

ALLIED CAPITAL CORP
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**PROSPECTUS SUPPLEMENT
(To Prospectus dated April 27, 2006)**

40,000,000 Shares

This prospectus supplement supplements the prospectus dated April 27, 2006, relating to our offer, from time to time, of up to 40,000,000 shares of our common stock by providing certain information regarding our recent developments and our third quarter 2006 financial results. As of the date of this prospectus supplement, we have sold 5,175,000 shares of the 40,000,000 shares of our common stock.

Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 1919 Pennsylvania Avenue, NW, Washington, DC, 20006, or by telephone at (202) 721-6100 or on our website at www.alliedcapital.com. The SEC also maintains a website at www.sec.gov that contains such information.

You should review the information, including the risk of leverage, set forth under Risk Factors on page 10 of the accompanying prospectus before investing.

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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 20, 2006

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus or any prospectus supplement, if any, to this prospectus. You must not rely upon any information or representation not contained in this prospectus or any such supplements as if we had authorized it. This prospectus and any such supplements 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 such supplements is accurate as of the dates on their covers.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to 40,000,000 shares of our common stock on the terms to be determined at the time of the offering. Shares of our common stock may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the shares of our common stock that we may offer. Each time we use this prospectus to offer shares of our common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any such supplements together with the additional information described under **Where You Can Find Additional Information** in the **Prospectus Summary** and **Risk Factors** sections before you make an investment decision.

(i)

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

The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto included herein and in the Company's annual report on Form 10-K for the year ended December 31, 2005. In addition, this quarterly report on Form 10-Q contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and 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 variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth below in the Risk Factors section. Other factors that could cause actual results to differ materially include:

changes in the economy and general economic conditions;

risks associated with possible disruption in our operations due to terrorism;

future changes in laws or regulations and conditions in our operating areas; and

other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings.

Financial or other information presented for private finance portfolio companies has been obtained from the portfolio companies, and the financial information presented may represent unaudited, projected or pro forma financial information, and therefore may not be indicative of actual results. In addition, the private equity industry uses financial measures such as EBITDA or EBITDAM (Earnings Before Interest, Taxes, Depreciation, Amortization and, in some instances, Management fees) in order to assess a portfolio company's financial performance and to value a portfolio company. EBITDA and EBITDAM are not intended to represent cash flow from operations as defined by U.S. generally accepted accounting principles and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by U.S. generally accepted accounting principles.

OVERVIEW

As a business development company, we are in the private equity business. Specifically, we provide long-term debt and equity investment capital to companies in a variety of industries. Our lending and investment activity has generally been focused on private finance and commercial real estate finance, which included primarily the investment in non-investment grade commercial mortgage-backed securities, which we refer to as CMBS, and collateralized debt obligation bonds and preferred shares, which we refer to as CDOs.

On May 3, 2005, we completed the sale of our portfolio of CMBS and real estate related CDO investments. Upon the completion of this transaction, our lending and investment activity has been focused primarily on private finance investments. Our private finance activity principally involves providing financing to middle market U.S. companies through privately negotiated long-term debt and equity investment capital. Our financing is generally used to fund growth, acquisitions, buyouts, recapitalizations, note purchases, bridge financings, and other types of financings. We generally invest in private companies though, from time to time, we may invest in companies that are public but lack access to additional public capital. Our investment objective is to achieve current income and capital gains.

Our portfolio composition at September 30, 2006 and 2005, and at December 31, 2005, was as follows:

	September 30,		December 31,
	2006	2005	2005
Private finance	97%	96%	96%
Commercial real estate finance	3%	4%	4%

Our earnings depend primarily on the level of interest and dividend income, fee and other income, and net realized and unrealized gains or losses on our investment portfolio after deducting interest expense on borrowed capital, operating expenses and income taxes including excise tax. Interest income results from the stated interest rate earned on a loan or debt security and the amortization of loan origination fees and discounts. The level of interest income is directly related to the balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. Our ability to generate interest income is dependent on economic, regulatory, and competitive factors that influence new investment activity, interest rates on the types of loans we make, the level of repayments in the portfolio, the amount of loans and debt securities for which interest is not accruing and our ability to secure debt and equity capital for our investment activities.

Because we are a regulated investment company for tax purposes, we intend to distribute substantially all of our annual taxable income as dividends to our shareholders. See "Other Matters" below.

PORTFOLIO AND INVESTMENT ACTIVITY

The total portfolio at value, investment activity, and the yield on interest-bearing investments at and for the three and nine months ended September 30, 2006 and 2005, and at and for the year ended December 31, 2005, were as follows:

(\$ in millions)	At and for the		At and for the		At and for the
	Three Months Ended	September 30,	Nine Months Ended	September 30,	Year Ended
	2006	2005	2006	2005	December 31,
					2005
Portfolio at value	\$ 4,119.6	\$ 3,223.8	\$ 4,119.6	\$ 3,223.8	\$ 3,606.4
Investments funded ⁽¹⁾	\$ 629.5	\$ 673.4	\$ 1,880.8	\$ 1,328.2	\$ 1,675.8
Change in accrued or reinvested interest and dividends ⁽²⁾	\$ 7.2	\$ 5.5	\$ (1.8)	\$ 1.9	\$ 6.6
Principal collections related to investment repayments or sales	\$ 116.3	\$ 151.0	\$ 885.9	\$ 1,241.8	\$ 1,503.4
Yield on interest-bearing investments ⁽³⁾	12.3%	12.6%	12.3%	12.6%	12.8%

(1) Investments funded for the nine months ended September 30, 2006, included a \$150 million subordinated debt investment in Advantage Sales & Marketing, Inc. received in conjunction with the sale of Advantage and a \$30 million subordinated debt investment in STS Operating, Inc. received in conjunction with the sale of STS. See discussion below. Investments funded also include investments acquired through the issuance of our common stock as consideration totaling zero and \$7.2 million for the nine months ended September 30, 2006 and 2005, respectively, and \$7.2 million for the year ended December 31, 2005.

(2)

Includes changes in accrued or reinvested interest of \$1.3 million and \$3.0 million for the three and nine months ended September 30, 2006, respectively, related to our investments in money market securities.

- (3) The weighted average yield on interest-bearing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

Private Finance

The private finance portfolio at value, investment activity, and the yield on loans and debt securities at and for the three and nine months ended September 30, 2006 and 2005, and at and for the year ended December 31, 2005, were as follows:

	At and for the Three Months Ended September 30,				At and for the Nine Months Ended September 30,				At and for the Year Ended December 31,	
	2006		2005		2006		2005		2005	
	Value	Yield ⁽²⁾	Value	Yield ⁽²⁾	Value	Yield ⁽²⁾	Value	Yield ⁽²⁾	Value	Yield
Portfolio at value:										
Loans and debt securities:										
Senior loans	\$ 342.4	8.7%	\$ 255.9	8.6%	\$ 342.4	8.7%	\$ 255.9	8.6%	\$ 239.8	9.0%
Subordinated debt	745.8	11.2%	197.2	11.8%	745.8	11.2%	197.2	11.8%	294.2	11.8%
Subordinated debt	1,817.0	13.7%	1,586.5	13.8%	1,817.0	13.7%	1,586.5	13.8%	1,560.9	13.8%
Loans and debt securities	\$ 2,905.2	12.5%	\$ 2,039.6	13.0%	\$ 2,905.2	12.5%	\$ 2,039.6	13.0%	\$ 2,094.9	13.0%
Investment securities	1,082.6		1,041.4		1,082.6		1,041.4		1,384.4	
Investment portfolio	\$ 3,987.8		\$ 3,081.0		\$ 3,987.8		\$ 3,081.0		\$ 3,479.3	
Investments funded ⁽¹⁾	\$ 629.2		\$ 665.7		\$ 1,866.6		\$ 1,131.9		\$ 1,462.3	
Change in accrued or deferred interest and fees	\$ 5.8		\$ 5.9		\$ (5.4)		\$ 20.4		\$ 24.6	
Principal collections added to investment portfolio	\$ 115.6		\$ 146.5		\$ 868.0		\$ 476.5		\$ 703.9	

(1) Investments funded for the nine months ended September 30, 2006, included a \$150 million subordinated debt investment in Advantage Sales & Marketing, Inc. received in conjunction with the sale of Advantage and a \$30 million subordinated debt investment in STS Operating, Inc. received in conjunction with the sale of STS. See discussion below.

(2) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

Our investment activity is focused on making long-term investments in the debt and equity of primarily private middle market companies. Debt investments may include senior loans, unitranche debt (a single debt investment that is a blend of senior and subordinated debt), or subordinated debt (with or without equity features). The junior debt that we invest in that is lower in repayment priority than senior debt is also known as mezzanine debt. Equity investments may include a minority equity stake in connection with a debt investment or a substantial equity stake in connection with a buyout transaction. In a buyout transaction, we generally invest in senior and/or subordinated debt and equity (preferred and/or voting or non-voting common) where our equity ownership represents a significant portion of the

equity, but may or may not represent a controlling interest.

In addition, we may fund most or all of the debt and equity capital upon the closing of certain buyout transactions, which may include investments in lower-yielding senior debt. Subsequent to the closing, the portfolio company may refinance all or a portion of the lower-yielding senior debt, which would reduce our investment. Repayments include repayments of senior debt funded by us that was subsequently refinanced or repaid by the portfolio companies.

We intend to take a balanced approach to private equity investing that emphasizes a complementary mix of debt investments and buyout investments. The combination of these two types of investments provides current interest and related portfolio income and the potential for future capital gains. To address the current market, our strategy is to focus on buyout and recapitalization transactions where we can manage risk through the structure and terms of our debt and equity investments and where we can potentially realize more attractive total returns from both current interest and fee income and future capital gains. We are also focusing our debt investing on smaller middle market companies where we can provide both senior and subordinated debt or unitranche debt, where our combined current yield may be lower than traditional subordinated debt only. We believe that providing both senior and subordinated debt or unitranche debt provides us with greater protection in the capital structures of our portfolio companies.

Investments Funded. Investments funded and the weighted average yield on investments funded for the nine months ended September 30, 2006 and 2005, and for the year ended December 31, 2005, consisted of the following:

For the Nine Months Ended September 30, 2006

(\$ in millions)	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield ⁽¹⁾	Amount	Weighted Average Yield ⁽¹⁾	Amount	Weighted Average Yield ⁽¹⁾
Loans and debt securities:						
Senior loans ⁽⁴⁾	\$ 202.4	9.4%	\$ 167.3	8.8%	\$ 369.7	9.1%
Unitranche debt ⁽²⁾	348.7	10.6%	146.5	12.9%	495.2	11.3%
Subordinated debt ⁽³⁾	508.0	13.1%	250.8	13.9%	758.8	13.3%
Total loans and debt securities	1,059.1	11.5%	564.6	12.1%	1,623.7	11.8%
Equity	62.9		180.0		242.9	
Total	\$ 1,122.0		\$ 744.6		\$ 1,866.6	

For the Nine Months Ended September 30, 2005

(\$ in millions)	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield ⁽¹⁾	Amount	Weighted Average Yield ⁽¹⁾	Amount	Weighted Average Yield ⁽¹⁾
Loans and debt securities:						
Senior loans	\$ 50.7	10.6%	\$ 186.8	6.0%	\$ 237.5	7.0%
Unitranche debt ⁽²⁾	154.9	10.5%			154.9	10.5%
Subordinated debt	239.0	12.6%	313.9	12.6%	552.9	12.6%
Total loans and debt securities	444.6	11.7%	500.7	10.2%	945.3	10.9%
Equity	23.9		162.7		186.6	
Total	\$ 468.5		\$ 663.4		\$ 1,131.9	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities, divided by (b) total loans and debt securities funded.

(2) Unitranche debt is a single debt investment that is a blend of senior and subordinated debt terms. The yield on a unitranche investment reflects the blended yield of senior and subordinated debt combined.