

ELECTRONIC ARTS INC.
Form 10-Q
February 07, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2010

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File No. 0-17948

ELECTRONIC ARTS INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

209 Redwood Shores Parkway

Redwood City, California
(Address of principal executive offices)

(650) 628-1500

(Registrant's telephone number, including area code)

94-2838567
*(I.R.S. Employer
Identification No.)*

94065
(Zip Code)

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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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 NO

As of February 2, 2011, there were 334,316,218 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

Table of Contents

ELECTRONIC ARTS INC.

FORM 10-Q

FOR THE PERIOD ENDED DECEMBER 31, 2010

Table of Contents

	Page
<u>Part I - FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2010 and March 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2010 and 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2010 and 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>Report of Independent Registered Public Accounting Firm</u>	29
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4. <u>Controls and Procedures</u>	57
<u>Part II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 6. <u>Exhibits</u>	67
<u>Signature</u>	68
<u>Exhibit Index</u>	69

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited)
ELECTRONIC ARTS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions, except par value data)	December 31, 2010	March 31, 2010 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,353	\$ 1,273
Short-term investments	511	432
Marketable equity securities	107	291
Receivables, net of allowances of \$336 and \$217, respectively	390	206
Inventories	105	100
Deferred income taxes, net	22	44
Other current assets	226	239
Total current assets	2,714	2,585
Property and equipment, net	502	537
Goodwill	1,107	1,093
Acquisition-related intangibles, net	160	204
Deferred income taxes, net	44	52
Other assets	200	175
TOTAL ASSETS	\$ 4,727	\$ 4,646
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 162	\$ 91
Accrued and other current liabilities	746	717
Deferred net revenue (packaged goods and digital content)	1,100	766
Total current liabilities	2,008	1,574
Income tax obligations	184	242
Deferred income taxes, net	4	2
Other liabilities	173	99
Total liabilities	2,369	1,917
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value. 10 shares authorized		
Common stock, \$0.01 par value. 1,000 shares authorized; 334 and 330 shares issued and outstanding, respectively	3	3
Paid-in capital	2,504	2,375
Retained earnings (accumulated deficit)	(304)	123
Accumulated other comprehensive income	155	228

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Total stockholders' equity	2,358	2,729
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,727	\$ 4,646

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

(a) Derived from audited consolidated financial statements.

Table of Contents**ELECTRONIC ARTS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)	Three Months Ended December 31,		Nine Months Ended December 31,	
(In millions, except per share data)	2010	2009	2010	2009
Net revenue	\$ 1,053	\$ 1,243	\$ 2,499	\$ 2,675
Cost of goods sold	586	654	1,171	1,568
Gross profit	467	589	1,328	1,107
Operating expenses:				
Marketing and sales	253	208	553	559
General and administrative	75	84	226	241
Research and development	273	290	825	918
Amortization of intangibles	14	14	44	38
Acquisition-related contingent consideration	1		(25)	
Restructuring and other charges	154	100	162	120
Total operating expenses	770	696	1,785	1,876
Operating loss	(303)	(107)	(457)	(769)
Gains (losses) on strategic investments, net		(1)	23	(25)
Interest and other income (expense), net		(2)	6	8
Loss before provision for (benefit from) income taxes	(303)	(110)	(428)	(786)
Provision for (benefit from) income taxes	19	(28)	(1)	(79)
Net loss	\$ (322)	\$ (82)	\$ (427)	\$ (707)
Net loss per share:				
Basic and Diluted	\$ (0.97)	\$ (0.25)	\$ (1.29)	\$ (2.18)
Number of shares used in computation:				
Basic and Diluted	332	325	330	324

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

Table of Contents

ELECTRONIC ARTS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

**Nine Months Ended
December 31,**

s from such taxable income into the next tax year and pay a 4% excise tax on such income, as required.

ries, narrower product lines, smaller market shares and less experienced management than their competition and may be more vulnerab

prise value of the portfolio company does not currently support the cost of our debt or equity investment. Enterprise value means the ent

company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, o

Guaranteed Loan Program and, as a result, is subject to certain risks associated with changes in government funding, ongoing audits, in
than it otherwise would have had we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest

management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate

We intend to continue to borrow from financial institutions or other investors and issue additional debt and equity securities. If we fail to generate sufficient income whether or not we distribute it, which would substantially reduce the amount of income available for debt service and distributio

regulations, we include in income certain amounts that we have not yet received in cash, such as contractual payment-in-kind interest,

al investments in existing portfolio companies, which could result in the dilution of our position, or could require us to dispose of invest

e allegations are not true. We are cooperating fully with the inquiry by the United States Attorney's office.

PART II

Q1

27.84

24.89

26.10

**Shareholder Return Performance Graph
Five-Year Cumulative Total Return⁽¹⁾
(Through December 31, 2006)**

27

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

2003

\$		290,719
		38,510
		329,229
		77,233
		36,945
		22,387
		136,565
		192,664
		(2,466)
		195,130
		75,347
		(78,466)
		(3,119)
\$		192,011
\$		1.62
\$		2.28
\$		2.28
		118,351

2003

931,450	\$
788,328	
94,305	
(18,958)	

Qtr 3

\$

could cause actual results to differ materially include:

ped by U.S. generally accepted accounting principles.

**At and for the
Years Ended December 31,
2005**

Yield⁽²⁾

both senior and subordinated debt or unitranche debt provides us with greater protection in the capital structures of our portfolio compa

**Weighted
Average
Yield⁽¹⁾**

8.9%

12.9%

14.4%

12.5%

6.4%

12.5%

9.9%

7.2%

15.5%

13.0%

ior debt. Subsequent to the closing, the portfolio company may refinance all or a portion of the lower-yielding senior debt, which would be at the lower end of a historical range as long as merger and acquisition activity remains robust and the supply of capital remains strong.

Total

\$

\$

ation and have retained a third party to work with BLX to conduct a review of BLX's current internal control systems, with a focus on

er 31, 2006, was \$189.7 million.

ny in the first quarter of 2007 discussed above. Under the terms of the facility, the \$12 million investment in the company caused BLX

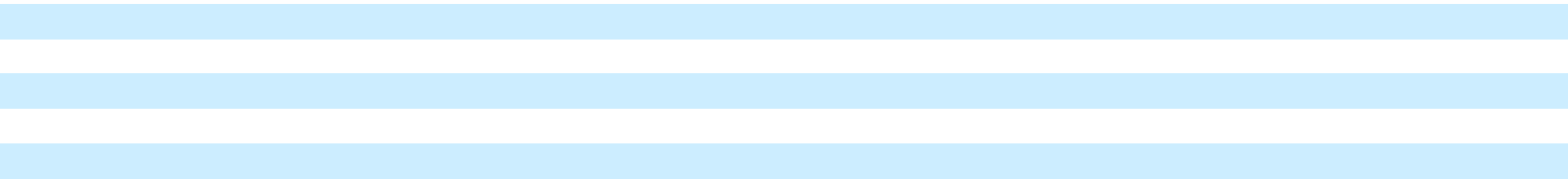
plement its business plan and funding alternatives. In addition, should BLX require additional capital from us, we plan to fund it, if we l

Value

	\$	373.8
		212.6
		95.0
		16.9
		13.0
	\$	711.3
	\$	383.7
	\$	6.6
	\$	357.3

alized gain on the sale.

**Percentage of
Total Portfolio**



2005

\$	317,153
	56,999
	374,152
	77,352
	78,300
	69,713
	225,365
	148,787
	11,561
	137,226
	273,496
	462,092
	735,588
\$	872,814
\$	6.36
	137,274

Yield⁽¹⁾

13.0%

7.6%

12.8%

onal Class B equity interests. For the year ended December 31, 2004, the dividends were paid through the issuance of additional Class B

DGP, or approximately one-half of the payment, will reduce our paid in capital and will therefore reduce our net asset value. For income tax purposes, the amount of the payment as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value of the payment as of January 1, 2006.

ue were approximately 92% of our total assets. Because of the inherent uncertainty of determining the fair value of investments that do

gs, the underlying investment performance, financial condition, and market changing events that impact valuation.

ial measures such as EBITDA or EBITDAM (Earnings Before Interest, Taxes, Depreciation, Amortization and, in some instances, Man

company at a certain time, or other factors.

2005

Q2

72
83.0%

OO/CLO Assets in a pool in one or more transactions, the total value received for that pool may be different than the sum of the fair value

56

mpact of various changes in BLX's business model due to the competitive environment for small business loans and BLX's newer no

s from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. See Dividends and Distributions

e to pay the regular quarterly dividend.

Status above.

**Facility
Amount**

\$

\$

2010

408.0

4.5

412.5

63

ar

2010

\$

\$

mining the fair value of the portfolio. We will record unrealized depreciation on investments when we believe that an investment has b

count, and market discount are capitalized and then amortized into interest income using a method that approximates the effective inter

basis.

ivable and other assets where collection is doubtful.

Management's Report on Internal Control over Financial Reporting

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has

Report of Independent Registered Public Accounting Firm

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets th

Report of Independent Registered Public Accounting Firm

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET**

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS**

2004

	91,710
	25,702
	202,230
	319,642
	29,774
	2,383
	15,291
	47,448
	367,090
	75,650
	53,739
	34,686
	164,075
	203,015
	2,057
	200,958
	86,812
	43,818
	(13,390)
	117,240
	(68,712)
	48,528
	249,486

1.92

1.88

129,828

132,458

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

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

	200,958
	117,240
	(68,712)
	249,486
	(299,326)
	(62)
	(299,388)
	70,251
	3,227
	5,836
	32,274
	13,162
	(13,687)
	184
	3,856
	115,103
	65,201
	1,914,577
	1,979,778
	14.87
	133,099

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

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

2004

	249,486
	(1,472,396)
	909,189
	(52,193)
	(5,235)
	18,716
	1,433
	(47,497)
	150,462
	68,712
	(179,323)
	70,251
	32,274
	13,162
	340,212
	(231,000)
	112,000
	(7,000)
	(13,687)
	(3,004)
	(290,830)
	(62)
	22,316
	(157,007)
	214,167
	57,160

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS**

Value

918

66,622
79,139
64,976

975
2,076

5,762
22,550

36,333
5,972
19,619

39,401
25,738

71,362
15,942
65,186

12,290

15,957
11,237

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	27,038
	43,579
	28,921
	2,637
	8,664
	3,336
	19,950
	58,196
	41,662
	873
	59,850
	7,845
	6,655
	4,843
	692
	1,199
	49,217
	195,019
	27,245
	35,478
	37,994
	25,949

26,192
962

27,619
16,786

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

486

15,965
11,232

35,172
450

14,747
56,008
4,342
31,322

1,490,180

151,648
11,000

1,763
35,128
5,950

602

8,400
13,823

5,554

24,163

3,700

30,135

4,100

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	20,569
	4,700
	13,656
	1,387
	722
	7
	7,164
	1,813
	19,879
	2,000
	10,978
	1,486
	2,206
	7,533
	1,024
	2,300
	1,232
	19,908
	1,616
	3,346
	17,569
	2,541
	10,211

449,813

26,740

11,269

14,768

161

8,956

2,650

876

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	21,463
	109,648
	43,578
	10,000
	4,930
	27,738
	18,951
	9,476
	23,010
	12,986
	13,769
	17,155
	47,421
	2,873

13,900
400

3,412

531

1,889

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

4,959
3,900

34,067

8,375

18,075

67,146
2,300

1,137

37,500

2,060
16,694

30,000

2,656
54,130
2,975

4,119
9,121

36,918
82,684
19,702

19,021

3,714

3,850

35,000

106,478

53,540

2,090

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

50

19,931

320

22,500

22,481

1,900

2,743

3,005

6,088

18,615

3,000

2,827

140

500

44,427

12,485

13,171

89
6
1,106

48,351
60,353
8,460

5,815

29,314

21,914
2,200

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	4,656
	1,981
	48,306
	3,623
	250
	33,448
	8,719
	3,221
	16,318
	6,250
	37,357
	12,559
	82,172
	83,329
	1,947
	800
	1,744
	15,243
	30,277
	41,707

10,101
2,189

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

57,189
2,500

14,402
2,200

30,727

41,094
135
1,200

4,976
318

300
180

2,825

326

62,711

30,021

67,457
1,763

14,468
3,300

12,892
747

19,026

5,158

42

365

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Value

	458
	39,407
	5,120
	2,400
	52,989
	3,885
	2,815
	44,045
	1,500
	218
	2,437,908
	4,377,901

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

\$

\$

\$

\$

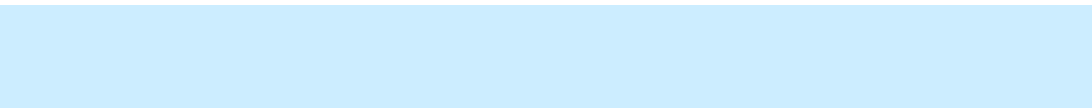
\$

\$

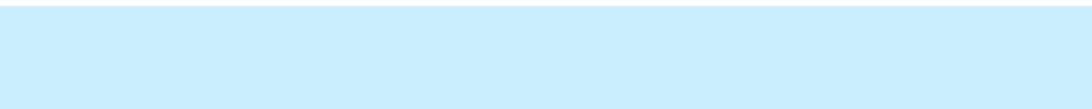
The accompanying notes are an integral part of these consolidated financial statements.

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS**

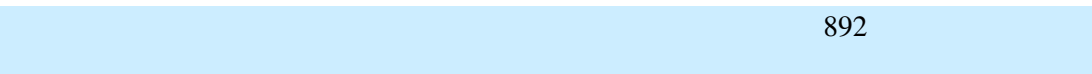
Value



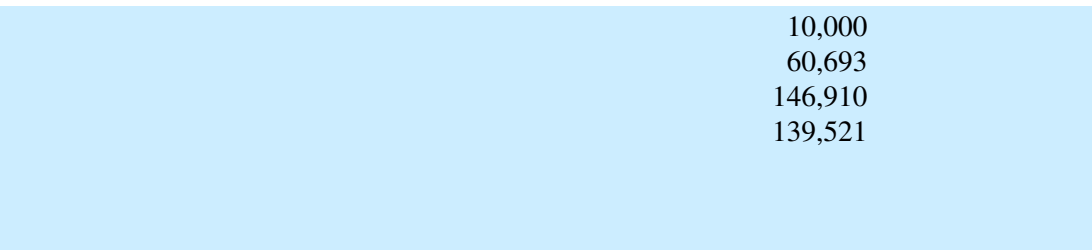
59,787
124,000
476,578



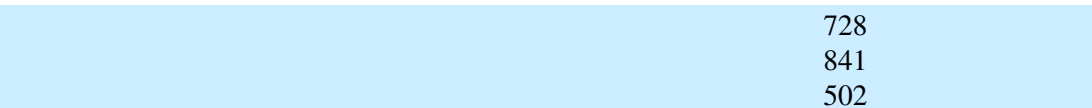
4,097



892



10,000
60,693
146,910
139,521



600
4,832
7,968

728
841
502

69,904
13,116
44,180

9,750

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	15,957
	11,198
	4,303
	4,161
	4,086
	38,535
	25,766
	2,637
	5,343
	2,057
	742
	58,298
	26,791
	236
	5,029
	621
	2,226
	31,720
	46,519
	88,898
	27,218
	32,417

3,211

1,864

23,792

7,364

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

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Value

	12,097
	500
	26,906
	13,319
	6,343
	1,812
	21,685
	6,593
	64,963
	560
	7,449
	30,845
	19,520
	29,171
	1,887,651
	42,267
	4,025
	19,959
	1,638
	17
	23,543

2,200

3,219

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	7,093
	534
	10,588
	1,367
	5,820
	318
	7,376
	884
	13
	13,447
	2,308
	10,862
	1,328
	158,806
	18,642
	1,000
	14,610
	190
	16,133

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	14,638
	18,973
	9,487
	24,233
	17,000
	48,108
	2,726
	2,691
	20,541
	32,738
	2,783
	700
	840
	20
	27,261
	6,866
	3,100

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	1,500
	9,792
	83
	50
	18,244
	470
	22,500
	23,875
	2,500
	3,680
	2,756
	4,161
	31,794
	1,048
	4,320
	485
	500

43,815

13,039

92

6

1,492

16

21,460

1,900

4,111

51,229

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	2,893
	180
	27,865
	71,675
	26,629
	22,177
	455
	211
	3,339
	15,472
	3,550
	38,743
	12,076
	40,016
	2,343
	1,296
	81,683
	38,313
	1,809
	1,000
	45

5,200

16,024

29,461

21,743

2,500

19,193

1,200

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

	851
	30,728
	26,993
	56,063
	28,615
	135
	700
	300
	37
	2,969
	14,323
	1,700
	9,951
	889
	49,503
	1,200
	390
	19,768
	18,995
	4,686

42

397

691

676

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

95

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

Value

	38,992
	2,000
	21,930
	538
	4,800
	52,251
	3,336
	2,365
	382
	348
	1,432,833
	3,479,290

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)**

Value

\$

\$

\$

\$

\$

\$

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

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

pany directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company h

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consistent basis for determining the fair value of the portfolio. The Company will record unrealized depreciation on investments when

origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that a

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

total stock option expense remaining as of December 31, 2006, is expected to be recognized over an estimated weighted-average period

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cost

\$

\$

contractual interest accrued and added to the loan balance that generally becomes due at maturity.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

actual maturities of five to six years and interest is generally paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest that will be included in the cost basis of the Company's equity investment. These include costs such as legal, accounting and other professional fees.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

s with respect to this matter. The Company understands that BLX is also working cooperatively with the SBA so that it may remain a p

uture tax liability resulting from the built-in gains may total up to a maximum of \$40 million. However, if these assets are disposed of a

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

vestment in BLX in the first quarter of 2007 discussed above. Under the terms of the facility, the \$12 million investment in BLX caused

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

, 2004, the Company realized a gain of \$150.3 million on the transaction including a gain of \$1.3 million realized after closing, resultin

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28.5

24.2

65.1

117.8

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2005

Value

102.6

13.9

10.6

127.1

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ffects the total value received for the portfolio as a whole. Simultaneous with the sale of the Company's CMBS and CDO portfolio, th

**Facility
Amount**

1,164.5

28.5

1,193.0

772.5

1,965.5

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

is due upon maturity.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2006 and 2005, \$2.4 million and \$2.5 million, respectively, had been recorded as a liability for the Company's guarantees and no amount

2011

\$

\$

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

total 401(k) contribution expense for the years ended December 31, 2006, 2005, and 2004, was \$1.2 million, \$1.0 million, and \$0.9 million, respectively. The amount shall become distributable upon his or her separation from service, retirement, disability, death, or at a future determined date. All other

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ation date and the remainder of the account balance will be distributed on the second anniversary of the employment termination date.

e DCP II held 1.0 million shares and 0.7 million shares, respectively, of the Company's common stock.

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	180.1
	150.2
	178.0

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Total
 Number
 Exercisable**

2.4
 1.8
 3.3
 2.4
 1.4
 1.7
 3.2
 0.5
 16.7

income from these loans of \$0.2 million, \$0.2 million, and \$0.5 million, respectively, during these same periods. This interest income is

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	0.57		\$
	0.57		
	0.58		
	0.58		
	0.03		
	2.33		\$
	1.17		\$
	1.16		
	2.33		\$

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	14.94
	1.52
	0.88
	2.40
	(0.52)
	1.88
	(2.30)
	0.35
	14.87
	25.84
	1.1%
	1,979.8
	133.1
	132.5
	4.65%
	8.53%
	10.45%
	12.97%
	32.97%
	985.6
	7.44

Qtr. 4

	117.7
	49.1
	33.9
	0.23
	0.23

130

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Qtr. 4

	98.2
	37.1
	328.1
	2.40
	2.36

.S. Attorney's Office. The Company is voluntarily cooperating with these investigations.
 been obtained. The Company's management has stated that these allegations are not true. The Company is cooperating fully with the

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

PART III

133

PART IV

SIGNATURES

EXHIBIT INDEX

141

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**

**December 31, 2005
Value**

59,787
124,000
476,578

4,097

892

10,000
60,693
146,910
139,521

600
4,832
7,968

728
841
502

69,904
13,116
44,180

9,750

15,957
11,198

4,303

4,161

4,086
38,535
25,766

2,637
5,343
2,057

September 30, 2005
Value

742

58,298

26,791

236

5,029

621

2,226

31,720

46,519

88,898

27,218

32,417

3,211

1,864

23,792

7,364

12,097
500

26,906
13,319

6,343
1,812

21,685

6,593
64,963
560

7,449
30,845
19,520
29,171

1,887,651

42,267
4,025

September 30, 2005
Value

19,959
1,638
17

23,543
2,200

3,219

7,093
534

10,588

1,367

5,820

318

7,376

884

13

13,447

2,308

10,862

1,328

158,806

