and chief executive officer:

“We saw an opportunity to increase our competitive position and improve our operations through the merger of five public companies... We are ready to move forward... in a way that maximizes our competitive advantages and capitalizes on our more efficient structure and powerful balance sheet... Our business plan is geared to long-term, sustainable growth.”

The success of our strategy over the past eight years is clear: we have significantly grown our business, increased our profitability and outperformed industry benchmarks.

From the beginning of 1998 to the end of 2005, the level of assets and the size of our portfolio grew roughly five times in size, increasing by \$3.2 billion and \$2.9 billion, respectively. Over the same time period, net investment income and net realized gains increased from \$57 million in 1997 to \$411 million in 2005.

Since the beginning of 1998, we’ve generated nearly \$600 million in net realized gains, significantly enhancing the current return on our investment portfolio. In fact, the aggregate cash flow internal rate of return on investments that we have exited since our merger is approximately 20%. This investment portfolio performance has been the foundation for average annual total returns to our shareholders of 23.5%, 17.1% and 19.8% over the last one-, five-, and ten-year periods. For the same periods, the S&P 500 returned 4.9%, 0.5% and 9.1%. And we have achieved these results while maintaining a conservative balance sheet, with leverage at 0.49 to 1 at December 31, 2005.



WILLIAM L. WALTON CHAIRMAN AND CEO

Dividends paid to shareholders have increased five-fold, from \$68 million in 1997 to \$315 million in 2005. We have extended our track record of consecutive dividend payments to 43 years—that’s 169 consecutive quarterly dividend payments. We are one of only a few dozen NYSE-listed stocks to have paid steady or increasing regular dividends since 1963, and are one of only two financial services companies in this elite group.

OUR STRATEGY IN ACTION

As I mentioned, one of the keys to our success in the private equity business is our ability to allocate talent and capital to those areas that offer the most potential. Our investment in commercial real estate securities is a case in point: over the past eight years we generated an aggregate cash flow internal rate of return of nearly 24% from this portfolio.

We entered the market during a time in which CMBS investments were undervalued, due in part to their complexity and illiquidity. As I wrote in our 1998 annual report:

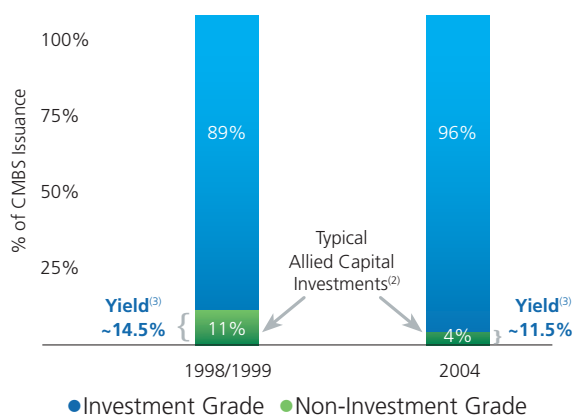
“...in 1998, when the commercial mortgage-backed securities market suffered from extreme illiquidity, we rebalanced talent back into real estate to purchase mortgage-backed securities at discounts in excess of 50%.”

The investment was a good match for us, because of our conservative and patient capital structure, long-term investment horizon and our skill and expertise in analyzing credit risk and in performing extensive and complicated due diligence. And over the years, our commercial real estate finance portfolio performed well. It provided a steady stream of investment income, and occasionally the opportunity to realize gains as we rebalanced the portfolio.

In the last few years, however, the business has grown much more competitive. More investors are searching world-wide for yield. To achieve their desired returns, many are leveraging their investments beyond what we believe is appropriate. The chart on this page illustrates how non-investment grade subordination levels have deteriorated and yields have fallen significantly since we entered the asset class.

After examining various options, we concluded in 2005 that the best course of action was to take advantage of a favorable point in the real estate cycle, sell the entire portfolio to realize the premium value of its critical mass, and redeploy capital into higher return private finance investments. Our realized gain from the sale totaled \$228 million.

DECLINING CMBS INVESTMENT ECONOMICS⁽¹⁾



(1) Represents the total investment grade/non-investment grade composition of CMBS securitizations in which Allied Capital invested during each time period.

(2) Allied Capital typically invested in the non-investment grade tranches (BB to NR) of CMBS securitizations, though occasionally varying amounts of small BBB investments were made.

(3) Represents Allied Capital's weighted average yields on the CMBS investments purchased in each time period.

BUILDING VALUE IN BUYOUTS

As we have developed our private equity resources in recent years, we have seen a significant value creation opportunity emerge in buyout investments. Consequently, we have shifted talent and capital to this area—and we are earning attractive returns.

Since 1998, approximately 50% of our \$575 million in total net realized gains resulted from the sale of buyout investments—\$61 million from Wyoming Technical Institute in 2002, \$150 million from The Hillman Companies in 2004, and \$54 million from Housecall Medical Resources, Inc. in 2005.

This performance underscores our belief that a balanced private finance portfolio, consisting of both debt and

buyout investments, helps to build more consistency and predictability into our dividend.

There are two important facets to our approach to buyout investments. The first relates to investment selectivity: we have a solid track record in identifying and acquiring companies with high returns on invested capital, management teams with meaningful equity ownership, well-constructed balance sheets, and the ability to generate free cash flow. The second relates to value creation: the resources and assistance we provide to portfolio companies often enables them to increase revenues and profitability and to grow in value after we make our initial investment.

Put simply, the capital we provide to fund the growth of our buyout investments is only the first step. We also have the critical mass, and the financial and operating skills to provide significant managerial assistance to our portfolio companies in areas ranging from developing appropriate governance standards, to recruiting and retaining key talent, to improving operations, to developing new business strategies. Here are three recent examples.

In early 2006, we announced a potential \$415 million gain resulting from the anticipated sale of our majority equity interest in Advantage Sales and Marketing. We initially made a debt investment in Advantage Mayer, a member of the Advantage cooperative in 2001. Soon after, we recognized together with the company's management team, that a merger of most of the independently owned Advantage entities could create a much stronger and more efficient enterprise. This led to the Advantage consolidation and Allied Capital's buyout of Advantage in 2004. We then began working with management to integrate the businesses that were acquired: centralizing back-office and non-client facing operations, eliminating operational

redundancies, and pursuing economies of scale. In short, our approach works to build value throughout the entire investment process.

The \$54 million gain we earned on our investment in Housecall Medical Resources also illustrates our investment selectivity and ability to help companies grow. We purchased Housecall, which provides home healthcare and hospice services, from a non-profit hospital system in 2002. We immediately started helping management to build an operational infrastructure to support the company's growth potential. With our capital and operational support, the company significantly increased revenues and earnings over the next three years to become one of the largest privately held companies in its industry.

With the sale of Fairchild Industrial Products Company in 2005, we realized a \$16 million gain, highlighting a successful resolution of a workout asset. Fairchild, a leading manufacturer of precision, high-quality pneumatic and electro-pneumatic industrial control devices, emerged from bankruptcy court protection in July 2004 with our support. We provided capital, helped recruit a new management team, and assisted in refocusing its strategic plan. The company's earnings increased substantially, and its value grew measurably.

PRIVATE FINANCE PORTFOLIO

One of our major goals during 2005 involved reinvesting the proceeds from the CMBS/CDO portfolio sale and building our private finance portfolio. With gross new private finance investment activity during the year, our private finance portfolio grew by \$1.2 billion over the past year and stood at \$3.5 billion at year-end.

Our ability to anticipate changing market conditions, and to develop innovative solutions that appeal to middle

market companies and private equity sponsors, underlies the continued growth of our portfolio.

Today we see significant opportunities to expand the range of debt financing options and instruments we offer beyond traditional subordinated debt to include more senior debt investments. This includes senior/subordinated one-stop financing and unitranche financing, which combines both senior and subordinated debt into one security at an attractive blended yield. These new financing options appeal to the smaller end of the middle market, where companies generally have fewer resources and fewer financing options.

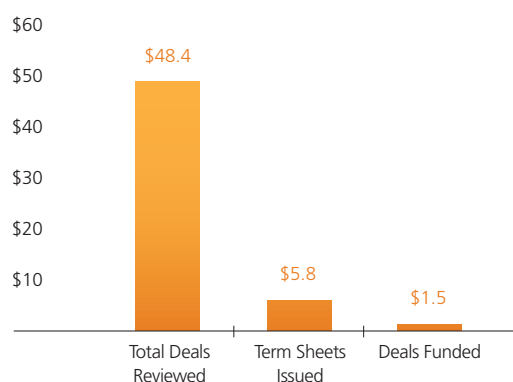
Early in 2006, we took an important step forward in this area by hiring a team of senior lending professionals from Callidus Capital Corporation, a portfolio company of ours, and forming a new subsidiary, AC Finance, to focus exclusively on this market segment. In today's market, the ability to provide senior debt complements our attractiveness as an investment partner. By having this capability housed under one roof along with our traditional private finance investment professionals, we believe we will be able to more seamlessly and efficiently capture market opportunities.

The growth of our portfolio also resulted from our success in expanding new business development activity and our presence in key centers of private finance. As we've discussed, we have added business development and investment professionals in all of our office locations: Washington, New York, Chicago and Los Angeles. The ultimate goal of these efforts is to develop relationships and add capacity so that we can see and analyze more deals and maintain our investment selectivity. In evaluating our progress during 2005, we believe we are achieving the desired results.

We estimate that during the year we reviewed nearly 1,200 transactions with a total value of \$48 billion. This is

significantly more than we reviewed in 2004. After our initial due diligence, we issued term sheets for about 12% of the aggregate deal flow. We don't complete every deal, either because it doesn't get through our due diligence review or because a competitor wins the transaction. At the end of the day, we closed about 2% to 3% of the deals that we reviewed.

2005 PRIVATE FINANCE INVESTMENT SELECTIVITY IN \$ BILLIONS



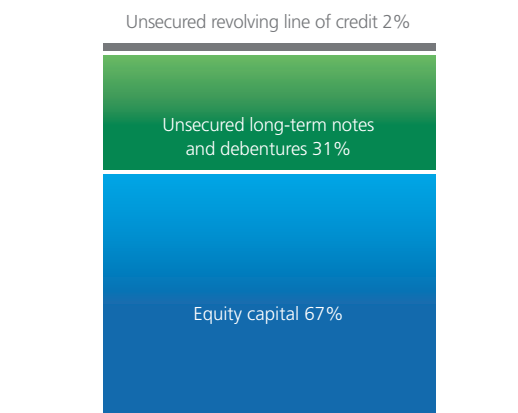
CONSERVATIVE CAPITAL STRUCTURE

While we have remained selective in expanding our portfolio, we have also maintained a conservative capital structure and balance sheet. At year-end, debt to equity stood at 0.49 to 1. This means for every dollar of equity capital we have, we have 49 cents of debt capital. This is far below our 1:1 maximum leverage limitation, and it is also far below that of most other financial institutions. We feel this conservative approach to our leverage and liquidity is appropriate for holding long-term illiquid assets.

During the year, we expanded our sources of capital, raising \$350 million in unsecured long-term debt from 24 financial institutions. We now have long-term finance

CAPITAL STRUCTURE

AT DECEMBER 31, 2005



relationships with approximately 40 financial institutions. We also increased our unsecured revolving line of credit, receiving total commitments of \$772.5 million from 18 institutions, expandable up to \$922.5 million.

THE YEAR AHEAD

Changes in the private equity market are always difficult to predict. Based on what we see now, the level of M&A and LBO activity looks positive and our pipeline of deal flow is robust. We do, however, remain cautious about transaction leverage and pricing, and believe in this environment a conservative approach is warranted.

Our primary business focus in 2006 is to continue our progress in building our private finance portfolio, adding new debt and equity investments, while at the same time maintaining our investment selectivity.

This will enable us to continue to generate a healthy balance of net investment income and net gains—and ultimately to further grow our dividend.

As we have discussed, our strategy regarding dividend growth is to declare an increase to the regular dividend

when we believe we can sustain the higher rate over the foreseeable future. This means that the net investment income and net realized gains, which are the primary sources of taxable income from which the dividend is paid, need to be running at a level that is consistently at or above that of our total dividend payment.

For 2005, our taxable income available for dividends totaled about \$160 million more than the \$315 million we paid out in dividends. As a result, we carried over into 2006 the excess taxable income, providing greater visibility into future dividend payments. Spillover income of \$160 million represents approximately two quarters of regular dividends assuming a \$0.59 quarterly dividend per share. Of course, the anticipated Advantage gain is also expected to generate spillover income available to pay future dividends.

Let me close with a word of thanks to our shareholders for the continuing support you have shown for our company. We have worked hard over the years to communicate our strategy and our position on key issues affecting the company.

Our commitment to build value for you is firmer than ever, and it is reflected each and every day in the hard work of our entire team of employees. The success of any company depends, not just on its strategy, but on the quality, talent and commitment of its people. As our results demonstrate, we believe Allied Capital has both the right strategy and the right people in place for continued success.

William L. Walton
Chairman and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

As of and for the Years Ended December 31,	2005	2004	2003	2002	2001
OPERATING DATA					
Total interest and related portfolio income	\$ 374,152	\$ 367,090	\$ 329,229	\$ 309,928	\$ 289,110
Total operating expenses	\$ 225,365	\$ 164,075	\$ 136,565	\$ 125,073	\$ 110,059
Income tax expense (benefit), including excise taxes	\$ 11,561	\$ 2,057	\$ (2,466)	\$ 930	\$ (412)
Net investment income	\$ 137,226	\$ 200,958	\$ 195,130	\$ 183,925	\$ 179,463
Net realized gains	\$ 273,496	\$ 117,240	\$ 75,347	\$ 44,937	\$ 661
Net change in unrealized appreciation or depreciation	\$ 462,092	\$ (68,712)	\$ (78,466)	\$ (571)	\$ 20,603
Net increase in net assets resulting from operations	\$ 872,814	\$ 249,486	\$ 192,011	\$ 228,291	\$ 200,727
Diluted earnings per common share	\$ 6.36	\$ 1.88	\$ 1.62	\$ 2.20	\$ 2.16
Net investment income and net realized gains per common share ⁽¹⁾	\$ 2.99	\$ 2.40	\$ 2.28	\$ 2.21	\$ 1.93
Dividends per common share ⁽¹⁾	\$ 2.33	\$ 2.30	\$ 2.28	\$ 2.23	\$ 2.01
Weighted average common shares outstanding—diluted	137,274	132,458	118,351	103,574	93,003
BALANCE SHEET DATA					
Portfolio at value	\$3,606,355	\$3,013,411	\$2,584,599	\$2,488,167	\$2,329,590
Total assets	\$4,025,880	\$3,260,998	\$3,019,870	\$2,794,319	\$2,460,713
Total debt outstanding	\$1,284,790	\$1,176,568	\$ 954,200	\$ 998,450	\$1,020,806
Shareholders' equity	\$2,620,546	\$1,979,778	\$1,914,577	\$1,546,071	\$1,352,123
Shareholders' equity per common share (NAV)	\$ 19.17	\$ 14.87	\$ 14.94	\$ 14.22	\$ 13.57
Common shares outstanding at end of year	136,697	133,099	128,118	108,698	99,607
OTHER DATA					
Investments funded	\$1,675,773	\$1,524,523	\$ 931,450	\$ 506,376	\$ 680,329
Repayments and sales	\$1,503,388	\$ 909,189	\$ 788,328	\$ 356,641	\$ 204,441
Realized gains	\$ 343,061	\$ 267,702	\$ 94,305	\$ 95,562	\$ 10,107
Realized losses	\$ (69,565)	\$ (150,462)	\$ (18,958)	\$ (50,625)	\$ (9,446)

(1) Dividends are based on taxable income, which differs from income for financial reporting purposes. Net investment income and net realized gains are the most significant components of our annual taxable income from which dividends are paid.

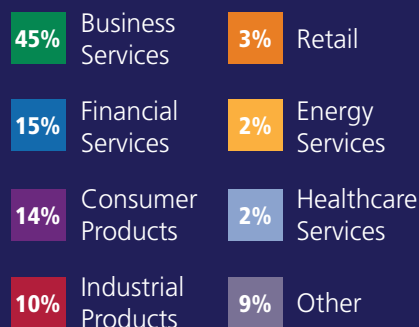
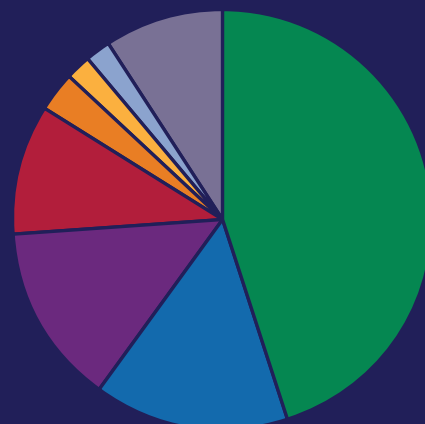
About Our Portfolio

Allied Capital provides long-term debt and equity capital to middle market companies, which are the backbone of the American entrepreneurial economy. Our capital supports buyouts, recapitalizations, acquisitions and growth financings. Our unique structure as a public, NYSE-listed company allows us to provide financing at all levels of the capital structure, from senior debt to second lien and subordinated debt through equity. The permanent nature of our capital affords us a long-term investment horizon without the need to exit a transaction based on market cycles or a limited fund life. Our patient, value-added approach to investing has made us a proven partner to companies, management teams and sponsors.

Allied Capital is a leading business development company with over 45 years of experience investing in middle market businesses. Founded in 1958, Allied Capital went public in 1960 and today manages over \$4 billion in total assets. Our private finance portfolio includes over 100 companies that generate aggregate annual revenues of over \$10 billion and employ more than 85,000 people nationwide.

INDUSTRIES

AT DECEMBER 31, 2005



TRANSACTION TYPES

- Growth Capital
- Acquisitions
- Buyouts
- Recapitalizations
- Note Purchases
- Refinancings

INVESTMENT SIZE

Debt Transactions
\$10 million–\$100 million

Buyout Transactions
\$50 million–\$250 million

Board of Directors



William L. Walton⁽¹⁾
Chairman and
Chief Executive Officer,
Allied Capital Corporation



Joan M. Sweeney
Chief Operating Officer,
Allied Capital Corporation



Ann Torre Bates⁽²⁾
Consultant



Brooks H. Browne^(2,3)
Private Investor



John D. Firestone^(3,4)
Partner, Secor Group



Anthony T. Garcia^(2,3)
Private Investor



Edwin L. Harper⁽¹⁾
Senior Vice President,
Assurant, Inc.



Lawrence I. Hebert^(1,4)
Senior Advisor,
PNC Bank



John I. Leahy^(1,3)
President,
Management and
Marketing Associates



Robert E. Long⁽¹⁾
President,
Ariba GLB Group, Inc.



Alex J. Pollock^(1,4)
Resident Fellow,
The American
Enterprise Institute



Marc F. Racicot^(3,4)
President,
American Insurance
Association



Guy T. Steuart II⁽¹⁾
Chairman,
Steuart Investment
Corporation



Laura W. van Roijen⁽²⁾
Private Investor

(1) Executive Committee (2) Audit Committee (3) Compensation Committee (4) Corporate Governance/Nominating Committee

Senior Management

MANAGEMENT COMMITTEE

William L. Walton, Chair
Joan M. Sweeney
Penni F. Roll
Scott S. Binder
Michael J. Grisius
Jeri J. Harman
Thomas C. Lauer
Robert D. Long
Justin S. Maccarone
Daniel L. Russell
John M. Scheurer
John D. Shulman

INVESTMENT COMMITTEE

William L. Walton, Chair
Joan M. Sweeney
Penni F. Roll
James A. Fisher
John M. Fruehwirth
Michael J. Grisius
Jeri J. Harman
Thomas C. Lauer
Robert D. Long
Justin S. Maccarone
Robert M. Monk
Daniel L. Russell
John M. Scheurer
John D. Shulman

PORTFOLIO MANAGEMENT COMMITTEE

William L. Walton, Chair
Joan M. Sweeney
Penni F. Roll
Christina L. DeDonna
N. John Fontana
John M. Scheurer

OTHER SENIOR OFFICERS

Kelly A. Anderson
Executive Vice President
and Treasurer
Ralph G. Blasey III
Executive Vice President
and Private Finance Counsel
R. Dale Lynch
Executive Vice President
and Director of Investor Relations
Diane E. Murphy
Executive Vice President
and Director of Human Resources
Suzanne V. Sparrow
Executive Vice President,
Chief Compliance Officer
and Secretary

STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS

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Washington, DC 20006
Toll free: 888.818.5298
Telephone: 202.721.6100
Fax: 202.721.6101
www.alliedcapital.com

REGIONAL OFFICES

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Suite 3310
Chicago, IL 60611
Telephone: 312.846.5100
Fax: 312.846.5101

520 Madison Avenue
27th Floor
New York, NY 10022
Telephone: 212.822.7800
Fax: 212.822.7801

11111 Santa Monica Boulevard
Suite 2100
Los Angeles, CA 90025
Telephone: 310.689.2800
Fax: 310.689.2801

MARKET LISTING

Allied Capital Corporation's common stock trades on the New York Stock Exchange under the trading symbol ALD. There are approximately 4,900 shareholders of record and approximately 166,000 beneficial shareholders of the Company.

STOCK TRANSFER AGENT AND REGISTRAR

Investors with questions concerning account information, new certificate issuances, lost or stolen certificate replacement, securities transfers, participation in the dividend reinvestment plan, dividend payments, direct deposit information, or the processing of a change of address should contact:

American Stock Transfer
& Trust Company
59 Maiden Lane, 1st Floor
New York, NY 10038
Telephone: 800.937.5449 or
212.936.5100
www.amstock.com

INFORMATION REQUESTS

Allied Capital Corporation's annual report on Form 10-K, all quarterly reports on Form 10-Q, and all other filings made with the Securities and Exchange Commission are available on the Company's web site. Hard copies will be provided without charge to shareholders upon written request to the Investor Relations Department at the Company's corporate headquarters, or may be requested online in the Investor Resources section of www.alliedcapital.com.

INVESTOR RELATIONS

IR Hotline: 888.253.0512
ir@alliedcapital.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
Washington, DC

CORPORATE COUNSEL

Sutherland Asbill & Brennan LLP
Washington, DC

ANNUAL MEETING OF STOCKHOLDERS

The Company's Annual Meeting of Stockholders will be held at 10:00 a.m. on Tuesday, May 16, 2006, at the Madison Hotel, Fifteenth and M Streets, NW, Washington, DC. All stockholders are welcome to attend.

QUARTERLY STOCK PRICES FOR 2005 AND 2004

	2005				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	\$27.84	\$29.29	\$29.17	\$30.80	\$30.85	\$30.25	\$25.80	\$28.47
Low	\$24.89	\$25.83	\$26.92	\$26.11	\$27.15	\$23.06	\$22.22	\$24.46
Close	\$26.10	\$29.11	\$28.63	\$29.37	\$30.29	\$24.42	\$24.39	\$25.84



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