

ALLIED CAPITAL CORP
Form 10-Q
November 10, 2008

FORM 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For The Quarterly Period
Ended September 30, 2008**

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**Commission File Number:
0-22832**

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

Maryland
*(State or Jurisdiction of
Incorporation or Organization)*

52-1081052
*(IRS Employer
Identification No.)*

**1919 Pennsylvania Avenue, N.W.
Washington, DC 20006**
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (202) 721-6100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

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On November 7, 2008, there were 178,691,875 shares outstanding of the Registrant's common stock, \$0.0001 par value.

ALLIED CAPITAL CORPORATION

FORM 10-Q TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet as of September 30, 2008 (unaudited) and December 31, 2007	1
Consolidated Statement of Operations (unaudited) For the Three and Nine Months Ended September 30, 2008 and 2007	2
Consolidated Statement of Changes in Net Assets (unaudited) For the Nine Months Ended September 30, 2008 and 2007	3
Consolidated Statement of Cash Flows (unaudited) For the Nine Months Ended September 30, 2008 and 2007	4
Consolidated Statement of Investments as of September 30, 2008 (unaudited)	5
Consolidated Statement of Investments as of December 31, 2007	21
Notes to Consolidated Financial Statements	36
Report of Independent Registered Public Accounting Firm	71
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	76
Item 3. Quantitative and Qualitative Disclosures About Market Risk	119
Item 4. Controls and Procedures	119

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	120
Item 1A. Risk Factors	121
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	129
Item 3. Defaults Upon Senior Securities	129
Item 4. Submission of Matters to a Vote of Security Holders	129
Item 5. Other Information	129
Item 6. Exhibits	130
Signatures	134

PART I: FINANCIAL INFORMATION**Item 1. Financial Statements****ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in thousands, except per share amounts)	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2008-\$2,242,291; 2007-\$1,622,094)	\$ 1,433,700	\$ 1,279,080
Companies 5% to 25% owned (cost: 2008-\$313,212; 2007-\$426,908)	360,905	389,509
Companies less than 5% owned (cost: 2008-\$2,600,556; 2007-\$2,994,880)	2,307,332	2,990,732
Total private finance (cost: 2008-\$5,156,059; 2007-\$5,043,882)	4,101,937	4,659,321
Commercial real estate finance (cost: 2008-\$85,229; 2007-\$96,942)	106,632	121,200
Total portfolio at value (cost: 2008-\$5,241,288; 2007-\$5,140,824)	4,208,569	4,780,521
Accrued interest and dividends receivable	69,848	71,429
Other assets	131,949	157,864
Investments in money market and other securities	13,384	201,222
Cash	201,915	3,540
Total assets	\$ 4,625,665	\$ 5,214,576
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2008-\$15,950; 2007-\$153,000)	\$ 1,960,950	\$ 1,922,220
Revolving line of credit	170,000	367,250
Accounts payable and other liabilities	81,309	153,259
Total liabilities	2,212,259	2,442,729
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.0001 par value, 400,000 shares authorized; 178,692 and 158,002 shares issued and outstanding at September 30, 2008, and December 31, 2007, respectively	18	16
Additional paid-in capital	3,060,271	2,657,939
Common stock held in deferred compensation trusts		(39,942)
Notes receivable from sale of common stock	(1,851)	(2,692)

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Net unrealized appreciation (depreciation)	(1,066,833)	(379,327)
Undistributed earnings	421,801	535,853
Total shareholders' equity	2,413,406	2,771,847
Total liabilities and shareholders' equity	\$ 4,625,665	\$ 5,214,576
Net asset value per common share	\$ 13.51	\$ 17.54

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(unaudited)		(unaudited)	
Interest and Related Portfolio Income:				
Interest and dividends				
Companies more than 25% owned	\$ 29,699	\$ 28,198	\$ 85,167	\$ 83,895
Companies 5% to 25% owned	9,864	9,374	31,587	32,111
Companies less than 5% owned	72,644	68,097	249,325	194,460
Total interest and dividends	112,207	105,669	366,079	310,466
Fees and other income				
Companies more than 25% owned	6,130	5,146	22,638	14,552
Companies 5% to 25% owned	342	19	411	518
Companies less than 5% owned	1,983	7,534	11,056	18,460
Total fees and other income	8,455	12,699	34,105	33,530
Total interest and related portfolio income	120,662	118,368	400,184	343,996
Expenses:				
Interest	35,949	33,744	109,974	98,368
Employee	21,443	26,306	57,439	76,845
Employee stock options	1,477	18,312	9,531	31,492
Administrative	14,138	10,496	36,100	38,225
Total operating expenses	73,007	88,858	213,044	244,930
Net investment income before income taxes	47,655	29,510	187,140	99,066
Income tax expense (benefit), including excise tax	2,060	11,192	8,141	16,073
Net investment income	45,595	18,318	178,999	82,993
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses)				
Companies more than 25% owned	1,098	201,582	1,967	267,359
Companies 5% to 25% owned	7,234	(5,475)	(6,569)	(5,171)
Companies less than 5% owned	53,710	16,263	51,932	52,727
Total net realized gains (losses)	62,042	212,370	47,330	314,915

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Net change in unrealized appreciation or depreciation	(425,899)	(327,156)	(687,506)	(272,132)
Total net gains (losses)	(363,857)	(114,786)	(640,176)	42,783
Net increase (decrease) in net assets resulting from operations	\$ (318,262)	\$ (96,468)	\$ (461,177)	\$ 125,776
Basic earnings (loss) per common share	\$ (1.78)	\$ (0.63)	\$ (2.70)	\$ 0.83
Diluted earnings (loss) per common share	\$ (1.78)	\$ (0.63)	\$ (2.70)	\$ 0.81
Weighted average common shares outstanding basic	178,692	154,025	171,084	151,979
Weighted average common shares outstanding diluted	178,692	154,025	171,084	154,708

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

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

(in thousands, except per share amounts)	For the Nine Months Ended September 30,	
	2008	2007 (unaudited)
Operations:		
Net investment income	\$ 178,999	\$ 82,993
Net realized gains	47,330	314,915
Net change in unrealized appreciation or depreciation	(687,506)	(272,132)
Net increase (decrease) in net assets resulting from operations	(461,177)	125,776
Shareholder distributions:		
Common stock dividends	(340,381)	(293,706)
Net decrease in net assets resulting from shareholder distributions	(340,381)	(293,706)
Capital share transactions:		
Sale of common stock	402,478	93,784
Issuance of common stock in lieu of cash distributions	3,751	12,447
Issuance of common stock upon the exercise of stock options		13,307
Cash portion of option cancellation payment		(52,833)
Stock option expense	9,655	32,069
Net decrease in notes receivable from sale of common stock	841	142
Purchase of common stock held in deferred compensation trusts	(943)	(9,272)
Distribution of common stock held in deferred compensation trusts	27,335	528
Other		2,297
Net increase in net assets resulting from capital share transactions	443,117	92,469
Total decrease in net assets	(358,441)	(75,461)
Net assets at beginning of period	2,771,847	2,841,244
Net assets at end of period	\$ 2,413,406	\$ 2,765,783
Net asset value per common share	\$ 13.51	\$ 17.90
Common shares outstanding at end of period	178,692	154,506

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)	For the Nine Months Ended September 30,	
	2008	2007
	(unaudited)	
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ (461,177)	\$ 125,776
Adjustments:		
Portfolio investments	(1,019,750)	(1,236,671)
Principal collections related to investment repayments or sales	878,229	1,086,513
Payment-in-kind interest and dividends, net of cash collections	(35,947)	(5,462)
Net increase (decrease) in accrued interest and dividends	835	(10,710)
Net collection (amortization) of discounts and fees	(10,176)	(1,215)
Net redemption of (investments in) U.S. Treasury bills, money market and other securities	187,838	(88,859)
Stock option expense	9,655	32,069
Changes in other assets and liabilities	(42,537)	13,943
Depreciation and amortization	1,752	1,540
Realized gains from the receipt of notes and other consideration from sale of investments, net of collections	14,430	(29,716)
Realized losses	87,867	81,456
Net change in unrealized (appreciation) or depreciation	687,506	272,132
Net cash provided by (used in) operating activities	298,525	240,796
Cash flows from financing activities:		
Sale of common stock	402,478	93,784
Sale of common stock upon the exercise of stock options		13,307
Collections of notes receivable from sale of common stock	841	142
Borrowings under notes payable	193,000	230,000
Repayments on notes payable		