American Capital

INVESTING IN AMERICA

ANNUAL REPORT 2000

Corporate Profile

American Capital Strategies, Ltd. (Nasdaq: ACAS) is a publicly traded buyout and mezzanine fund with capital resources exceeding $750 Million. We generally invest $5 million to $30 million in middle market companies. American Capital is an equity partner in management and employee buyouts,; invests in debt and equity of companies led by private equity firms, and provides capital directly to private and small public companies. American Capital funds growth, acquisitions and recapitalizations.

Clockwise from top:
Piper Aircraft, Inc., Lion Brewery, Inc.; IMT, Inc.; manufacturer of service vehicles, material handling systems & specialty cranes; TransCore Holdings, Inc., provider of transportation information management systems and services; Confluence Holdings Co., manufacturer of kayaks and canoes.

Financial Highlights

(Dollars in thousands except per share data)

Year Ended December 31,	2000	1999	1998
Per Share Data(1)			
Net asset value at beginning of the period	$ 17.08	$ 13.80	$ 13.61
Net operating income	2.00	1.79	1.34
Realized gain on investments	0.21	0.20	—
(Decrease) increase in unrealized appreciation on investments	(2.41)	5.08	0.19
Net (decrease) increase in shareholders' equity resulting from operations	$ (0.20)	$ 7.07	$ 1.53
Issuance from common stock	0.70	0.71	—
Effect of antidilution (dilution)	0.49	(2.76)	—
Distribution of net investment income	(2.17)	(1.74)	(1.34)
Net asset value at end of period	$ 15.90	$ 17.08	$ 13.80
Per share market value at end of period	$ 25.19	$ 22.75	$ 17.25
Total return(2)	20.25%	41.97%	2.57%
Shares outstanding at end of period	28,003	18,252	11,081
Ratio/Supplemental Data			
Net assets at end of period	$445,167	$311,745	$152,723
Ratio of operating expenses to average net assets	3.77%	3.81%	1.13%
Ratio of net operating income to average net assets	11.80%	12.94%	9.74%

(1) Basic per share data

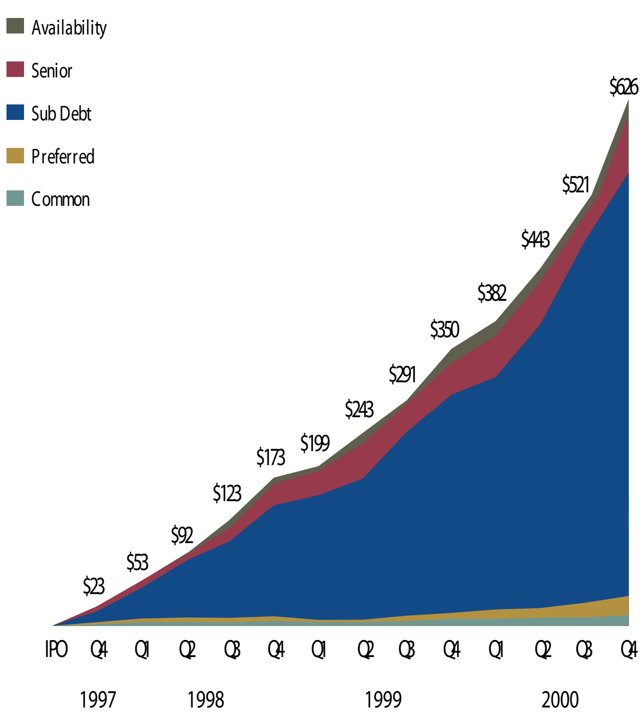
(2) Total return equals the increase (decrease) of the ending market value over the beginning market value plus dividends, divided by the beginning market value.

See accompanying notes.

Our New Investments

Dollars in Millions

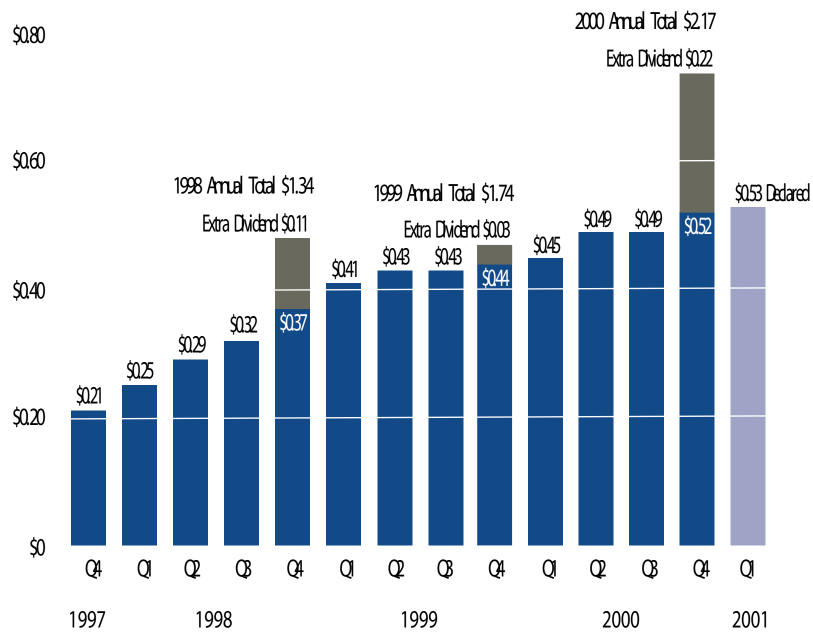
Cost Basis



Dividends

Per Share

$5.99 of Dividends Paid and Declared since IPO



Dear Shareholders,

The past year was one of remarkable challenge and achievement for American Capital. We crossed frontiers and mapped new territory: closing a record level of new investments, diversifying our sources of capital, and continuing our record of delivering solid returns for our shareholders. As a result of the track record we have compiled in the nearly four years since our IPO, American Capital has become one of the leading firms in our marketplace. We plan to become number one.

David Gladstone	Adam Blumenthal	Malon Wilkus	John Erickson
Vice Chairman	President and COO	Chairman and CEO	Executive Vice President and CFO

In the coming year, we see change and opportunity. While the economy has abruptly slowed, there is no consensus on where it is headed. Energy prices are at decade highs, bankers are pulling back, and consumer confidence has waned. These conditions should provide wonderful opportunities to invest in companies at the best valuations we have seen in years. On the other hand, we will also be challenged to skillfully manage the pressures the economy imposes on some of our portfolio companies.

In the coming year, we see change and opportunity. Current economic conditions should provide wonderful opportunities to invest in companies at the best valuations we have seen in our days as a public company.

Among the year's highlights:

- We successfully accessed the capital markets in uncertain times. We raised over $250 million in debt and equity, and total capital resources now exceed $750 million, a 63% increase over 1999. We enter 2001 equity rich, with a strong foundation for the future.

- Building on our record of careful growth, we completed 28 financings totaling $275 million, a 56% increase.

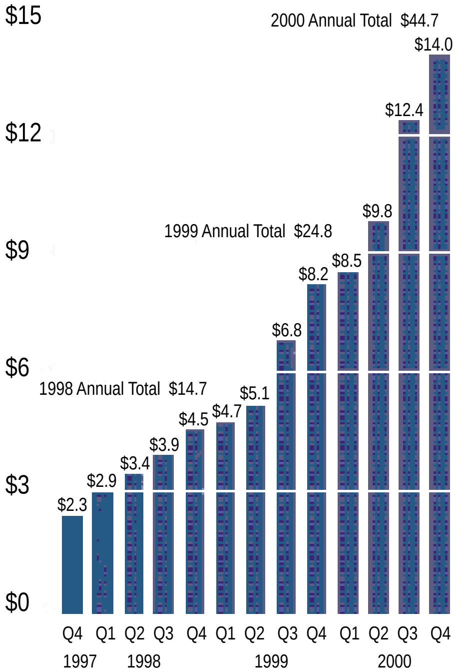
- We continued to create wealth for our shareholders. Total return to shareholders since our IPO is 118%, or 26% annualized. Total return for the year was 21%. Dividends increased to $2.17 per share, up 25% from $1.74 in 1999. We are proud to have been able to raise our dividend every year.

Building the Balance Sheet

In an important first for us, we tapped the debt markets in December and January by having a wholly-owned subsidiary issue $115 million of investment grade notes backed by $154 million of senior and subordinated business loans. This securitization is a crucial step in building our balance sheet. Having now layered in term debt, we continue to prudently leverage our business within the one-to-one debt to equity limitations we as a business development company must maintain. Access to the debt markets broadens and diversifies our funding sources and lowers our cost of capital. In addition, American Capital's equity holders benefit from the independent scrutiny of our underwriting and credit quality as the rating agencies review and continue to monitor our assets and the markets absorb that information.

We also raised almost $200 million in two follow-on equity offerings. We have continued to demonstrate our ability to access the equity markets in conditions that were generally poor for companies in the financial sector. We were gratified to have the continued support of our existing shareholders as well as have the opportunity to meet many new ones.

Net Operating Income
Dollars in Millions
80% Increase from 1999 to 2000



Our Portfolio

American Capital achieved record results as our portfolio expanded, matured and diversified.

We added 12 companies to our portfolio in 2000 and increased our investment at 10 existing portfolio companies. Our investments continue to be in companies with stable operating histories, substantial assets, experienced management teams and good growth prospects. Look at our 2000 investments: on an annualized, weighted average basis, average revenues of our new portfolio companies are $101.2 million and average interest coverage is 1.96. Their average age is 40 years.

We also were able to exit several investments with outstanding results. We realized two gains of 29% and 98% totaling $4.5 million, with remaining equity interests in these two companies of $19 million. As our portfolio continues to mature, we will begin harvesting gains on a more frequent basis.

On the other hand, we would also note for the first time the presence of a non-accruing loan in our portfolio of $3.2 million as of December 31, 2000. This is certainly not unusual in a seasoning portfolio and we are gratified that it was more than three years since the IPO before we experienced our first non-accruing loan. This will be a normal part of business for us and we have projected to have between $10 million and $18 million on non-accrual status in 2001. What makes us different from other companies is our ability to proactively manage these situations. Our equity positions and board representation in most of our portfolio companies provides us with the information and authority we need to help the companies work through their difficulties and minimize the losses we experience.

Shareholder Value

American Capital shareholders participate in a distinctive investment relationship. We deploy capital provided by public shareholders to make long-term investments in growing middle market businesses. By doing so, we facilitate the flow of investor dollars to businesses in need of capital throughout America. We are one of the few public companies investing in this market. Investors in American Capital enjoy the liquidity, transparency, and independent governance associated with a public company while reaping private equity rates of return.

We are focused on delivering shareholder value. American Capital's dividends have increased every year—$5.46 of dividends since our August, 1997 IPO. $10,000 invested in American Capital on August 30, 1997 would have grown to $21,780 on December 31, 2000, a 118% return, assuming reinvestment of dividends.

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We are building an impressive volume of equity interest in our portfolio companies, totaling over $137 million, structured to grow at private equity rates of return. This represents a major asset that should be highly rewarding for our shareholders in the years to come.

Investment Professionals

We have our exceptional investment professionals to thank for our exceptional performance. They are the people who make the deals happen. We opened two new offices, in Los Angeles and Philadelphia, and increased the number of principals in New York. This both extends our reach and our ability to monitor our portfolio companies. American Capital now operates nine offices across the country.

We solidified the organizational initiatives of the previous year and continue to build an institutional foundation for growth. We've expanded our investment committee to five investment professionals, enhancing our rigorous system of due diligence. We continue to refine our recruitment, promotion, and professional development systems, all with the goal of maximizing the value of our investments.

American Capital continues to prosper by offering our shareholders the opportunity to participate in investments in buyouts and acquisition and growth financing of middle market companies throughout the country. 2000 was a great year: we securitized a portion of our loan portfolio for the first time, successfully raised equity capital in two offerings, achieved record levels of new investment, increased the level of our equity interests and continued to build shareholder value. We have maintained sound credit quality in our portfolio and are able to take advantage of the increasing demand for our services as we fulfill our mission of putting capital to work in the middle market. We look forward to making 2001 an even better year.

Everyone at American Capital thanks you for your support.

Sincerely,

MALON WILKUS - *Chairman and CEO*

ADAM BLUMENTHAL - *President and COO*

JOHN ERICKSON - *Executive Vice PResident and CFO*

DAVID GLADSTONE - *Vice Chairman*

American Capital continues to prosper by offering investors the opportunity to invest in growing middle market companies throughout the country.

Portfolio Companies

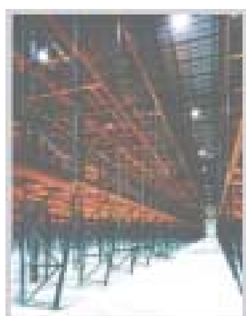
American Capital's portfolio companies are distributed throughout the economy, in manufacturing, wholesale and retail, construction, healthcare, services, telecommunications, information technology and transportation. Approximately 10% of our portfolio consists of partially employee-owned companies.

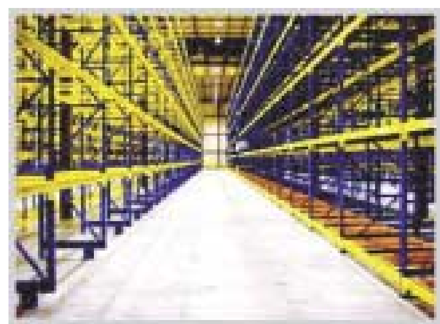
American manufacturing is smarter, leaner and more productive than ever. The growth in manufacturing productivity has outpaced that of the rest of the economy by increasingly wider margins, and lies at the heart of the nation's stunning economic growth over the past decade. Productivity growth has remained strong through recent fluctuations, and companies

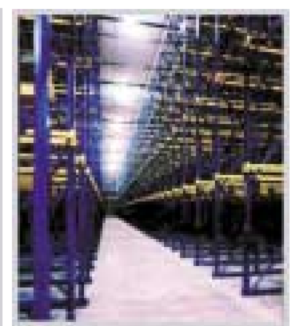
IMT, Inc. is an industry-leading innovator in the design, engin-eering and manufacture of highly specialized cranes, tire service vehicles, lubrication and field service vehicles sold into the construction, material handling, building supply, tire service, equipment dealer, public works, utility, railroad and mining markets worldwide. IMT's leading market position is due, in part, to its design expertise and process capabilities that include state-of-the-art material cutting, welding, painting and assembly. IMT builds on the core strengths of our investment strategy: it is a value-added manufacturer with a large share of the markets it serves.

are eager to invest in new, productivity enhancing technology. And retail consumers are looking for value.

Many American Capital portfolio companies are among the leaders in their industries. We look for companies that are committed to the use of information technology to fuel productivity growth through innovations in supply chain management and improvements in work-force quality. Their ability to work faster, better and cheaper has prepared them for the future. Our portfolio companies are lead by an uncommon group of owners, managers and workers.





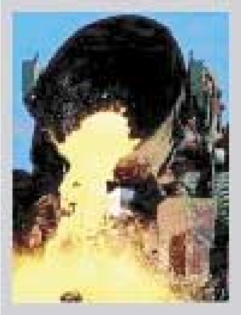


The Inca Group is a manufacturer of steel products for the construction, distribution and manufacturing industries. Inca's products and services include rack and shelving, mechanical and structural steel tubing, and toll processing. Inca offers many value-added services to its products — from installation and erection to engineering services — which sets it apart from the competition. Its reputation for service and quality and its commitment to growth have made it a leader in industrial storage equipment.

A&M Cleaning Products manufactures and markets a dynamic line of cleaning products under the brand name Greased Lightning. Based on its exceptional success as a regional brand, A&M has rolled out Greased Lightning to the national market. Greased Lightning is sold in Kmart, Wal-Mart, True Value Hardware, and most major grocery stores with retail outlets being added at a rapid pace. Look for it in stores near you!

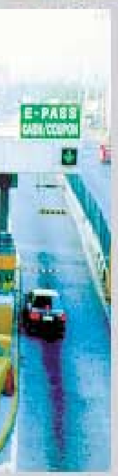
The average age of an American Capital portfolio company is 44 years—old enough to have managed through seven business cycles.

Patriot Medical Technologies, Inc., provides biomedical equipment maintenance and asset management services for all types of healthcare providers. Our subordinated debt and equity investment helped Patriot complete two acquisitions of firms, substantially increasing its customer base and providing a foundation for rapid growth.



A full service organization providing raw materials and services to the steel industry, **Tube City** helps mills and foundries realize the optimum value from recycling and management of steel byproducts.

Case Logic, Inc., is a designer and marketer of storage products and accessories for the audio, computer, photo/video, DVD, automotive and recreational markets. The company's full line of accessories provides storage and convenience for millions of consumers, and are prominently displayed and sold at major national retailers. Case Logic customers rate the company's products and service at the highest levels. Recent distinctions include being named the National Association of Recording Merchandisers "Supplier of the Year" four years in a row.



TransCore Holdings, Inc.,
is a leading competitor in the toll collection and intelligent transportation systems industry. It provides transportation services and technology that improve efficiency through wireless- and Internet-based technologies, including mobile payment systems, fleet management and e-logistics services, and intelligent transportation systems. With installations in 37 countries, more than 70 patents, and a world-class manufacturing center, TransCore's expertise is unparalleled in the transportation industry.

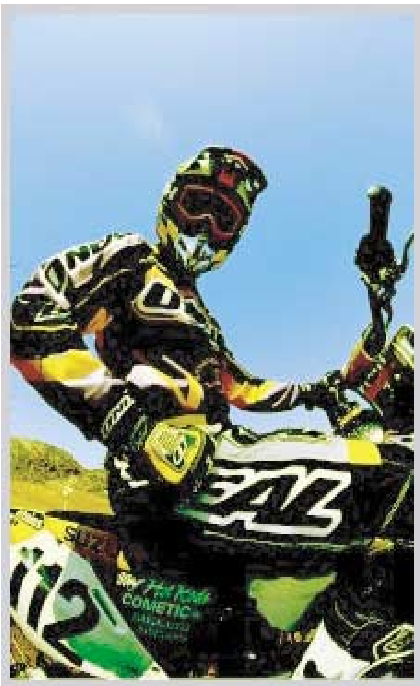
Tensar
is the largest manufacturer of polymeric earthwork geogrid reinforcement products and systems in the world. Geogrids permit cheaper, faster and more durable construction of transportation and environmental infrastructure projects including roadways, parking lots, retaining walls and coastal protection systems.

Electrolux, LLC
is a leading manufacturer and direct marketer of high-end vacuums and floor cleaners sold throughout the United States and Canada.

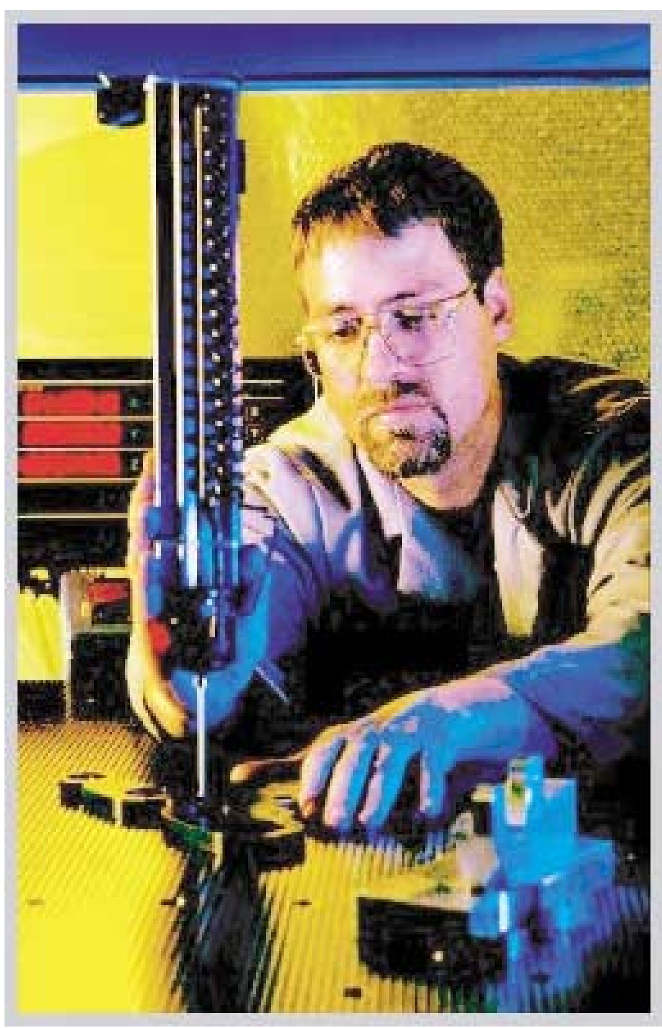


Warner Power, LLC
designs, engineers and manufactures customized industrial power conversion systems, including power supplies, power centers, transformers, chokes and reactors for industry. Warner serves the needs of such prominent companies as Otis Elevator, Corning Glass, Amana and Teradyne by providing innovative, cost-effective solutions to a wide variety of applications.

Our portfolio companies have the insulation to manage business cycles. Average interest coverage is 2.2. Average debt service coverage is 1.6.



Cycle Gear, Inc.,
is an employee-owned company that has grown into the largest multi-store retailer of general motorcycle parts and accessories in the U.S. The motorcycle parts industry is a $1.7 billion market that is principally served by small non-franchised single store operations. Cycle Gear has developed a model store that outperforms many of these small operations and intends to open new stores to increase its presence in the major motorcycle markets across the country.



Chromas Technologies
manufactures printing presses for the packaging and labeling industry. Together with the Digital Label Alliance, a research and development consortium of leading industry participants that it organized, Chromas has recently introduced a revolutionary digital print head that allows printers to economically produce flexible runs of variable images, saving hours of changeover and setup time. Chromas' customers represent a broad spectrum of global printing businesses within the $100 billion packaging industry, including those in food and beverage, health and beauty care, pharmaceutical, retail, electronic, automotive and textiles.

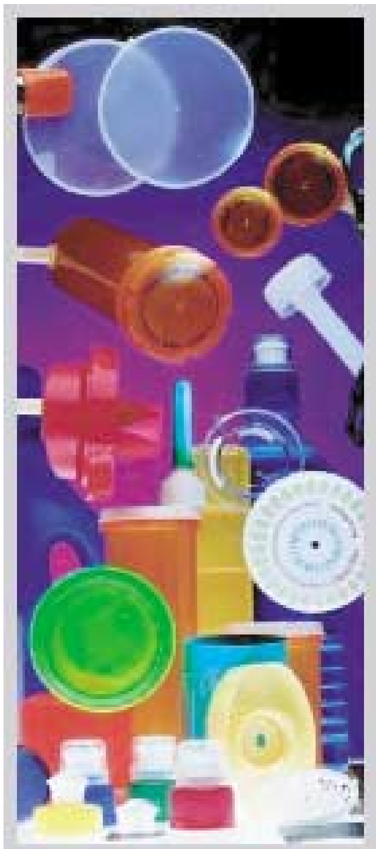
Caswell-Massey uses only the finest ingredients and traditional recipes for its soaps and toiletries. Since the days of George Washington, Caswell has been on the vanguard of retailing in the United States. Caswell is expanding its traditional channels of distribution and building on its strong brand by selling through the Internet, its catalog and a growing network of retail locations.

With a proud brewing heritage of its own dating back to 1901, the staff at **The Lion Brewery** is dedicated to producing both non-alcoholic and alcoholic specialty beverages such as malta and Hooper's Hooch, as well as true handcrafted beers sold under its own label.

Credit quality is strong; the average loan grade for our portfolio companies is 3.2 on a 4.0 scale.

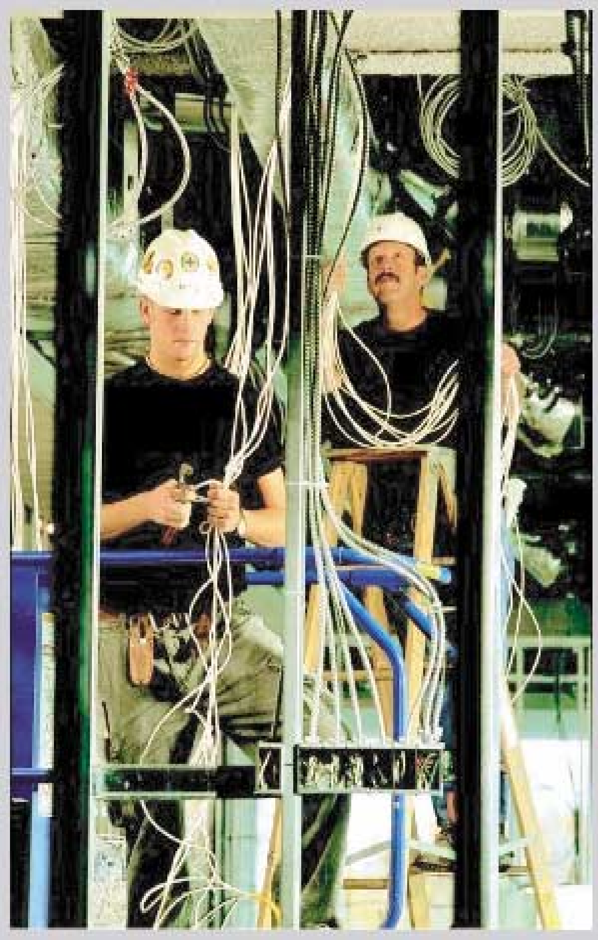
Piper Aircraft is a legendary name in American aviation, and American Capital is proud to be an investor in its growth. Our investment helped fund the development of its newest aircraft—the Malibu Meridian. Today, Piper offers eight models of piston-powered aircraft that service the personal, business and flight training markets.

Chance Coach, Inc., is the pre-eminent U.S. manufacturer of heavy-duty vintage streetcar replicas and a leader in municipal transit busses under thirty feet in length. You will see Chance Coach products on streets around the country, including such cities as San Antonio, Chicago, Dallas and Annapolis. Its primary customer base consists of municipal transit authorities. Many of these customers are repeat buyers who desire to maintain continuity in their fleets once a purchase decision is made. In 2001, Chance Coach began shipping the low-floor Opus, available in 30- and 35-foot versions. The Opus, based on a tested European design re-engineered to meet American requirements, provides municipalities with exceptional design, durability, and value while meeting stringent safety and handicap accessibility requirements.

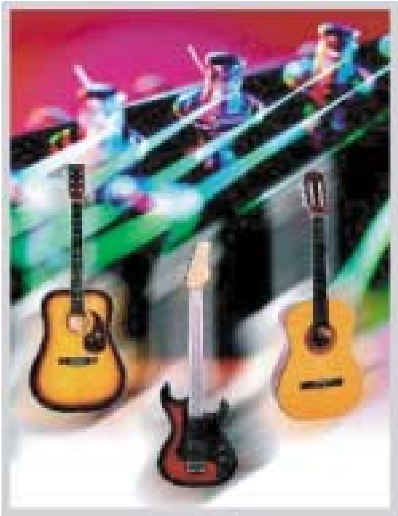


Erie Plastics Corporation has become a nationally recognized leader in manufacturing custom injection molded plastic packaging and closures. Erie has engineered and produced such products as the Tide liquid detergent pour spout and Gillette female deodorant packages. Erie has a solid base of diversified multinational customers including Newell-Sanford, Procter & Gamble, Alcoa, Coca-Cola, and Colgate-Palmolive.

Confluence Holdings is moving towards a dominant role in the paddle sports industry. A result of the merger of Wilderness Systems, Inc., the third largest U.S. manufacturer of kayaks, and Mad River Canoe, Inc., the country's second largest canoe company, the company offers one of the industry’s most comprehensive lines of paddle sports products, including canoes, kayaks and all the accessories.



Starcom Holdings has developed two successful businesses, an electrical services group and a networking group, to become a nationally known company and industry leader in New England. The company uses a design and build approach to design, integrate, and install electrical and networking systems for a diversified customer base.



MBT International is a leading international distributor of musical products and accessories. MBT is the nation's second largest distributor of musical accessories and the third largest distributor of instruments and accessories combined. The company sources and sells more than 18,000 different products both domestically and internationally. It recently licensed the Harmony brand name in order to expand its proprietary offerings.

For almost 50 years, **BIW Connector Systems** has met the needs of industrial, military and commercial customers who require high-reliability electrical connectors and cable assemblies for use in harsh environments or demanding custom applications.

The management and workers of **Dixie Trucking** are committed to excellence in customer satisfaction. In business for over 40 years, Dixie's specialty is transporting chemicals, textiles and industrial supplies and equipment.

A&M Cleaning Products, Inc.
All-Purpose Household Cleaner
Clemson, SC

Aeriform Corporation
Industrial Gas & Hardgoods
Houston, TX

A.H. Harris & Sons, Inc.
Distribution/Rental Center of Concrete
Construction Supplies
New Britain, CT

Atlantech
Polymeric Earthwork Geogrid
Reinforcement Products & Systems
Morrow, GA

Auxi-Health, Inc.
Home Health Services
Nashville, TN

Biddeford Textile Corporation
Blanket Manufacturer
Biddeford, ME

BIW Connector Systems, LLC
Specialty Connectors
Santa Rosa, CA

Capital.com
Business Finance Internet Portal
bethesda, MD

Case Logic, Inc.
Designer & Marketer of Storage Products, Accessories
Longmont, CO

Caswell-Massey Holdings Corp.
Wholesaler & Retailer of Soaps & Toiletries
Edison, NJ

Chance Coach, Inc.
Bus Manufacturer
Wichita, KS

Chromas Technologies
Mfr. of Printing Equipment
Boucherville, Quebec

Confluence Holdings Co.
Manufacturer of Kayaks & Canoes
Trinity, NC

Cornell Companies, Inc.
Private Corrections
Houston, TX

Crosman Corporation
Mfr. of Air Guns & Accessories
East Bloomfield, NY

Cycle Gear, Inc.
Retailer of Motorcycle Parts & Accessories
Richmond, CA

Decorative Surfaces Int'l, Inc.
Manufacturer of Decorative Paper & Vinyl Surfacing Materials
Columbus, OH

Dixie Trucking Company, Inc.
Overnight & Short Haul LTL Delivery
Charlotte, NC

Electrolux, LLC
Mfr. Of Vacuum & Floor Cleaners
Dallas, TX

Erie County Plastics Corp.
Injection Molded Packaging
Corry, PA

Erie Forge & Steel Corporation
Steel Forging & Specialty Steel
Erie, PA

EuroCaribe Packing Co., Inc.
Sausage & Ham Producer
San Juan, PR

Fulton Bellows & Components, Inc.
Bellows & Control Devices
Knoxville, TN

Goldman Industrial Group
Machine Tools
Bridgeport, CT

IGI, Inc.
Manufacturer of Pharmaceutical & Consumer Products
Buena, NJ

IMT, Inc.
Mfr. Of Service Vehicles, Material Handling
Systems & Specialty Cranes
Garner, IA

The Inca Group
Manufacturer of Rack Shelving & Steel Tubing
Lewisville, TX

JAAGIR, LLC
IT Staffing & Services
Dallas, TX

JAG Industries, Inc.
Contract Metal Fabrication
Baltimore, MD

The L.A. Studios, Inc.
Audio Post Production
Hollywood, CA

Lion Brewery, Inc.
Brewery
Wilkes-Barre, PA

Lubricating Specialties Co.
Manufacturer, Blender, Marketer of Greases and Lubricants
Pico Rivera, CA

MBT International, Inc.
Musical Instrument Distributor
Charleston, SC

Mobile Tool International, Inc.
Aerial Lift Truck Manufacturer
Westminster, CO

New Piper Aircraft, Inc.
Manufacturer of Aviation Aircraft
Vero Beach, FL

o2wireless Solutions, Inc.
Telecommunications Service Contractor
Atlanta, GA

Parts Plus Group
Auto Parts Distributor
Williamstown, NJ

Patriot Medical Technologies, Inc.
Medical Equipment Service
Nashville, TN

Starcom Holdings, Inc.
Electrical Contractor
Norwood, MA

Sunvest Industries, LLC
Metal-related Contract Manufacturer
Hayward, CA; Rockland, ME

TransCore Holdings, Inc.
Transportation Information Management
Systems & Service
Hummelstown, PA

Tube City, Inc.
Scrap Metal Processing, Brokering
& Mill Services
Glassport, PA

Warner Power, LLC
Manufacturer of Power System
Supplies & Electronic Ballasts
Warner, NH

Westwind Group Holdings, Inc.
Fast Food Service Company
San Diego, CA

Wrenchead.com
Internet Based Auto Parts Distributor
Bogota, NJ

Selected Financial Data

(Dollars in thousands except per share data)

The selected financial data should be read in conjunction with the Company's financial statements and notes thereto. As discussed in Notes 1 and 2, the Company completed an initial public offering of its common stock on August 29, 1997 and on October 1, 1997 began to operate so as to qualify to be taxed as a RIC. As a result of the changes, the financial results of the Company for periods prior to October 1, 1997 are not comparable to periods commencing October 1, 1997 and are not expected to be representative of the financial results of the Company in the future.

	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Three Months Ended December 31, 1997	Nine Months Ended September 30, 1997	Year Ended December 31, 1996
Total operating income	$ 62,728	$ 33,405	$ 16,979	$ 2,797	$ 2,901	$2,746
Total operating expenses	14,284	7,251	1,709	551	2,651	2,862
Operating income (loss) before equity in (loss) earnings of unconsolidated operating subsidiary	48,444	26,154	15,270	2,246	250	(116)
Equity in (loss) earnings of unconsolidated operating subsidiary	(3,773)	(1,493)	(482)	24	—	—
Net operating income (loss)	44,671	24,661	14,788	2,270	250	(116)
Realized gain on investments	4,538	2,711	—	—	—	—
(Decrease) increase in unrealized appreciation on investments	(53,582)	69,829	2,127	167	5,321	484
(Loss) income before income taxes	(4,373)	97,201	16,915	2,437	5,571	368
Provision for income taxes	—	—	—	—	2,128	159
Net (decrease) increase in shareholders' equity resulting from operations	(4,373)	97,201	16,915	2,437	3,443	209
Per share data:						
Net operating income:						
Basic	$ 2.00	$ 1.79	$ 1.34	$ 0.21		
Diluted	$ 1.96	$ 1.73	$ 1.29	$ 0.20		
Net (loss) earnings:						
Basic	$ (0.20)	$ 7.07	$ 1.53	$ 0.22		
Diluted	$ (0.19)	$ 6.80	$ 1.48	$ 0.21		
Cash dividends	$ 2.17	$ 1.74	$ 1.34	$ 0.21		
Balance Sheet Data:						
Total assets	$614,644	$395,372	$270,019	$150,705	$154,322	$5,432
Total shareholders' equity	445,167	311,745	152,723	150,652	150,539	3,372
Other Data:						
Number of portfolio companies at period end	45	33	15	3		
Principal amount of loan originations	$257,509	$139,433	$116,864	$ 16,817		
Principal amount of loan repayments	$ 34,486	$ 30,731	$ 1,719	$ 93		
NOI as % of average equity	13.6%	13.0%	10.2%	1.5%		
Return on equity(1)(2)	(1.1)%	41.9%	11.2%	6.5%		
Weighted average yield on investments	14.6%	13.9%	13.0%	12.2%		

(1) Amounts are annualized for the three months ended December 31, 1997.
(2) Return represents net (decrease) increase in shareholders' equity resulting from operations.

All statements contained herein that are not historical facts including, but not limited to, statements regarding anticipated activity are forward-looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: changes in the economic conditions in which the Company operates negatively impacting the financial resources of the Company; certain of the Company's competitors with substantially greater financial resources than the Company reducing the number of suitable investment opportunities offered to the Company or reducing the yield necessary to consummate the investment; volatility in the value of equity investments including Internet properties, such as Capital.com; increased costs related to compliance with laws, including environmental laws; general business and economic conditions and other risk factors described in the Company's reports filed from time to time with the Securities and Exchange Commission. The Company cautions readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's financial statements and the notes thereto.

PORTFOLIO COMPOSITION

The Company's primary business is investing in and lending to businesses through investments in senior debt, subordinated debt generally with detachable common or preferred stock warrants, preferred stock, and common stock. The total portfolio value of investments in publicly and non-publicly traded securities was $582,108 and $377,554 at December 31, 2000 and 1999, respectively. During the years ended December 31, 2000, 1999, and 1998, the Company made investments totaling $275,500, $175,800, and $150,200, including $9,500, $13,500, and $7,400 in funds committed but undrawn under credit facilities, respectively. The weighted average effective interest rate on the investment portfolio was 14.6%, 13.9%, and 13.0% at December 31, 2000, 1999, and 1998, respectively.

RESULTS OF OPERATIONS

The Company's financial performance, as reflected in its Statements of Operations, is composed of three primary elements. The first element is "Net operating income," which is primarily the interest and dividends earned from investing in debt and equity securities and the equity in earnings of its unconsolidated operating subsidiary less the operating expenses of the Company. The second element is "(Decrease) increase in net unrealized appreciation of investments," which is the net change in the estimated fair values of the Company's portfolio assets at the end of the period compared with their estimated fair values at the beginning of the period or their stated costs, as appropriate. The third element is "Net realized gain on investments," which reflects the difference between the proceeds from a sale or maturity of a portfolio investment and the cost at which the investment was carried on the Company's balance sheet.

(Dollars in thousands except per share data)

The operating results for the years ended December 31, 2000, 1999, and 1998 are as follows:

Year Ended	December 31, 2000	December 31, 1999	December 31, 1998
Operating income	$ 62,728	$33,405	$16,979
Operating expenses	14,284	7,251	1,709
Equity in loss of unconsolidated operating subsidiary	(3,773)	(1,493)	(482)
Net operating income	44,671	24,661	14,788
Net realized gain on investments	4,538	2,711	—
(Decrease) increase in unrealized appreciation of investments	(53,582)	69,829	2,127
Net (decrease) increase in shareholders' equity resulting from operations	$ (4,373)	$97,201	$16,915

Total operating income for the year ended December 31, 2000, increased $29,323, or 88%, over the year ended December 31, 1999. The increase is a result of the Company closing 28 investments totaling $275 million, the increase in the prime lending rate, and an increase in loan fees. Total operating income for 2000 consisted of $57,038 in interest and dividends on non-publicly traded securities, $1,695 in interest on bank deposits, repurchase agreements, and shareholder loans, and $3,995 in loan fees. Interest and dividend income increased approximately $27,900 compared to 1999 due to net originations in 2000, and the rise in the prime lending rate. The rise in the weighted average prime lending rate from 8.0% in 1999 to 9.2% in 2000 contributed additional interest income of approximately $1,495 in 2000 compared to the same period in 1999. Loan fees as a percentage of originations, exclusive of prepayment penalties, decreased to 1.1% in 2000 compared to 1.3% in 1999.

Total operating income for the year ended December 31, 1999, increased $16,426, or 97%, over the year ended December 31, 1998. The increase is a result of the Company closing 24 investments in private companies totaling $172 million and selling investments in 2 portfolio companies during 1999, net of the effect of a decrease in the prime lending rate. Total operating income for 1999 consisted of $29,893 in interest and dividends on non-publicly traded securities and $940 in interest on government agency securities, bank deposits, shareholder loans, and repurchase agreements, and $2,572 in loan fees. Total operating income for 1998 consisted of $11,020 in interest and dividends on non-publicly traded securities, $3,410 in interest on government agency securities, bank deposits and repurchase agreements, and $2,549 in loan fees. Interest and dividend income increased approximately $16,400 compared to 1998 due to net originations in 1999, net of a decrease in the prime lending rate. The decrease in the weighted average prime lending rate from 8.4% in 1998 to 8.0% in 1999 reduced interest income by approximately $251. Loan fees as a percentage of originations, exclusive of prepayment penalties, decreased to 1.3% in 1999 compared to 1.8% in 1998.

Operating expenses for 2000 increased $7,033, or 97%, over 1999. The increase is primarily due to an increase in interest expense from $4,716 in 1999 to $9,691 in 2000 and an increase in general and administrative expenses from $1,490 in 1999 to $2,414 in 2000. Operating expenses for 2000 consisted of $2,179 in salaries and benefits, $2,414 in general and administrative expenses, and $9,691 in interest expense. Interest expense increased due to an increase in the Company's weighted average borrowings from $48,608 in 1999 to $97,588 in 2000. In addition, the weighted average interest rate on outstanding borrowings, including amortization of deferred finance costs, increased from 9.7% in 1999 to 9.9% in 2000. General and administrative expenses increased primarily due to an increase in marketing expenses incurred to support the Company's increased origination platform, increased professional and recruiting expenses to support the increase in the number of investment professionals at the Company, increased rent expense relating to the Company's move to a larger Bethesda corporate office during the fourth quarter of 1999, and higher public reporting expenses. Operating expenses also increased due to increases in salaries and benefits from $1,045 in 1999 to $2,179 in 2000 due to an increase in employees from 39 at December 31, 1999 to 58 at December 31, 2000.

Operating expenses for 1999 increased $5,542, or 324%, over 1998. The increase is primarily due to an increase in interest expense from $57 in 1998 to $4,716 in 1999. Interest expense increased due to an increase in the Company's weighted average borrowings from $1,031 in 1998 to $48,608 in 1999. In addition, the weighted average interest rate on outstanding borrowings, including amortization of deferred finance costs, increased from 5.9% in 1998 to 9.7% in 1999. Operating expenses for 1999 consisted of $1,045 in salaries and benefits, $1,490 in general and administrative expenses, and $4,716 in interest expense. Operating expenses also increased due to increases in salaries and benefits from $843 in 1998 to $1,045 in 1999 due to an increase in employees from 30 at December 31, 1998 to 39 at December 31, 1999.

(Dollars in thousands except per share data)

Equity in loss of unconsolidated operating subsidiary, which represents ACFS's results, increased from a loss of $1,493 in 1999 to a loss of $3,773 in 2000. ACFS provides financial advisory and investment structuring services to businesses. For the year ended December 31, 2000, ACFS's results included $7,324 of operating income, $13,098 of operating expenses, and $2,000 of other income. The decrease in ACFS's earnings for 2000 was primarily attributable to the increase in salaries and benefits caused by an increase in employees, all of whom are also employees of the Company, from 39 to 58, and to increases in professional services and recruiting costs.

Equity in loss of unconsolidated operating subsidiary increased from a loss of $482 in 1998 to a loss of $1,493 in 1999. For the year ended December 31, 1999, ACFS's results included $6,030 of operating income, $9,114 of operating expenses, $925 of realized gains, $246 of unrealized appreciation of investments, and $912 in other income. The realized gain was a result of the sale of ACFS's common stock investment in Four-S Baking Company ("Four-S") and the unrealized depreciation was due to the reversal of previously recorded unrealized appreciation of ACFS's Four-S investment, netted against unrealized gains on other investments. The decrease in ACFS's earnings for 1999 was primarily attributable to the increase in salaries and benefits caused by an increase in employees, all of whom are also employees of the Company, from 30 to 39. For the year ended December 31, 1998, ACFS's results included $5,227 of operating income, $6,451 of operating expenses, $481 of unrealized appreciation of investments, and $261 in other income.

During 2000, one of the Company's portfolio companies, o2wireless, completed an initial public offering. In conjunction with the offering, o2wireless repaid the Company's $13,000 subordinated note. In addition, the Company exercised and sold 180 of the 2,737 common stock warrants it owns. As a result of these transactions, the Company recorded a realized gain of $4,303 which was comprised of $2,475 of previously unamortized original issue discount and $1,828 of gain on the sale of the exercised warrants. During 1999, the Company recorded realized gains on investments of $2,395 from the prepayment of $8,000 of subordinated debt by Specialty Transportation Services, Inc ("STS"), and the sale of the Company's common stock and warrant investments in STS, and a realized gain of $316 on the sale of its investment in Four-S. The Company did not record any realized gains on investments in 1998.

During 2000, the Company paid Federal income taxes of $759 on retained realized gains recorded primarily on the STS transaction during the tax year ended September 30, 2000. During 1999, the Company paid Federal income taxes of $309 on retained realized gains recorded on the Four-S and STS transactions during the tax year ended September 30, 1999. The Company did not have any retained realized gains in 1998. These payments were treated as a deemed distribution because they were paid on behalf of the Company's shareholders. As a result, the Company did not record an income tax provision. The Company may elect to retain future realized gains and pay taxes on behalf of the shareholders.

The unrealized appreciation of investments is based on portfolio asset valuations determined by the Company's Board of Directors. The following table explains the change in unrealized appreciation of investment for the three years ended December 31, 2000:

	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Gross unrealized appreciation of investments	$ 33,397	$ 6,254	$2,324
Gross unrealized depreciation of investments, excluding Capital.com	(15,064)	(6,719)	(197)
Unrealized (depreciation) appreciation of Capital.com	(71,008)	71,008	—
Unrealized depreciation of interest rate swaps	(907)	(163)	—
Reversal of previously recorded unrealized appreciation	—	(551)	—
Net (depreciation) appreciation of investments	$(53,582)	$69,829	$2,127

Capital.com, an Internet finance portal, was launched in July 1999 under the name AmericanCapitalOnline.com. In December 1999, the assets of AmericanCapitalOnline.com were contributed to Capital.com, Inc., a newly formed entity, and the site was renamed Capital.com. The total cost of the assets contributed to Capital.com by the Company was $1,492. During December, 1999, a subsidiary of First Union Corporation ("First Union") invested $15,000 in Capital.com in exchange for a 15% common equity stake and warrants to acquire up to an additional 5% of the common equity at a nominal price. The warrants are fully vested as of December 31, 2000.

In considering the appropriate valuation of this investment at December 31, 2000 and December 31, 1999, in addition to the value implied by First Union's investment for a 15% equity interest, the Board of Directors considered several factors including:

- The valuation of comparable public company entities;
- The very early development stage of Capital.com;
- An estimated value for the warrants issued to First Union and the uncertainty of a subsequent valuation of Capital.com affecting the number of shares for which such warrants could be exercised;
- The valuation implied by comparable private company transactions.

Based on all these factors and others that were considered, the Board of Directors valued the investment in Capital.com at its original cost $1,492 at December 31, 2000. This value represents a decrease of $71,008 from its December 31, 1999 valuation of $72,500. This depreciation is attributed to numerous factors arising during the year ended December 31, 2000, including the unfavorable financing environment for Internet companies and substantial declines in the valuations of comparable public and private companies. Since the Company's original investment in the third quarter of 1999, the Company has experienced no net depreciation of its investment in Capital.com.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

At December 31, 2000, the Company had $11,192 in cash and cash equivalents. In addition, the Company had outstanding debt secured by assets of the Company of $68,002 under a $225,000 revolving debt funding facility, and $87,200 under an asset securitization. During 2000, the Company funded its investments with proceeds from the revolving debt funding facility, proceeds from the asset securitization, and two follow-on equity offerings from which it received net proceeds of approximately $185,000 (see Note 8).

On December 20, 2000, the Company completed a $115,400 asset securitization. In conjunction with the transaction, the Company established ACAS Business Loan Trust 2000-1 (the "Trust"), an affiliated business trust, and contributed to the Trust $153,700 in loans. Subject to certain conditions precedent, the Company will remain servicer of the loans. Simultaneously with the initial contribution, the Trust was authorized to issue $69,200 Class A notes, and $46,200 Class B notes to institutional investors and $38,300 of Class C notes were retained by the Trust. The Class A notes carry an interest rate of one-month LIBOR plus 45 basis points, the Class B notes carry an interest rate of one-month LIBOR plus 150 basis points. As of December 31, 2000, the Company had issued $69,200 of the Class A notes, and $18,000 of the Class B notes; in January 2001, the Company issued the remaining $28,200 of the Class B notes. The notes are backed by loans to 29 of the Company's portfolio companies. The Class A notes mature on March 20, 2006, and the Class B notes mature on August 20, 2007. The transfer of the assets to the Trust and the related borrowings by the Trust have been treated as a financing arrangement by the Company under Statement of Financial Accounting Standards No. 125. Early repayments are first applied to the Class A notes, and then to the Class B notes. The Company enters into interest rate swaps in order to mitigate interest rate risk related to the asset securitization (see "Interest Rate Risk" below).

The Company's $225,000 revolving debt funding facility has a term of two years and an interest rate on borrowings originally charged at one-month LIBOR (6.57% at December 31, 2000) plus 150 basis points, that was subsequently decreased to LIBOR plus 50 basis points on December 20, 2000. The full amount of principal will be amortized over a 24-month period at the end of the term and interest is payable monthly. The

(Dollars in thousands except per share data)

Company has used borrowings under this facility to repay debt and to make investments in the debt and equity securities of middle market companies; the Company intends to continue to use this facility in this fashion. Subsequent to December 31, 2000, the Company received an extension of the two-year term of this facility beginning March 31, 2001.

As a BDC, the Company's asset coverage must be at least 200% after each issuance of Senior Securities. As of December 31, 2000 and 1999, the Company's asset coverage was approximately 400% and 500%, respectively.

PORTFOLIO CREDIT QUALITY

The Company grades all loans on a scale of 1 to 4. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant.

Under this system, loans with a grade of 4 involve the least amount of risk in the Company's portfolio. The borrower is performing above expectations and the trends and risk factors are generally favorable. Loans graded 3 involve a level of risk that is similar to the risk at the time of origination. The borrower is performing as expected and the risk factors are neutral to favorable. All new loans are initially graded 3. Loans graded 2 involve a borrower performing below expectations and indicates that the loan's risk has increased since origination. The borrower may be out of compliance with debt covenants, however, loan payments are not more than 120 days past due. For loans graded 2, the Company's management will increase procedures to monitor the borrower and the fair value generally will be lowered. A loan grade of 1 indicates that the borrower is performing materially below expectations and that the loan risk has substantially increased since origination. Some or all of the debt covenants are out of compliance and payments are delinquent. Loans graded 1 are not anticipated to be repaid in full and the Company will reduce the fair value of the loan to the amount it anticipates will be recovered.

To monitor and manage the investment portfolio risk, management tracks the weighted average investment grade. The weighted average investment grade was 3.2 as of both December 31, 2000 and 1999. As of December 31, 2000, one loan is on non-accrual. At December 31, 2000 and 1999, the Company's investment portfolio was graded as follows:

	December 31, 2000		December 31, 1999	
Grade	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
4	$182,964	32.4%	$ 65,638	21.5%
3	355,015	62.9%	223,898	73.4%
2	18,971	3.4%	15,577	5.1%
1	7,432	1.3%	—	—
	$564,382	100.0%	$305,113	100.0%

Balance Sheets

(Dollars in thousands except per share data)

	December 31, 2000	December 31, 1999
Assets		
Cash and cash equivalents	$ 11,192	$ 2,037
Investments at fair value (cost of $563,331 and $305,264, respectively)	582,108	377,554
Investment in unconsolidated operating subsidiary	1,120	4,893
Due from unconsolidated operating subsidiary	7,433	2,331
Interest receivable	4,935	2,417
Other	7,856	6,140
Total assets	$614,644	$395,372
Liabilities and Shareholders' Equity		
Revolving credit facility	$ 68,002	$ 78,545
Notes payable	87,200	—
Accrued dividends payable	6,163	547
Other	8,112	4,535
Total liabilities	169,477	83,627
Commitments and Contingencies		
Shareholders' equity:		
Undesignated preferred stock, $0.01 par value, 5,000 shares authorized, 0 issued and outstanding	—	—
Common stock, $.01 par value, 70,000 shares authorized, and 28,003 and 18,252 issued and outstanding, respectively	280	183
Capital in excess of par value	448,587	255,922
Notes receivable from sale of common stock	(27,389)	(23,052)
(Distributions in excess of) undistributed net realized earnings	(341)	1,080
Unrealized appreciation of investments	24,030	77,612
Total shareholders' equity	445,167	311,745
Total liabilities and shareholders' equity	$614,644	$395,372

See accompanying notes.

(Dollars in thousands)

DECEMBER 31, 2000

Company	Industry	Investment	Cost	Fair Value
A&M Cleaning Products, Inc.	Manufacturing—Household Cleaning Products	Subordinated Debt	$ 5,045	$ 5,045
		Common Stock Warrants, 21.9% of Co.	1,643	2,237
		Redeemable Preferred Stock(1)	447	447
			7,135	7,729
A.H. Harris & Sons, Inc.	Wholesale & Retail—Construction Material	Subordinated Debt	9,494	9,494
		Common Stock Warrants, 10.0% of Co.	534	1,050
			10,028	10,544
Aeriform Corporation	Manufacturing—Packaged Industrial Gas	Subordinated Debt	8,346	8,346
Atlantech International	Manufacturing—Polymer-based Products	Subordinated Debt with Non-Detachable Warrants	18,781	18,781
		Redeemable Preferred Stock with Non-Detachable Common Stock, 1.3% of Co.	1,007	1,007
			19,788	19,788
Auxi Health, Inc. (2)	Healthcare—Home Healthcare	Subordinated Debt	12,546	12,546
		Common Stock Warrants, 17.9% of Co.	2,599	1,856
		Preferred Stock, Convertible into 55.8% of Co.	2,578	2,578
			17,723	16,980
Biddeford Textile Corp.	Manufacturing—Electronic Blankets	Senior Debt	1,552	1,552
		Common Stock Warrants, 10.0% of Co.	1,100	942
			2,652	2,494
BIW Connector Systems, LLC	Manufacturing—Specialty Connectors	Senior Debt	2,553	2,553
		Subordinated Debt	4,940	4,940
		Common Stock Warrants, 8.0% of Co.	652	2,068
			8,145	9,561
Capital.com, Inc. (2)	Internet—Financial Portal	Common Stock, 85.0% of Co.	1,492	1,492
Case Logic	Manufacturing—Storage Products Designer & Marketer	Subordinated Debt with Non-Detachable Warrants, 9.6% of Co.	19,958	19,958
Caswell-Massey Holdings Corp.	Wholesale & Retail—Toiletries	Senior Debt	1,833	1,833
		Subordinated Debt	1,745	1,745
		Common Stock Warrants, 24.0% of Co.	552	1,092
			4,130	4,670
Centennial Broadcasting, Inc.	Media—Radio Stations	Subordinated Debt	18,778	18,778

(1) Non-income producing
(2) Affiliate

See accompanying notes.

Schedule of Investments

(Dollars in thousands)

DECEMBER 31, 2000

Company	Industry	Investment	Cost	Fair Value
Chance Coach, Inc.(2)	Manufacturing—Buses	Senior Debt	$ 2,411	$ 2,411
		Subordinated Debt	8,147	8,147
		Common Stock, 20.4% of Co.	1,896	2,793
		Common Stock Warrants, 43.0% of Co.	4,041	5,950
		Preferred Stock, Convertible into 20.0% of Co.	2,000	2,793
			18,495	22,094
Chromas Technologies(2)	Manufacturing—Printing Presses	Senior Debt	10,452	10,452
		Subordinated Debt	4,447	4,447
		Common Stock, 35.0% of Co.	1,500	1,500
		Common Stock Warrants, 25.0% of Co.	1,071	1,071
		Preferred Stock, Convertible into 40.0% of Co.	4,080	4,080
			21,550	21,550
Confluence Holdings Corp.(2)	Manufacturing—Canoes & Kayaks	Subordinated Debt	10,648	10,648
		Common Stock, 6.0% of Co.	537	37
		Common Stock Warrants, 20.4% of Co.	1,630	1,352
			12,815	12,037
Cornell Companies, Inc.	Service—Private Corrections	Subordinated Debt	28,929	28,929
		Common Stock Warrants, 2.2% of Co.	1,102	1,071
			30,031	30,000
Crosman Corporation	Manufacturing—Small Arms	Subordinated Debt	3,854	3,854
		Common Stock Warrants, 3.5% of Co.	330	330
			4,184	4,184
Cycle Gear, Inc.(2)	Wholesale & Retail—Motor Cycle Accessories	Senior Debt	750	750
		Subordinated Debt	4,344	4,344
		Common Stock Warrants, 34.0% of Co.	374	884
			5,468	5,978
Decorative Surfaces International, Inc.(2)	Manufacturing—Decorative Paper & Vinyl Products	Subordinated Debt	12,878	12,878
		Common Stock Warrants, 42.3% of Co.	4,571	—
		Preferred Stock, Convertible into 2.9% of Co.	803	—
			18,252	12,878
Dixie Trucking Company, Inc.(2)	Transportation—Overnight Shorthaul Delivery	Subordinated Debt	4,079	4,079
		Common Stock Warrants, 32.0% of Co.	141	553
			4,220	4,632

(1) Non-income producing
(2) Affiliate

See accompanying notes.

(Dollars in thousands)

DECEMBER 31, 2000

Company	Industry	Investment	Cost	Fair Value
Electrolux, LLC	Manufacturing—Vacuum Cleaners	Common Stock, 2.5% of Co.	$ 246	$ 2,000
Erie County Plastics Corporation	Manufacturing—Molded Plastics	Subordinated Debt	8,920	8,920
		Common Stock Warrants, 8.0% of Co.	1,170	1,170
			10,090	10,090
EuroCaribe Packing Company, Inc.(2)	Manufacturing—Meat Processing	Senior Debt	7,959	7,959
		Subordinated Debt	9,048	7,048
		Common Stock Warrants, 37.1% of Co.	1,110	—
			18,117	15,007
Fulton Bellows & Components, Inc.(2)	Manufacturing—Bellows	Senior Debt	13,100	13,100
		Subordinated Debt	6,771	6,771
		Common Stock Warrants, 20.0% of Co.	1,305	1,305
		Preferred Stock, Convertible into 40.0% of Co.(1)	3,191	3,191
			24,367	24,367
Goldman Industrial Group	Manufacturing—Machine Tools, Metal Cutting Types	Subordinated Debt	27,280	27,280
		Common Stock Warrants, 15.0% of Co.	2,822	2,822
			30,102	30,102
IGI, Inc.	Healthcare—Veterinary Vaccines	Subordinated Debt	5,294	5,294
		Common Stock Warrants, 18.7% of Co.	2,003	1,878
			7,297	7,172
Iowa Mold Tooling, Inc.(2)	Manufacturing—Specialty Equipment	Subordinated Debt	23,562	23,562
		Common Stock, 28.7% of Co.	3,200	3,200
		Common Stock Warrants, 53.0% of Co.	5,918	5,918
			32,680	32,680
JAAGIR, LLC	Service—IT Staffing & Consulting	Subordinated Debt	2,789	2,789
		Common Stock Warrants, 4.0% of Co.	271	271
			3,060	3,060
JAG Industries, Inc.(2)	Manufacturing—Metal Fabrication & Tablet Manufacturing	Senior Debt	1,142	1,142
		Subordinated Debt	2,446	2,446
		Common Stock Warrants, 75.0% of Co.	505	—
			4,093	3,588
Lion Brewery, Inc.(2)	Manufacturing—Malt Beverages	Subordinated Debt	5,996	5,996
		Common Stock Warrants, 54.0% of Co.	675	7,688
			6,671	13,684

(1) Non-income producing
(2) Affiliate

See accompanying notes.

Schedule of Investments

(Dollars in thousands)

DECEMBER 31, 2000

Company	Industry	Investment	Cost	Fair Value
Lubricating Specialties Co.	Manufacturing—Lubricant & Grease	Senior Debt	$ 7,206	$ 7,206
		Subordinated Debt	14,718	14,718
		Common Stock Warrants, 21.0% of Co.	791	791
			22,715	22,715
MBT International Inc.(2)	Wholesale & Retail—Musical Instrument Distributor	Senior Debt	3,300	3,300
		Subordinated Debt	6,810	6,810
		Common Stock Warrants, 30.6% of Co.	1,214	1,214
		Preferred Stock, Convertible into 53.1% of Co.(1)	2,250	2,250
			13,574	13,574
New Piper Aircraft, Inc.	Manufacturing—Aircraft Manufacturing	Subordinated Debt	18,211	18,211
		Common Stock Warrants, 4.0% of Co.	2,231	3,578
			20,442	21,789
o2wireless Solutions Inc.	Telecommunications—Wireless Communications Network Service	Common Stock Warrants, 8.0% of Co.	2,521	16,670
Parts Plus Group	Wholesale & Retail—Auto Parts Distributor	Subordinated Debt	4,329	4,329
		Common Stock Warrants, 3.6% of Co.	333	333
		Preferred Stock, Convertible into 1.7% of Co.(1)	555	117
			5,217	4,779
Patriot Medical Technologies, Inc.(2)	Service—Repair Services	Senior Debt	2,805	2,805
		Subordinated Debt	2,767	2,767
		Common Stock Warrants, 15.0% of Co.	612	612
		Preferred Stock, Convertible into 16.0% of Co.	1,104	1,104
			7,288	7,288
Starcom Holdings, Inc.	Construction—Electrical Contractor	Subordinated Debt	19,199	19,199
		Common Stock, 2.8% of Co.	616	866
		Common Stock Warrants, 17.5% of Co.	3,914	5,415
			23,729	25,480
Sunvest Industries, LLC(2)	Manufacturing—Contract Manufacturing	Senior Debt	5,000	5,000
		Subordinated Debt	5,295	5,295
		Common Stock Warrants, 38.0% of Co.	705	705
		Preferred Stock, 35.0% of Co.(1)	1,000	1,000
			12,000	12,000

(1) Non-income producing
(2) Affiliate

See accompanying notes.

Schedule of Investments

(Dollars in thousands)

DECEMBER 31, 2000

Company	Industry	Investment	Cost	Fair Value
The Inca Group[2]	Manufacturing—Steel Products	Subordinated Debt	$ 15,858	$ 15,858
		Common Stock, 27.7% of Co.	1,700	2,010
		Common Stock Warrants, 57.3% of Co.	3,060	4,136
			20,618	22,004
The L.A. Studios, Inc.	Wholesale & Retail—Audio Production	Subordinated Debt	2,555	2,555
		Common Stock Warrants, 17.0% of Co.	902	1,176
			3,457	3,731
Transcore Holdings, Inc.	Information Technology—Transportation Information Management Services	Subordinated Debt	22,908	22,908
		Common Stock Warrants, 10.2% of Co.	4,686	5,369
		Redeemable Preferred Stock	571	571
			28,165	28,848
Tube City Olympic of Ohio, Inc.	Manufacturing—Mill Services	Senior Debt	7,909	7,909
Tube City, Inc.	Manufacturing—Mill Services	Subordinated Debt	6,460	6,460
		Common Stock Warrants, 14.8% of Co.	2,523	3,040
			8,983	9,500
Warner Power, LLC[2]	Manufacturing—Power Systems & Electrical Ballasts	Senior Debt	1,125	1,125
		Subordinated Debt	3,959	3,959
		Common Stock Warrants, 53.1% of LLC	1,629	4,587
			6,713	9,671
Westwind Group Holdings, Inc.	Service—Restaurants	Subordinated Debt	3,011	1,673
		Common Stock Warrants, 5.0% of Co.	350	—
			3,361	1,673
Wrenchead.com, Inc.	Internet—Auto Parts Distributor	Common Stock, 1.0% of Co.	—	104
ACS Equities, LP[2]	Investment Partnership	Common Stock, 90.0% of LP	6,726	—
Interest Rate Basis Swap Agreements	Pay Fixed / Receive Floating	9 Contracts / Notional Amounts Totaling $102,123	—	(582)
	Pay Floating / Receive Floating	8 Contracts / Notional Amounts Totaling $166,030	—	(488)
			—	(1,070)
		Total Investments	$563,331	$582,108
American Capital Financial Services[2]	Investment Banking	Common Stock, 100% of Co.[1]	403	1,120
Totals			$563,734	$583,228

(1) Non-income producing
(2) Affiliate

See accompanying notes.

(Dollars in thousands)

DECEMBER 31, 1999

Company	Industry	Investment	Cost	Fair Value
A.H. Harris & Sons, Inc.	Wholesale & Retail—Construction Material	Subordinated Debt	$ 4,733	$ 4,733
		Common Stock Warrants, 3.5% of Co.	267	267
			5,000	5,000
Aeriform Corporation	Manufacturing—Packaged Industrial Gas	Subordinated Debt	7,774	7,774
Auxi Health, Inc.	Healthcare—Home Healthcare	Common Stock Warrants, 20% of Co.	2,599	1,856
		Subordinated Debt	10,136	10,136
			12,735	11,992
BIW Connector Systems, LLC	Manufacturing—Specialty Connectors	Senior Debt	3,404	3,404
		Subordinated Debt	6,829	6,829
		Common Stock Warrants, 8% of LLC	652	451
			10,885	10,684
Capital.com, Inc.(2)	Internet—Financial Portal	Common Stock, 85% of Co.	1,492	72,500
Caswell-Massey Holdings Corp.	Wholesale & Retail—Toiletries	Senior Debt	2,000	2,000
		Subordinated Debt	1,670	1,670
		Common Stock Warrants, 24% of Co.	552	552
			4,222	4,222
Centennial Broadcasting, Inc.	Media—Radio Stations	Subordinated Debt	16,975	16,975
Chance Coach, Inc.(2)	Manufacturing—Buses	Senior Debt	1,071	1,071
		Subordinated Debt	7,520	7,520
		Preferred Stock, Convertible into 20% of Co.	2,000	2,793
		Common Stock, 20.5% of Co.	1,896	2,793
		Common Stock Warrants, 43.2% of Co.	4,041	5,950
			16,528	20,127
Confluence Holdings Corp.	Manufacturing—Canoes & Kayaks	Subordinated Debt	8,812	8,812
		Common Stock, 0.7% of Co.	45	17
		Common Stock Warrants, 18% of Co.	1,319	1,217
			10,176	10,046
Crosman Corporation	Manufacturing—Small Arms	Subordinated Debt	3,702	3,702
		Common Stock Warrants, 3.5% of Co.	330	330
			4,032	4,032
Cycle Gear, Inc.(2)	Wholesale & Retail—Motor Cycle Accessories	Senior Debt	750	750
		Subordinated Debt	2,262	2,262
		Common Stock Warrants, 27.6% of Co.	374	374
			3,386	3,386

(1) Non-income producing
(2) Affiliate

See accompanying notes.

Schedule of Investments

(Dollars in thousands)

DECEMBER 31, 1999

Company	Industry	Investment	Cost	Fair Value
Decorative Surfaces International, Inc.(2)	Manufacturing—Decorative Paper & Vinyl Products	Subordinated Debt	$ 5,606	$ 5,606
		Common Stock Warrants, 42.3% of Co.	4,571	4,394
		Preferred Stock, Convertible into 2.9% of Co.	728	728
			10,905	10,728
Dixie Trucking Company, Inc.(2)	Transportation—Overnight Shorthaul Delivery	Subordinated Debt	4,064	4,064
		Common Stock Warrants, 32% of Co.	141	141
			4,205	4,205
Electrolux, LLC	Manufacturing—Vacuum Cleaners	Subordinated Debt	7,849	7,849
		Common Stock, 2.5% of Co.	246	1,144
			8,095	8,993
Erie County Plastics Corporation	Manufacturing—Molded Plastics	Subordinated Debt	8,858	8,858
		Common Stock Warrants, 8% of Co.	1,170	1,170
			10,028	10,028
EuroCaribe Packing Company, Inc.(2)	Manufacturing—Meat Processing	Senior Debt	6,276	6,276
		Subordinated Debt	8,971	8,971
		Common Stock Warrants, 37.1% of Co.	1,110	1,046
			16,357	16,293
IGI, Inc.	Healthcare—Veterinary Vaccines	Subordinated Debt	5,037	5,037
		Common Stock Warrants, 16.7% of Co.	2,003	2,587
			7,040	7,624
JAG Industries, Inc.(2)	Manufacturing—Metal Fabrication & Tablet Manufacturing	Senior Debt	1,200	1,200
		Subordinated Debt	2,385	2,385
		Common Stock Warrants, 75% of Co.	505	—
			4,090	3,585
Lion Brewery, Inc.(2)	Manufacturing—Malt Beverages	Subordinated Debt	5,975	5,975
		Common Stock Warrants, 54% of Co.	675	1,863
			6,650	7,838
MBT International Inc.(2)	Wholesale & Retail—Musical Instrument Distributor	Senior Debt	4,200	4,200
		Common Stock Warrants, 30.6% of Co.	1,214	1,214
		Preferred Stock, Convertible into 53.1% of Co.(1)	2,250	2,250
		Subordinated Debt	6,439	6,439
			14,103	14,103

(1) Non-income producing
(2) Affiliate

See accompanying notes.

(Dollars in thousands)

DECEMBER 31, 1999

Company	Industry	Investment	Cost	Fair Value
New Piper Aircraft, Inc.	Manufacturing—Aircrafts	Subordinated Debt	$ 18,023	$ 18,023
		Common Stock Warrants, 4% of Co.	2,231	2,884
			20,254	20,907
o2wireless Solutions Inc.	Telecommunications—Wireless Communications Network Services	Subordinated Debt	10,348	10,348
		Common Stock Warrants, 11.5% of Co.	2,698	2,698
			13,046	13,046
Parts Plus Group	Wholesale & Retail—Auto Parts Distributor	Subordinated Debt	4,119	4,119
		Preferred Stock, Convertible into 1.9% of Co.(1)	556	556
		Common Stock Warrants, 2.4% of Co.	333	333
			5,008	5,008
Patriot Medical Technologies, Inc.(2)	Service—Repair Services	Senior Debt	3,250	3,250
		Subordinated Debt	2,487	2,487
		Common Stock Warrants, 14.9% of Co.	612	612
		Preferred Stock, Convertible into 16.9% of Co.	1,020	1,020
			7,369	7,369
Starcom Holdings, Inc.	Construction—Electrical Contractor	Subordinated Debt	18,929	18,929
		Common Stock Warrants, 17.5% of Co.	3,914	3,914
		Common Stock, 2.8% of Co.	616	616
			23,459	23,459
The Inca Group(2)	Manufacturing—Steel Products	Common Stock, 18.5% of Co.	850	850
		Subordinated Debt	11,177	11,177
		Common Stock Warrants, 66.5% of Co.	3,060	3,060
			15,087	15,087
The L.A. Studios, Inc.	Wholesale & Retail—Audio Production	Subordinated Debt	2,466	2,466
		Common Stock Warrants, 17% of Co.	902	902
			3,368	3,368
Transcore Holdings, Inc.	Information Technology—Transportation Information Management Services	Subordinated Debt	5,656	5,656
		Common Stock Warrants, 7.3% of Co.	1,694	1,694
		Redeemable Preferred Stock	306	306
			7,656	7,656
Tube City Olympic of Ohio, Inc.	Manufacturing—Mill Services	Senior Debt	9,700	9,700

(1) Non-income producing
(2) Affiliate

See accompanying notes.

(Dollars in thousands)

DECEMBER 31, 1999

Company	Industry	Investment	Cost	Fair Value
Tube City, Inc.	Manufacturing—Mill Services	Subordinated Debt	$ 6,017	$ 6,017
		Common Stock Warrants, 14.75% of Co.	2,523	2,523
			8,540	8,540
Warner Power, LLC[2]	Manufacturing—Power Systems & Electrical Ballasts	Senior Debt	4,610	4,610
		Subordinated Debt	3,871	3,871
		Common Stock Warrants, 53.1% of LLC	1,629	1,629
			10,110	10,110
Westwind Group Holdings, Inc.	Service—Restaurants	Subordinated Debt	2,984	2,984
		Common Stock Warrants, 5% of Co.	350	244
			3,334	3,228
Wrenchead.com, Inc.	Internet—Auto Parts Distributor	Common Stock, 1% of Co.	—	104
ACS Equities, LP[2]	Investment Partnership	Common Stock, 90% of LP	3,655	—
Interest Rate Basis Swaps Agreements	Pay Floating / Receive Floating	4 Contracts / Notional Amounts Totaling $61,325	—	(163)
		Total Investments	$305,264	$377,554
American Capital Financial Services[2]	Investment Banking	Common Stock, 100% of Co.[1]	403	4,893
Totals			$305,667	$382,447

(1) Non-income producing
(2) Affiliate

See accompanying notes.

Statements of Operations

(Dollars in thousands except per share data)

Year Ended		December 31, 2000	December 31, 1999	December 31, 1998
Operating income:				
Interest and dividend income		$ 58,733	$30,833	$14,430
Loan fees		3,995	2,572	2,549
Total operating income		62,728	33,405	16,979
Operating expenses:				
Salaries and benefits		2,179	1,045	843
General and administrative		2,414	1,490	809
Interest		9,691	4,716	57
Total operating expenses		14,284	7,251	1,709
Operating income before equity in loss of unconsolidated operating subsidiary		48,444	26,154	15,270
Equity in loss of unconsolidated operating subsidiary		(3,773)	(1,493)	(482)
Net operating income		44,671	24,661	14,788
Net realized gain on investments		4,538	2,711	—
(Decrease) increase in net unrealized appreciation of investments		(53,582)	69,829	2,127
Net (decrease) increase in shareholders' equity resulting from operations		$ (4,373)	$97,201	$16,915
Net operating income per common share:	Basic	$ 2.00	$ 1.79	$ 1.34
	Diluted	$ 1.96	$ 1.73	$ 1.29
(Loss) earnings per common share:	Basic	$ (0.20)	$ 7.07	$ 1.53
	Diluted	$ (0.19)	$ 6.80	$ 1.48
Weighted average shares of common stock outstanding:	Basic	22,323	13,744	11,068
	Diluted	22,748	14,294	11,424

See accompanying notes.

Statements of Shareholders' Equity

(Dollars in thousands)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Notes Receivable From Sale of Common Stock	(Distributions in Excess of) Undistributed Net Realized Earnings	Unrealized Appreciation of Investments	Total Shareholders' Equity
Balance at January 1, 1998	$ —	11,069	$111	$144,940	$ —	$ (55)	$ 5,656	$150,652
Issuance of common stock under stock option plans	—	28	—	396	—	—	—	396
Issuance of common stock under the Dividend Reinvestment Plan	—	7	—	128	—	—	—	128
Repurchase of outstanding shares	—	(23)	—	(219)	—	—	—	(219)
Issuance of note receivable from sale of common stock	—	—	—	—	(300)	—	—	(300)
Net increase in shareholders' equity resulting from operations	—	—	—	—	—	14,788	2,127	16,915
Distributions	—	—	—	—	—	(14,849)	—	(14,849)
Balance at December 31, 1998	$ —	11,081	$111	$145,245	$ (300)	$ (116)	$ 7,783	$152,723
Issuance of common stock	—	5,605	57	89,151	—	—	—	89,208
Issuance of common stock under stock option plans	—	1,520	15	22,832	(22,752)	—	—	95
Issuance of common stock under the Dividend Reinvestment Plan	—	36	—	693	—	—	—	693
Repurchase of common stock warrants	—	—	—	(2,165)	—	—	—	(2,165)
Issuance of restricted shares	—	10	—	166	—	—	—	166
Net increase in shareholders' equity resulting from operations	—	—	—	—	—	27,372	69,829	97,201
Distributions	—	—	—	—	—	(26,176)	—	(26,176)
Balance at December 31, 1999	$ —	18,252	$183	$255,922	$(23,052)	$ 1,080	$ 77,612	$311,745
Issuance of common stock	—	9,430	94	185,224	—	—	—	185,318
Issuance of common stock under stock option plans	—	290	3	6,699	(6,702)	—	—	—
Issuance of common stock under the Dividend Reinvestment Plan	—	31	—	742	—	—	—	742
Repayments of notes receivable from sale of common stock	—	—	—	—	2,365	—	—	2,365
Net decrease in shareholders' equity resulting from operations	—	—	—	—	—	49,209	(53,582)	(4,373)
Distributions	—	—	—	—	—	(50,630)	—	(50,630)
Balance at December 31, 2000	$ —	28,003	$280	$448,587	$(27,389)	$ (341)	$ 24,030	$445,167

See accompanying notes.

Statements of Cash Flows

(Dollars in thousands)

Year Ended	December 31, 2000	December 31, 1999	December 31, 1998
Operating activities:			
Net (decrease) increase in shareholders' equity resulting from operations	$ (4,373)	$ 97,201	$ 16,915
Adjustments to reconcile net (decrease) increase in shareholders' equity resulting from operations to net cash provided by operating activities:			
Unrealized depreciation (appreciation) of investments	53,582	(69,829)	(2,127)
Realized gain on investments	(4,538)	(2,711)	—
Net amortization of securities	—	—	(1,336)
Accretion of loan discounts	(4,317)	(2,049)	(913)
Amortization of deferred finance costs	1,187	854	—
Increase in interest receivable	(2,518)	(856)	(917)
Increase in accrued payment-in-kind dividends and interest	(5,550)	(3,038)	(478)
Receipt of note for prepayment penalty	(884)	—	—
(Increase) decrease in due from unconsolidated subsidiary	(5,102)	(1,553)	83
Increase in other assets	(1,716)	(4,338)	(71)
Increase in other liabilities	3,577	4,409	73
Loss of unconsolidated operating subsidiary	3,773	1,493	482
Net cash provided by operating activities	33,121	19,583	11,711
Investing activities:			
Proceeds from sale or maturity of investments	2,004	27,823	231,580
Principal repayments	34,486	30,731	1,719
Purchases of investments	(276,138)	(171,595)	(142,865)
Purchases of securities	—	(12,900)	(207,146)
Net cash used in investing activities	(239,648)	(125,941)	(116,712)
Financing activities:			
(Repayments of) proceeds from short-term notes payable, net	—	(5,000)	85,948
Proceeds from asset securitization	87,200	—	—
(Repayments of) drawings on revolving credit facilities, net	(10,543)	48,545	30,000
Increase in deferred financing costs	(2,243)	(2,427)	(37)
Repurchase of common stock	—	—	(219)
Issuance of common stock	185,318	89,451	224
Repurchase of common stock warrants	—	(2,165)	—
Distributions paid	(44,050)	(26,158)	(13,628)
Net cash provided by financing activities	215,682	102,246	102,288
Net increase (decrease) in cash and cash equivalents	9,155	(4,112)	(2,713)
Cash and cash equivalents at beginning of period	2,037	6,149	8,862
Cash and cash equivalents at end of period	$ 11,192	$ 2,037	$ 6,149
Supplemental Disclosures:			
Cash paid for interest	$ 7,830	$ 4,385	$ 56
Non-cash financing activities:			
Issuance of common stock in conjunction with dividend reinvestment	$ 742	$ 693	$ 128
Notes receivable issued in exchange for common stock	$ 6,702	$ 22,752	$ 300
Net repayment of margin borrowings through sale of securities	$ —	$ 80,948	$ —
Receipt of short-term note in exchange for principal repayment of long-term note	$ 8,424	$ 22,752	$ 300

See accompanying notes.

(In thousands except per share data)

Note 1. ORGANIZATION

American Capital Strategies, Ltd., a Delaware corporation (the "Company"), was incorporated in 1986 to provide financial advisory services to and invest in middle market companies. On August 29, 1997, the Company completed an initial public offering ("IPO") of 10,382 shares of common stock ("Common Stock"), and became a non-diversified closed end investment company that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended ("1940 Act"). On October 1, 1997, the Company began operations so as to qualify to be taxed as a regulated investment company ("RIC") as defined in Subtitle A, Chapter 1, under Subchapter M of the Internal Revenue Code of 1986 as amended (the "Code"). As contemplated by these transactions, the Company materially changed its business plan and format from structuring and arranging financing for buyout transactions on a fee for services basis to primarily being a lender to and investor in middle market companies. As a result of the changes, the Company is operating as a holding company whose predominant source of operating income has changed from financial performance and advisory fees to interest and dividends earned from investing the Company's assets in debt and equity of businesses. The Company's investment objectives are to achieve current income from the collection of interest and dividends, as well as long-term growth in its shareholders' equity through appreciation in value of the Company's equity interests.

The Company continues to provide financial advisory services to businesses through American Capital Financial Services ("ACFS"), formerly ACS Capital Investments Corporation ("CIC"), a wholly-owned subsidiary. The Company is headquartered in Bethesda, Maryland, and has offices in New York, Boston, Pittsburgh, San Francisco, Los Angeles, Philadelphia, Chicago, and Dallas. The Company's reportable segments are its investing operations as a business development company and the financial advisory operations of its wholly-owned subsidiary, ACFS (see Note 5). The Company has no foreign operations.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States and Article 6 of Regulation S-X of the Code of Federal Regulations. The Company accounts for its investment in ACFS under the equity method.

Valuation of Investments

Investments are carried at fair value, as determined by the Board of Directors. Securities that are publicly traded are valued at the closing price on the valuation date. Debt and equity securities that are not publicly traded are valued at fair value as determined in good faith by the Board of Directors. In making such determination, the Board of Directors will value non-convertible debt securities at cost plus amortized original issue discount, if any, unless adverse factors lead to a determination of a lesser valuation. In valuing convertible debt, equity or other securities, the Board of Directors determines the fair value based on the collateral, the issuer's ability to make payments, the earnings of the issuer, sales to third parties of similar securities, the comparison to publicly traded securities and other pertinent factors. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains ultimately realized on these investments to be different than the valuations currently assigned (see Note 4).

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Interest and Dividend Income Recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. Original issue discount is amortized into interest income using the effective interest method. Dividend income is recognized on the ex-dividend date.

Financial Advisory and Performance Fee Recognition

Financial advisory fees represent amounts received for providing advice and analysis to middle market companies and are recognized as earned by the Company's wholly-owned subsidiary, ACFS, based on services provided. Financial performance fees represent amounts received for structuring, financing, and executing transactions and are generally payable only if the transaction closes and are recognized as earned when the transaction is completed.

Loan Fee and Loan Processing Fee Recognition

The Company records loan fees as income on the closing date of the related loan. Loan processing fees are recorded by the Company's wholly-owned subsidiary, ACFS, as income on the closing date of the related loan. Prepayment penalties are booked as revenue as they are received.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Investments

Realized gain or loss is recorded at the disposition of an investment and is the difference between the net proceeds from the sale and the cost basis of the investment using the specific identification method. Unrealized appreciation or depreciation reflects the difference between the Board of Directors' valuation of the investments and the cost basis of the investments.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-dividend date.

Federal Income Taxes

The Company operates so as to qualify to be taxed as a RIC under the Internal Revenue Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine "taxable income." The Company has distributed and currently intends to distribute sufficient dividends to eliminate taxable income; therefore, the statement of operations contains no provision for income taxes for the years ended December 31, 2000, 1999, and 1998.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates (see Note 4).

Property and Equipment

Property and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years.

Management Fees

The Company is self-managed and therefore does not incur management fees payable to third parties.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the current financial statement presentation.

Concentration of Credit Risk

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative

(In thousands except per share data)

Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments. The statement requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement was to be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which extended the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. Adoption of SFAS 133 is not expected to have any impact on the Company's financial statements or disclosures because the Company already reports its derivative instruments at fair value.

Note 3. INVESTMENTS

Investments consist primarily of securities issued by publicly- and privately-held companies which have been valued at $583,178 as of December 31, 2000. These securities consist of senior debt, subordinated debt with equity warrants, preferred stock and common stock. The debt securities have effective interest rates ranging from 10.2% to 32.4% and are payable in installments with final maturities generally from 5 to 10 years and are generally collateralized by assets of the borrower. The Company's investments in equity warrants and common stock do not produce current income. The net unrealized appreciation in investments for Federal income tax purposes is the same as for book purposes. At December 31, 2000, there were no loans 0–60 days past due, one loan totaling $3,214 was 60–90 days past due, and no loans were greater than 90 days past due. In addition, one of the Company's investments is on non-accrual status.

Summaries of the composition of the Company's portfolio of publicly and non-publicly traded securities as of December 31, 2000 and 1999 at cost and fair value are shown in the following table:

COST	December 31, 2000	December 31, 1999
Senior debt	12.4%	11.9%
Subordinated debt	61.8%	69.4%
Subordinated debt with non-detachable warrants	6.9%	—
Preferred stock	3.5%	2.2%
Common stock warrants	13.1%	13.6%
Common stock	2.3%	2.9%

FAIR VALUE	December 31, 2000	Including Capital.com December 31, 1999	Excluding Capital.com December 31, 1999
Senior debt	11.8%	9.7%	11.9%
Subordinated debt	58.2%	56.0%	69.4%
Subordinated debt with non-detachable warrants	6.6%	—	—
Preferred stock	3.3%	2.0%	2.5%
Common stock warrants	17.1%	11.6%	14.4%
Common stock	3.0%	20.7%	1.8%

(In thousands except per share data)

On a fair value basis, the Company's portfolio composition was weighted more heavily toward common stock at December 31, 1999 than at December 31, 2000 due to the value of the Capital.com investment of $72,500. At December 31, 1999, Capital.com accounted for appoximately 19% of the total portfolio value of investments in publicly and non-publicly traded securities (see Note 4).

The following table shows the portfolio composition by industry grouping at cost and at fair value:

COST	December 31, 2000	December 31, 1999
Manufacturing	66.0%	56.6%
Service	7.8%	3.5%
Wholesale & Retail	7.5%	11.5%
Information Technology	5.0%	2.5%
Healthcare	4.5%	6.5%
Construction	4.3%	7.7%
Media	3.4%	5.5%
Transportation	0.8%	1.4%
Telecommunications	0.4%	4.3%
Internet	0.3%	0.5%

FAIR VALUE	December 31, 2000	December 31, 1999
Manufacturing	65.0%	46.2%
Wholesale & Retail	7.4%	9.3%
Service	7.2%	2.8%
Information Technology	4.9%	2.0%
Construction	4.3%	6.2%
Healthcare	4.1%	5.2%
Media	3.2%	4.5%
Telecommunications	2.8%	3.5%
Transportation	0.8%	1.1%
Internet	0.3%	19.2%

Management expects that the largest percentage of its investments will continue to be in manufacturing companies, however, the Company intends to continue to diversify its portfolio and will explore new investment opportunities in a variety of industries. The current investment composition within the manufacturing segment includes investments in 24 different manufacturing Standardized Industrial Classification ("SIC") codes, with the largest percentages being 9% in SIC code 3531 ("Construction Machinery and Equipment"), and 12% in SIC code 3721 ("Aircraft") as of December 31, 2000 and 1999, respectively.

The following table shows the portfolio composition by geographic location at cost and at fair value:

COST	December 31, 2000	December 31, 1999
Mid-Atlantic	27.0%	31.2%
Southeast	21.1%	34.0%
Northeast	18.1%	14.8%
Southwest	13.5%	7.0%
South-Central	11.1%	7.6%
North-Central	9.2%	5.4%

FAIR VALUE	December 31, 2000	December 31, 1999
Mid-Atlantic	25.9%	25.2%
Southeast	22.5%	27.2%
Northeast	18.2%	30.5%
Southwest	13.3%	5.9%
South-Central	10.8%	6.0%
North-Central	9.3%	5.2%

Note 4. CAPITAL.COM

Capital.com, an Internet finance portal, was launched in July 1999 under the name AmericanCapitalOnline.com. In December 1999, the assets of AmericanCapitalOnline.com were contributed to Capital.com, Inc., a newly formed entity, and the site was renamed Capital.com. The total cost of the assets contributed to Capital.com by the Company was $1,492. During December, 1999, a subsidiary of First Union Corporation ("First Union") invested $15,000 in Capital.com in exchange for a 15% common equity stake and warrants to acquire up to an additional 5% of the common equity at a nominal price. At December 31, 2000, the warrants were fully vested.

In considering the appropriate valuation of this investment at December 31, 1999 and December 31, 2000, in addition to the value implied by First Union's investment for a 15% equity interest, the Board of Directors considered several factors including:

- The valuation of comparable public company entities;
- The very early development stage of Capital.com;
- An estimated value for the warrants issued to First Union and the uncertainty of a subsequent valuation of Capital.com affecting the number of shares for which such warrants could be exercised:
- The valuation implied by comparable private company transactions.

Based on all these factors and others that were considered, the Board of Directors valued the investment in Capital.com at its original cost $1,492 at December 31, 2000. This value represents a decrease of $71,008 from its December 31, 1999 valuation of $72,500. This depreciation is attributed to numerous factors arising during the year ended December 31, 2000, including the unfavorable financing environment for Internet companies and substantial declines in the valuations of comparable public and private companies. Since the Company's original investment in the third quarter of 1999, the Company has experienced no net depreciation of its investment in Capital.com.

(In thousands except per share data)

Note 5. INVESTMENT IN UNCONSOLIDATED OPERATING SUBSIDIARY

As discussed in Note 2, ACFS is an operating subsidiary of the Company and is accounted for under the equity method.

Condensed financial information for ACFS is as follows:

Year Ended	December 31, 2000	December 31, 1999
Assets		
Investments in ACS Equities, LP at fair value (see Note 15)	$10,365	$10,365
Other assets, net	4,270	3,572
Total assets	$14,635	$13,937
Liabilities and Shareholder's Equity		
Deferred income taxes	$ —	$ 2,007
Due to parent	7,433	2,331
Other liabilities	6,082	4,706
Shareholder's equity	1,120	4,893
Total liabilities and shareholder's equity	$14,635	$13,937

Year Ended	December 31, 2000	December 31, 1999	December 31, 1998
Operating income	$ 7,324	$ 6,030	$ 5,227
Operating expense	13,098	9,114	6,451
Net operating loss	(5,774)	(3,084)	(1,224)
Realized gain on investments	1	925	—
(Decrease) increase in unrealized appreciation of investments	—	(246)	481
Other	2,000	912	261
Net loss	$ (3,773)	$(1,493)	$ (482)

Note 6. BORROWINGS

The Company's $225,000 revolving debt funding facility has a term of two years and an interest rate on borrowings originally charged at one-month LIBOR (6.57% at December 31, 2000) plus 150 basis points, that was subsequently decreased to LIBOR plus 50 basis points on December 20, 2000. The full amount of principal will be amortized over a 24-month period at the end of the term and interest is payable monthly. The Company has used borrowings under this facility to repay debt and to make investments in the debt and equity securities of middle market companies; the Company intends to continue to use this facility in this fashion. Subsequent to December 31, 2000, the Company received an extension of the two-year term of this facility beginning March 31, 2001.

On December 20, 2000, the Company completed a $115,400 asset securitization. In conjunction with the transaction, the Company established ACAS Business Loan Trust 2000-1 (the "Trust"), an affiliated business trust, and contributed to the Trust $153,700 in loans. Subject to certain conditions precedent, the Company will remain servicer of the loans. Simultaneously with the initial contribution, the Trust was authorized to issue $69,200 Class A notes and $46,200 Class B notes to institutional investors and $38,300 of Class C notes were retained by the Trust. The Class A notes carry an interest rate of one-month LIBOR plus 45 basis points, the Class B notes carry an interest rate of one-month LIBOR plus 150 basis points. As of December 31, 2000, the Company had issued all $69,200 of the Class A notes, and $18,000 of the Class B notes; in January 2001, the Company issued the remaining $28,200 of the Class B notes. The notes are backed by loans to 29 of the Company's portfolio companies. The Class A notes mature on March 20, 2006, and the Class B notes mature on August 20, 2007. The transfer of the assets to the Trust and the related borrowings by the Trust have been treated as a financing arrangement by the Company under Statement of Financial Accounting Standards No. 125. Early repayments are first applied to the Class A notes, and then to the Class B notes. The Company enters into interest rate swaps in order to mitigate interest rate risk related to the asset securitization (see Note 10).

During the years ended December 31, 2000, 1999, and 1998, the cash paid for interest was approximately $7,830, $4,385, and $56, respectively. The weighted average interest rates, including amortization of deferred finance costs, for the years ended December 31, 2000 and 1999 were 9.9%, 9.7%, and 5.9%, respectively.

For the above borrowings, the fair value of the borrowings approximates cost.

Note 7. STOCK OPTION PLAN

The Company applies APB No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock-based compensation plan. In accordance with SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company elected to continue to apply the provisions of APB 25 and provide pro forma disclosure of the Company's net operating income and net (decrease) increase in shareholders' equity resulting from operations calculated as if compensation costs were computed in accordance with SFAS 123. The 1997 Stock Option Plan (the “1997 Plan”) provided for the granting of options to purchase up to 1,328 shares of common stock at a price of not less than the fair market value of the common stock on the date of grant to employees of the Company. [illegible]8, the Company authorized 500 additional shares to be granted under the 1997 Plan. During May, 2000, shareholders approved the 2000 Stock Option Plan (the “2000 Plan”) which provided for the granting of options to purchase 2,000 shares of common stock. As of December 31, 2000, there are 72 and 612 shares available to be granted under the 1997 and 2000 Plans, respectively.

(In thousands except per share data)

On November 6, 1997, the Board of Directors authorized the establishment of a stock option plan for the non-employee directors (the “Director Plan”). The Director Plan was approved by shareholders at the annual meeting held on May 14, 1998. The Company received approval of the plan from the Securities and Exchange Commission (SEC) on May 14, 1999. The Company has issued from 15 to 20 options to each of the non-employee directors for a total grant of 125 options. At December 31, 2000, there are 25 shares available for grant under the Director Plan.

Options granted under the 1997 and 2000 Plans may be either incentive stock options within the meaning of Section 422 of the Code or nonstatutory stock options; options granted under the Director Plan are nonstatutory stock options. Only employees of the Company and its subsidiaries are eligible to receive incentive stock options under the 1997 and 2000 Plans. Options under both the 1997 and 2000 Plans and the Director Plan generally vest over a three-year period. Incentive stock options must have a per share exercise price of no less than the fair market value on the date of the grant. Nonstatutory stock options granted under the 1997 and 2000 Plans and the Director Plan must have a per share exercise price of no less than the fair market value on the date of the grant. Options granted under both plans may be exercised for a period of no more than ten years from the date of grant.

Year Ended	December 31, 2000	December 31, 1999	December 31, 1998
Net operating income			
As reported	$ 44,671	$24,661	$14,788
Pro forma	$ 37,478	$22,643	$13,609
Net (decrease) increase in shareholders' equity resulting from operations			
As reported	$ (4,373)	$97,201	$16,915
Pro forma	$(11,567)	$95,183	$15,737

The effects of applying SFAS 123 for providing pro forma disclosures are not likely to be representative of the effects on reported net operating income and net (decrease) increase in shareholders' equity resulting from operations for future years.

For options granted during the year ended December 31, 2000, the Company estimated a fair value per option on the date of grant of $4.72 using a Black-Scholes option-pricing model and the following assumptions: dividend yield 8.6%, risk-free interest rate 5.0%, expected volatility factor .43, and expected lives of the options of 5 years.

For options granted during the year ended December 31, 1999, the Company estimated a fair value per option on the date of grant of $6.12 using a Black-Scholes option-pricing model and the following assumptions: dividend yield 7.7%, risk-free interest rate 6.4%, expected volatility factor .32, and expected lives of the options of 7 years.

For options granted during the year ended December 31, 1998, the Company estimated a fair value per option on the date of grant of $4.72 using a Black-Scholes option-pricing model and the following assumptions; dividend yield 7.9%, risk-free interest rate 5.1%, expected volatility factor .51, and expected lives of the options of 7 years.

A summary of the status of the Company's stock option plans as of and for the years ended December 31, 2000 and 1999 is as follows:

Year Ended	December 31, 2000		December 31 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	354	$17.60	1,633	$14.96
Granted	1,529	$22.81	303	$19.01
Exercised	(290)	$21.53	(1,520)	$15.00
Canceled	(89)	$20.47	(62)	$17.76
Options outstanding,				

end of year	1,504	$21.97	354	$17.60
Options exercisable at year end	1,504		354	

The following table summarizes information about stock options outstanding at December 31, 2000:

		Optio
Outstanding		Optio
Exercisable		
Weighted		
	Number	
Average	Weighted	
Number	Weighted	
	Outstanding at	
Remaining	Average	
Exercisable at	Average	
Range of Exercise Prices	December 31, 2000	
Contractual Life	Exercise Price	Decem
31, 2000	Exercise Price	
$15.00 to $17.00	82	
Years	$15.00	
82	$15.00	
$17.01 to $18.74	85	
Years	$18.55	
80	$18.54	
$18.75 to $19.75	65	
Years	$18.78	
65	$18.78	
$19.76 to $22.32	92	
Years	$22.15	
72	$22.31	
$22.33 to $22.88	1,180	
Years	$22.86	
1,165	$22.87	
$15.00 to $22.88	1,504	
Years	$21.97	
1,464	$21.98	

During 2000 and 1999, the Company issued 290 and 1,520 shares, respectively, of common stock to employees of the Company, pursuant to option exercises, in exchange for notes receivable totaling $6,702 and $22,752, respectively. These transactions were executed pursuant to the 1997 Stock Option Plan, which allows the Company to lend to its employees funds to pay for the exercise of stock options. All loans made under this arrangement are fully secured by the value of the common stock purchased. Certain of the loans are also secured by pledges of life insurance policies. Interest is charged and paid on such loans at the Applicable Federal Rate as defined in the Internal Revenue Code.

Note 8. CAPITAL STOCK

In May and November 2000, the Company sold 6,325 and 3,105 shares of common stock, respectively, in two follow-on equity offerings. The net proceeds of the offerings of approximately $185,318 were used to repay outstanding borrowings under the revolving debt funding facility and to fund investments.

In August 1999, the Company sold 5,605 shares of common stock. The net proceeds of the offering of approximately $89,151 were used to repay outstanding borrowings under the revolving debt funding facility and to fund investments.

The Company declared dividends of $50,630, $26,176, and $14,849, or $2.17, $1.74, and $1.34 per share for the years ended December 31, 2000, 1999, and 1998, respectively.

On August 29, 1997, the Company completed its IPO and sold 10,382 shares of its common stock at a price of $15.00 per share. Pursuant to the terms of the Company's agreement with the underwriter of the offering, the Company issued 443 common stock warrants ("Warrants") to the underwriter. The Warrants have a term of five years from the date of issuance and may be exercised at a price of $15.00 per share. During December 1999, the Company repurchased 394 of these Warrants at a price of $5.50 per warrant.

Note 9. REALIZED GAIN ON INVESTMENTS

During 2000, one of the Company's portfolio companies, o2wireless, completed an initial public offering. In conjunction with the offering, o2wireless repaid the Company's $13,000 subordinated note. In addition, the Company exercised and sold 180 of the 2,737 common stock warrants it owns. As a result of these transactions, the Company recorded a realized gain of $4,303 which was comprised of $2,475 of previously unamortized original issue discount and $1,828 of gain on the sale of the exercised warrants.

During March 1999, the Company sold its investment in Four-S Baking Company ("Four-S"). The Company's investment included senior debt, subordinated debt, preferred stock, common stock, and common stock warrants. The Company received $7,200 in total proceeds from the sale and recognized a net realized gain of $316. The realized gain was comprised of a $331 realization of unamortized original issue discount on the subordinated debt and a net loss of $15 on the common stock and warrants. In addition, the Company earned prepayment fees of $87 from the early repayment of the senior and subordinated debt. In conjunction with the sale, the Company also recorded $177 of unrealized depreciation to reverse previously recorded unrealized appreciation.

During June 1999, the Company received a prepayment of subordinated debt from Specialty Transportation Services, Inc. ("STS") in the amount of $7,500. In conjunction with the repayment, the Company received prepayment fees of $225 and recognized a realized gain of $551 from the realization

(In thousands except per share data)

of unamortized original issue discount. In October 1999, the Company received a prepayment of the remaining balance of its subordinated debt investment in STS of $515, including prepayment penalties. In addition, STS repurchased from the Company the common stock and common stock purchase warrants owned by the Company for total consideration of $3,000. The Company recorded $1,844 of realized gains and reversed
$1,806 of previously unrealized gains on the sale of the subordinated debt, common stock and common stock purchase warrants. In addition, STS paid a $1,000 fee to ACFS to cancel an investment banking contract between ACFS and STS.

Note 10. INTEREST RATE RISK MANAGEMENT

The Company enters into interest rate swap agreements with financial institutions as part of its strategy to manage interest rate risks and to fulfill its obligation under the terms of its revolving debt funding facility and asset securitization. The Company uses interest rate swap agreements for hedging and risk management only and not for speculative purposes. During the year ended December 31, 2000, the Company entered into 17 interest rate swap agreements with an aggregate notional amount of $268,153. Pursuant to these swap agreements, the Company pays either a variable rate equal to the prime lending rate (9.50% and 8.50% at December 31, 2000 and 1999, respectively) and receives a floating rate of the one-month LIBOR (6.57% and 6.47% at December 31, 2000 and 1999, respectively), or pays a fixed rate and receives a
floating rate of the one-month LIBOR. For 2000 and 1999, the swaps had a remaining weighted average maturity of approximately 5.6 and 4.3 years, respectively. At December 31, 2000 and 1999, the fair value of the interest rate swap agreements represented a liability of $1,070 and $163, respectively. The following table presents the notional principal amounts
of interest rate swaps by class:

Type of Interest Rate Swap	Notional Value at December 31, 2000	Notional Value at December 31, 1999
Pay fixed, receive floating	$102,123	$ —
Pay floating, receive floating	166,030	61,325
Total	$268,153	$61,325

Note 11. INCOME TAXES

The Company operates so as to qualify to be taxed as a RIC under the Internal Revenue Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine taxable income. The Company has distributed and currently intends to distribute sufficient dividends to eliminate taxable income. Therefore, the statement of operations contains no provision for income taxes for the years ended December 31, 2000, 1999, and 1998.

Report of Independent Auditors

Board of Directors
American Capital Strategies, Ltd.

We have audited the accompanying balance sheets of American Capital Strategies, Ltd., including the schedules of investments, as of December 31, 2000 and 1999, the related statements of operations, shareholders' equity, and cash flows and the financial highlights for the three years ended December 31, 2000. These financial statements and the financial highlights (on page 1) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of American Capital Strategies, Ltd. at December 31, 2000 and 1999, and the results of its operations, its cash flows and its financial highlights for the three years ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

McLean, Virginia
February 5, 2001

Since the IPO, the Company has distributed, and currently intends to continue to distribute in the form of dividends, a minimum of 90% of its net operating income and 98% of its net realized short-term capital gains, if any, on a quarterly basis to its shareholders. Net realized long-term capital gains may be retained to supplement the Company’s equity capital and support growth in its portfolio, unless the Board of Directors determines in certain cases to make a distribution. There is no assurance that the Company will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions.

The Company’s Common Stock is quoted on the Nasdaq Stock Markett under the symbol ACAS. As of February 27, 2001, the Company had 307 shareholders of record and approximately 13,000 beneficial owners. The following table sets forth the range of high and low sales prices of the Company’s Common Stock as reported on the Nasdaq Stock Markett and the dividends declared by the Company for the period from January 1, 1998 through February 27, 2001.

	Sale Price		
		Sale Price	
	High	Low	Dividend Declared
1998			
First Quarter	$22.50	$17.25	$0.25
Second Quarter	$24.63	$21.25	$0.29
Third Quarter	$24.25	$10.13	$0.32
Fourth Quarter	$18.44	$ 9.19	$0.48 (1)
1999			
First Quarter	$19.00	$14.00	$0.41
Second Quarter	$21.25	$16.00	$0.43
Third Quarter	$20.00	$16.25	$0.43
Fourth Quarter	$23.13	$17.88	$0.47 (2)
2000			
First Quarter	$26.81	$20.88	$0.45
Second Quarter	$27.75	$19.81	$0.49
Third Quarter	$26.00	$21.75	$0.49
Fourth Quarter	$26.00	$20.25	$0.74 (3)
2001			
First Quarter (through February 27, 2001)	$27.88	$21.88	$0.53

(1) Includes extra dividend of $0.11.
(2) Includes extra dividend of $0.03.
(3) Includes extra dividend of $0.22.

Corporate Information

Corporate Officers

Malon Wilkus
Chairman of the Board,
Chief Executive Officer

David Gladstone
Vice Chairman and Director

Adam Blumenthal
President, Chief Operating Officer
and Director

John Erickson
Executive Vice President, Chief Financial Officer

Roland Cline
Senior Vice President

John Freal
Senior Vice President

John Hoffmire
Senior Vice President

Ira Wagner
Senior Vice President

Board of Directors

Mary C.(Molly) Baskin
Managing Director,
Ansley Consulting Group

Adam Blumenthal
President, Chief Operating Officer,
American Capital

David Gladstone
Vice Chairman,
American Capital

Neil M. Hahl
President, The Weitling Group

Philip R. Harper
Chairman, Chief Executive Officer,
U.S. Investigations Services, Inc.

Stan Lundine
Of Counsel, Sotir and Goldman

Kenneth D. Peterson, Jr.
Chief Executive Officer,
Columbia Ventures Corporation

Alvin N. Puryear
Lawrence N. Field Professor of Entrepreneurship,
Baruch College of the City University of New York

Malon Wilkus
Chairman of the Board,
Chief Executive Officer,
American Capital

Stock Exchange Listing

American Capital common stock trades on The Nasdaq Stock Markett under the symbol ACAS. Price information for the common stock appears daily in major newspapers.

Transfer Agent and Registrar

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Financial Publications

Shareholders may receive a copy of the 2000 Form 10-K, annual report and quarterly reports filed with the Securities and Exchange Commission in Washington, DC by writing to:

American Capital
Investor Relations Office
Two Bethesda Metro Center
14th Floor
Bethesda, MD 20814

Dividend Reinvestment and Stock Purchase Plan

The Company offers a dividend reinvestment plan to its shareholders. Shareholders whose shares are held in their names should contact the transfer agent to enroll in the plan. Shareholders whose shares are held by a nominee or in "street name" must contact their brokers in order to participate in the plan.

Investor Inquiries

Securities analysts, portfolio managers and others seeking information about the Company's business operations and financial performance are invited to contact the Investor Relations Office at (301) 951-6122.

Auditors

Ernst & Young LLP
McLean, VA

Legal Counsel

Arnold & Porter
Washington, D.C.

Price Range of Common Stock & Dividends

The Company's common stock is quoted on The Nasdaq Stock Market under the symbol ACAS. As of February 27, 2001, the Company had 307 stockholders of record and approximately 13,000 beneficial owners. The following table sets forth the range of high and low sale prices of the Company's common stock as reported on The Nasdaq Stock Market and the dividends declared by the Company for the period of January 1998 through December 31, 2000.

2000	High	Low	Dividends Declared
Extra Dividend	—	—	$0.22
Fourth Quarter	$26.00	$20.25	$0.52
Third Quarter	$26.00	$21.75	$0.49
Second Quarter	$27.75	$19.81	$0.49
First Quarter	$26.81	$20.88	$0.45
1999			
Extra Dividend	—	—	$0.03
Fourth Quarter	$23.13	$17.88	$0.44
Third Quarter	$20.00	$16.25	$0.43
Second Quarter	$21.25	$16.00	$0.43
First Quarter	$19.00	$14.00	$0.41
1998			
Extra Dividend	—	—	$0.11
Fourth Quarter	$18.44	$ 9.19	$0.37
Third Quarter	$24.25	$10.13	$0.32
Second Quarter	$24.63	$21.25	$0.29
First Quarter	$22.50	$17.25	$0.25

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