MVC CAPITAL, INC.
Form 10-Q
March 06, 2009

Table of Contents

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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

For the quarterly period ended January 31, 2009 or

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

Commission File Number 814-00201
MVC Capital, Inc.
(Exact name of the registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	94-3346760 (I.R.S. Employer Identification No.)
287 Bowman Avenue 2nd Floor Purchase, New York (Address of principal executive offices)	10577 (Zip Code)

Registrant s telephone number, including area code: (914) 701-0310

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

There were 24,297,087 shares of the registrant s common stock, $.01 par value, outstanding as of March 6, 2009.

MVC Capital, Inc.
(A Delaware Corporation)
Index

	Page
Part I. Consolidated Financial Information	
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets	
- January 31, 2009 and October 31, 2008	3
Consolidated Statements of Operations	
- For the Period November 1, 2008 to January 31, 2009 and	
- For the Period November 1, 2007 to January 31, 2008	4
Consolidated Statements of Cash Flows	
- For the Period November 1, 2008 to January 31, 2009 and	
- For the Period November 1, 2007 to January 31, 2008	5
Consolidated Statements of Changes in Net Assets	
- For the Period November 1, 2008 to January 31, 2009	
- For the Period November 1, 2007 to January 31, 2008 and	
- For the Year ended October 31, 2008	6
Consolidated Selected Per Share Data and Ratios	
- For the Period November 1, 2008 to January 31, 2009,	
- For the Period November 1, 2007 to January 31, 2008 and	
- For the Year ended October 31, 2008	7
Consolidated Schedule of Investments	
- January 31, 2009	
- October 31, 2008	8
Notes to Consolidated Financial Statements	12
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures about Market Risk	55
Item 4. Controls and Procedures	61
Part II. Other Information	62
SIGNATURE	63
Exhibits	64
EX-31	
EX-32	

Table of Contents

Part I. Consolidated Financial Information

Item 1. Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

MVC Capital, Inc.

Consolidated Balance Sheets

	January 31, 2009 (Unaudited)	October 31, 2008
ASSETS		
Assets		
Cash and cash equivalents	$ 4,737,615	$ 12,764,465
Investments at fair value		
Non-control/Non-affiliated investments (cost $123,078,940 and $124,471,466)	91,795,916	95,781,109
Affiliate investments (cost $140,614,334 and $138,694,946)	191,760,241	181,092,250
Control investments (cost $182,728,939 and $182,433,350)	206,277,007	213,930,758
Total investments at fair value (cost $446,422,213 and $445,599,762)	489,833,164	490,804,117
Dividends, interest and fees receivable, net of reserve	2,411,669	2,641,994
Prepaid expenses	2,199,158	2,297,434
Prepaid taxes	758,089	759,025
Deferred tax	1,804,020	1,443,765
Total assets	$ 501,743,715	$ 510,710,800
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Revolving credit facility	$ 12,600,000	$ 19,000,000
Term loan	50,000,000	50,000,000
Provision for incentive compensation (Note 9)	15,639,632	15,794,295
Management fee payable	2,483,234	2,485,580
Other accrued expenses and liabilities	812,796	1,106,256
Professional fees	329,006	425,035
Consulting fees	70,201	28,822
Total liabilities	81,934,869	88,839,988
Shareholders equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 24,297,087 and 24,297,087 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	429,400,261	429,400,261
Accumulated earnings	32,792,168	30,144,990
Dividends paid to stockholders	(48,340,975)	(45,425,325)

Accumulated net realized loss	(4,933,141)	(4,933,051)
Net unrealized appreciation	43,410,951	45,204,355
Treasury stock, at cost, 4,007,361 and 4,007,361 shares held, respectively	(32,803,462)	(32,803,462)
Total shareholders equity	419,808,846	421,870,812
Total liabilities and shareholders equity	$ 501,743,715	$ 510,710,800
Net asset value per share	$ 17.28	$ 17.36

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

Table of Contents

MVC Capital, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the Quarter Ended January 31, 2009	For the Quarter Ended January 31, 2008
Operating Income:		
Dividend income		
Affiliate investments	$ 916,870	$ 843,271
Total dividend income	916,870	843,271
Interest income		
Non-control/Non-affiliated investments	2,966,177	3,001,706
Affiliate investments	1,419,681	1,507,984
Control investments	487,202	2,028,847
Total interest income	4,873,060	6,538,537
Fee income		
Non-control/Non-affiliated investments	199,199	442,050
Affiliate investments	361,527	208,160
Control investments	246,939	662,013
Total fee income	807,665	1,312,223
Other income	(10,067)	201,917
Total operating income	6,587,528	8,895,948
Operating Expenses:		
Management fee	2,483,234	2,017,512
Interest and other borrowing costs	1,091,328	1,171,196
Audit fees	171,000	91,500
Legal fees	170,000	135,000
Other expenses	134,172	118,936
Insurance	101,000	96,000
Consulting fees	88,700	47,000
Administration	85,898	80,158
Directors fees	67,600	60,000

Printing and postage		35,300		31,544
Public relations fees		26,100		21,600
Incentive compensation (Note 9)		(154,663)		1,656,565
Total operating expenses		4,299,669		5,527,011
Net operating income before taxes		2,287,859		3,368,937
Tax Benefit Expenses:				
Deferred tax benefit		(360,255)		(179,606)
Current tax expense		936		201,252
Total tax expense (benefit)		(359,319)		21,646
Net operating income		2,647,178		3,347,291
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency:				
Net realized gain (loss) on investments				
Non-control/Non-affiliated investments		(90)		1,093
Affiliate investments				595,000
Foreign currency				60,325
Total net realized gain (loss) on investments and foreign currency		(90)		656,418
Net change in unrealized appreciation (depreciation) on investments		(1,793,404)		16,809,199
Net realized and unrealized gain (loss) on investments and foreign currency		(1,793,494)		17,465,617
Net increase in net assets resulting from operations	$	853,684	$	20,812,908
Net increase in net assets per share resulting from operations	$	0.04	$	0.86
Dividends declared per share	$	0.12	$	0.12

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

Table of Contents

MVC Capital, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the Quarter Ended January 31, 2009	For the Quarter Ended January 31, 2008
Cash flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 853,684	$ 20,812,908
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:		
Realized loss (gain)	90	(656,418)
Net change in unrealized depreciation (appreciation)	1,793,404	(16,809,199)
Amortization of discounts and fees	(21,496)	(23,064)
Increase in accrued payment in kind dividends and interest	(1,276,447)	(1,396,837)
Allocation of flow through loss (income)	10,067	(51,963)
Changes in assets and liabilities:		
Dividends, interest and fees receivable	230,325	167,737
Prepaid expenses	98,276	180,393
Prepaid taxes	936	207,977
Deferred tax	(360,255)	(179,606)
Deposits		25,156
Other assets		8,452
Incentive compensation (Note 9)	(154,663)	(3,846,764)
Other Liabilities	(350,456)	(153,301)
Purchases of equity investments		(27,716,525)
Purchases of debt instruments	(6,576,415)	(49,117,165)
Proceeds from equity investments		4,495,317
Proceeds from debt instruments	7,041,750	73,185,329
Net cash provided (used) by operating activities	1,288,800	(867,573)
Cash flows from Financing Activities:		
Distributions to shareholders paid	(2,915,650)	(2,430,648)
Net (repayments) borrowings under revolving credit facility	(6,400,000)	20,000,000
Net cash provided (used) by financing activities	(9,315,650)	17,569,352
Net change in cash and cash equivalents for the period	(8,026,850)	16,701,779
Cash and cash equivalents, beginning of period	$ 12,764,465	84,727,933

Cash and cash equivalents, end of period	$	4,737,615	$	101,429,712

During the three months ended January 31, 2009 and 2008 MVC Capital, Inc. paid $816,219 and $1,164,798 in interest expense, respectively.

During the three months ended January 31, 2009 and 2008 MVC Capital, Inc. paid $0 and $0 in income taxes, respectively.

Non-cash activity:

During the three months ended January 31, 2009 and 2008, MVC Capital, Inc. recorded payment in kind dividend and interest of $1,276,447 and $1,396,837, respectively. This amount was added to the principal balance of the investments and recorded as interest/dividend income.

During the three months ended January 31, 2009 for MVC Capital Inc., was allocated $10,067 in flow through loss from its equity investment in Octagon Credit Investors, LLC. and this amount decreased the cost of the investment. The fair value was then decreased by the Fund s Valuation Committee. During the three months ended January 31 2008, MVC Capital, Inc. was allocated $201,916 in flow-through income from its equity investment in Octagon Credit Investors, LLC. Of this amount, $149,953 was received in cash and the balance of $51,963 was undistributed and therefore increased the cost of the investment. The fair value was then increased by the Fund s Valuation Committee.

On November 1, 2007, MVC Capital, Inc. re-issued 15,821 shares of treasury stock, in lieu of a $240,636 cash distribution, in accordance with the Fund s dividend reinvestment plan.

On December 3, 2007, MVC Capital, Inc. converted the Ohio Medical Corporation Convertible Unsecured Subordinated Promissory Note from $3,405,263.60 of principal and interest to 1,125.700 shares of Ohio Medical Preferred Stock.

On January 9, 2008, MVC Capital, Inc. re-issued 15,930 shares of treasury stock, in lieu of a $242,455 cash distribution, in accordance with the Fund s dividend reinvestment plan.

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

Table of Contents

MVC Capital, Inc.
Consolidated Statements of Changes in Net Assets

	For the Quarter Ended January 31, 2009 (Unaudited)	For the Quarter Ended January 31, 2008 (Unaudited)	For the Year Ended October 31, 2008
Operations:			
Net operating income	$ 2,647,178	$ 3,347,291	$ 3,068,328
Net realized gain (loss)	(90)	656,418	1,418,141
Net change in unrealized appreciation (depreciation)	(1,793,404)	16,809,199	59,465,174
Net increase in net assets from operations	853,684	20,812,908	63,951,643
Shareholder Distributions:			
Distributions to shareholders	(2,915,650)	(2,913,739)	(11,660,691)
Net decrease in net assets from shareholder distributions	(2,915,650)	(2,913,739)	(11,660,691)
Capital Share Transactions:			
Reissuance of treasury stock in lieu of cash dividend		483,091	483,091
Net increase in net assets from capital share transactions		483,091	483,091
Total increase (decrease) in net assets	(2,061,966)	18,382,260	52,774,043
Net assets, beginning of period/year	421,870,812	369,096,769	369,096,769
Net assets, end of period/year	$ 419,808,846	$ 387,479,029	$ 421,870,812
Common shares outstanding, end of period/year	24,297,087	24,297,087	24,297,087

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

MVC Capital, Inc.
Consolidated Selected Per Share Data and Ratios

	For the Quarter Ended January 31, 2009 (Unaudited)	For the Quarter Ended January 31, 2008 (Unaudited)	For the Year Ended October 31, 2008
Net asset value, beginning of period/year	$ 17.36	$ 15.21	$ 15.21
Gain (loss) from operations:			
Net operating income gain	0.11	0.14	0.24
Net realized and unrealized gain (loss) on investments	(0.07)	0.72	2.39
Total gain from investment operations	0.04	0.86	2.63
Less distributions from:			
Income	(0.11)	(0.12)	(0.09)
Return of capital	(0.01)		(0.39)
Total distributions	(0.12)	(0.12)	(0.48)
Net asset value, end of period/year	$ 17.28	$ 15.95	$ 17.36
Market value, end of period/year	$ 10.20	$ 15.27	$ 12.30
Market discount	(40.97)%	(4.26)%	(29.15)%
Total Return At NAV (a)	0.23%	5.69%	17.49%
Total Return At Market (a)	(16.16)%	(9.79)%	(25.44)%
Ratios and Supplemental Data:			
Net assets, end of period (in thousands)	$ 419,809	$ 387,479	$ 421,871
Ratios to average net assets:			
Expenses excluding tax expense (benefit)	4.05% (b)	5.86% (b)	7.00%
Expenses including tax expense (benefit), incentive compensation, interest and other borrowing costs	3.71% (b)	5.88% (b)	6.77%

Expenses excluding incentive compensation	3.56% (b)	4.10% (b)	4.05%
Expenses excluding incentive compensation, interest and other borrowing costs	2.54% (b)	2.86% (b)	2.93%
Net operating income (loss) before tax expense (benefit)	2.15% (b)	3.57% (b)	0.54%
Net operating income (loss) after tax expense (benefit), incentive compensation, interest and other borrowing costs	2.49% (b)	3.55% (b)	0.77%
Net operating income (loss) before incentive compensation	2.64% (b)	5.33% (b)	3.49%
Net operating income (loss) before incentive compensation, interest and other borrowing costs	3.67% (b)	6.57% (b)	4.61%

(a) Total annual return is historical and assumes changes in share price, reinvestments of all dividends and distributions, and no sales charge for the year.

(b) Annualized.

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

Table of Contents

MVC Capital, Inc.
Consolidated Schedule of Investments
January 31, 2009
(Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments - 21.87% (a, c, g, f, i)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		$ 5,000,003	$
Amersham Corp.	Manufacturer of Precision - Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010 (h, i)	$ 2,473,521	2,473,521	2,150,000
		Second Lien Seller Note 17.0000%, 06/30/2013 (b, h, i)	3,601,437	3,601,437	3,000,000
				6,074,958	5,150,000
BP Clothing, LLC	Apparel	Second Lien Loan 14.0000%, 07/18/2012 (b, h)	18,345,805	18,140,533	17,398,171
		Term Loan A 5.4100%, 07/18/2011 (h)	1,987,500	1,967,753	1,815,227
		Term Loan B 7.8100%, 07/18/2011 (h)	2,000,000	1,981,611	1,774,009
				22,089,897	20,987,407
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (d, j)		4,520,355	
FOLIO*fn,* Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (d, i)		15,000,000	12,800,000
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (b, h)	2,994,335	2,994,335	2,994,335
Henry Company	Building Products / Specialty Chemicals	Term Loan A 3.9094%, 04/06/2011 (h)	1,709,921	1,709,921	1,650,642
		Term Loan B 8.1594%, 04/06/2011 (h)	2,000,000	2,000,000	2,000,000
				3,709,921	3,650,642

Innovative Brands, LLC	Consumer Products	Term Loan 14.5000%, 09/25/2011 (h)	11,386,333	11,386,333	11,386,333
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000	
Phoenix Coal Corporation	Coal Processing and Production	Common Stock (666,667 shares) (d)		500,000	120,000
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares) (d, j)		10,000,000	
SP Industries, Inc.	Laboratory Research Equipment	First Lien Loan 7.5000%, 12/28/2012 (h)	980,380	649,001	980,380
		Second Lien Loan 15.0000%, 12/31/2013 (b, h)	24,873,465	24,459,780	24,873,465
				25,108,781	25,853,845
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,188,000	1,191,849	1,188,000
TerraMark, L.P.	Specialty Chemicals	Senior Secured Loan 10.0000%, 2/12/2009 (h)	1,500,000	1,497,310	1,500,000
Total Safety U.S., Inc.	Engineering Services	First Lien Seller Note 3.1594%, 12/08/2012 (h)	980,000	980,000	905,558
		Second Lien Seller Note 6.9094%, 12/08/2013 (h)	3,500,000	3,500,000	3,500,000
				4,480,000	4,405,558
WBS Carbons Acquisitions Corp.	Specialty Chemicals	Bridge Loan 6.0000%, 12/30/2011 (h)	1,759,796	1,759,796	1,759,796
Sub Total Non-control/Non-affiliated investments				**123,078,940**	**91,795,916**
Affiliate investments - 45.68% (a, c, g, f)					
			12,000,000	11,695,402	12,000,000

Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)			
		Convertible Series A Preferred Stock (9 shares)		44,000	143,000
		Convertible Series B Preferred Stock (1,991 shares)		9,956,000	32,357,000
				21,695,402	44,500,000
Dakota Growers Pasta Company, Inc.	Manufacturer of Packaged Foods	Common Stock (1,016,195 shares)		5,521,742	12,603,324
		Convertible Preferred Stock (1,065,000 shares)		10,357,500	13,208,626
				15,879,242	25,811,950
Endymion Systems, Inc.	Technology Investments	Preferred Stock (7,156,760 shares) (d, j)		7,000,000	
Harmony Pharmacy & Health Center, Inc.	Healthcare - Retail	Revolving Credit Facility 10.0000%, 12/01/2009 (b, h)	4,416,432	4,416,432	4,000,000
		Demand Note 10.0000% 12/01/2009 (h, i)	700,000	700,000	700,000
		Demand Note 10.0000% 12/01/2009 (h, i)	3,300,000	3,300,000	3,300,000
		Common Stock (2,000,000 shares) (d)		750,000	750,000
				9,166,432	8,750,000
HuaMei Capital Company, Inc.	Financial Services	Common Stock (500 shares) (d)		2,000,000	2,000,000
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013 (b, h)	11,052,293	10,925,820	11,052,293
		Secured Revolving Note 1.4613%, 06/30/2013 (h)	700,000	700,000	700,000
		Convertible Preferred Stock (20,000 shares) (b)		2,432,793	2,432,793
				14,058,613	14,185,086
Octagon Credit Investors, LLC	Financial Services	Term Loan 4.7113%, 12/31/2011 (h)	5,000,000	4,961,164	5,000,000
			1,900,000	1,900,000	1,900,000

		Revolving Line of Credit 4.7113%, 12/31/2011 (h) Limited Liability Company Interest		1,122,369	2,577,274
				7,983,533	9,477,274
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares) (d)		6,000,000	8,000,000
Security Holdings, B.V.	Electrical Engineering	Common Equity Interest (d, e)		28,154,200	28,154,200
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	7,957,137	7,804,088	7,957,137
		Senior Credit Facility 7.7500% 07/26/2010 (h)	3,771,016	3,771,016	3,771,016
		Senior Credit Facility 6.4475% 07/26/2010 (h)	571,429	571,429	571,429
		Convertible Series B Preferred Stock (32,200 shares) (d)		500,000	10,890,000
		Convertible Series C Preferred Stock (8,216 shares) (d)			760,000
				12,646,533	23,949,582
Vitality Foodservice, Inc.	Non-Alcoholic Beverages	Common Stock (556,472 shares) (d)		5,564,716	9,829,657
		Preferred Stock (1,000,000 shares) (b, h)		10,465,663	13,367,434
		Warrants (d)			3,735,058
				16,030,379	26,932,149
Sub Total Affiliate investments				**140,614,334**	**191,760,241**

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

8

MVC Capital, Inc.
Consolidated Schedule of Investments (Continued)
January 31, 2009
(Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
Control Investments - 49.13% (a, c, g, f, i)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		$ 34,736,939	$ 41,500,000
		Bridge Loan 10.0000%, 12/31/2009 (e, h)	$ 3,643,557	3,643,557	3,643,557
				38,380,496	45,143,557
MVC Partners, LLC	Private Equity Firm	Limited Liability Company Interest (d)		332,698	132,698
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		17,000,000	17,200,000
		Series A Convertible Preferred Stock (11,758 shares) (b, h)		30,000,000	35,569,124
				47,000,000	52,769,124
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		7,450,000	7,450,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH	Soil Remediation	Term Loan 7.0000%, 08/25/2009 (e, h)	6,187,350	6,147,019	6,147,019
		Common Equity Interest (d, e)		438,551	560,000
		Preferred Equity Interest (d, e)		5,000,000	6,225,000
				11,585,570	12,932,019
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	3,900,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/31/2013 (b, h)	9,101,484	8,961,610	9,101,484
		Common Stock (1,115 shares) (d)		16,000,000	33,000,000
				24,961,610	42,101,484

Timberland Machines & Irrigation, Inc.	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 14.5500%, 08/04/2009 (b, h, i)	7,351,695	7,341,380	
		Junior Revolving Line of Credit 12.5000%, 07/07/2009 (h, i)	5,000,000	5,000,000	
		Common Stock (542 shares) (d)		5,420,291	
		Warrants (d)			
				17,761,671	
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	7,676,330	7,655,784	7,676,330
		Junior Revolving Note 6.0000%, 5/1/2011 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,821,794	3,521,794
		Warrants (d)			
				12,477,578	12,198,124
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	21,500,000
Vendio Services, Inc.	Technology Investments	Common Stock (10,476 shares) (d, j)		5,500,000	14,447
		Preferred Stock (6,443,188 shares) (d, j)		1,134,001	6,585,554
				6,634,001	6,600,001
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	950,000
				2,450,000	1,550,000
Sub Total Control Investments				**182,728,939**	**206,277,007**
TOTAL INVESTMENT ASSETS - 116.68%				**$ 446,422,213**	**$ 489,833,164**

(f)

(a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.

(b) These securities accrue a portion of their interest/dividends in payment in kind interest/dividends which is capitalized to the investment.

(c) All of the Fund s equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH, SIA Tekers Invest, and Velocitius B.V. The Fund makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located outside of the United States.

(f) Percentages are based on net assets of $419,808,846 as of January 31, 2009.

(g) See Note 3 for further information regarding Investment Classification.

(h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.

(i) All or a portion of the accrued interest on these securities have been reserved against.

(j) Legacy investments.

- Denotes zero cost or fair value.

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

Table of Contents

MVC Capital, Inc.
Consolidated Schedule of Investments
October 31, 2008

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments - 22.70% (a, c, g, f, i)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d)		$ 5,000,003	$
Amersham Corp.	Manufacturer of Precision - Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010 (h, i)	$ 2,473,521	2,473,521	2,250,000
		Second Lien Seller Note 17.0000%, 06/30/2013 (b, h, i)	3,539,496	3,539,496	3,275,000
				6,013,017	5,525,000
BP Clothing, LLC	Apparel	Second Lien Loan 14.0000%, 07/18/2012 (b, h)	18,229,090	18,008,868	18,229,090
		Term Loan A 8.0000%, 07/18/2011 (h)	2,133,750	2,111,978	2,111,978
		Term Loan B 10.4000%, 07/18/2011 (h)	2,000,000	1,979,725	1,952,628
				22,100,571	22,293,696
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (d)		4,520,355	
FOLIO*fn,* Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (d)		15,000,000	13,600,000
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (b, h)	2,960,753	2,956,638	2,960,753
Henry Company	Building Products / Specialty Chemicals	Term Loan A 6.6175%, 04/06/2011 (h)	1,837,309	1,837,309	1,778,031
		Term Loan B 10.8675%, 04/06/2011 (h)	2,000,000	2,000,000	2,000,000
				3,837,309	3,778,031
	Consumer Products		13,033,333	13,033,333	13,033,333

Innovative Brands, LLC		Term Loan 11.7500%, 09/25/2011 (h)			
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d)		3,750,000	
Phoenix Coal Corporation	Coal Processing and Production	Common Stock (666,667 shares) (d)		500,000	104,667
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e)		2,007,701	
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares) (d)		10,000,000	
SP Industries, Inc.	Laboratory Research Equipment	First Lien Loan 8.7038%, 12/28/2012 (h)	997,741	638,401	997,741
		Second Lien Loan 15.0000%, 12/31/2013 (b, h)	24,684,219	24,249,319	24,684,219
				24,887,720	25,681,960
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,214,500	1,218,697	1,214,500
TerraMark, L.P.	Specialty Chemicals	Senior Secured Loan 10.0000%, 2/12/2009 (h)	1,500,000	1,474,810	1,500,000
Total Safety U.S., Inc.	Engineering Services	First Lien Seller Note 6.5119%, 12/08/2012 (h)	982,500	982,500	908,058
		Second Lien Seller Note 9.6713%, 12/08/2013 (h)	3,500,000	3,500,000	3,500,000
				4,482,500	4,408,058
WBS Carbons Acquisitions Corp.	Specialty Chemicals	Bridge Loan 6.0000%, 12/30/2011 (h)	1,681,111	1,681,111	1,681,111
Sub Total Non-control/Non-affiliated investments				**124,471,466**	**95,781,109**
Affiliate investments - 42.93% (a, c, g, f, i)					
			12,000,000	11,674,253	12,000,000

Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)			
		Convertible Series A Preferred Stock (9 shares)		44,000	143,000
		Convertible Series B Preferred Stock (1,991 shares)		9,956,000	32,357,000
				21,674,253	44,500,000
Dakota Growers Pasta Company, Inc.	Manufacturer of Packaged Foods	Common Stock (1,016,195 shares)		5,521,742	10,161,950
		Convertible Preferred Stock (1,065,000 shares) (d)		10,357,500	10,650,000
				15,879,242	20,811,950
Endymion Systems, Inc.	Technology Investments	Preferred Stock (7,156,760 shares) (d)		7,000,000	
Harmony Pharmacy & Health Center, Inc.	Healthcare - Retail	Revolving Credit Facility 10.0000%, 12/01/2009 (b, h)	4,307,850	4,307,850	4,000,000
		Demand Note 10.0000% 12/01/2009 (h, i)	3,300,000	3,300,000	3,300,000
		Common Stock (2,000,000 shares) (d)		750,000	750,000
				8,357,850	8,050,000
HuaMei Capital Company, Inc.	Financial Services	Common Stock (500 shares) (d)		2,000,000	2,000,000
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013 (b, h)	10,940,457	10,806,757	10,940,457
		Secured Revolving Note 4.7038%, 06/30/2013 (h)	700,000	700,000	700,000
		Convertible Preferred Stock (20,000 shares) (b)		2,385,091	2,385,091
				13,891,848	14,025,548
Octagon Credit Investors, LLC	Financial Services	Term Loan 7.9538%, 12/31/2011 (h)	5,000,000	4,957,803	5,000,000
		Revolving Line of Credit 7.9538%, 12/31/2011 (h)	650,000	650,000	650,000

		Limited Liability Company Interest		1,132,437	2,587,342
				6,740,240	8,237,342
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares) (d)		6,000,000	10,100,000
Security Holdings, B.V.	Electrical Engineering	Common Equity Interest (d, e)		28,154,200	28,154,200
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	7,856,322	7,692,195	7,856,322
		Senior Credit Facility 8.5000% 07/26/2010 (h)	4,368,340	4,368,340	4,368,340
		Senior Credit Facility 9.7200% 07/26/2010 (h)	571,429	571,429	571,429
		Convertible Series B Preferred Stock (32,200 shares) (d)		500,000	5,300,000
		Convertible Series C Preferred Stock (8,216 shares) (d)			350,000
				13,131,964	18,446,091
Vitality Foodservice, Inc.	Non-Alcoholic Beverages	Common Stock (556,472 shares) (d)		5,564,716	9,829,657
		Preferred Stock (1,000,000 shares) (b, h)		10,300,633	13,202,404
		Warrants (d)			3,735,058
				15,865,349	26,767,119
Sub Total Affiliate investments				**138,694,946**	**181,092,250**

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

10

Table of Contents

MVC Capital, Inc.
Consolidated Schedule of Investments (continued)
October 31, 2008

Company	Industry	Investment	Principal	Cost	Fair Value
Control Investments - 50.71% (a, c, g, f, i)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		$ 34,736,939	$ 41,500,000
		Bridge Loan 10.0000%, 12/31/2008 (e, h)	$ 3,643,557	3,643,557	3,643,557
				38,380,496	45,143,557
MVC Partners, LLC	Private Equity Firm	Limited Liability Company Interest (d)		332,698	132,698
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		17,000,000	17,200,000
		Series A Convertible Preferred Stock (11,306 shares) (b, h)		30,000,000	34,201,081
				47,000,000	51,401,081
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		7,450,000	7,450,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH	Soil Remediation	Term Loan 7.0000%, 08/25/2009 (e, h)	6,187,350	6,129,434	6,129,434
		Common Equity Interest (d, e)		438,551	560,000
		Preferred Equity Interest (d, e)		5,000,000	6,100,000
				11,567,985	12,789,434
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	3,175,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/31/2013 (b, h)	8,940,592	8,793,022	8,940,592
		Common Stock (1,115 shares) (d)		16,000,000	33,000,000

				24,793,022	41,940,592
Timberland Machines & Irrigation, Inc.	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 14.5500%, 08/04/2009 (b, h)	7,250,271	7,234,799	7,250,271
		Junior Revolving Line of Credit 12.5000%, 07/07/2009 (h, i)	5,000,000	5,000,000	1,000,000
		Common Stock (542 shares) (d)		5,420,291	
		Warrants (d)			
				17,655,090	8,250,271
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	7,676,330	7,652,949	7,676,330
		Junior Revolving Note 6.0000%, 05/01/2011 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,821,794	5,821,794
		Warrants (d)			
				12,474,743	14,498,124
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	21,000,000
Vendio Services, Inc.	Technology Investments	Common Stock (10,476 shares) (d)		5,500,000	14,447
		Preferred Stock (6,443,188 shares) (d)		1,134,001	6,585,554
				6,634,001	6,600,001
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	950,000
				2,450,000	1,550,000
Sub Total Control Investments				**182,433,350**	**213,930,758**
				$ 445,599,762	**$ 490,804,117**

TOTAL INVESTMENT ASSETS - 116.34% (f)

(a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.

(b) These securities accrue a portion of their interest/dividends in payment in kind interest/dividends which is capitalized to the investment.

(c) All of the Fund s equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH, SIA Tekers Invest, and Velocitius B.V. The Fund makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located outside of the United States.

(f) Percentages are based on net assets of $421,870,812 as of October 31, 2008.

(g) See Note 3 for further information regarding Investment Classification.

(h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.

(i) All or a portion of the accrued interest on these securities have been reserved against.

\- Denotes zero cost or fair value.

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

Table of Contents

MVC Capital, Inc. (the Company)
Notes to Consolidated Financial Statements
January 31, 2009
(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete consolidated financial statements. Certain amounts have been reclassified to adjust to current period presentations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended October 31, 2008, as filed with the U.S. Securities and Exchange Commission (the SEC) on December 29, 2008.

2. Consolidation

On July 16, 2004, the Company formed a wholly-owned subsidiary, MVC Financial Services, Inc. (MVCFS). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Company, the Company s portfolio companies and other entities. MVCFS had opening equity of $1 (100 shares at $0.01 per share). The Company does not hold MVCFS for investment purposes and does not intend to sell MVCFS. In the consolidation, all intercompany accounts have been eliminated.

3. Investment Classification

As required by the Investment Company Act of 1940, as amended (the 1940 Act), we classify our investments by level of control. As defined in the 1940 Act, Control Investments are investments in those companies that we are deemed to Control. Affiliate Investments are investments in those companies that are Affiliated Companies of us, as defined in the 1940 Act, other than Control Investments. Non-Control/Non-Affiliate Investments are those that are neither Control Investments nor Affiliate Investments. Generally, under that 1940 Act, we are deemed to control a company in which we have invested if we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more and less than 25% of the voting securities of such company.

4. Investment Valuation Policy

Our investments are carried at fair value in accordance with the 1940 Act and Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date and majority-owned publicly traded securities and other privately held securities are valued as determined in good faith by the Valuation Committee of our Board of Directors. For restricted securities of companies that are publicly traded, the value is based on the closing market quote on the valuation date minus a discount for the restriction. For unrestricted securities of companies that are publicly traded for which we have a majority-owned interest, the value is generally based on the closing market quote on the valuation date plus a control premium if the Valuation Committee of our Board of Directors determines in good faith that additional value above the closing market quote would be obtainable upon a sale or transfer of our controlling interest. At January 31, 2009, we did not hold restricted or unrestricted securities of publicly traded companies for which we have a majority-owned interest.

We adopted SFAS No. 157 on November 1, 2008. SFAS No. 157 provides a framework for measuring the fair value of assets and liabilities. SFAS No. 157 also provides guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

SFAS No. 157 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The price used to measure the fair value is not adjusted for transaction costs while the cost basis of our investments may include initial transaction costs. Under SFAS No. 157, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under SFAS No. 157, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

In October 2008, the Financial Accounting Standards Board, or the FASB, issued FASB Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* . FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active. More specifically, FSP No. 157-3 states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. FSP No. 157-3 also provides further guidance that the use of a reporting entity s own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, FSP No. 157-3 provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer. The guidance in FSP No. 157-3 is effective upon issuance for all financial statements that have not been issued and any changes in valuation techniques as a result of applying FSP No. 157-3 are accounted for as a change in accounting estimate.

Valuation Methodology

There is no one methodology to determine fair value and, in fact, for any portfolio security, fair value may be expressed as a range of values, from which the Company derives a single fair value. To determine the fair value of a portfolio security, the Valuation Committee analyzes the portfolio company s financial results and projections, publicly traded comparables of companies when available, comparable private transactions when available, precedent transactions in the market when available, as well as other factors. The Company generally requires, where practicable, portfolio companies to provide annual audited and more regular unaudited financial statements, and/or annual projections for the upcoming fiscal year.

The fair value of our portfolio securities is inherently subjective. Because of the inherent uncertainty of fair valuation of portfolio securities that do not have readily ascertainable market values, our determination of fair value may significantly differ from the fair value that would have been used had a ready market existed for the securities. Such values also do not reflect brokers fees or other selling costs which might become payable on disposition of such investments.

If a security is publicly traded, the fair value is generally equal to market value based on the closing price on the principal exchange on which the security is primarily traded.

For equity securities of portfolio companies, the Valuation Committee estimates the fair value based on the market approach with value then attributed to equity or equity like securities using the enterprise value waterfall (Enterprise Value Waterfall) valuation methodology. Under the Enterprise Value Waterfall valuation methodology, the Valuation Committee estimates the enterprise fair value of the portfolio company and then waterfalls the enterprise value over the portfolio company s securities in order of their preference relative to one another. To assess the enterprise value of the portfolio company, the Valuation Committee weighs some or all of the traditional market valuation methods and factors based on the individual circumstances of the portfolio company in order to estimate the enterprise value. The methodologies for performing assets may be based on, among other things: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, third party valuations of the portfolio company, consideration of any offers from third parties to buy the company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. For non-performing assets, the Valuation Committee may estimate the liquidation or collateral value of the portfolio company s assets. The Valuation Committee also takes into account historical and anticipated financial results.

In assessing enterprise value, the Valuation Committee considers the mergers and acquisitions (M&A) market as the principal market in which the Company would sell its investments in portfolio companies under circumstances where the Company has the ability to control or gain control of the board of directors of the portfolio company (Control Companies). This approach is consistent with the principal market that the Company would use for its portfolio companies if the Company has the ability to initiate a sale of the portfolio company as of the measurement date, i.e., if it has the ability to control or gain control of the board of directors of the portfolio company as of the measurement date. In evaluating if the Company can control or gain control of a portfolio company as of the measurement date, the Company takes into account its equity securities on a fully diluted basis as well as other factors.

For non-Control Companies, consistent with SFAS No. 157, the Valuation Committee considers a hypothetical secondary market as the principal market in which it would sell investments in those companies.

For loans and debt securities of non-Control Companies (for which the Valuation Committee has identified the hypothetical secondary market as the principal market), the Valuation Committee determines fair value based on the assumptions that a hypothetical market participant would use to value the security in a current hypothetical sale using a market yield (Market Yield) valuation methodology. In applying the Market Yield valuation methodology, the Valuation Committee determines the fair value based on such factors as third party broker quotes and market participant assumptions including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date.

Estimates of average life are generally based on market data of the average life of similar debt securities. However, if the Valuation Committee has information available to it that the debt security is expected to be repaid in the near term, the Valuation Committee would use an estimated life based on the expected repayment date.

The Valuation Committee determines fair value of loan and debt securities of Control Companies based on the estimate of the enterprise value of the portfolio company. To the extent the enterprise value exceeds the remaining principal amount of the loan and all other debt securities of the company, the fair value of such securities is generally estimated to be their cost. However, where the enterprise value is less than the remaining principal amount of the loan and all other debt securities, the Valuation Committee may discount the value of such securities to reflect an impairment. When the Company receives nominal cost warrants or free equity securities (nominal cost equity) with a debt security, the Company typically allocates its cost basis in the

Table of Contents

investment between debt securities and nominal cost equity at the time of origination. Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. Origination, closing and/or closing fees associated with investments in portfolio companies are accreted into income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as income. Prepayment premiums are recorded on loans when received.

For loans, debt securities, and preferred securities with contractual payment-in-kind interest or dividends, which represent contractual interest/dividends accrued and added to the loan balance or liquidation preference that generally becomes due at maturity, the Company will not accrue payment-in-kind interest/dividends if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. However, the Company may accrue payment-in-kind interest if the health of the portfolio company and the underlying securities are not in question. All payment-in-kind interest that has been added to the principal balance or capitalized is subject to ratification by the Valuation Committee.

5. Concentration of Market Risk

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, and debt instruments, which represented approximately 97.60% of the Company s total assets at January 31, 2009. As discussed in Note 6, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company s fair value policies and procedures. The Company s investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk.

6. Portfolio Investments

Pursuant to the requirements of the 1940 Act, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our board of directors. As permitted by the SEC, the board of directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the board of directors supervision and pursuant to our Valuation Procedures.

The levels of fair value inputs used to measure our investments are characterized in accordance with the fair value hierarchy established by SFAS No. 157. Where inputs for an asset or liability fall in more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment s fair value measurement. We use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement. The three levels of the fair value hierarchy and investments that fall into each of the levels are described below:

Level 1: Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price on the measurement date. We valued one of our investments using Level 1 inputs as of January 31, 2009.

Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. We did not value any of our investments using Level 2 inputs as of January 31, 2009.

Level 3: Level 3 inputs are unobservable and cannot be corroborated by observable market data. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See Note 4 for the investment valuation policies used to determine the fair value of these investments.

The following fair value hierarchy table sets forth our investment portfolio by level as of January 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Senior/Subordinated Loans and credit facilities	$	$	$ 157,996	$ 157,996
Common Stock	120		91,385	91,505
Preferred Stock			134,338	134,338
Warrants			3,735	3,735
Other Equity Investments			102,259	102,259
Total Investments, net	$ 120	$	$ 489,713	$ 489,833

The following tables sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs for the quarter ended January 31, 2009 (in thousands):

	Balances, November 1, 2008	Realized Gains (Losses) (1)	Reversal of Prior Period Appreciation (Depreciation) on Realization (2)	Unrealized Appreciation (Depreciation) (2)	Purchases, Sales, Issuances & Settlements, Net (3)	Transfers In & Out of Level 3	Balances, January 31, 2009
Senior/Subordinated Loans and credit facilities	$ 167,703	$	$ 149	$ (10,326)	$ 358	$	$ 157,884
Common Stock	87,741			1,066			88,807
Preferred Stock	124,874			9,252	325		134,451
Warrants	3,735						3,735
Other Equity Investments	106,646			(1,800)	(10)		104,836
Total	$ 490,699	$	$ 149	$ (1,808)	$ 673	$	$ 489,713

(1) Included in net realized gain (loss) on investments in the Consolidated Statement of

Operations.

(2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations.

(3) Includes increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, premiums and closing fees and the exchange of one or more existing securities for one or more new securities as well as decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities.

For the Three Month Period Ended January 31, 2009

During the quarter ended January 31, 2009, the Company made one follow-on investment in an existing portfolio company committing capital of $700,000. On November 4, 2008, the Company invested $700,000 in Harmony Pharmacy & Health Center, Inc. (Harmony Pharmacy) in the form of a demand note. The demand note has an annual interest rate of 10%.

At October 31, 2008, the balance of the revolving credit facility provided to Octagon Credit Investors, LLC (Octagon) was $650,000. Net borrowings during the quarter ended January 31, 2009 were $1.2 million resulting in a balance outstanding as of January 31, 2009 of $1.9 million.

At October 31, 2008, the balance of the revolving senior credit facility provided to U.S. Gas & Electric, Inc. (U.S. Gas) was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008 and January 31, 2009. The balance of the remaining portion of the senior credit facility at October 31, 2008 was approximately $4.4 million. Net repayments on this portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were approximately $600,000, resulting in a balance outstanding of $3.8 million at January 31, 2009.

During the quarter ended January 31, 2009, the Company received approximately $27,000 in principal payments on the term loan provided to Storage Canada, LLC (Storage Canada). The balance of the term loan at January 31, 2009 was approximately $1.2 million.

On December 15, 2008 and January 2, 2009, the Company received principal payments of $1,609,500 and $37,500, respectively, on the term loan provided to Innovative Brands, LLC (Innovative Brands). The Company also received a loan amendment fee of approximately $57,000. The interest rate on the term loan was increased to 14.5%. The balance of the term loan as of January 31, 2009 was approximately $11.4 million.

On December 31, 2008, the Company received a quarterly principal payment from BP Clothing, LLC (BP) on term loan A of $146,250. The balance of term loan A as of January 31, 2009 was approximately $2.0 million.

On December 31, 2008, Total Safety U.S., Inc. (Total Safety) made a principal payment of $2,500 on its first lien loan. The balance of the first lien loan as of January 31, 2009 was $980,000.

On December 31, 2008, SP Industries, Inc. (SP) made a principal payment of $17,361 on its first lien loan. The balance of the first lien loan as of January 31, 2009, was approximately $980,000.

On December 31, 2008, Henry Company made a principal payment of approximately $127,000 on its term loan A. The balance of term loan A as of January 31, 2009 was approximately $1.7 million.

During the quarter ended January 31, 2009, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $6.0 million, SGDA Sanierungsgesellschaft fur Deponien und Altasten mbH (SGDA) preferred equity interest by $125,000, SIA Tekers Invest (Tekers) common stock by $725,000, Velocitius B.V. (Velocitius) equity interest by $500,000, and Dakota Growers Pasta Company, Inc. (Dakota Growers) common stock by approximately $2.4 million and preferred stock by approximately $2.6 million. In addition, increases in the cost basis and fair value of the loans to GDC Acquisitions, LLC (GDC), SP, Marine Exhibition Corporation (Marine), BP, Summit Research Labs, Inc. (Summit), U.S. Gas, and WBS Carbons Acquisition Corp. (WBS), and the Vitality Foodservice, Inc. (Vitality) and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,276,447. The Valuation Committee also increased the fair value of the Ohio Medical Corporation (Ohio Medical) preferred stock by approximately $1.4 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended January 31, 2009, the undistributed allocation of flow through loss from the Company s equity investment in Octagon decreased the cost basis and fair value of this investment by approximately $10,000. The Valuation Committee also decreased the fair value of the Company s investments in Foliofn, Inc. (Foliofn) preferred stock by $800,000, PreVisor, Inc. (PreVisor) common stock by $2.1 million, Timberland Machines & Irrigation, Inc. (Timberland) senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million, Amersham Corporation (Amersham) second lien notes by $375,000, Turf Products, LLC (Turf) equity interest by $2.3 million, and BP term loan B by approximately $181,000, term loan A by approximately $153,000 and second lien loan by approximately $948,000, during the quarter ended January 31, 2009. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK interest totaling approximately $273,000.

Table of Contents

At January 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was $489.8 million with a cost basis of $446.4 million. At January 31, 2009, the fair value and cost basis of portfolio investments made by the Company s former management team pursuant to the prior investment objective (Legacy Investments) was $19.4 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.4 million and $390.5 million, respectively. At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively.

For the Year Ended October 31, 2008

During the fiscal year ended October 31, 2008, the Company made four new investments, committing capital totaling approximately $54.5 million. The investments were made in SP ($24.0 million), SGDA Europe B.V. (SGDA Europe) ($750,000), TerraMark, L.P. (TerraMark) ($1.5 million), and Security Holdings B.V. (Security Holdings) ($28.2 million).

The Company also made 11 follow-on investments in existing portfolio companies committing capital totaling approximately $71.8 million. Two of these follow-on investments were made in companies that were new investments in fiscal year 2008. During the fiscal year ended October 31, 2008, the Company made additional investments totaling approximately $217,000 in MVC Partners LLC (MVC Partners). In connection with these investments, MVC Partners has made an investment in MVC Acquisition Corp., a newly-formed (but not yet operating) blank check company organized for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business. During the year ended October 31, 2008, the Company also made additional investments totaling $3.3 million in Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10%. On November 30, 2007, the Company invested an additional $36.7 million in Ohio Medical in the form of a $10.0 million senior subordinated note and $26.7 million in 9,917 shares of convertible preferred stock. At this time, the $3.3 million convertible unsecured subordinated promissory note was converted into preferred stock. The note has an annual interest rate of 16% and a maturity date of May 30, 2012. On December 13, 2007, the Company assigned the Ohio Medical $10.0 million senior subordinated note to AEA Investors LLC. On January 25, 2008, the amount available on the Timberland revolving note was increased by $1.0 million to $5.0 million, which Timberland immediately borrowed. On February 29, 2008, the Company invested an additional $7.8 million in Summit in the form of a $3.0 million second lien loan and $4.8 million in common stock. The second lien loan has an annual interest rate of 14% and a maturity date of August 31, 2013. On April 25, 2008, the Company invested an additional $11.8 million in Auto MOTOL BENI (BENI) by purchasing 874 shares of common stock. On April 30, 2008 and July 31, 2008, the Company invested an additional $2.7 million and $4.0 million, respectively, in SGDA Europe in the form of equity interest. On July 30, 2008, the Company increased its investment in SP by approximately $1.3 million, investing an additional $1.2 million in the second lien loan and $50,000 in the first lien loan. On July 31, 2008, the Company extended Turf a $1.0 million junior revolving note. The revolving note has an annual interest rate of 6% and a maturity date of May 1, 2011. Turf immediately borrowed $1.0 million on the note. The prior junior revolving note matured on May 1, 2008. On August 4, 2008, the Company increased its investment in U.S. Gas by investing an additional $2.0 million in the second lien loan.

At the beginning of the 2008 fiscal year, the junior revolving note provided to Timberland had a balance outstanding of $4.0 million. On January 25, 2008, the amount available on the revolving note was increased by $1.0 million to $5.0 million. Net borrowings during the fiscal year ended October 31, 2008 were $1.0 million resulting in a balance outstanding as of October 31, 2008 of $5.0 million. During the fiscal year ended October 31, 2008, the Valuation Committee determined to decrease the fair value of the junior revolving note by $4.0 million to $1.0 million as of October 31, 2008.

At October 31, 2007, the balance of the revolving credit facility provided to Octagon was $4.1 million. Net repayments during the fiscal year ended October 31, 2008 were $3.5 million, resulting in a balance outstanding as of October 31, 2008 of $650,000.

At October 31, 2007, the balance of Line I, provided to Velocitius was approximately $191,000. Repayments during the fiscal year ended October 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of October 31, 2008.

At October 31, 2007, the balance of Line II, provided to Velocitius was approximately $613,000. Repayments during the fiscal year ended October 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of October 31, 2008.

At October 31, 2007, the balance of the revolving note provided to Marine was not drawn upon. Net borrowings during the fiscal year ended October 31, 2008 were $700,000, resulting in a balance outstanding as of October 31, 2008 of $700,000.

At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008. Net borrowings on the remaining portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were $4.3 million, resulting in a balance outstanding of $4.4 million at such date. The combined balance of the revolving credit facility at October 31, 2008 was $4.9 million.

During the fiscal year ended October 31, 2008, the Company received approximately $1.4 million in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2008 was approximately $1.2 million.

During the fiscal year ended October 31, 2008, Phoenix Coal Corporation (Phoenix Coal) began trading on the Toronto Stock Exchange. Consistent with the Company s valuation procedures, effective June 30, 2008, the Company has been marking this investment to its market price. On July 23, 2008, the Company sold 500,000 shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $512,000, resulting in a realized gain of approximately $262,000. On July 29, 2008, the Company sold an additional 500,000 shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $484,000, resulting in a realized gain of approximately $234,000.

On November 1, 2007, December 1, 2007 and January 1, 2008, the Company received $111,111, respectively, as principal payments from SP on term loan B. On January 2, 2008, SP repaid term loan B and its senior subordinated loan in full, including all accrued interest. The total amount received for term loan B was $7.1 million and the amount received for the senior subordinated loan was $13.6 million.

On November 2, 2007, Genevac U.S. Holdings, Inc. (Genevac) made a principal payment of $1.0 million on its senior subordinated loan. On January 2, 2008, Genevac repaid its senior subordinated loan in full, including all accrued interest totaling, $11.9 million. The Company, at this time, sold 140 shares of Genevac common stock for $1.7 million, resulting in a short-term capital gain of $595,000.

Table of Contents

On December 31, 2007, March 31, 2008 and June 30, 2008, the Company received principal payments from BP on term loan A of $90,000. On September 30, 2008, the Company received a principal payment from BP of approximately $146,000. The balance of term loan A as of October 31, 2008 was approximately $2.1 million.

On December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008, Total Safety made principal payments of $2,500 on its first lien loan on each payment date. The balance of the first lien loan as of October 31, 2008 was approximately $983,000.

On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. This amount was repaid on April 28, 2008.

On January 2, 2008, February 1, 2008, April 1, 2008, July 1, 2008 and October 1, 2008, the Company received principal payments of $37,500, $1,666,667, $37,500, $37,500, and $37,500, respectively, on the term loan provided to Innovative Brands. The balance of the term loan as of October 31, 2008 was approximately $13.0 million.

On January 15, 2008, Impact Confections, Inc. (Impact) repaid its promissory note and senior subordinated loan in full, including all accrued interest, totaling $6.1 million. The Company, at this time, sold 252 shares of common stock at cost for $2.7 million.

On January 29, 2008, MVC Automotive Group B.V. (MVC Automotive) made a principal payment of $17.4 million on its bridge loan, resulting in a principal balance of $1.6 million.

On February 29, 2008, the Company sold 400 shares of WBS at its cost of $1.6 million.

On March 31, 2008, June 30, 2008 and September 30, 2008, SP made principal payments of $17,361 on its first lien loan on each payment date. The balance of the first lien loan as of October 31, 2008 was approximately $998,000.

On April 15, 2008, the Company received a principal payment of $100,000 from Vestal Manufacturing Enterprises, Inc. (Vestal) on its senior subordinated debt. The balance of the senior subordinated debt as of October 31, 2008 was $600,000.

On June 9, 2008, BENI was acquired by MVC Automotive to achieve operating efficiencies. BENI was, and MVC Automotive continues to be, 100% owned by the Company. MVC Automotive increased its shareholder s equity by $14.5 million and assumed $2.0 million of debt as a result of the cashless transaction. There was no gain or loss to the Company from this transaction. The balance of the MVC Automotive bridge loan as of October 31, 2008 was $3.6 million and the common stock had a fair value of $41.5 million.

On August 5, 2008, the Company received a principal payment of $2.0 million from Custom Alloy Corporation (Custom Alloy) on its unsecured subordinated debt. During the fiscal year ended October 31, 2008, Custom Alloy paid approximately $1.0 million in accrued PIK interest on its unsecured subordinated debt. The balance of the unsecured subordinated debt as of October 31, 2008 was $12.0 million.

On August 12, 2008, the Company invested $1.5 million in TerraMark in the form of a senior secured loan. The loan bears annual interest at 10% and matures on February 12, 2009.

On August 29, 2008 and September 3, 2008, GDC Acquisitions, LLC d/b/a JDC Lighting, LLC (GDC) made principal payments of $250,000 and $108,951, respectively, on its senior subordinated loan. The balance of the loan as of October 31, 2008 was approximately $3.0 million.

On September 3, 2008, the Company invested $28.2 million in Security Holdings in the form of common equity interest.

During the fiscal year ended October 31, 2008, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $5.2 million, SGDA preferred equity interest by $500,000, Foliofn preferred stock by $6.0 million, Tekers common stock by $575,000, Custom Alloy preferred stock by $22.5 million, Velocitius equity interest by $9.6 million, MVC Automotive equity interest by $6.1 million, PreVisor common stock by $1.1 million, Summit common stock by $16.0 million, and Vitality common stock and warrants by approximately $3.4 million. In addition, increases in the cost basis and fair value of the loans to GDC, SP, Harmony, Timberland, Amersham, Marine, BP, Summit, U.S. Gas, WBS, Custom Alloy and the Vitality and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $5,451,761. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal year ended October 31, 2008, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $22,000. The Valuation Committee also decreased the fair value of the Company s investments in Vendio Services, Inc. (Vendio) preferred stock by $2.9 million and common stock by $1,000, Vestal common stock by $2.8 million, Octagon s membership interest by $1.2 million, Amersham second lien notes by approximately $427,000, Henry Company term loan A by approximately $59,000, Total Safety first lien loan by approximately $74,000, BP term loan B by approximately $27,000, MVC Partners equity interest by $200,000 and Timberland s common stock by $3.4 million and its junior revolving line of credit by $4.0 million during the fiscal year ended October 31, 2008. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK totaling $308,000.

At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively. At October 31, 2007, the fair value of all portfolio investments, exclusive of short-term securities, was $379.2, million with a cost basis of $393.4 million. At October 31, 2007, the fair value and cost basis of Legacy Investments was $17.1 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $362.1 million and $337.5 million, respectively.

7. Commitments and Contingencies

Commitments to/for Portfolio Companies:

At January 31, 2009, the Company s existing commitments to portfolio companies consisted of the following:

Table of Contents

Commitments of MVC Capital, Inc.

Portfolio Company	Amount Committed	Amount Funded at January 31, 2009
Timberland Junior Revolver	$ 5.0 million	$ 5.0 million
Storage Canada Loan	$ 6.0 million	$ 1.2 million
Marine Revolving Loan Facility	$ 2.0 million	$ 700,000
Octagon Revolving Credit Facility	$ 12.0 million	$ 1.9 million
Velocitius Revolving Line I	$ 260,000	
Harmony Pharmacy Revolving Credit Facility	$ 4.0 million	$ 4.0 million
Velocitius Revolving Line II	$ 650,000	
Tekers Guarantee	$ 1.8 million	
U.S. Gas Revolving Credit Facility	$ 10.0 million	$ 3.8 million
MVC Automotive Guarantee	$ 8.3 million	
MVC Automotive Guarantee	$ 5.1 million	
MVC Automotive Guarantee	$ 1.6 million	
Turf Junior Revolver	$ 1.0 million	$ 1.0 million
Total	**$ 57.7 million**	**$ 17.6 million**

On June 30, 2005, the Company pledged its common stock of Ohio Medical to Guggenheim to collateralize a loan made by Guggenheim to Ohio Medical.

On July 8, 2005 the Company extended to Timberland a $3.25 million junior revolving note that bears interest at 12.5% per annum and expires on July 7, 2009. The Company also receives a fee of 0.25% on the unused portion of the note. On November 27, 2006, the amount available on the revolving note was increased by $750,000 to $4.0 million. On January 25, 2008, the amount available on the revolving note was increased by $1.0 million to $5.0 million. As of October 31, 2008 and January 31, 2009, the funded debt under the junior revolving line of credit was $5.0 million. The fair value of the loan at January 31, 2009 was $0.

On March 30, 2006, the Company provided a $6.0 million loan commitment to Storage Canada. The commitment was for one year, but may be renewed annually with the consent of both parties. The commitment was renewed in March 2008. The initial borrowing on the loan bears annual interest at 8.75% and has a maturity date of March 30, 2013. Any additional borrowings will mature seven years from the date of the subsequent borrowing. The Company also receives a fee of 0.25% on the unused portion of the loan. As of October 31, 2008, the outstanding balance of the loan commitment was approximately $1.2 million. Net repayments during the three month period ended January 31, 2009 were approximately $27,000, resulting in a balance of approximately $1.2 million at such date.

On July 11, 2006, the Company provided Marine a $2.0 million secured revolving loan facility. The revolving loan facility bears annual interest at LIBOR plus 1%. The Company also receives a fee of 0.50% of the unused portion of the revolving loan facility. As of October 31, 2008 and January 31, 2009, the outstanding balance of the secured revolving loan facility was $700,000.

On October 12, 2006, the Company provided a $12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Company receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. At October 31, 2008 the outstanding balance of the revolving credit facility provided to Octagon was $650,000. Net borrowings during the three month period ended January 31, 2009 were $1.3 million, resulting in a balance outstanding of $1.9 million on that date.

On October 30, 2006, the Company provided Velocitius a $260,000 revolving line of credit (Line I). Line I expires on October 31, 2009 and bears annual interest at 8%. There was no amount outstanding on Line I at October 31, 2008 and January 31, 2009.

On January 11, 2007, the Company provided a $4.0 million revolving credit facility to Harmony Pharmacy. The credit facility bears annual interest at 10%. The Company also receives a fee of 0.50% on the unused portion of the loan. The revolving credit facility expires on December 1, 2009. At October 31, 2008 and January 31, 2009, the outstanding balance of the revolving credit facility was $4.0 million.

On May 1, 2007, the Company provided Velocitius a $650,000 revolving line of credit (Line II). Line II expires on April 30, 2010 and bears annual interest at 8%. There was no amount outstanding on Line II at October 31, 2008 and January 31, 2009.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $1.8 million at January 31, 2009.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility to U.S. Gas. The senior credit facility bears annual interest at either LIBOR plus 6% or Prime plus 4.5%, this election is at U.S. Gas discretion. The Company receives a fee of 0.50% on the unused portion of the senior credit facility. The revolving senior credit facility expires on July 26, 2010. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with a LIBOR based borrowing rate for a period of two years. This portion of the senior credit facility was approximately $571,000 at October 31, 2008 and January 31, 2009. The remaining portion of the senior credit facility, which is borrowed at an annual rate of Prime plus 4.5%, was $4.4 million at October 31, 2008. Net repayments during quarter ended January 31, 2009 were $600,000 resulting in a balance outstanding of $3.8 million on that date.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $8.3 million at January 31, 2009.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately $5.1 million at January 31, 2009) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended to Turf a $1.0 million secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note. At October 31, 2008 and January 31, 2009, the outstanding balance of the secured junior revolving note was $1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million Czech Republic Koruny (CZK) mortgage for MVC Automotive, equivalent to approximately $1.6 million at January 31, 2009.

Timberland also has a floor plan financing program administered by Transamerica. As is typical in Timberland s industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Company has agreed to be a limited co-guarantor for up to $500,000 on this repurchase commitment.

Commitments of the Company:

Effective November 1, 2006, under the terms of the Investment Advisory and Management Agreement with TTG Advisers (the Advisory Agreement), TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company s offices continue to be located on the second floor of 287 Bowman Avenue.

Table of Contents

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, $100 million credit facility (Credit Facility I), consisting of $50.0 million in term debt and $50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. At October 31, 2008, there was $50.0 million in term debt and $19.0 million in revolving credit on Credit Facility I outstanding. During the quarter ended January 31, 2009, the Company s net repayments on Credit Facility I were $6.4 million. As of January 31, 2009, there was $50.0 million in term debt and $12.6 million outstanding on the revolving credit facility. The proceeds from borrowings made under Credit Facility I are used to fund new and existing portfolio investments, pay fees and expenses related to obtaining the financing and for general corporate purposes. Credit Facility I will expire on April 27, 2010, at which time all outstanding amounts under Credit Facility I will be due and payable. Borrowings under Credit Facility I will bear interest, at the Company s option, at a floating rate equal to either (i) the LIBOR rate (for one, two, three or six months), plus a spread of 2.00% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 1.00% per annum. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility I will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company.

On April 24, 2008, the Company entered into a two-year, $50 million revolving credit facility (Credit Facility II) with Branch Banking and Trust Company (BB&T). There was no amount outstanding on Credit Facility II as of October 31, 2008 and January 31, 2009. Credit Facility II provides financing to the Company in addition to the Company s existing $100 million Credit Facility I with Guggenheim. Proceeds from borrowings made under Credit Facility II are used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bear interest at LIBOR plus 50 basis points. In addition, the Company is also subject to a 25 basis point utilization fee for the amount of Credit Facility II that is outstanding for more than 33% of the calendar days during each fiscal quarter, as well as an annual fee of 25 basis points of the total amount of the facility. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility II will be secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities whose purchase has been approved by BB&T.

The Company enters into contracts with portfolio companies and other parties that contain a variety of indemnifications. The Company s maximum exposure under these arrangements is unknown. However, the Company has not experienced claims or losses pursuant to these contracts and believes the risk of loss related to indemnifications to be remote.

8. Management

Under the terms of the Advisory Agreement, TTG Advisers determines, consistent with the Company s investment strategy, the composition of the Company s portfolio, the nature and timing of the changes to the Company s portfolio and the manner of implementing such changes. TTG Advisers also identifies and negotiates the structure of the Company s investments (including performing due diligence on prospective portfolio companies), closes and monitors the Company s investments, determines the securities and other assets purchased, retains or sells and oversees the administration, recordkeeping and compliance functions of the Company and/or third parties performing such functions for the Company. TTG Advisers services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Company is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. The base management fee is calculated at 2.0% per annum of the Company s total assets excluding cash and the value of any investment by the Company not made in portfolio companies (Non-Eligible Assets) but including assets purchased with borrowed funds that are not Non-Eligible Assets.

The incentive fee consists of two parts: (i) one part is based on our pre-incentive fee net operating income; and (ii) the other part is based on the capital gains realized on our portfolio of securities acquired after November 1, 2003. The Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company to the extent necessary to limit the Company s expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company s average net assets) to 3.25% in each of the 2007 and 2008 fiscal years. For more information, please see Note 9 of our consolidated financial statements, Incentive Compensation.

Our board of directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), at their meeting held on October 23, 2008, approved the renewal of the Advisory Agreement for a term that would expire on the earlier of: the implementation of an amended and restated investment advisory and management agreement (Amended Agreement) or one year from October 31, 2008. On December 11, 2008, at an in-person meeting of the board of directors, the board, including all of the Independent Directors, approved the Amended Agreement, which was recommended for approval by the stockholders of the Company at the next annual meeting of stockholders. The Amended Agreement is the result of arm s-length negotiation between the Independent Directors and TTG Advisers and provides for TTG Advisers continued management of the Company. The Amended Agreement is identical, in all material respects, to the Company s current Advisory Agreement, except for the following modifications: (i) the Amended Agreement secures Mr. Tokarz s service as the portfolio manager of the Company for an additional two fiscal years; (ii) the Amended Agreement extends the period for which an expense cap would apply for an additional two fiscal years, and increases the expense cap to 3.5% from 3.25%; and (iii) the calculation of the capital gains portion of the incentive fee under the Amended Agreement reflects a revision so that unrealized depreciation on an investment would not reduce the fee to the extent it has already been reduced by the same unrealized depreciation on the same investment in prior fiscal years.

9. Incentive Compensation

At October 31, 2008, the provision for estimated incentive compensation was $15,794,295. During the quarter ended January 31, 2009, this provision for incentive compensation was decreased by a net amount of $154,663 to $15,639,632. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of five of the Company s portfolio investments (U.S. Gas, Tekers, SGDA, Velocitius, and Dakota Growers) by a total of $12.4 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.4 million due to a PIK distribution, which was treated as a return of capital. The net decrease reflects the Valuation Committee s determination to decrease the fair values of six of the Company s portfolio investments (Timberland, Amersham, Turf, PreVisor, Foliofn and BP) by a total of $14.3 million and the Valuation Committee determination not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling $273,000. During the quarter ended January 31, 2009, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

At October 31, 2007, the provision for estimated incentive compensation was $17,875,496. During the fiscal year ended October 31, 2008, this provision for incentive compensation was decreased by a net amount of $2,081,201 to $15,794,295. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of nine of the Company s portfolio investments (U.S. Gas, Vitality, Summit, Tekers, SGDA, Custom Alloy, Velocitius, MVC Automotive and PreVisor) by a total of $64.8 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution, which was treated as a return of capital. The net decrease in the provision for incentive compensation during the fiscal year ended October 31, 2008 was a result of the incentive compensation payment to TTG Advisers of approximately $12.9 million due to the sale of Baltic Motors and BM Auto. Pursuant to the Advisory Agreement, incentive compensation payments will be made to TTG Advisers only upon the occurrence of a realization event (as defined under such agreement).

Table of Contents

On July 24, 2007, as discussed in Realized Gains and Losses on Portfolio Securities, For the Fiscal Year Ended October 31, 2007, the Company realized a gain of $66.5 million from the sale of Baltic Motors Corporation (Baltic Motors) and SIA BM Auto (BM Auto). This transaction triggered an incentive compensation payment obligation to TTG Advisers, which payment was not required to be made until the precise amount of the payment obligation was confirmed based on the Company s completed audited financials for the fiscal year 2007. The payment obligation to TTG Advisers from this transaction totaled approximately $12.9 million (20% of the realized gain from the sale less unrealized depreciation on the portfolio). The net decrease also reflects the Valuation Committee s determination to decrease the fair values of nine of the Company s portfolio investments (Timberland, Octagon, Amersham, Henry Company, Total Safety, Vendio Services, Inc. (Vendio), BP, MVC Partners, and Vestal) by a total of $12.7 million and the Valuation Committee s determination not to increase the fair values of the Harmony revolving credit facility and the Amersham loan for the accrued PIK interest totaling $308,000. During the fiscal year ended October 31, 2008, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

10. Tax Matters

On October 31, 2008, the Company had a net capital loss carryforward of $4,759,142 remaining, of which $1,463,592 will expire in the year 2012 and $3,295,550 will expire in the year 2013. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed. As of October 31, 2008, the Company had net unrealized capital gains of $42,362,385. The gross unrealized capital losses totaled $55,704,546. The total net realized capital loss carryforwards and gross unrealized capital losses at October 31, 2007 were $60,463,688.

On October 31, 2007, the Company had a net capital loss carryforward of $6,623,425 remaining, of which $3,327,875 will expire in the year 2012 and $3,295,550 will expire in the year 2013. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed. As of October 31, 2007, the Company had net unrealized capital losses of $15,363,252. The gross unrealized capital losses totaled $50,618,032. The total net realized capital loss carryforwards and gross unrealized capital losses at October 31, 2007 were $57,241,457.

On October 31, 2006, the Company had a net realized capital loss carryforward of $73,524,707 of which $28,213,867 will expire in the year 2010, $4,220,380 will expire in the year 2011, $37,794,910 will expire in the year 2012 and $3,295,550 will expire in the year 2013. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed. As of October 31, 2006, the Company had net unrealized capital losses of $11,593,572. The gross unrealized capital losses totaled $51,934,799. The total net realized and capital loss carryfowards and gross unrealized capital losses at October 31, 2006 were $125,459,506.

On October 31, 2005, the Fund had a net capital loss carryforward of $78,779,962 of which $33,469,122 will expire in the year 2010, $4,220,380 will expire in the year 2011, $37,794,910 will expire in the year 2012 and $3,295,550 will expire in the year 2013. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed.

On October 31, 2004, the Fund had a net capital loss carryforward of $75,484,412 of which $33,469,122 will expire in the year 2010, $4,220,380 will expire in the year 2011 and $37,794,910 will expire in the year 2012. Capital loss carryforwards may be subject to additional limitations as a result of capital share activity. To the extent future capital gains are offset by capital loss carryforwards, such gains will not be distributed.

Table of Contents

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to financial statements for fiscal years beginning after December 15, 2006 as deferred by FSP 48-2. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires recognition of the impact of a tax position if that position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In addition, FIN 48 provides measurement guidance whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. We adopted this Interpretation during fiscal 2008 as required. The effect of adoption of FIN No. 48 has not had a material impact on our consolidated financial statements. If the tax law requires interest and/or penalties to be paid on an underpayment of income taxes, interest and penalties will be classified as income taxes on our financial statements, if applicable.

11. Dividends and Distributions to Shareholders

As a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), the Company is required to distribute to its shareholders, in a timely manner, at least 90% of its investment company taxable and tax-exempt income each year. If the Company distributes, in a calendar year, at least 98% of its ordinary income for such calendar year and its capital gain net income for the 12-month period ending on October 31 of such calendar year (as well as any portion of the respective 2% balances not distributed in the previous year), it will not be subject to the 4% non-deductible federal excise tax on certain undistributed income of RICs.

Dividends and capital gain distributions, if any, are recorded on the ex-dividend date. Dividends and capital gain distributions are generally declared and paid quarterly according to the Company s policy established on July 11, 2005. An additional distribution may be paid by the Company to avoid imposition of federal income tax on any remaining undistributed net investment income and capital gains. Distributions can be made payable by the Company either in the form of a cash distribution or a stock dividend. The amount and character of income and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. generally accepted accounting principles. These differences are due primarily to differing treatments of income and gain on various investment securities held by the Company, differing treatments of expenses paid by the Company, timing differences and differing characterizations of distributions made by the Company. A key example of the primary differences in expenses paid is the variation in treatment of incentive compensation expense. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications and may affect the allocation between net operating income, net realized gain (loss) and paid in capital.

For the Quarter Ended January 31, 2009

On December 19, 2008, the Company s board of directors declared a dividend of $0.12 per share. The dividend was payable on January 9, 2009 to shareholders of record on December 31, 2008. The total distribution amounted to $2,915,650, including distributions reinvested.

During the quarter ended January 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, we purchased 4,833 shares of our common stock at an average price of $11.00 in the open market in order to satisfy part of the reinvestment portion of our dividends.

Table of Contents

12. Segment Data

The Company s reportable segments are its investing operations as a business development company, MVC Capital, Inc., and the financial advisory operations of its wholly-owned subsidiary, MVC Financial Services, Inc.

The following table presents book basis segment data for the quarter ended January 31, 2009:

	MVC	MVCFS	Consolidated
Interest and dividend income	$ 5,788,057	$ 1,873	$ 5,789,930
Fee income	33,791	773,874	807,665
Other income	(10,067)		(10,067)
Total operating income	5,811,781	775,747	6,587,528
Total operating expenses	2,612,765	1,686,904	4,299,669
Net operating income (loss) before taxes	3,199,016	(911,157)	2,287,859
Tax benefit		(359,319)	(359,319)
Net operating income (loss)	3,199,016	(551,838)	2,647,178
Net realized loss on investments and foreign currency	(90)		(90)
Net change in unrealized depreciation on investments	(1,793,404)		(1,793,404)
Net increase (decrease) in net assets resulting from operations	1,405,522	(551,838)	853,684

13. Subsequent Events

Since January 31, 2009, net repayments on the U.S. Gas senior credit facility totaled approximately $2.9 million.

Since January 31, 2009, net repayments on the Octagon revolving credit facility totaled $1.9 million.

Effective February 12, 2009, the commitment amount on the Octagon revolving credit facility was reduced from $12.0 million to $7.0 million.

On February 12, 2009 and March 3, 2009, the Company invested an additional $100,000 and $2.1 million, respectively, in Harmony Pharmacy in the form of a demand note bearing annual interest of 10%.

On February 12, 2009, the maturity date of the senior secured loan to TerrMark was extended to March 11, 2009.

On February 26, 2009, Michael Tokarz, Chairman of the Company, and Puneet Sanan, a representative of the Company, resigned from the board of directors of Timberland.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as *may, will, expect, believe, anticipate, intend, could, estimate, might* and *continue,* and the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. Forward-looking statements are included in this report pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Such statements are predictions only, and the actual events or results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to investment capital demand, pricing, market acceptance, the effect of economic conditions, litigation and the effect of regulatory proceedings, competitive forces, the results of financing and investing efforts, the ability to complete transactions and other risks identified below or in the Company s filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Financial Statements, the Notes thereto and the other financial information included elsewhere in this report and the Company s annual report on Form 10-K for the year ended October 31, 2008.

SELECTED CONSOLIDATED FINANCIAL DATA:

Financial information for the fiscal year ended October 31, 2008 is derived from the consolidated financial statements, which have been audited by Ernst & Young LLP, the Company s independent registered public accountants. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods.

Table of Contents

Selected Consolidated Financial Data

	Three Month Period Ended January 31, **2009** (Unaudited)	Three Month Period Ended January 31, **2008** (Unaudited)	Year Ended October 31, **2008**
	(In thousands, except per share data)		
Operating Data:			
Interest and related portfolio income:			
Interest and dividend income	$ 5,790	$ 7,382	$ 26,047
Fee income	808	1,312	3,613
Other income	(10)	202	367
Total operating income	6,588	8,896	30,027
Expenses:			
Incentive compensation (Note 9)	(155)	1,657	10,822
Administrative	881	681	8,989
Interest, fees and other borrowing costs	1,091	1,171	4,464
Management fee	2,483	2,018	3,620
Total operating expenses	4,300	5,527	27,895
Net operating income before taxes	2,288	3,369	2,132
Tax (benefit) expense	(359)	22	(936)
Net operating income	2,647	3,347	3,068
Net realized and unrealized gains (losses):			
Net realized gains (losses)		657	1,418
Net change in unrealized appreciation (depreciation)	(1,793)	16,809	59,465
Net realized and unrealized (losses) gains on investments	(1,793)	17,466	60,883
Net increase in net assets resulting from operations	$ 854	$ 20,813	$ 63,951

Per Share:

Net increase in net assets per share resulting from operations	$	0.04	$	0.86	$	2.63
Dividends per share	$	0.12	$	0.12	$	0.48
Balance Sheet Data:						
Portfolio at fair value	$	489,833	$	397,258	$	490,804
Portfolio at cost		446,422		394,710		445,600
Total assets		501,744		504,895		510,711
Shareholders equity		419,809		387,501		421,871
Shareholders equity per share (net asset value)	$	17.28	$	15.95	$	17.36
Common shares outstanding at period end		24,297		24,297		24,297
Other Data:						
Number of Investments funded in period		1		5		15
Investments funded ($) in period	$	700	$	65,967	$	126,300

	2009	2008				2007			
	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
	(In thousands, except per share data)								
Quarterly Data (Unaudited):									
Total operating income	6,588	6,246	6,804	8,081	8,896	8,438	7,030	6,073	5,409
Incentive compensation	(155)	1,496	3,929	3,740	1,657	771	1,618	4,898	3,526
Interest, fees and other borrowing costs	1,091	1,190	1,022	1,081	1,171	1,223	1,252	1,256	1,128
Management fee	2,483	2,510	2,276	2,185	2,018	1,929	1,616	1,854	1,635
Administrative	881	1,299	887	753	681	630	608	652	669
Tax expense (benefit)	(359)	(830)	58	(186)	22	77	(78)	(394)	20
Net operating income (loss) before net realized and unrealized gains	2,647	581	(1,368)	508	3,347	3,808	2,014	(2,193)	(1,569)
Net increase in net assets resulting from operations	854	7,357	18,623	17,158	20,813	8,514	13,788	24,323	19,077
Net increase in net assets resulting from operations per share	0.04	0.30	0.77	0.70	0.86	0.35	0.57	1.00	1.00
Net asset value per share	17.28	17.36	17.18	16.53	15.95	15.21	14.98	14.53	13.23

OVERVIEW

The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company under the 1940 Act. The Company s investment objective is to seek to maximize total return from capital appreciation and/or income.

On November 6, 2003, Mr. Tokarz assumed his positions as Chairman and Portfolio Manager of the Company. He and the Company s investment professionals (who, effective November 1, 2006, provide their services to the Company through the Company s investment adviser, TTG Advisers) are seeking to implement our investment objective (*i.e.*, to maximize total return from capital appreciation and/or income) through making a broad range of private investments in a variety of industries.

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests, and other private equity transactions. During the year ended October 31, 2008, the Company made four new investments and 11 follow-on investments in existing portfolio companies, committing capital totaling approximately $126.3 million pursuant to our current investment objective. During the quarter ended January 31, 2009, the Company made no new investments and one follow-on investment in existing portfolio companies, committing capital totaling $700,000.

Prior to the adoption of our current investment objective, the Company s investment objective had been to achieve long-term capital appreciation from venture capital investments in information technology companies. The Company s investments had thus previously focused on investments in equity and debt securities of information technology companies. As of January 31, 2009, 3.87% of the current fair value of our assets consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential liquidity event, *i.e.*, a sale, public offering, merger or other reorganization.

Our new portfolio investments are made pursuant to our current objective and strategy. We are concentrating our investment efforts on small and middle-market companies that, in our view, provide opportunities to maximize total return from capital appreciation and/or income. Under our investment approach, we are permitted to invest, without limit, in any one portfolio company, subject to any diversification limits required in order for us to continue to qualify as a RIC under Subchapter M of the Code. Due to our asset growth and composition, compliance with the RIC requirements currently restricts our ability to make additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer (Non-Diversified Investments).

We participate in the private equity business generally by providing privately negotiated long-term equity and/or debt investment capital to small and middle-market companies. Our financing is generally used to fund growth, buyouts, acquisitions, recapitalizations, note purchases, and/or bridge financings. We generally invest in private companies, though, from time to time, we may invest in public companies that may lack adequate access to public capital.

Table of Contents

We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as a general partner or managing member to a private equity or other investment vehicle(s). In fact, during fiscal year 2006, we established MVC Partners for this purpose. Furthermore, our board of directors has authorized the establishment of a private equity fund (a PE Fund) that would have the ability, among other things, to make Non-Diversified Investments. A subsidiary of the Company would serve as the general partner (or managing member) of the PE Fund. Our board of directors also authorized the subsidiary s retention of TTG Advisers to serve as portfolio manager of the PE Fund. Additionally, we may also acquire a portfolio of existing private equity or debt investments held by financial institutions or other investment funds should such opportunities arise.

OPERATING INCOME

For the Quarters Ended January 31, 2009 and 2008. Total operating income was $6.6 million for the quarter ended January 31, 2009 and $8.9 million for the quarter ended January 31, 2008, a decrease of $2.3 million.

For the Quarter Ended January 31, 2009

Total operating income was $6.6 million for the quarter ended January 31, 2009. The decrease in operating income over the same period last year was primarily due to the repayment of investments that provide the Company with current income, a decrease in the LIBOR rate which impacts our variable rate loans, reserves against non-performing loans, and a decrease in fee income because of fewer investments closed. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $5.8 million in interest and dividend income from investments in portfolio companies. Of the $5.8 million recorded in interest/dividend income, approximately $1.3 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company s debt investments yielded rates from 6% to 17%. Also, the Company earned approximately $6,000 in interest income on its cash equivalents and short-term investments. The Company received fee income and other income from portfolio companies and other entities totaling approximately $798,000.

For the Quarter Ended January 31, 2008

Total operating income was $8.9 million for the quarter ended January 31, 2008. The increase in operating income over the same period last year was primarily due to the increase in the number of investments that provide the Company with current income. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $7.0 million in interest and dividend income from investments in portfolio companies. Of the $7.0 million recorded in interest/dividend income, approximately $1.4 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company s debt investments yielded rates from 5% to 17%. Also, the Company earned approximately $372,000 in interest income on its cash equivalents and short-term investments. The Company received fee income and other income from portfolio companies and other entities totaling approximately $1.3 million and $202,000, respectively.

OPERATING EXPENSES

For the Quarters Ended January 31, 2009 and 2008. Operating expenses were $4.3 million for the quarter ended January 31, 2009 and $5.5 million for the quarter ended January 31, 2008, a decrease of $1.2 million.

For the Quarter Ended January 31, 2009

Operating expenses were $4.3 million or 4.05% of the Company s average net assets, when annualized, for the quarter ended January 31, 2009. Significant components of operating expenses for the quarter ended January 31, 2009, included the management fee of $2.5 million and interest expense and other borrowing costs of $1.1 million.

The $1.2 million decrease in the Company s operating expenses for the quarter ended January 31, 2009 compared to the quarter ended January 31, 2008, was primarily due to the $1.8 million decrease in the estimated provision for incentive compensation expense offset by the increase of approximately $500,000 in the management fee expense. The Amended Agreement (which is being proposed for shareholder approval) would extend the expense cap applicable to the Company for an additional two fiscal years and increase the expense cap to 3.5%. For fiscal year 2008, the Company s expense ratio was 2.93% (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the quarter ended January 31, 2009, this provision for incentive compensation was decreased by a net amount of $154,663 to $15,639,632. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of five of the Company s portfolio investments (U.S. Gas, Tekers, SGDA, Velocitius, and Dakota Growers) by a total of $12.4 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.4 million due to a PIK distribution, which was treated as a return of capital. The net decrease reflects the Valuation Committee s determination to decrease the fair values of six of the Company s portfolio investments (Timberland, Amersham, Turf, PreVisor, Foliofn and BP) by a total of $14.3 million and the Valuation Committee determination not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling $273,000. During the quarter ended January 31, 2009, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 9 Incentive Compensation for more information.

For the Quarter Ended January 31, 2008

Operating expenses were $5.5 million or 5.86% of the Company s average net assets, when annualized, for the quarter ended January 31, 2008. Significant components of operating expenses for the quarter ended January 31, 2008, included the management fee of $2.0 million, the estimated provision for incentive compensation expense of approximately $1.7 million, and interest expense and other borrowing costs of $1.2 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $1.5 million decrease in the Company s operating expenses for the quarter ended January 31, 2008 compared to the quarter ended January 31, 2007, was primarily due to the $1.9 million decrease in the provision for estimated incentive compensation and the approximately $400,000 increase in the management fee expense. It should be noted, in this regard, that the Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company to the extent necessary to limit the Company s expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company s average net assets) to 3.25% in each of the 2007 and 2008 fiscal years. In fiscal year 2006, when the Company was still internally managed and not subject to the expense cap, the expense ratio was 3.22% (taking into account the same carve outs as those applicable to the expense cap). For fiscal year 2007, the expense ratio was 3.0% (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the three month period ended January 31, 2008, the incentive compensation provision was decreased by a net amount of $3,846,764 to $14,028,732. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of six of the Company s portfolio investments: U.S. Gas, Vitality, Tekers, SGDA, Custom Alloy and Velocitius by a total of $10.3 million. The net decrease in the provision for incentive compensation during the three month period ended January 31, 2008 was a result of the incentive compensation payment to TTG Advisers of $5.5 million due to the sale of Baltic Motors and BM Auto. The payment obligation to TTG Advisers from the Baltic Motors and BM Auto transaction totaled approximately $12.9 million (20% of the realized gain from the sale less unrealized depreciation on the portfolio). The remaining $7.4 million incentive compensation payment to TTG Advisers was paid on February 1, 2008. Pursuant to the Advisory Agreement, incentive compensation payments will be made only upon the occurrence of a realization event (such as the sale of shares of Baltic Motors and BM Auto). Without this reserve for incentive compensation, operating expenses would have been approximately $3.9 million or 4.12% of average net assets when annualized as compared to 5.87%, which is reported on the Consolidated Per Share Data and Ratios, for the quarter ended January 31, 2008. During the quarter ended January 31, 2008, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 9 Incentive Compensation for more information.

In February 2008, the Company renewed its Directors & Officers/Professional Liability Insurance policies at an annual premium expense of approximately $362,000, which is amortized over the twelve month life of the policy. The prior policy premium was $381,000.

REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES

For the Quarter Ended January 31, 2009 and 2008. Net realized losses for the quarter ended January 31, 2009 were immaterial. Net realized gains for the quarter ended January 31, 2008, were approximately $656,000, a decrease of approximately $656,000.

For the Quarter Ended January 31, 2009

There were no material net realized losses or gains for the quarter ended January 31, 2009.

For the Quarter Ended January 31, 2008

Net realized gains for the quarter ended January 31, 2008 were $656,418. The significant component of the Company s net realized gains for the quarter ended January 31, 2008 was primarily due to the gain on the sale of Genevac common stock. On January 2, 2008, Genevac repaid its senior subordinated loan in full including all accrued interest. The total amount received was $11.9 million. The Company, at this time, sold 140 shares of Genevac common stock for $1.7 million, resulting in a capital gain of $595,000.

The Company also realized a gain on foreign currency of approximately $60,000.

UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES

For the Quarters Ended January 31, 2009 and 2008. The Company had a net change in unrealized depreciation on portfolio investments of $1.8 million for the quarter ended January 31, 2009 and unrealized appreciation of $16.8 million for the quarter ended January 31, 2008, a decrease of approximately $18.6 million.

For the Quarter Ended January 31, 2009

The Company had a net change in unrealized depreciation on portfolio investments of $1.8 million for the quarter ended January 31, 2009. The change in unrealized depreciation on investment transactions for the quarter ended January 31, 2009 primarily resulted from the Valuation Committee s decision to decrease the fair value of the Company s investments in Foliofn preferred stock by $800,000, PreVisor common stock by $2.1 million, Timberland senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million, Amersham second lien notes by $375,000, Turf equity interest by $2.3 million, and BP term loan B by approximately $181,000, term loan A by approximately $153,000 and second lien loan by approximately $948,000.

The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling approximately $273,000. The Valuation Committee also increased the fair value of the Company s investments in U.S. Gas preferred stock by $6.0 million, SGDA preferred equity interest by $125,000, Tekers common stock by $725,000, Velocitius equity interest by $500,000, Dakota Growers common stock by approximately $2.4 million and preferred stock by approximately $2.6 million, and Ohio Medical preferred stock by approximately $1.4 million due to a PIK distribution which was treated as a return of capital.

For the Quarter Ended January 31, 2008

The Company had a net change in unrealized appreciation on portfolio investments of $16.8 million for the quarter ended January 31, 2008. The change in unrealized appreciation on investment transactions for the quarter ended January 31, 2008 primarily resulted from the Valuation Committee s decision to increase the fair value of the Company s investments in U.S. Gas preferred stock by $2.2 million, SGDA preferred equity interest by $125,000, Foliofn preferred stock by $6.0 million, Tekers common stock by $100,000, Custom Alloy preferred stock by $5.0 million, Velocitius equity interest by $2.7 million, and Vitality by approximately $200,000.

PORTFOLIO INVESTMENTS

For the Quarter Ended January 31, 2009 and the Year Ended October 31, 2008. The cost of the portfolio investments held by the Company at January 31, 2009 and at October 31, 2008 was $446.4 million and $445.6 million, respectively, an increase of $800,000. The aggregate fair value of portfolio investments at January 31, 2009 and at October 31, 2008 was $489.8 million and $490.8 million, respectively, a decrease of $1.0 million. The cost and aggregated market value of short-term securities held by the Company at January 31, 2009 and at October 31, 2008 was $0. The cost and aggregate fair value of cash and cash equivalents held by the Company at January 31, 2009 and at October 31, 2008 was $4.7 million and $12.8, respectively, a decrease of approximately $8.1 million.

For the Quarter Ended January 31, 2009

During the quarter ended January 31, 2009, the Company made one follow-on investment in an existing portfolio company committing capital of $700,000. On November 4, 2008, the Company invested $700,000 in Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10%.

At October 31, 2008, the balance of the revolving credit facility provided to Octagon was $650,000. Net borrowings during the quarter ended January 31, 2009 were $1.2 million resulting in a balance outstanding as of January 31, 2009 of $1.9 million.

At October 31, 2008, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008 and January 31, 2009. The balance of the remaining portion of the senior credit facility at October 31, 2008 was approximately $4.4 million. Net repayments on this portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were approximately $600,000, resulting in a balance outstanding of $3.8 million at January 31, 2009.

Table of Contents

During the quarter ended January 31, 2009, the Company received approximately $27,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at January 31, 2009 was approximately $1.2 million.

On December 15, 2008 and January 2, 2009, the Company received principal payments of $1,609,500 and $37,500, respectively, on the term loan provided to Innovative Brands. The Company also received a loan amendment fee of approximately $57,000. The interest rate on the term loan was increased to 14.5%. The balance of the term loan as of January 31, 2009 was approximately $11.4 million.

On December 31, 2008, the Company received a quarterly principal payment from BP on term loan A of $146,250. The balance of term loan A as of January 31, 2009 was approximately $2.0 million.

On December 31, 2008, Total Safety made a principal payment of $2,500 on its first lien loan. The balance of the first lien loan as of January 31, 2009 was $980,000.

On December 31, 2008, SP made a principal payment of $17,361 on its first lien loan. The balance of the first lien loan as of January 31, 2009, was approximately $980,000.

On December 31, 2008, Henry Company made a principal payment of approximately $127,000 on its term loan A. The balance of term loan A as of January 31, 2009 was approximately $1.7 million.

During the quarter ended January 31, 2009, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $6.0 million, SGDA preferred equity interest by $125,000, Tekers common stock by $725,000, Velocitius equity interest by $500,000, and Dakota Growers common stock by approximately $2.4 million and preferred stock by approximately $2.6 million. In addition, increases in the cost basis and fair value of the loans to GDC, SP, Marine, BP, Summit, U.S. Gas, and WBS, and the Vitality and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,276,447. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.4 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended January 31, 2009, the undistributed allocation of flow through loss from the Company s equity investment in Octagon decreased the cost basis and fair value of this investment by approximately $10,000. The Valuation Committee also decreased the fair value of the Company s investments in Foliofn preferred stock by $800,000, PreVisor common stock by $2.1 million, Timberland senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million, Amersham second lien notes by $375,000, Turf equity interest by $2.3 million, and BP term loan B by approximately $181,000, term loan A by approximately $153,000 and second lien loan by approximately $948,000, during the quarter ended January 31, 2009. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling approximately $273,000.

At January 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was $489.8 million with a cost basis of $446.4 million. At January 31, 2009, the fair value and cost basis of Legacy Investments was $19.4 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.4 million and $390.5 million, respectively. At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively.

Table of Contents

For the Year Ended October 31, 2008

During the fiscal year ended October 31, 2008, the Company made four new investments, committing capital totaling approximately $54.5 million. The investments were made in SP ($24.0 million), SGDA Europe ($750,000), TerraMark ($1.5 million), and Security Holdings ($28.2 million).

The Company also made 11 follow-on investments in existing portfolio companies committing capital totaling approximately $71.8 million. Two of these follow-on investments were made in companies that were new investments in fiscal year 2008. During the fiscal year ended October 31, 2008, the Company made additional investments totaling approximately $217,000 in MVC Partners. In connection with these investments, MVC Partners has made an investment in MVC Acquisition Corp., a newly-formed (but not yet operating) blank check company organized for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business. During the year ended October 31, 2008, the Company also made additional investments totaling $3.3 million in Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10%. On November 30, 2007, the Company invested an additional $36.7 million in Ohio Medical in the form of a $10.0 million senior subordinated note and $26.7 million in 9,917 shares of convertible preferred stock. At this time, the $3.3 million convertible unsecured subordinated promissory note was converted into preferred stock. The note has an annual interest rate of 16% and a maturity date of May 30, 2012. On December 13, 2007, the Company assigned the Ohio Medical $10.0 million senior subordinated note to AEA Investors LLC. On January 25, 2008, the amount available on the Timberland revolving note was increased by $1.0 million to $5.0 million, which Timberland immediately borrowed. On February 29, 2008, the Company invested an additional $7.8 million in Summit in the form of a $3.0 million second lien loan and $4.8 million in common stock. The second lien loan has an annual interest rate of 14% and a maturity date of August 31, 2013. On April 25, 2008, the Company invested an additional $11.8 million in BENI by purchasing 874 shares of common stock. On April 30, 2008 and July 31, 2008, the Company invested an additional $2.7 million and $4.0 million, respectively, in SGDA Europe in the form of equity interest. On July 30, 2008, the Company increased its investment in SP by approximately $1.3 million, investing an additional $1.2 million in the second lien loan and $50,000 in the first lien loan. On July 31, 2008, the Company extended Turf a $1.0 million junior revolving note. The revolving note has an annual interest rate of 6% and a maturity date of May 1, 2011. Turf immediately borrowed $1.0 million on the note. The prior junior revolving note matured on May 1, 2008. On August 4, 2008, the Company increased its investment in U.S. Gas by investing an additional $2.0 million in the second lien loan.

At the beginning of the 2008 fiscal year, the junior revolving note provided to Timberland had a balance outstanding of $4.0 million. On January 25, 2008, the amount available on the revolving note was increased by $1.0 million to $5.0 million. Net borrowings during the fiscal year ended October 31, 2008 were $1.0 million resulting in a balance outstanding as of October 31, 2008 of $5.0 million. During the fiscal year ended October 31, 2008, the Valuation Committee determined to decrease the fair value of the junior revolving note by $4.0 million to $1.0 million as of October 31, 2008.

At October 31, 2007, the balance of the revolving credit facility provided to Octagon was $4.1 million. Net repayments during the fiscal year ended October 31, 2008 were $3.5 million, resulting in a balance outstanding as of October 31, 2008 of $650,000.

At October 31, 2007, the balance of Line I, provided to Velocitius was approximately $191,000. Repayments during the fiscal year ended October 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of October 31, 2008.

At October 31, 2007, the balance of Line II, provided to Velocitius was approximately $613,000. Repayments during the fiscal year ended October 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of October 31, 2008.

Table of Contents

At October 31, 2007, the balance of the revolving note provided to Marine was not drawn upon. Net borrowings during the fiscal year ended October 31, 2008 were $700,000, resulting in a balance outstanding as of October 31, 2008 of $700,000.

At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008. Net borrowings on the remaining portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were $4.3 million, resulting in a balance outstanding of $4.4 million at such date. The combined balance of the revolving credit facility at October 31, 2008 was $4.9 million.

During the fiscal year ended October 31, 2008, the Company received approximately $1.4 million in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2008 was approximately $1.2 million.

During the fiscal year ended October 31, 2008, Phoenix Coal began trading on the Toronto Stock Exchange. Consistent with the Company s valuation procedures, effective June 30, 2008, the Company has been marking this investment to its market price. On July 23, 2008, the Company sold 500,000 shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $512,000, resulting in a realized gain of approximately $262,000. On July 29, 2008, the Company sold an additional 500,000 shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $484,000, resulting in a realized gain of approximately $234,000.

On November 1, 2007, December 1, 2007 and January 1, 2008, the Company received $111,111, respectively, as principal payments from SP on term loan B. On January 2, 2008, SP repaid term loan B and its senior subordinated loan in full, including all accrued interest. The total amount received for term loan B was $7.1 million and the amount received for the senior subordinated loan was $13.6 million.

On November 2, 2007, Genevac made a principal payment of $1.0 million on its senior subordinated loan. On January 2, 2008, Genevac repaid its senior subordinated loan in full, including all accrued interest totaling, $11.9 million. The Company, at this time, sold 140 shares of Genevac common stock for $1.7 million, resulting in a short-term capital gain of $595,000.

On December 31, 2007, March 31, 2008 and June 30, 2008, the Company received principal payments from BP on term loan A of $90,000. On September 30, 2008, the Company received a principal payment from BP of approximately $146,000. The balance of term loan A as of October 31, 2008 was approximately $2.1 million.

On December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008, Total Safety made principal payments of $2,500 on its first lien loan on each payment date. The balance of the first lien loan as of October 31, 2008 was approximately $983,000.

On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. This amount was repaid on April 28, 2008.

On January 2, 2008, February 1, 2008, April 1, 2008, July 1, 2008 and October 1, 2008, the Company received principal payments of $37,500, $1,666,667, $37,500, $37,500, and $37,500, respectively, on the term loan provided to Innovative Brands. The balance of the term loan as of October 31, 2008 was approximately $13.0 million.

Table of Contents

On January 15, 2008, Impact repaid its promissory note and senior subordinated loan in full, including all accrued interest, totaling $6.1 million. The Company, at this time, sold 252 shares of common stock at cost for $2.7 million.

On January 29, 2008, MVC Automotive made a principal payment of $17.4 million on its bridge loan, resulting in a principal balance of $1.6 million.

On February 29, 2008, the Company sold 400 shares of WBS at its cost of $1.6 million.

On March 31, 2008, June 30, 2008 and September 30, 2008, SP made principal payments of $17,361 on its first lien loan on each payment date. The balance of the first lien loan as of October 31, 2008 was approximately $998,000.

On April 15, 2008, the Company received a principal payment of $100,000 from Vestal on its senior subordinated debt. The balance of the senior subordinated debt as of October 31, 2008 was $600,000.

On June 9, 2008, BENI was acquired by MVC Automotive to achieve operating efficiencies. BENI was, and MVC Automotive continues to be, 100% owned by the Company. MVC Automotive increased its shareholder s equity by $14.5 million and assumed $2.0 million of debt as a result of the cashless transaction. There was no gain or loss to the Company from this transaction. The balance of the MVC Automotive bridge loan as of October 31, 2008 was $3.6 million and the common stock had a fair value of $41.5 million.

On August 5, 2008, the Company received a principal payment of $2.0 million from Custom Alloy on its unsecured subordinated debt. During the fiscal year ended October 31, 2008, Custom Alloy paid approximately $1.0 million in accrued PIK interest on its unsecured subordinated debt. The balance of the unsecured subordinated debt as of October 31, 2008 was $12.0 million.

On August 12, 2008, the Company invested $1.5 million in TerraMark in the form of a senior secured loan. The loan bears annual interest at 10% and matures on February 12, 2009.

On August 29, 2008 and September 3, 2008, GDC made principal payments of $250,000 and $108,951, respectively, on its senior subordinated loan. The balance of the loan as of October 31, 2008 was approximately $3.0 million.

On September 3, 2008, the Company invested $28.2 million in Security Holdings in the form of common equity interest.

During the fiscal year ended October 31, 2008, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $5.2 million, SGDA preferred equity interest by $500,000, Foliofn preferred stock by $6.0 million, Tekers common stock by $575,000, Custom Alloy preferred stock by $22.5 million, Velocitius equity interest by $9.6 million, MVC Automotive equity interest by $6.1 million, PreVisor common stock by $1.1 million, Summit common stock by $16.0 million, and Vitality common stock and warrants by approximately $3.4 million. In addition, increases in the cost basis and fair value of the loans to GDC, SP, Harmony, Timberland, Amersham, Marine, BP, Summit, U.S. Gas, WBS, Custom Alloy and the Vitality and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $5,451,761. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal year ended October 31, 2008, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $22,000.

Table of Contents

The Valuation Committee also decreased the fair value of the Company s investments in Vendio preferred stock by $2.9 million and common stock by $1,000, Vestal common stock by $2.8 million, Octagon s membership interest by $1.2 million, Amersham second lien notes by approximately $427,000, Henry Company term loan A by approximately $59,000, Total Safety first lien loan by approximately $74,000, BP term loan B by approximately $27,000, MVC Partners equity interest by $200,000 and Timberland s common stock by $3.4 million and its junior revolving line of credit by $4.0 million during the fiscal year ended October 31, 2008. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK totaling $308,000.

At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively. At October 31, 2007, the fair value of all portfolio investments, exclusive of short-term securities, was $379.2, million with a cost basis of $393.4 million. At October 31, 2007, the fair value and cost basis of Legacy Investments was $17.1 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $362.1 million and $337.5 million, respectively.

Portfolio Companies

During the quarter ended January 31, 2009, the Company had investments in the following portfolio companies:

Actelis Networks, Inc.

Actelis Networks, Inc. (Actelis), Fremont, California, a Legacy Investment, provides authentication and access control solutions designed to secure the integrity of e-business in Internet-scale and wireless environments.

At October 31, 2008 and January 31, 2009, the Company s investment in Actelis consisted of 150,602 shares of Series C preferred stock at a cost of $5.0 million. The investment has been fair valued at $0.

Amersham Corporation

Amersham, Louisville, Colorado, is a manufacturer of precision machined components for the aviation, automotive and medical device markets.

At October 31, 2008, the Company s investment in Amersham consisted of a $2.5 million note, bearing annual interest at 10%. The note has a maturity date of June 29, 2010. The note had a principal face amount and cost basis of $2.5 million. The Company s investment also included an additional $3.1 million note bearing annual interest at 17%, which includes a 3% default interest rate. The interest rate then steps down to 13% for the period July 1, 2010 to June 30, 2012 and steps down again to 12% for the period July 1, 2012 to June 30, 2013. The note has a maturity date of June 30, 2013. The note had a principal face amount and cost basis of $3.5 million. At October 31, 2008, the notes had a combined outstanding balance and cost of $6.0 million and a combined fair value of $5.5 million.

During the quarter ended January 31, 2009, the Valuation Committee decreased the combined fair value of the loans by approximately $375,000.

At January 31, 2009, the notes had a combined outstanding balance and cost of $6.1 million and a combined fair value of $5.2 million. The increase in the outstanding balance and cost of the loan is due to the capitalization of payment in kind interest. The Company s Valuation Committee did not approve an increase to the fair value of the investment as a result of the capitalization of the PIK interest.

BP Clothing, LLC

BP, Pico Rivera, California, is a company that designs, manufactures, markets and distributes Baby Phat®, a line of women s clothing. BP operates within the women s urban apparel market. The urban apparel market is highly fragmented, with a small number of prominent, nationally recognized brands and a large number of small niche players. Baby Phat is a recognized urban apparel brand in the women s category.

At October 31, 2008, the Company s investment in BP consisted of an $18.2 million second lien loan, a $2.1 million term loan A, and a $2.0 million term loan B. The second lien loan bears annual interest at 14%. The second lien loan has a $17.5 million principal face amount and was issued at a cost basis of $17.5 million. The second lien loan s cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the second lien loan is July 18, 2012. The principal balance is due upon maturity. The $2.1 million term loan A bears annual interest at LIBOR plus 4.25% or Prime Rate plus 3.25%. The $2.0 million term loan B bears annual interest at LIBOR plus 6.40% or Prime Rate plus 5.40%. The interest rate option on the loan assignments is at the borrower s discretion. Both loans mature on July 18, 2011. The combined cost basis and fair value of the investments at October 31, 2008 was $22.1 million and $22.3 million, respectively.

During the quarter ended January 31, 2009, the Valuation Committee decreased the fair value of the term loan B by approximately $181,000, the term loan A by approximately $153,000, and the second lien loan by approximately $948,000.

At January 31, 2009, the loans had a combined cost basis and fair value of $22.1 million and $21.0 million, respectively. The increase in the outstanding balance, cost and fair value of the loans is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Custom Alloy Corporation

Custom Alloy, High Bridge, New Jersey, manufactures time sensitive and mission critical butt-weld pipe fittings for the natural gas pipeline, power generation, oil/gas refining and extraction, and nuclear generation markets.

At October 31, 2008, the Company s investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost of $44,000 and a fair value of $143,000, 1,991 shares of convertible series B preferred stock at a cost of approximately $10.0 million and a fair value of approximately $32.4 million. The unsecured subordinated loan, which bears annual interest at 14% and matures on September 18, 2012, had a cost of $11.7 million and a fair value of $12.0 million.

At January 31, 2009, the Company s investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost of $44,000 and a fair value of $143,000, 1,991 shares of convertible series B preferred stock at a cost of approximately $10.0 million and a fair value of approximately $32.4 million. The unsecured subordinated loan had an outstanding balance of $12.0 million, a cost of $11.7 million and a fair value of $12.0 million. The increase in the cost basis of the loan is due to the amortization of loan origination fees.

Michael Tokarz, Chairman of the Company, and Shivani Khurana, representative of the Company, serve as directors of Custom Alloy.

Dakota Growers Pasta Company, Inc.

Dakota Growers, Carrington, North Dakota, is the third largest manufacturer of dry pasta in North America and a market leader in private label sales. Dakota Growers and its partners in DNA Dreamfields Company, LLC introduced a new process that is designed to reduce the number of digestible carbohydrates found in traditional pasta products.

At October 31, 2008, the Company s investment in Dakota Growers consisted of 1,016,195 shares of common stock with a cost of $5.5 million and a fair value of $10.2 million and 1,065,000 shares of convertible preferred stock with a cost of $10.4 million and a fair value of $10.7 million.

During the quarter ended January 31, 2009, the Valuation Committee increased the fair value of the preferred stock by approximately $2.6 million and the common stock by approximately $2.4 million.

At January 31, 2009, the Company s investment in Dakota Growers consisted of 1,016,195 shares of common stock with a cost of $5.5 million and a fair value of $12.6 million and 1,065,000 shares of convertible preferred stock with a cost of $10.4 million and a fair value of $13.2 million.

Michael Tokarz, Chairman of the Company, serves as a director of Dakota Growers.

DPHI, Inc. (formerly DataPlay, Inc.)

DPHI, Inc. (DPHI), Boulder, Colorado, a Legacy Investment, is trying to develop new ways of enabling consumers to record and play digital content.

At October 31, 2008 and January 31, 2009, the Company s investment in DPHI consisted of 602,131 shares of Series A-1 preferred stock with a cost of $4.5 million. This investment has been fair valued at $0.

Endymion Systems, Inc.

Endymion Systems, Inc. (Endymion), Oakland, California, a Legacy Investment, is a single source supplier for strategic, web-enabled, end-to-end business solutions designed to help its customers leverage Internet technologies to drive growth and increase productivity.

At October 31, 2008 and January 31, 2009, the Company s investment in Endymion consisted of 7,156,760 shares of Series A preferred stock with a cost of $7.0 million. The investment has been fair valued at $0.

Foliofn, Inc.

Folio*fn*, Vienna, Virginia, a Legacy Investment, is a financial services technology company that offers investment solutions to financial services firms and investors.

At October 31, 2008, the Company s investment in Folio*fn* consisted of 5,802,259 shares of Series C preferred stock with a cost of $15.0 million and fair value of $13.6 million.

During the quarter ended January 31, 2009, the Valuation Committee determined to decrease the fair value of the investment by $800,000.

At January 31, 2009, the Company s investment in Folio*fn* consisted of 5,802,259 shares of Series C preferred stock with a cost of $15.0 million and a fair value of $12.8 million.

Bruce Shewmaker, an officer of the Company, serves as a director of Folio*fn.*

GDC Acquisitions, LLC d/b/a JDC Lighting, LLC

GDC is the holding company of JDC Lighting, LLC (JDC). GDC, New York, New York, is a distributor of commercial lighting and electrical products.

At October 31, 2008, the Company s investment in GDC consisted of a $3.0 million senior subordinated loan, bearing annual interest at 17% with a maturity date of August 31, 2011. The loan had a principal face amount, an outstanding balance and a cost basis of $3.0 million. The loan was fair valued at $3.0 million.

At January 31, 2009, the loan had an outstanding balance and cost of $3.0 million. The loan was fair valued at $3.0 million. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Harmony Pharmacy & Health Center, Inc.

Harmony Pharmacy, Purchase, New York, operates pharmacy and healthcare centers primarily in airports in the United States. Harmony Pharmacy opened their first store in Newark International Airport in March of 2007 and opened their second store in Greenwich, Connecticut in October 2007. The third store opened in John F. Kennedy International Airport in October 2008.

At October 31, 2008, the Company s equity investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of $750,000 and a fair value of $750,000. The revolving credit facility had an outstanding balance of $4.3 million, a cost of $4.3 million, and a fair value of $4.0 million. The credit facility bears annual interest at 10%, matures on December 1, 2009 and has a .50% unused fee per annum. The demand note had an outstanding balance of $3.3 million with a cost and fair value of $3.3 million.

During the quarter ended January 31, 2009, the Company made an additional investment totaling $700,000 in Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10%.

At January 31, 2009, the Company s equity investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of $750,000 and a fair value of $750,000. The revolving credit facility had an outstanding balance of $4.4 million, a cost of $4.4 million, and a fair value of $4.0 million. The demand notes had a total outstanding balance of $4.0 million with a cost and fair value of $4.0 million. The increase in the outstanding balance and cost basis of the revolving credit facility is due to the capitalization of payment in kind interest. The Company s Valuation Committee did not approve an increase to the fair value of the investment as a result of the capitalization of the PIK interest. The Company has reserved in full against the interest accrued on the revolving credit facility and the demand notes due to losses related to expansion costs.

Michael Tokarz, Chairman of the Company, serves as a director of Harmony Pharmacy.

Henry Company

Henry Company, Huntington Park, California, is a manufacturer and distributor of building products and specialty chemicals.

At October 31, 2008, the Company s investment in Henry Company consisted of $3.8 million in loan assignments. The $1.8 million term loan A bears annual interest at LIBOR plus 3.5% and matures on April 6, 2011. The $2.0 million term loan B bears annual interest at LIBOR plus 7.75% and also matures on April 6, 2011.

On December 31, 2008, the Company received a principal payment of approximately $127,000 on the term loan A.

At January 31, 2009, the loans had a combined outstanding balance, cost basis, and fair value of approximately $3.7 million.

HuaMei Capital Company, Inc.

HuaMei, Chicago, Illinois, is a Chinese-American, cross border investment bank and advisory company.

At October 31, 2008 and January 31, 2009, the Company s investment in HuaMei consisted of 500 shares of common stock with a cost and fair value of $2.0 million.

Michael Tokarz, Chairman of the Company, serves as a director of HuaMei.

Innovative Brands, LLC

Innovative Brands, Phoenix, Arizona, is a consumer product company that manufactures and distributes personal care products.

At October 31, 2008, the Company s investment in Innovative Brands consisted of a $13.0 million loan assignment. The $13.0 million term loan bears annual interest at 11.75% and matures on September 25, 2011. The loan had a cost basis and fair value of $13.0 million as of October 31, 2008.

On December 15, 2008 and January 2, 2009, the Company received principal payments of $1,609,500 and $37,500, respectively, on the term loan provided to Innovative Brands. The Company also received a loan amendment fee of approximately $57,000. The interest rate on the term loan was increased to 14.5% from 11.75%.

Table of Contents

At January 31, 2009, the loan had an outstanding balance, cost basis and a fair value of approximately $11.4 million.

Lockorder Limited (formerly Safestone Technologies PLC)

Lockorder, Old Amersham, United Kingdom, a Legacy Investment, provides organizations with technology designed to secure access controls, enforcing compliance with security policies and enabling effective management of corporate IT and e-business infrastructure.

At October 31, 2008 and January 31, 2009, the Company s investment in Lockorder consisted of 21,064 shares of common stock with a cost of $2.0 million. The investment has been fair valued at $0 by the Company s Valuation Committee.

Mainstream Data, Inc.

Mainstream Data, Inc. (Mainstream), Salt Lake City, Utah, a Legacy Investment, builds and operates satellite, internet and wireless broadcast networks for information companies. Mainstream networks deliver text news, streaming stock quotations and digital images to subscribers around the world.

At October 31, 2008 and January 31, 2009, the Company s investment in Mainstream consisted of 5,786 shares of common stock with a cost of $3.75 million. The investment has been fair valued at $0.

Marine Exhibition Corporation

Marine, Miami, Florida, owns and operates the Miami Seaquarium. The Miami Seaquarium is a family-oriented entertainment park.

At October 31, 2008, the Company s investment in Marine consisted of a senior secured loan, a secured revolving note, and 2,000 shares of preferred stock. The senior secured loan had an outstanding balance of $10.9 million and a cost of $10.8 million. The senior secured loan bears annual interest at 11% and matures on June 30, 2013. The senior secured loan was fair valued at $10.9 million. The secured revolving note had an outstanding balance, cost and fair value of $700,000. The secured revolving note bears interest at LIBOR plus 1%, has an unused fee of .50% per annum and matures on June 30, 2013. The preferred stock was fair valued at $2.4 million. The dividend rate on the preferred stock is 12% per annum.

At January 31, 2009, the Company s senior secured loan had an outstanding balance of $11.1 million, a cost of $10.9 million and a fair value of $11.1 million. The secured revolving note had an outstanding balance, cost and fair value of $700,000. The preferred stock had been fair valued at $2.4 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock is due to the amortization of loan origination fees and the capitalization of payment in kind interest/dividends. These increases were approved by the Company s Valuation Committee.

MVC Automotive Group B.V.

MVC Automotive, an Amsterdam-based holding company that owns and operates nine Ford dealerships located in Austria, Belgium, and the Netherlands.

At October 31, 2008 and January 31, 2009, the Company s investment in MVC Automotive consisted of an equity interest with a cost of $34.7 million and a fair value of $41.5 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2009, had a cost and fair value of $3.6 million.

The mortgage guarantees for MVC Automotive were equivalent to approximately $15.0 million at January 31, 2009.

Michael Tokarz, Chairman of the Company, and Christopher Sullivan, a representative of the Company, serve as directors of MVC Automotive.

Table of Contents

MVC Partners LLC

MVC Partners, Purchase, New York, a wholly-owned portfolio company, is a private equity firm established primarily to serve as the general partner, managing member or anchor investor of private investment vehicles or other portfolios.

At October 31, 2008 and January 31, 2009, the Company s equity investment in MVC Partners had a cost basis of approximately $333,000 and fair value of approximately $133,000.

Octagon Credit Investors, LLC

Octagon, is a New York-based asset management company that manages leveraged loans and high yield bonds through collateralized debt obligations (CDO) funds.

At October 31, 2008, the Company s investment in Octagon consisted of a term loan with an outstanding balance and a cost basis of $5.0 million, a revolving line of credit with an outstanding balance of $650,000 with a cost of $650,000, and an equity investment with a cost basis of approximately $1.1 million and fair value of approximately $2.6 million. The combined fair value of the investment at October 31, 2008 was $8.2 million. The term loan bears annual interest at LIBOR plus 4.25% and matures on December 31, 2011. The revolving line of credit bears annual interest at LIBOR plus 4.25%, matures on December 31, 2011 and has an unused fee of .50% per annum.

Net borrowings during the quarter ended January 31, 2009 were approximately $1.3 million, resulting in a balance outstanding as of October 31, 2008 of $1.9 million.

During the quarter ended January 31, 2009, the cost basis of the equity investment was decreased by approximately $10,000 because of an allocation in flow through loss.

At January 31, 2009, the term loan had an outstanding balance of $5.0 million with a cost of $5.0 million. The loan was fair valued at $5.0 million. The increase in cost basis of the loan is due to the amortization of loan origination fees. The increase was approved by the Company s Valuation Committee. The revolving line of credit had an outstanding balance of $1.9 million with a cost and fair value of $1.9 million.

At January 31, 2009, the equity investment had a cost basis of approximately $1.1 million and a fair value of $2.6 million.

Ohio Medical Corporation

Ohio Medical, Gurnee, Illinois, is a manufacturer and supplier of suction and oxygen therapy products, as well as medical gas equipment.

At October 31, 2008, the Company s investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of $17.0 million and $17.2 million, respectively, and 11,306 shares of convertible preferred stock with a cost basis of $30.0 million and a fair value of $34.2 million.

At January 31, 2009, the Company s investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of $17.0 million and $17.2 million, respectively, and 11,758 shares of convertible preferred stock with a cost basis of $30.0 million and a fair value of $35.6 million. The increase in the fair value of the convertible preferred stock is due to a PIK distribution which was treated as a return of capital. This increase was approved by the Company s Valuation Committee.

Michael Tokarz, Chairman of the Company, Peter Seidenberg, Chief Financial Officer of the Company, serve as directors of Ohio Medical.

Phoenix Coal Corporation

Phoenix Coal, Madisonville, Kentucky, is engaged in the acquisition, development, production and sale of bituminous coal reserves and resources located primarily in the Illinois Basin. With offices in Madisonville, Kentucky and Champaign, Illinois, the company is focused on consolidating small and medium-sized coal mining projects and applying proprietary technology to increase efficiency and enhance profit margins.

At October 31, 2008, the Company s investment in Phoenix Coal consisted of 666,667 shares of common stock which had a cost basis of $500,000 and a fair value of approximately $105,000.

During the fiscal year ended October 31, 2008, Phoenix Coal began trading on the Toronto Stock Exchange (TSX: PHC). Consistent with the Company s valuation procedures, effective June 30, 2008, the Company has been marking this investment to its market price.

At January 31, 2009, the Company s investment in Phoenix Coal consisted of 666,667 shares of common stock which had a cost basis of $500,000 and a fair value of approximately $120,000.

PreVisor, Inc.

PreVisor, Roswell, Georgia, provides pre-employment testing and assessment solutions and related professional consulting services.

On May 31, 2006, the Company invested $6.0 million in PreVisor in the form of 9 shares of common stock. Mr. Tokarz, our Chairman and Portfolio Manager, is a minority non-controlling shareholder of PreVisor. Our board of directors, including all of our directors who are not interested persons of the Company, as defined by the 1940 Act (the Independent Directors), approved the transaction (Mr. Tokarz recused himself from making a determination or recommendation on this matter).

At October 31, 2008, the common stock had a cost basis and fair value of $6.0 million and $10.1 million, respectively.

During the quarter ended January 31, 2009, the Valuation Committee decreased the fair value of the common stock by $2.1 million.

At January 31, 2009, the common stock had a cost basis and fair value of $6.0 million and $8.0 million, respectively.

SafeStone Technologies Limited (formerly Safestone Technologies PLC)

SafeStone Limited, Old Amersham, United Kingdom, a Legacy Investment, provides organizations with technology designed to secure access controls across the extended enterprise, enforcing compliance with security policies and enabling effective management of the corporate IT and e-business infrastructure.

At October 31, 2008 and January 31, 2009, the Company s investment in SafeStone Limited consisted of 21,064 shares of common stock with a cost of $2.0 million. The investment has been fair valued at $0 by the Company s Valuation Committee.

Security Holdings, B.V.

Security Holdings is an Amsterdam-based holding company that owns FIMA, a Lithuanian security and engineering solutions company.

At October 31, 2008 and January 31, 2009, the Company s investment in Security Holdings had a cost and fair value of $28.2 million.

Christopher Sullivan, a representative of the Company, serves as a director of Security Holdings.

SGDA Europe B.V.

SGDA Europe is an Amsterdam-based holding company that pursues environmental and remediation opportunities in Romania.

At October 31, 2008 and January 31, 2009, the Company s equity investment had a cost basis and a fair value of $7.5 million.

Michael Tokarz, Chairman of the Company, and Christopher Sullivan, a representative of the Company, serve as directors of SGDA Europe.

SGDA Sanierungsgesellschaft fur Deponien und Altasten mbH

SGDA, Zella-Mehlis, Germany, is a company that is in the business of landfill remediation and revitalization of contaminated soil.

At October 31, 2008, the Company s investment in SGDA consisted of a term loan, common equity interest, and preferred equity interest. The term loan had an outstanding balance of $6.2 million with a cost of $6.1 million. The term loan bears annual interest at 7.0% and matures on August 25, 2009. The term loan was fair valued at $6.1 million. The common equity interest in SGDA had been fair valued at $560,000 with a cost basis of approximately $439,000. The preferred equity interest had been fair valued at $6.1 million with a cost basis of $5.0 million.

During the quarter ended January 31, 2009, the Valuation Committee determined to increase the fair value of the Company s preferred equity interest by $125,000.

At January 31, 2009, the term loan had an outstanding balance of $6.2 million with a cost of $6.1 million. The term loan was fair valued at $6.1 million. The increase in the cost and fair value of the loan is due to the accretion of the market discount of the term loan. These increases were approved by the Company s Valuation Committee. The common equity interest in SGDA has been fair valued at $560,000 with a cost basis of approximately $439,000. The preferred equity interest has been fair valued at $6.2 million with a cost basis of $5.0 million.

SIA Tekers Invest

Tekers, Riga, Latvia, is a port facility used for the storage and servicing of vehicles.

At October 31, 2008, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and a fair value of $3.2 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately $2.0 million at October 31, 2008 for Tekers.

During the quarter ended January 31, 2009, the Valuation Committee increased the fair value of the common stock by $725,000.

At January 31, 2009, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and a fair value of $3.9 million. The guarantee was equivalent to approximately $1.8 million at January 31, 2009 for Tekers.

Sonexis, Inc.

Sonexis, Inc. (Sonexis), Tewksbury, Massachusetts, a Legacy Investment, is the developer of a new kind of conferencing solution Sonexis ConferenceManager a modular platform that is designed to support a breadth of audio and web conferencing functionality to deliver rich media conferencing.

At October 31, 2008 and January 31, 2009, the Company s investment in Sonexis consisted of 131,615 shares of common stock with a cost of $10.0 million. The investment has been fair valued at $0.

SP Industries, Inc.

SP, Warminster, Pennsylvania, is a designer, manufacturer and marketer of laboratory research and process equipment, glassware and precision glass components and configured-to-order manufacturing equipment.

At October 31, 2008, the Company s investment in SP consisted of a first lien loan and a second lien loan that had outstanding balances of $1.0 million and $24.7 million, respectively, with a cost basis of approximately $628,000 and $24.2 million, respectively. The first lien loan bears annual interest of LIBOR, with a 2.5% floor, plus 5% and matures on December 28, 2012, and the second lien loan bears annual interest 15% and matures on December 31, 2013. The first lien loan and second lien loan had fair values of $1.0 million and $24.7 million, respectively.

On December 31, 2008, SP made a principal payment of $17,361 on its first lien loan.

At January 31, 2009, the first lien loan and the second lien loan had outstanding balances of approximately $1.0 million and $24.9 million, respectively, with a cost basis of approximately $649,000 and $24.5 million, respectively. The first lien loan and second loan had fair values of approximately $1.0 million and $24.9 million, respectively. The increase in cost and fair value of the second lien loan is due to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Storage Canada, LLC

Storage Canada, Omaha, Nebraska, is a real estate company that owns and develops self-storage facilities throughout the U.S. and Canada.

At October 31, 2008, the Company s investment in Storage Canada consisted of a term loan with an outstanding balance, cost basis and a fair value of $1.2 million. The borrowing bears annual interest at 8.75% and matures on March 30, 2013.

During the quarter ended January 31, 2009, the Company received approximately $27,000 in principal payments on the term loan provided to Storage Canada.

At January 31, 2009, the Company s investment in Storage Canada had an outstanding balance of $1.2 million and a cost basis and fair value of $1.2 million.

Summit Research Labs, Inc.

Summit, Huguenot, New York, is a specialty chemical company that manufactures antiperspirant actives.

At October 31, 2008, the Company s investment in Summit consisted of a second lien loan and 800 shares of common stock. The second lien loan bears annual interest at 14% and matures on August 31, 2013. The second lien loan had an outstanding balance of $8.9 million with a cost of $8.8 million. The second lien loan was fair valued at $8.9 million. The common stock had been fair valued at $33.0 million.

At January 31, 2009, the Company s second lien loan had an outstanding balance of $9.1 million with a cost of $9.0 million. The second lien loan was fair valued at $9.1 million. The 1,115 shares of common stock were fair valued at $33.0 million and had a cost basis of $16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Michael Tokarz, Chairman of the Company, Puneet Sanan and Shivani Khurana, representatives of the Company, serve as directors of Summit.

TerraMark, L.P.

TerraMark, L.P., Houston, Texas, is an affiliate of Benchmark Performance Group (Benchmark) that leases real estate to Benchmark.

On August 12, 2008, the Company invested $1.5 million in TerraMark in the form of a senior secured loan. The loan bears annual interest at 10% and matures on February 12, 2009.

At October 31, 2008 and January 31, 2009, the Company s senior secured loan had a cost and fair value of $1.5 million.

Timberland Machines & Irrigation, Inc.

Timberland, Enfield, Connecticut, is a distributor of landscaping outdoor power equipment and irrigation products.

Timberland has a floor plan financing program administered by Transamerica. As is typical in Timberland s industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Company has agreed to be a co-guarantor of this repurchase commitment, but its maximum potential exposure as a result of the guarantee is contractually limited to $0.5 million.

At October 31, 2008, the Company s investment in Timberland consisted of a mezzanine loan, junior revolving note, 542 shares of common stock and warrants. The mezzanine loan had an outstanding balance of $7.3 million with a cost of $7.2 million. The mezzanine loan bore annual interest at 14.55% and matures on August 4, 2009. The mezzanine loan was fair valued at $7.3 million. The junior revolving note had a cost of $5.0 million and was fair valued at $1.0 million. The junior revolving note bears annual interest at 12.5% and matures on July 7, 2009. The common stock was fair valued at $0. The warrant was fair valued at $0.

During the quarter ended January 31, 2009, the Valuation Committee decreased the fair value of the mezzanine loan by $7.3 million and the revolving note by $1.0 million. The Company has reserved in full against the interest accrued on the mezzanine loan and revolving note.

At January 31, 2009, the Company s mezzanine loan had an outstanding balance of $7.4 million with a cost of $7.3 million. The mezzanine loan was fair valued at $0. The junior revolving note had an outstanding balance and cost of $5.0 million and was fair valued at $0. The increase in the outstanding balance and cost of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. The Company s Valuation Committee did not approve an increase to the fair value of the investment as a result of the capitalization of the PIK interest. The common stock was fair valued at $0. The warrant was fair valued at $0.

Michael Tokarz, Chairman of the Company, and Puneet Sanan, a representative of the Company, serve as directors of Timberland.

Total Safety U.S., Inc.

Total Safety, Houston, Texas, is the leading provider of safety equipment and related services to the refining, petrochemical, and oil exploration and production industries.

At October 31, 2008, the Company s investment in Total Safety consisted of a $900,000 first lien loan bearing annual interest at LIBOR plus 3.0% and maturing on December 8, 2012 and a $3.5 million second lien loan bearing annual interest at LIBOR plus 6.5% and maturing on December 8, 2013. The loans had a combined outstanding balance and cost basis of $4.5 million. The loan assignments were fair valued at $4.4 million.

On December 31, 2008, Total Safety made a principal payment of $2,500 on its first lien loan.

At January 31, 2009, the loans had a combined outstanding balance and cost basis of $4.5 million. The loan assignments were fair valued at $4.4 million.

Turf Products, LLC

Turf, Enfield, Connecticut, is a wholesale distributor of golf course and commercial turf maintenance equipment, golf course irrigation systems and consumer outdoor power equipment.

At October 31, 2008, the Company s investment in Turf consisted of a senior subordinated loan, bearing interest at 15% per annum with a maturity date of November 30, 2010, LLC membership interest, and warrants. The senior subordinated loan had an outstanding balance of $7.7 million with a cost of $7.7 million. The loan was fair valued at $7.7 million. The junior revolving note had an outstanding balance, cost, and fair value of $1.0 million. The membership interest had a cost of $3.8 million and a fair value of $5.8 million. The warrants had a cost of $0 and a fair value of $0.

During the quarter ended January 31, 2009, the Valuation Committee decreased the fair value of the membership interest by $2.3 million.

At January 31, 2009, the mezzanine loan had an outstanding balance, cost basis and a fair value of $7.7 million. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees. These increases were approved by the Company s Valuation Committee. The junior revolving note had an outstanding balance of $1.0 million. The membership interest has a cost of $3.8 million and a fair value of $3.5 million. The warrant was fair valued at $0.

Michael Tokarz, Chairman of the Company, and Puneet Sanan and Shivani Khurana, representatives of the Company, serve as directors of Turf.

Table of Contents

U.S. Gas & Electric, Inc.

U.S. Gas, North Miami Beach, Florida, is a licensed Energy Service Company (ESCO) that markets and distributes natural gas to small commercial and residential retail customers in the state of New York.

At October 31, 2008, the second lien loan had an outstanding balance of $7.9 million with a cost of $7.7 million and a fair value of $7.9 million. The senior credit facility had an outstanding balance, cost, and a fair value of $4.9 million as of October 31, 2008. The second lien loan bears annual interest at 14% and matures on July 26, 2012. The senior credit facility bears annual interest at LIBOR plus 6% or Prime plus 4.5% and matures on July 26, 2010. The 32,200 shares of convertible Series B preferred stock had a fair value of $5.3 million and a cost of $500,000, and the convertible Series C preferred stock had a fair value of $350,000 and a cost of $0.

During the quarter ended January 31, 2009, the Valuation Committee determined to increase the fair value of the convertible Series B preferred stock by $5.6 million and convertible Series C preferred stock by $410,000.

At January 31, 2009, the second lien loan had an outstanding balance of $8.0 million with a cost of $7.8 million and a fair value of $8.0 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee. There was $4.3 million outstanding on the senior credit facility. The convertible Series B preferred stock had a fair value of $10.9 million and a cost of $500,000, and the convertible Series C preferred stock had a fair value of $750,000 and a cost of $0.

Puneet Sanan and Shivani Khurana, representatives of the Company, serve as directors of U.S. Gas.

Velocitius B.V.

Velocitius, a Netherlands based holding company, manages wind farms based in Germany through operating subsidiaries.

At October 31, 2008, the equity investment in Velocitius had a cost of $11.4 million and a fair value of $21.0 million. There was no amount outstanding on Line I, which expires on October 31, 2009 and bears annual interest at 8%, and Line II, which expires on April 30, 2010 and bears annual interest at 8%.

During the quarter ended January 31, 2009, the Valuation Committee increased the fair value of the Company s equity investment by $500,000.

At January 31, 2009, the equity investment in Velocitius had a cost of $11.4 million and a fair value of $21.5 million.

Bruce Shewmaker, an officer of the Company, serves as a director of Velocitius.

Vendio Services, Inc.

Vendio, San Bruno, California, a Legacy Investment, offers small businesses and entrepreneurs resources to build Internet sales channels by providing software solutions designed to help these merchants efficiently market, sell and distribute their products.

At October 31, 2008 and January 31, 2009, the Company s investments in Vendio consisted of 10,476 shares of common stock and 6,443,188 shares of Series A preferred stock at a total cost of $6.6 million. The investments were fair valued at $6.6 million, $14,447 for the common stock and approximately $6.6 million for the Series A preferred stock.

Bruce Shewmaker, an officer of the Company, serves as a director of Vendio.

Vestal Manufacturing Enterprises, Inc.

Vestal, Sweetwater, Tennessee, is a market leader for steel fabricated products to brick and masonry segments of the construction industry. Vestal manufactures and sells both cast iron and fabricated steel specialty products used in the construction of single-family homes.

Table of Contents

At October 31, 2008 and January 31, 2009, the senior subordinated promissory note, which bears annual interest at 12% and matures on April 29, 2011, had an outstanding balance, cost, and fair value of $600,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.9 million were fair valued at $950,000.

Bruce Shewmaker and Scott Schuenke, officers of the company, serve as directors of Vestal.

Vitality Foodservice, Inc.

Vitality, Tampa, Florida, is a market leader in the processing and marketing of dispensed and non-dispensed juices and frozen concentrate liquid coffee to the foodservice industry. With an installed base of over 42,000 dispensers worldwide, Vitality sells its frozen concentrate through a network of over 350 distributors to such market niches as institutional foodservice, including schools, hospitals, cruise ships, hotels and restaurants.

At October 31, 2008, the investment in Vitality consisted of 556,472 shares of common stock at a cost of $5.6 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $10.3 million. The convertible preferred stock has a dividend rate of 13% per annum. The common stock, Series A convertible preferred stock, and warrants were fair valued at $9.8 million, $13.2 million and $3.7 million, respectively.

At January 31, 2009, the investment in Vitality consisted of 556,472 shares of common stock at a cost of $5.6 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $10.5 million. The increase in the cost and fair value of the Series A convertible preferred stock is due to the capitalization of payment in kind dividends. These increases were approved by the Company s Valuation Committee. The common stock, Series A convertible preferred stock and warrants were fair valued at $9.8 million, $13.4 million and $3.7 million, respectively.

Peter Seidenberg, Chief Financial Officer of the Company, serves as a director of Vitality.

WBS Carbons Acquisitions Corp.

WBS, Middletown, New York, is a manufacturer of antiperspirant actives and water treatment chemicals.

At October 31, 2008, the bridge loan had an outstanding balance, cost and fair value of $1.7 million. The bridge loan bears annual interest at 6% and matures on December 30, 2011.

At January 31, 2009, the bridge loan had an outstanding balance, cost and fair value of $1.8 million. The increase in the outstanding balance, cost and fair value of the loan are due to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Puneet Sanan and Shivani Khurana, representatives of the Company, serve as directors of WBS.

Liquidity and Capital Resources

At January 31, 2009, the Company had investments in portfolio companies totaling $489.8 million. Also, at January 31, 2009, the Company had cash equivalents totaling approximately $4.7 million. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid.

During the quarter ended January 31, 2009, the Company made one follow-on investment in an existing portfolio company committing capital of $700,000. On November 4, 2008, the Company invested $700,000 in Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10%.

Current balance sheet resources, which include the additional cash resources from Credit Facility I and Credit Facility II, are believed to be sufficient to finance current commitments. Current commitments include:

Commitments to/for Portfolio Companies:

At January 31, 2009, the Company s existing commitments to portfolio companies consisted of the following:

Table of Contents

Commitments of MVC Capital, Inc.

Portfolio Company	Amount Committed	Amount Funded at January 31, 2009
Timberland Junior Revolver	$ 5.0 million	$ 5.0 million
Storage Canada Loan	$ 6.0 million	$ 1.2 million
Marine Revolving Loan Facility	$ 2.0 million	$ 700,000
Octagon Revolving Credit Facility	$ 12.0 million	$ 1.9 million
Velocitius Revolving Line I	$ 260,000	
Harmony Pharmacy Revolving Credit Facility	$ 4.0 million	$ 4.0 million
Velocitius Revolving Line II	$ 650,000	
Tekers Guarantee	$ 1.8 million	
U.S. Gas Revolving Credit Facility	$ 10.0 million	$ 3.8 million
MVC Automotive Guarantee	$ 8.3 million	
MVC Automotive Guarantee	$ 5.1 million	
MVC Automotive Guarantee	$ 1.6 million	
Turf Junior Revolver	$ 1.0 million	$ 1.0 million
Total	**$ 57.7 million**	**$ 17.6 million**

On June 30, 2005, the Company pledged its common stock of Ohio Medical to Guggenheim to collateralize a loan made by Guggenheim to Ohio Medical.

On July 8, 2005 the Company extended to Timberland a $3.25 million junior revolving note that bears interest at 12.5% per annum and expires on July 7, 2009. The Company also receives a fee of 0.25% on the unused portion of the note. On November 27, 2006, the amount available on the revolving note was increased by $750,000 to $4.0 million. On January 25, 2008, the amount available on the revolving note was increased by $1.0 million to $5.0 million. As of October 31, 2008 and January 31, 2009, the funded debt under the junior revolving line of credit was $5.0 million. The fair value of the revolving line of credit at January 31, 2009 was $0.

On March 30, 2006, the Company provided a $6.0 million loan commitment to Storage Canada. The commitment was for one year, but may be renewed annually with the consent of both parties. The commitment was renewed in March 2008. The initial borrowing on the loan bears annual interest at 8.75% and has a maturity date of March 30, 2013. Any additional borrowings will mature seven years from the date of the subsequent borrowing. The Company also receives a fee of 0.25% on the unused portion of the loan. As of October 31, 2008, the outstanding balance of the loan commitment was approximately $1.2 million. Net repayments during the three month period ended January 31, 2009 were approximately $27,000, resulting in a balance of approximately $1.2 million at such date.

On July 11, 2006, the Company provided Marine a $2.0 million secured revolving loan facility. The revolving loan facility bears annual interest at LIBOR plus 1%. The Company also receives a fee of 0.50% of the unused portion of the revolving loan facility. As of October 31, 2008 and January 31, 2009, the outstanding balance of the secured revolving loan facility was $700,000.

On October 12, 2006, the Company provided a $12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Company receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. At October 31, 2008, the outstanding balance of the revolving credit facility provided to Octagon was $650,000. Net borrowings during the three month period ended January 31, 2009 were $1.3 million, resulting in a balance outstanding of $1.9 million on that date.

On October 30, 2006, the Company provided Velocitius a $260,000 revolving line of credit (Line I). Line I expires on October 31, 2009 and bears annual interest at 8%. There was no amount outstanding on Line I at October 31, 2008 and January 31, 2009.

On January 11, 2007, the Company provided a $4.0 million revolving credit facility to Harmony Pharmacy. The credit facility bears annual interest at 10%. The Company also receives a fee of 0.50% on the unused portion of the loan. The revolving credit facility expires on December 1, 2009. At October 31, 2008 and January 31, 2009, the outstanding balance of the revolving credit facility was $4.0 million.

On May 1, 2007, the Company provided Velocitius a $650,000 revolving line of credit (Line II). Line II expires on April 30, 2010 and bears annual interest at 8%. There was no amount outstanding on Line II at October 31, 2008 and January 31, 2009.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $1.8 million at January 31, 2009.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility to U.S. Gas. The senior credit facility bears annual interest at either LIBOR plus 6% or Prime plus 4.5%, this election is at U.S. Gas discretion. The Company receives a fee of 0.50% on the unused portion of the senior credit facility. The revolving senior credit facility expires on July 26, 2010. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with a LIBOR based borrowing rate for a period of two years. This portion of the senior credit facility was approximately $571,000 at October 31, 2008 and January 31, 2009. The remaining portion of the senior credit facility, which is borrowed at an annual rate of Prime plus 4.5%, was $4.4 million at October 31, 2008. Net repayments during quarter ended January 31, 2009 were $600,000 resulting in a balance outstanding of $3.8 million on that date.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $8.3 million at January 31, 2009.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately $5.1 million at January 31, 2009) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended to Turf a $1.0 million secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note. At October 31, 2008 and January 31, 2009, the outstanding balance of the secured junior revolving note was $1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million CZK mortgage for MVC Automotive, equivalent to approximately $1.6 million at January 31, 2009.

Timberland also has a floor plan financing program administered by Transamerica. As is typical in Timberland s industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Company has agreed to be a limited co-guarantor for up to $500,000 on this repurchase commitment.

Table of Contents

Commitments of the Company:

Effective November 1, 2006, under the terms of the Investment Advisory and Management Agreement with TTG Advisers (the Advisory Agreement), TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company s offices continue to be located on the second floor of 287 Bowman Avenue.

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, $100 million credit facility (Credit Facility I), consisting of $50.0 million in term debt and $50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. At October 31, 2008, there was $50.0 million in term debt and $19.0 million in revolving credit on Credit Facility I outstanding. During the quarter ended January 31, 2009, the Company s net repayments on Credit Facility I were $6.4 million. As of January 31, 2009, there was $50.0 million in term debt and $12.6 million outstanding on the revolving credit facility. The proceeds from borrowings made under Credit Facility I are used to fund new and existing portfolio investments, pay fees and expenses related to obtaining the financing and for general corporate purposes. Credit Facility I will expire on April 27, 2010, at which time all outstanding amounts under Credit Facility I will be due and payable. Borrowings under Credit Facility I will bear interest, at the Company s option, at a floating rate equal to either (i) the LIBOR rate (for one, two, three or six months), plus a spread of 2.00% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 1.00% per annum. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility I will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company.

On April 24, 2008, the Company entered into a two-year, $50 million revolving credit facility (Credit Facility II) with Branch Banking and Trust Company (BB&T). There was no amount outstanding on Credit Facility II as of October 31, 2008 and January 31, 2009. Credit Facility II provides financing to the Company in addition to the Company s existing $100 million Credit Facility I with Guggenheim. Proceeds from borrowings made under Credit Facility II are used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bear interest at LIBOR plus 50 basis points. In addition, the Company is also subject to a 25 basis point utilization fee for the amount of Credit Facility II that is outstanding for more than 33% of the calendar days during each fiscal quarter, as well as an annual fee of 25 basis points of the total amount of the facility. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility II will be secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities whose purchase has been approved by BB&T.

The Company enters into contracts with portfolio companies and other parties that contain a variety of indemnifications. The Company s maximum exposure under these arrangements is unknown. However, the Company has not experienced claims or losses pursuant to these contracts and believes the risk of loss related to indemnifications to be remote.

Subsequent Events

Since January 31, 2009, net repayments on the U.S. Gas senior credit facility totaled approximately $2.9 million.

Since January 31, 2009, net repayments on the Octagon revolving credit facility totaled $1.9 million.

Effective February 12, 2009, the commitment amount on the Octagon revolving credit facility was reduced from $12.0 million to $7.0 million.

Table of Contents

On February 12, 2009 and March 3, 2009, the Company invested an additional $100,000 and $2.1 million, respectively, in Harmony Pharmacy in the form of a demand note bearing annual interest of 10%.

On February 12, 2009, the maturity date of the senior secured loan to TerrMark was extended to March 11, 2009.

On February 26, 2009, Michael Tokarz, Chairman of the Company, and Puneet Sanan, a representative of the Company, resigned from the board of directors of Timberland.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Historically the Company has invested in small companies, and its investments in these companies are considered speculative in nature. The Company s investments often include securities that are subject to legal or contractual restrictions on resale that adversely affect the liquidity and marketability of such securities. As a result, the Company is subject to risk of loss which may prevent our shareholders from achieving price appreciation, dividend distributions and return of capital.

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, and debt instruments, which represent approximately 97.60% of the Company s total assets at January 31, 2009. As discussed in Note 6 Portfolio Investments, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company s fair value policies and procedures. The Company s investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be: (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. At this time, the Company s investments in short-term securities are in 90-day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Company s cash balances, if not large enough to be invested in 90-day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts.

In addition, the following risk factors relate to market risks impacting the Company.

Investing in private companies involves a high degree of risk.

Our investment portfolio generally consists of loans to, and investments in, private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally very little publicly available information about the companies in which we invest, and we rely significantly on the due diligence of the members of the investment team to obtain information in connection with our investment decisions.

Our investments in portfolio companies are generally illiquid.

We generally acquire our investments directly from the issuer in privately negotiated transactions. Most of the investments in our portfolio (other than cash or cash equivalents) are typically subject to restrictions on resale or otherwise have no established trading market. We may exit our investments when the portfolio company has a liquidity event, such as a sale, recapitalization or initial public offering. The illiquidity of our investments may adversely affect our ability to dispose of equity and debt securities at times when it may be otherwise advantageous for us to liquidate such investments. In addition, if we were forced to immediately liquidate some or all of the investments in the portfolio, the proceeds of such liquidation could be significantly less than the current fair value of such investments.

Substantially all of our portfolio investments are recorded at fair value and, as a result, there is a degree of uncertainty regarding the carrying values of our portfolio investments.

Pursuant to the requirements of the 1940 Act, because our portfolio company investments do not have readily ascertainable market values, we record these investments at fair value in accordance with our Valuation Procedures adopted by our board of directors. As permitted by the SEC, the board of directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the board of directors supervision and pursuant to the Valuation Procedures.

At January 31, 2009, approximately 97.60% of our total assets represented portfolio investments recorded at fair value.

There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. In determining the fair value of a portfolio investment, the Valuation Committee analyzes, among other factors, the portfolio company s financial results and projections and publicly traded comparables when available, which may be dependent on general economic conditions. We specifically value each individual investment and record unrealized depreciation for an investment that we believe has become impaired, including where collection of a loan or realization of an equity security is doubtful. Conversely, we will record unrealized appreciation if we have an indication (based on a significant development) that the underlying portfolio company has appreciated in value and, therefore, our equity security has also appreciated in value, where appropriate. Without a readily ascertainable market value and because of the inherent uncertainty of fair valuation, fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Pursuant to our Valuation Procedures, our Valuation Committee (which is currently comprised of three Independent Directors) reviews, considers and determines fair valuations on a quarterly basis (or more frequently, if deemed appropriate under the circumstances). Any changes in valuation are recorded in the statements of operations as Net change in unrealized appreciation (depreciation) on investments.

Economic recessions or downturns could impair our portfolio companies and have a material adverse impact on our business, financial condition and results of operations.

Many of the companies in which we have made or will make investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to engage in a liquidity event. These conditions could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets. Through the date of this report, conditions in the public debt and equity markets have deteriorated and pricing levels have continued to decline. As a result, depending on market conditions, we could incur substantial realized losses and suffer unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. If current market conditions continue, or worsen, it may adversely impact our ability to deploy our investment strategy and achieve our investment objective.

Our overall business of making private equity investments may be affected by current and future market conditions. The absence of an active mezzanine lending or private equity environment may slow the amount of private equity investment activity generally. As a result, the pace of our investment activity may slow, which could impact our ability to achieve our investment objective. In addition, significant changes in the capital markets could have an effect on the valuations of private companies and on the potential for liquidity events involving such companies. This could affect the amount and timing of any gains realized on our investments and thus have a material adverse impact on our financial condition.

Our borrowers may default on their payments, which may have an effect on our financial performance.

We may make long-term unsecured, subordinated loans, which may involve a higher degree of repayment risk than conventional secured loans. We primarily invest in companies that may have limited financial resources and that may be unable to obtain financing from traditional sources. In addition, numerous factors may adversely affect a portfolio company s ability to repay a loan we make to it, including the failure to meet a business plan, a downturn in its industry or operating results, or negative economic conditions. Deterioration in a borrower s financial condition and prospects may be accompanied by deterioration in any related collateral.

Our investments in mezzanine and other debt securities may involve significant risks.

Our investment strategy contemplates investments in mezzanine and other debt securities of privately held companies. Mezzanine investments typically are structured as subordinated loans (with or without warrants) that carry a fixed rate of interest. We may also make senior secured and other types of loans or debt investments. Our debt investments are typically not rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade quality (rated lower than Baa3 by Moody s or lower than BBB- by Standard & Poor s, commonly referred to as junk bonds). Loans of below investment grade quality have predominantly speculative characteristics with respect to the borrower s capacity to pay interest and repay principal. Our debt investments in portfolio companies may thus result in a high level of risk and volatility and/or loss of principal.

We may not realize gains from our equity investments.

When we invest in mezzanine and senior debt securities, we may acquire warrants or other equity securities as well. We may also invest directly in various equity securities. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive or invest in may not appreciate in value and, in fact, may decline in value. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it would be advantageous to resell. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Our investments in small and middle-market privately-held companies are extremely risky and you could lose your entire investment.

Investments in small and middle-market privately-held companies are subject to a number of significant risks including the following:

Small and middle-market companies may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to companies that typically do not have capital sources readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity.

Small and middle-market companies typically have narrower product lines and smaller market shares than large companies. Because our target companies are smaller businesses, they may be more vulnerable to competitors actions and market conditions, as well as general economic downturns. In addition, smaller companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.

Table of Contents

There is generally little or no publicly available information about these privately-held companies. There is generally little or no publicly available operating and financial information about privately-held companies. As a result, we rely on our investment professionals to perform due diligence investigations of these privately-held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations.

Small and middle-market companies generally have less predictable operating results. We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, finance expansion or maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders.

Small and middle-market businesses are more likely to be dependent on one or two persons. Typically, the success of a small or middle-market company also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us.

Small and middle-market companies are likely to have greater exposure to economic downturns than larger companies. We expect that our portfolio companies will have fewer resources than larger businesses and an economic downturn may thus more likely have a material adverse effect on them.

Small and middle-market companies may have limited operating histories. We may make debt or equity investments in new companies that meet our investment criteria. Portfolio companies with limited operating histories are exposed to the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Investments in foreign debt or equity may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy has resulted in some investments in debt or equity of foreign companies (subject to applicable limits prescribed by the 1940 Act). Investing in foreign companies can expose us to additional risks not typically associated with investing in U.S. companies. These risks include exchange rates, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

The market for private equity investments can be highly competitive. In some cases, our status as a regulated business development company may hinder our ability to participate in investment opportunities.

We face competition in our investing activities from private equity funds, other business development companies, investment banks, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a regulated business development company, we are required to disclose quarterly the name and business description of portfolio companies and the value of any portfolio securities. Many of our competitors are not subject to this disclosure requirement. Our obligation to disclose this information could hinder our ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make us less attractive as a potential investor to a given portfolio company than a private equity fund not subject to the same regulations.

Table of Contents

Furthermore, some of our competitors have greater resources than we do. Increased competition would make it more difficult for us to purchase or originate investments at attractive prices. As a result of this competition, sometimes we may be precluded from making certain investments.

Complying with the RIC requirements may cause us to forego otherwise attractive opportunities.

In order to qualify as a RIC for U.S. federal income tax purposes, we must satisfy tests concerning the sources of our income, the nature and diversification of our assets and the amounts we distribute to our shareholders. We may be unable to pursue investments that would otherwise be advantageous to us in order to satisfy the source of income or asset diversification requirements for qualification as a RIC. In particular, to qualify as a RIC, at least 50% of our assets must be in the form of cash and cash items, Government securities, securities of other RICs, and other securities that represent not more than 5% of our total assets and not more than 10% of the outstanding voting securities of the issuer. We have from time to time held a significant portion of our assets in the form of securities that exceed 5% of our total assets or more than 10% of an outstanding security of an issuer, and compliance with the RIC requirements restricts our ability to make additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. Thus, compliance with the RIC requirements may hinder our ability to take advantage of investment opportunities believed to be attractive.

Regulations governing our operation as a business development company affect our ability to, and the way in which we, raise additional capital.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock or warrants at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of the Company and its stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution.

Our common stock price can be volatile.

The trading price of our common stock may fluctuate substantially. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity participation securities, or LEAPs, or short trading positions;
- changes in regulatory policies or tax guidelines with respect to business development companies or RICs;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;

general economic conditions and trends;

loss of a major funding source; or

departures of key personnel of TTG Advisers.

We are subject to market discount risk.

As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our NAV. Although our shares, from time to time, have traded at a premium to our NAV, currently, our shares are trading at a discount to NAV, which discount may fluctuate over time.

Our ability to grow depends on our ability to raise capital.

To fund new investments, we may need to issue periodically equity securities or borrow from financial institutions. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. If we fail to obtain capital to fund our investments, it could limit both our ability to grow our business and our profitability. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on TTG Advisers and our board of directors assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to maintain our current facilities or obtain other lines of credit at all or on terms acceptable to us.

Changes in interest rates may affect our cost of capital and net operating income and our ability to obtain additional financing.

Because we have borrowed and may continue to borrow money to make investments, our net investment income before net realized and unrealized gains or losses, or net investment income, may be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates would not have a material adverse effect on our net investment income. In periods of declining interest rates, we may have difficulty investing our borrowed capital into investments that offer an appropriate return. In periods of sharply rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use a combination of long-term and short-term borrowings and equity capital to finance our investing activities. We may utilize our short-term credit facilities as a means to bridge to long-term financing. Our long-term fixed-rate investments are financed primarily with equity and long-term fixed-rate debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Additionally, we cannot assure you that financing will be available on acceptable terms, if at all. Recent turmoil in the credit markets has greatly reduced the availability of debt financing. Deterioration in the credit markets, which could delay our ability to sell certain of our loan investments in a timely manner, could also negatively impact our cash flows.

Table of Contents

Our ability to use our capital loss carryforwards may be subject to limitations.

If we experience a shift in the ownership of our common stock (e.g., if a shareholder acquires 5% or more of our outstanding shares of common stock, or if a shareholder who owns 5% or more of our outstanding shares of common stock significantly increases or decreases its investment in the Company), our ability to utilize our capital loss carryforwards to offset future capital gains may be severely limited. Further, in the event that we are deemed to have failed to meet the requirements to qualify as a RIC, our ability to use our capital loss carryforwards could be adversely affected.

The war with Iraq, terrorist attacks, and other acts of violence or war may affect any market for our common stock, impact the businesses in which we invest and harm our operations and our profitability.

The war with Iraq, its aftermath and the continuing occupation of Iraq are likely to have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the war and occupation cannot be predicted with any certainty. Furthermore, terrorist attacks may harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or U.S. businesses. Such attacks and armed conflicts in the United States or elsewhere may impact the businesses in which we invest directly or indirectly, by undermining economic conditions in the United States. Losses resulting from terrorist events are generally uninsurable.

Item 4. Controls and Procedures

(a) As of the end of the period covered by this quarterly report on Form 10-Q, the individual who performs the functions of a Principal Executive Officer (the CEO) and the individual who performs the functions of a Principal Financial Officer (the CFO) conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective and provide reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended January 31, 2009, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

We are not subject to any pending legal proceeding, and no such proceedings are known to be contemplated.

Item 1A. Risk Factors

A description of the risk factors associated with our business is set forth in the Quantitative and Qualitative Disclosures about Market Risk section, above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Exhibit
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.

Other required Exhibits are included in this Form 10-Q or have been previously filed with the Securities and Exchange Commission (the SEC) in the Company s Registration Statements on Form N-2 (Reg. Nos. 333-119625 and 333-125953) or the Company s Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, as filed with the SEC (File No. 814-00201).

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned, thereunto duly authorized.

MVC Capital, Inc.

Date: March 6, 2009

/s/ Michael Tokarz
Michael Tokarz

In the capacity of the officer who performs the functions of Principal Executive Officer.

MVC Capital, Inc.

Date: March 6, 2009

/s/ Peter Seidenberg
Peter Seidenberg

In the capacity of the officer who performs the functions of Principal Financial Officer.

63