MVC CAPITAL, INC.
Form 10-Q
September 05, 2008

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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 July 31, 2008

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 definition 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 Smaller reporting company o

(Do not check if a smaller reporting company)

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

There were 24,297,087 shares of the registrant s common stock, $.01 par value, outstanding as of September 4, 2008.

MVC Capital, Inc.
(A Delaware Corporation)
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CONSOLIDATED FINANCIAL STATEMENTS
MVC Capital, Inc.
Consolidated Balance Sheets

	July 31, 2008 (Unaudited)	October 31, 2007
ASSETS		
Assets		
Cash and cash equivalents	$ 124,975,545	$ 84,727,933
Investments at fair value		
Non-control/Non-affiliated investments (cost $123,111,526 and $119,646,416)	95,717,722	85,543,666
Affiliate investments (cost $101,368,066 and $116,118,374)	136,458,948	127,959,158
Control investments (cost $190,393,940 and $157,663,563)	221,124,672	165,664,710
Total investments at fair value (cost $414,873,532 and $393,428,353)	453,301,342	379,167,534
Dividends, interest and fees receivable	2,915,370	3,105,100
Prepaid expenses	2,378,279	2,412,827
Prepaid taxes	570,498	228,159
Deferred tax	910,342	803,283
Deposits		25,156
Other assets		20,993
Total assets	$ 585,051,376	$ 470,490,985
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Revolving credit facilities	$ 100,000,000	$ 30,000,000
Term loan	50,000,000	50,000,000
Provision for incentive compensation (Note 9)	14,298,753	17,875,496
Management fee payable	2,275,896	1,929,258
Other accrued expenses and liabilities	698,703	977,953
Professional fees	361,930	558,091
Consulting fees	32,130	89,452
Directors fees	(45,283)	(36,034)
Total liabilities	167,622,129	101,394,216
Shareholders equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 24,297,087 and 24,265,336 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	432,033,595	431,814,990

Accumulated earnings	26,863,001	24,375,844
Dividends paid to stockholders	(42,509,674)	(33,764,634)
Accumulated net realized loss	(4,865,067)	(6,283,708)
Net unrealized appreciation (depreciation)	38,427,810	(14,260,819)
Treasury stock, at cost, 4,007,361 and 4,039,112 shares held, respectively	(32,803,462)	(33,067,948)
Total shareholders equity	417,429,247	369,096,769
Total liabilities and shareholders equity	$ 585,051,376	$ 470,490,985
Net asset value per share	$ 17.18	$ 15.21

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

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

	For the Period November 1, 2007 to July 31, 2008	For the Period November 1, 2006 to July 31, 2007
Operating Income:		
Dividend income		
Affiliate investments	$ 3,011,401	$ 370,195
Total dividend income	3,011,401	370,195
Interest income		
Non-control/Non-affiliated investments	9,446,453	8,494,153
Affiliate investments	3,552,146	3,563,392
Control investments	4,448,154	3,554,022
Total interest income	17,446,753	15,611,567
Fee income		
Non-control/Non-affiliated investments	843,636	754,253
Affiliate investments	534,050	678,372
Control investments	1,509,869	845,640
Total fee income	2,887,555	2,278,265
Other income	435,560	252,237
Total operating income	23,781,269	18,512,264
Operating Expenses:		
Incentive compensation (Note 9)	9,326,586	10,042,160
Management fee	6,478,911	5,105,029
Interest and other borrowing costs	3,273,869	3,636,241
Other expenses	541,129	360,370
Legal fees	461,000	398,000
Audit fees	351,000	237,000
Insurance	279,725	312,606
Administration	245,062	208,522

Directors fees		180,000		180,000
Printing and postage		102,653		74,700
Consulting fees		88,600		99,500
Public relations fees		71,700		58,201
Total operating expenses		21,400,235		20,712,329
Net operating income (loss) before taxes		2,381,034		(2,200,065)
Tax (Benefit) Expenses:				
Deferred tax benefit		(107,059)		(175,886)
Current tax (benefit) expense		936		(276,508)
Total tax benefit		(106,123)		(452,394)
Net operating income (loss)		2,487,157		(1,747,671)
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency:				
Net realized gain (loss) on investments and foreign currency				
Non-control/Non-affiliated investments		(37,584)		376,329
Affiliate investments		1,116,952		
Controlled investments		283,118		65,473,258
Foreign currency		56,155		
Total net realized gain on investments and foreign currency		1,418,641		65,849,587
Net change in unrealized appreciation (depreciation) on investments		52,688,629		(6,914,139)
Net realized and unrealized gain on investments and foreign currency		54,107,270		58,935,448
Net increase in net assets resulting from operations	$	56,594,427	$	57,187,777
Net increase in net assets per share resulting from operations	$	2.33	$	2.57
Dividends declared per share	$	0.36	$	0.42

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

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

	For the Quarter May 1, 2008 to July 31, 2008	For the Quarter May 1, 2007 to July 31, 2007
Operating Income:		
Dividend income		
Affiliate investments	$ 487,323	$ 95,467
Total dividend income	487,323	95,467
Interest income		
Non-control/Non-affiliated investments	3,490,136	3,138,337
Affiliate investments	1,061,891	1,464,021
Control investments	878,365	1,323,326
Total interest income	5,430,392	5,925,684
Fee income		
Non-control/Non-affiliated investments	216,586	133,973
Affiliate investments	172,974	442,097
Control investments	384,310	327,710
Total fee income	773,870	903,780
Other income	112,788	105,042
Total operating income	6,804,373	7,029,973
Operating Expenses:		
Incentive compensation (Note 9)	3,929,249	1,617,808
Management fee	2,275,896	1,616,020
Interest, fees and other borrowing costs	1,021,661	1,252,205
Other expenses	231,865	125,178
Legal fees	187,000	90,000
Audit fees	127,500	75,000
Insurance	93,000	96,000
Administration	84,295	78,238

Directors fees		60,000		60,000
Printing and postage		38,005		26,100
Consulting fees		37,000		36,000
Public relations fees		28,500		21,300
Total operating expenses		8,113,971		5,093,849
Net operating income (loss) before taxes		(1,309,598)		1,936,124
Tax (Benefit) Expenses:				
Deferred tax (benefit) expense		58,023		(189,173)
Current tax Expense				110,922
Total tax (benefit) expense		58,023		(78,251)
Net operating income (loss)		(1,367,621)		2,014,375
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency:				
Net realized gain (loss) on investments and foreign currency				
Non-control/Non-affiliated investments		(39,691)		491,611
Affiliate investments		521,952		
Control investments				65,481,064
Foreign currency		(4,170)		
Total net realized gain on investments and foreign currency		478,091		65,972,675
Net change in unrealized appreciation (depreciation) on investments		19,512,726		(54,199,608)
Net realized and unrealized gain on investments and foreign currency		19,990,817		11,773,067
Net increase in net assets resulting from operations	$	18,623,196	$	13,787,442
Net increase in net assets per share resulting from operations	$	0.77	$	0.57
Dividends declared per share	$	0.12	$	0.12

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

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

	For the Period November 1, 2007 to July 31, 2008	For the Period November 1, 2006 to July 31, 2007
Cash flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 56,594,427	$ 57,187,777
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:		
Realized gain	(1,418,641)	(65,849,587)
Net change in unrealized appreciation	(52,688,629)	6,914,139
Amortization of discounts and fees	(68,210)	(69,917)
Increase in accrued payment-in-kind dividends and interest	(4,218,554)	(2,418,638)
Increase in allocation of flow through income	135,508	(140,084)
Changes in assets and liabilities:		
Dividends, interest and fees receivable	189,730	(1,071,561)
Prepaid expenses	34,548	53,824
Prepaid taxes	(342,339)	(385,138)
Deferred tax	(107,059)	(175,886)
Deposits	25,156	(322,129)
Other assets	20,993	25,353
Incentive compensation	(3,576,743)	9,931,942
Other Liabilities	(195,344)	3,074,755
Purchases of equity investments	(51,016,525)	(26,401,201)
Purchases of debt instruments	(69,984,471)	(66,922,366)
Purchases of short term investments	(49,881,375)	
Proceeds from equity investments	7,312,817	81,971,300
Proceeds from debt instruments	97,840,522	31,941,271
Sales/maturities of short term investments	49,853,750	
Net cash provided (used) by operating activities	(21,490,439)	27,343,854
Cash flows from Financing Activities:		
Issuance of common stock		83,825,625
Offering expenses		(5,431,091)
Distributions to shareholders paid	(8,261,949)	(9,122,426)
Net borrowings (repayments) under revolving credit facilities	70,000,000	(50,000,000)
Net cash provided by financing activities	61,738,051	19,272,108
Net change in cash and cash equivalents for the period	40,247,612	46,615,962

Cash and cash equivalents, beginning of period		84,727,933		66,217,123
Cash and cash equivalents, end of period	$	124,975,545	$	112,833,085

During the nine months ended July 31, 2008 and 2007 MVC Capital, Inc. paid $2,510,347 and $3,536,606 in interest expense, respectively.
During the nine months ended July 31, 2008 and 2007 MVC Capital, Inc. paid $350,000 and $144,016 in income taxes, respectively.

Non-cash activity:

During the nine months ended July 31, 2008 and 2007, MVC Capital, Inc. recorded payment in kind dividend and interest of $4,218,554 and $2,418,638, respectively. This amount was added to the principal balance of the investments and recorded as interest/dividend income.
During the nine months ended July 31, 2008 and 2007, MVC Capital, Inc. was allocated $435,560 and $246,672, respectively, in flow-through income and $24,130 and $0 respectively, in capital gains from its equity investment in Octagon Credit Investors, LLC. Of these amounts, $324,182, and $106,588, respectively, was received in cash and the balance of $135,508 and $140,282, respectively, was undistributed and therefore increased the cost of the investment. The fair value was then increased by $135,508 and $140,282, respectively, by the Company s Valuation Committee.
During the nine month period ended July 31, 2008, as was anticipated when the Company made its investment, all 1,535 shares of convertible Series F preferred stock were transferred to a strategic partner of U.S. Gas & Electric, Inc. for services to be performed. If certain conditions are not met by the strategic partner, these shares could be transferred back to the Company.
On November 1, 2006, MVC Capital, Inc. re-issued 2,326 shares of treasury stock, in lieu of a $28,871 cash distribution, in accordance with the Company s dividend reinvestment plan.
On January 6, 2007, MVC Capital, Inc. re-issued 3,684 shares of treasury stock, in lieu of a $48,641 cash distribution, in accordance with the Company s dividend reinvestment plan.
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 Company 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 Company s dividend reinvestment plan.
On June 9, 2008, Auto MOTOL BENI was acquired by MVC Automotive Group B.V. to achieve operating efficiencies. Both entities were 100% owned by the Company. MVC Automotive Group B.V. increased its shareholder s equity by $14.5 million and assumed $2.0 million of debt as a result of the cashless transaction.

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

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

	For the Period November 1, 2007 to July 31, 2008 (Unaudited)	For the Period November 1, 2006 to July 31, 2007 (Unaudited)	For the Year Ended October 31, 2007
Operations:			
Net operating income (loss)	$ 2,487,157	$ (1,747,671)	$ 2,059,713
Net realized gain on investments and foreign currency	1,418,641	65,849,587	66,943,545
Net change in unrealized appreciation (depreciation) on investments	52,688,629	(6,914,139)	(3,301,612)
Net increase in net assets from operations	56,594,427	57,187,777	65,701,646
Shareholder Distributions:			
Distributions to shareholders	(8,745,040)	(9,259,848)	(12,171,688)
Net decrease in net assets from shareholder distributions	(8,745,040)	(9,259,848)	(12,171,688)
Capital Share Transactions:			
Issuance of common stock		83,825,625	83,825,625
Offering expenses		(5,431,091)	(5,431,091)
Reissuance of treasury stock in lieu of cash dividend	483,091	137,422	178,903
Net increase in net assets from capital share transactions	483,091	78,531,956	78,573,437
Total increase in net assets	48,332,478	126,459,885	132,103,395
Net assets, beginning of period/year	369,096,769	236,993,374	236,993,374
Net assets, end of period/year	$ 417,429,247	$ 363,453,259	$ 369,096,769
Common shares outstanding, end of period/year	24,297,087	24,262,566	24,265,336

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

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

	For the Period November 1, 2007 to July 31, 2008 (Unaudited)	For the Period November 1, 2006 to July 31, 2007 (Unaudited)	For the Year Ended October 31, 2007
Net asset value, beginning of period/year	$ 15.21	$ 12.41	$ 12.41
Gain (loss) from operations:			
Net operating income gain (loss)	0.10	(0.04)	0.13
Net realized and unrealized gain on investments	2.23	2.61	2.79
Total gain from investment operations	2.33	2.57	2.92
Less distributions from:			
Income	(0.36)	(0.42)	(0.54)
Total distributions	(0.36)	(0.42)	(0.54)
Capital share transactions			
Anti-dilutive effect of share issuance		0.42	0.42
Total capital share transactions		0.42	0.42
Net asset value, end of period/year	$ 17.18	$ 14.98	$ 15.21
Market value, end of period/year	$ 14.08	$ 16.17	$ 17.06
Market premium (discount)	(18.04)%	7.94%	12.16%
Total Return At NAV (a)	15.47%	24.48%	27.39%
Total Return At Market (a)	(16.11)%	27.08%	35.02%
Ratios and Supplemental Data:			

Net assets, end of period/year (in thousands)	$	417,429		$	363,453		$	369,097
Ratios to average net assets:								
Expenses excluding tax expense (benefit)		7.30%	(b)		9.05%	(b)		7.89%
Expenses including tax expense (benefit)		7.24%	(b)		8.86%	(b)		7.78%
Expenses excluding incentive compensation		4.06%	(b)		4.47%	(b)		4.40%
Expenses excluding incentive compensation, interest and other borrowing costs		2.95%	(b)		2.88%	(b)		2.88%
Net operating income (loss) before tax expense (benefit)		0.81%	(b)		(0.96)%	(b)		0.53%
Net operating income (loss) after tax expense (benefit)		0.87%	(b)		(0.76)%	(b)		0.64%
Net operating income (loss) before incentive compensation		4.05%	(b)		3.63%	(b)		4.02%
Net operating income (loss) before incentive compensation, interest and other borrowing costs		5.16%	(b)		5.22%	(b)		5.54%

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

(b) Annualized.

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

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MVC Capital, Inc.
Consolidated Schedule of Investments
July 31, 2008
(Unaudited)

Industry	Investment	Principal
estments - 22.93% (a, c, g, f)		
Technology Investments	Preferred Stock (150,602 shares) (d)	
Manufacturer of Precision Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010 (h)	$ 2,473,521
	Second Lien Seller Note 14.0000%, 06/30/2013 (b, h)	3,478,620
Apparel	Second Lien Loan 14.0000%, 07/18/2012 (b, h)	18,113,125
	Term Loan A 7.4600%, 07/18/2011 (h)	2,280,000
	Term Loan B 9.8600%, 07/18/2011 (h)	2,000,000
Technology Investments	Preferred Stock (602,131 shares) (d)	
Technology Investments	Preferred Stock (5,802,259 shares) (d)	
Electrical Distribution	Senior Subordinated Debt 17.0000%, 01/31/2009 (b, h)	3,283,850
Building Products / Specialty Chemicals	Term Loan A 5.9631%, 04/06/2011 (h)	1,837,309
	Term Loan B 10.2131%, 04/06/2011 (h)	2,000,000
Consumer Products	Term Loan 11.1250%, 09/25/2011 (h)	13,070,833
Technology Investments	Common Stock (21,064 shares) (d, e)	
Technology Investments	Common Stock (5,786 shares) (d)	
Coal Processing and Production	Common Stock (666,667 shares) (d)	
Technology Investments	Common Stock (21,064 shares) (d, e)	
Technology Investments	Common Stock (131,615 shares) (d)	
Laboratory Research Equipment	First Lien Loan 7.4825%, 12/28/2012 (h)	1,015,102
	Second Lien Loan 15.0000%, 12/31/2013 (b, h)	24,499,174

	Industry	Investment	Principal
	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,241,000
	Engineering Services	First Lien Seller Note 5.2125%, 12/08/2012 (h)	985,000
		Second Lien Seller Note 9.5419%, 12/08/2013 (h)	3,500,000
.	Specialty Chemicals	Bridge Loan 5.0000%, 11/22/2011 (b, h)	1,681,111
filiated investments			
(a, c, g, f)			
	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)	14,000,000
		Convertible Series A Preferred Stock (9 shares)	
		Convertible Series B Preferred Stock (1,991 shares)	
, Inc.	Manufacturer of Packaged Foods	Common Stock (1,016,195 shares)	
		Convertible Preferred Stock (1,065,000 shares) (d)	
	Technology Investments	Preferred Stock (7,156,760 shares) (d)	
	Financial Services	Common Stock (500 shares) (d)	
	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013 (b, h)	10,829,753
		Convertible Preferred Stock (20,000 shares) (b)	
	Financial Services	Term Loan 6.7325%, 12/31/2011 (h)	5,000,000
		Revolving Line of Credit 6.7325%, 12/31/2011 (h)	2,850,000
		Limited Liability Company Interest	
	Human Capital Management	Common Stock (9 shares) (d)	
	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	5,766,185
		Senior Credit Facility 9.5000% 07/26/2010 (h)	2,451,302
		Senior Credit Facility 8.4638% 07/26/2010 (h)	571,429
		Convertible Series B Preferred Stock (32,200 shares) (d)	
		Convertible Series C Preferred Stock (8,216 shares) (d)	
	Non-Alcoholic Beverages	Common Stock (556,472 shares) (d)	

Preferred Stock (1,000,000 shares) (b, h)
Warrants (d)

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

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MVC Capital, Inc.
Consolidated Schedule of Investments (Continued)
July 31, 2008
(Unaudited)

Company	Industry	Investment	Principal
Control Investments - 52.97% (a, c, g, f)			
Harmony Pharmacy & Health Center, Inc.	Healthcare Retail	Revolving Credit Facility 10.0000%, 12/01/2009 (b, h)	$ 4,201,938 $
		Demand Note 10.0000% (h)	3,300,000
		Common Stock (2,000,000 shares) (d)	
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)	
		Bridge Loan 10.0000%, 12/31/2008 (e, h)	3,643,557
MVC Partners, LLC	Private Equity Firm	Limited Liability Company Interest (d)	
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)	
		Series A Convertible Preferred Stock (10,871 shares) (b, h)	

SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)	
SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH	Soil Remediation	Term Loan 7.0000%, 08/25/2009 (e, h)	6,187,350
		Common Equity Interest (d, e)	
		Preferred Equity Interest (d, e)	
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)	
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/15/2012 (b, h)	8,782,543
		Common Stock (1,115 shares) (d)	
Timberland Machines & Irrigation, Inc.	Distributor Landscaping and Irrigation Equipment	Senior Subordinated Debt 14.5500%, 08/04/2009 (b, h)	7,150,245
		Junior Revolving Line of Credit 12.5000%, 07/07/2009 (h)	5,000,000
		Common Stock (542 shares) (d)	
		Warrants (d)	

Turf Products, LLC	Distributor	Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	7,676,330
			Junior Revolving Note 2.0000%, 12/31/2008 (h)	1,000,000
			Limited Liability Company Interest (d)	
			Warrants (d)	
Velocitius B.V.	Renewable Energy		Common Equity Interest (d, e)	
Vendio Services, Inc.	Technology Investments		Common Stock (10,476 shares) (d)	
			Preferred Stock (6,443,188 shares) (d)	
Vestal Manufacturing Enterprises, Inc.	Iron Foundries		Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000
			Common Stock (81,000 shares) (d)	
Sub Total Control Investments				
TOTAL INVESTMENT ASSETS	**108.59% (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, SafeStone Technologies Limited, MVC Automotive Group 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 $417,429,247 as of July 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.

- Denotes zero cost or fair value.

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

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MVC Capital, Inc.
Consolidated Schedule of Investments
October 31, 2007

Industry	Investment	Principal
estments - 23.18% (a, c, g, f)		
Technology Investments	Preferred Stock (150,602 shares) (d)	
Manufacturer of Precision - Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010 (h)	$ 2,659,035
	Second Lien Seller Note 16.0000%, 06/30/2013 (b, h)	3,090,594
Apparel	Second Lien Loan 14.0000%, 07/18/2012 (b, h)	17,829,579
	Term Loan A 9.3800%, 07/18/2011 (h)	2,550,000
	Term Loan B 11.5300%, 07/18/2011 (h)	2,000,000
Technology Investments	Preferred Stock (602,131 shares) (d)	
Technology Investments	Preferred Stock (5,802,259 shares) (d)	
Building Products / Specialty Chemicals	Term Loan A 8.6280%, 04/06/2011 (h)	1,837,309
	Term Loan B 12.5025%, 04/06/2011 (h)	2,000,000
Consumer Products	Term Loan 11.1250%, 09/25/2011 (h)	14,850,000
Electrical Distribution	Senior Subordinated Debt 17.0000%, 01/31/2009 (b, h)	3,175,371
Technology Investments	Common Stock (21,064 shares) (d, e)	
Technology Investments	Common Stock (5,786 shares) (d)	
Technology Investments	Common Stock (21,064 shares) (d, e)	
Technology Investments	Common Stock (131,615 shares) (d)	
Laboratory Research Equipment	Term Loan B 13.1300%, 03/31/2011 (h)	7,392,634
	Senior Subordinated Debt 16.0000%, 03/31/2012 (b, h)	13,485,570
Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,320,500
	Term Loan 8.7500%, 10/06/2013 (h)	619,000
	Term Loan 8.7500%, 01/19/2014 (h)	705,000

	Engineering Services	First Lien Seller Note 8.1425%, 12/08/2012 (h)	992,500
		Second Lien Seller Note 11.3318%, 12/08/2013 (h)	3,500,000
iliated investments			
(a, c, g, f)			
	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)	14,035,389
		Convertible Series A Preferred Stock (9 shares) (d)	
		Convertible Series B Preferred Stock (1,991 shares) (d)	
Inc.	Manufacturer of Packaged Foods	Common Stock (1,016,195 shares)	
		Convertible Preferred Stock (1,065,000) (d)	
	Technology Investments	Preferred Stock (7,156,760 shares) (d)	
	Laboratory Research Equipment	Senior Subordinated Debt 12.5000%, 01/03/2008 (e, h)	12,962,963
		Common Stock (140 shares) (b, e)	
	Financial Services	Common Stock (500 shares) (d)	
	Confections Manufacturing and Distribution	Senior Subordinated Debt 17.0000%, 07/30/2009 (b, h)	5,718,372
		Promissory Note 9.1287%, 07/29/2008 (h)	325,000
		Common Stock (252 shares) (d)	
	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013 (b, h)	10,506,628
		Convertible Preferred Stock (20,000 shares) (b)	
	Financial Services	Term Loan 9.3790%, 12/31/2011 (h)	5,000,000
		Revolving Line of Credit 9.3790%, 12/31/2011 (h)	4,100,000
		Limited Liability Company Interest	
	Coal Processing and Production	Common Stock (1,666,667 shares) (d)	

Human Capital Management	Common Stock (9 shares) (d)
Non-Alcoholic Beverages	Common Stock (556,472 shares) (d)
	Preferred Stock (1,000,000 shares) (b, h)
	Warrants (d)

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

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MVC Capital, Inc.
Consolidated Schedule of Investments (Continued)
October 31, 2007

Industry	Investment
utomotive Dealership	Bridge Loan 12.0000%, 12/31/2007 (e, h)
	Common Stock (200 shares) (d, e)
ealthcare - Retail	Revolving Credit Facility 10.0000%, 12/01/09 (h)
	Common Stock (2,000,000 shares) (d)
utomotive Dealerships	Common Equity Interest (d, e)
	Bridge Loan 10.0000%, 03/17/2008 (e, h)
rivate Equity Firm	Limited Liability Company Interest (d)
edical Device Manufacturer	Common Stock (5,620 shares) (d)
	Convertible Unsecured Subordinated Promissary Note 17.1288%, 07/30/2008 (h)
rt Facilities	Common Stock (68,800 shares) (d, e)
il Remediation	Term Loan 7.0000%, 08/25/2009 (e, h)
	Common Equity Interest (d, e)
	Preferred Equity Interest (d, e)
pecialty Chemicals	Second Lien Loan 14.0000%, 08/15/2012 (b, h)
	Common Stock (800 shares) (d)
istributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 14.5500%, 08/04/2009 (b, h)
	Junior Revolving Line of Credit 12.5000%, 07/07/2009 (h)
	Common Stock (542 shares) (d)
	Warrants (d)

istributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h) Limited Liability Company Interest (d) Warrants (d)
nergy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h) Senior Credit Facility 12.2500% 7/26/2010 (h) Convertible Series B Preferred Stock (32,200 shares) (d) Convertible Series C Preferred Stock (8,216 shares) (d) Convertible Series F Preferred Stock (1,535 shares) (d)
enewable Energy	Revolving Credit Facility I, 8.0000%, 10/31/2009 (e, h) Revolving Credit Facility II, 8.0000%, 04/30/2010 (e, h) Common Equity Interest (d, e)
echnology Investments	Common Stock (10,476 shares) (d) Preferred Stock (6,443,188 shares) (d)
on Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h) Common Stock (81,000 shares) (d)
pecialty Chemicals	Bridge Loan 5.0000%, 11/22/2011 (b, h) Common Stock (400 shares) (d)

(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 auto MOTOL BENI, Genevac U.S. Holdings, Inc., Lockorder Limited, SafeStone Technologies Limited, MVC Automotive 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 $369,096,769 as of October 31, 2007.

(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.

- Denotes zero Cost or fair value.

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

MVC Capital, Inc. (the Company)
Notes to Consolidated Financial Statements
July 31, 2008
(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, 2007, as filed with the U.S. Securities and Exchange Commission (the SEC) on December 28, 2007 and as amended on May 9, 2008 (File No. 814-00201).

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. 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 77.48% of the Company s total assets at July 31, 2008. As discussed in Note 5, 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.

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5. Portfolio Investments

For the Nine Month Period Ended July 31, 2008

During the nine month period ended July 31, 2008, the Company made two new investments, committing capital totaling approximately $24.8 million. The investments were made in SP Industries, Inc. (SP) ($24.0 million) and SGDA Europe B.V. (SGDA Europe) ($750,000).

The Company also made nine follow-on investments in existing portfolio companies committing capital totaling approximately $68.7 million. During the nine month period ended July 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 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 nine month period ended July 31, 2008, the Company also made additional investments totaling $3.3 million 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%. On November 30, 2007, the Company invested an additional $36.7 million in Ohio Medical Corporation (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 February 29, 2008, the Company invested an additional $7.8 million in Summit Research Labs, Inc. (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 Products LLC (Turf) a $1.0 million junior revolving note. The revolving note has an annual interest rate of 2% and a maturity date of December 31, 2008. Turf immediately borrowed $1.0 million on the note.

At the beginning of the 2008 fiscal year, the junior revolving note provided to Timberland Machines & Irrigation, Inc. (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 nine month period ended July 31, 2008 were $1.0 million resulting in a balance as of July 31, 2008 of $5.0 million.

At October 31, 2007, the balance of the revolving credit facility provided to Octagon Credit Investors, LLC (Octagon) was $4.1 million. Net repayments during the nine month period ended July 31, 2008 were $1.2 million resulting in a balance outstanding as of July 31, 2008 of $2.9 million.

At October 31, 2007, the balance of Line I (as defined in Note 6 Commitments and Contingencies), provided to Velocitius B.V. (Velocitius) was approximately $191,000. Repayments during the nine month period ended July 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of July 31, 2008.

At October 31, 2007, the balance of Line II (as defined in Note 6 Commitments and Contingencies), provided to Velocitius was approximately $613,000. Repayments during the nine month period ended July 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of July 31, 2008.

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At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas & Electric, Inc. (U.S. Gas) was approximately $85,000. During the nine month period ended July 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 July 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 $2.4 million, resulting in a balance outstanding of $2.5 million at such date.

During the nine month period ended July 31, 2008, the Company received approximately $1.5 million in principal payments on the term loan provided to Storage Canada. The balance of the term loan at July 31, 2008 was approximately $1.2 million.

During the nine month period ended July 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 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 November 2, 2007, Genevac U.S. Holdings, Inc. (Genevac) made a principal payment of $1.0 million on its senior subordinated loan.

On December 31, 2007, March 31, 2008, and June 30, 2008, the Company received quarterly principal payments from BP Clothing, LLC (BP) on term loan A of $90,000. The balance of term loan A as of July 31, 2008 was approximately $2.3 million.

On December 31, 2007, March 31, 2008, and June 30, 2008, Total Safety U.S., Inc. (Total Safety) made principal payments of $2,500 on its first lien loan. The balance of the first lien loan as of July 31, 2008 was approximately $985,000.

On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. This was repaid on April 28, 2008. The note matured on May 1, 2008.

On January 2, 2008, February 1, 2008, and July 1, 2008, the Company received principal payments of $37,500, $1,666,667, and $37,500, respectively, on the term loan provided to Innovative Brands, LLC (Innovative Brands). The balance of the term loan as of July 31, 2008 was approximately $13.1 million.

On January 2, 2008, SP repaid term loan B and 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 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 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 Carbons Acquisition Corp. (WBS) at its cost of $1.6 million.

On March 31, 2008 and June 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 July 31, 2008, was approximately $1.0 million.

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 July 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 July 31, 2008 was $3.6 million and the common stock had a fair value of $45.0 million.

On July 23, 2008, the Company sold 500,000 shares of Phoenix Coal Corporation (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 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.

During the nine month period ended July 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 Sanierungsgesellschaft fur Deponien und Altasten mbH (SGDA) preferred equity interest by $375,000, Foliofn, Inc. (Foliofn) preferred stock by $6.0 million, SIA Tekers Invest (Tekers) common stock by $575,000, Custom Alloy Corporation (Custom Alloy) preferred stock by $12.5 million, Velocitius equity interest by $10.6 million, MVC Automotive equity interest by $9.6 million, PreVisor, Inc. (PreVisor) common stock by $2.7 million, Summit common stock by $6.0 million, and Vitality Foodservice, Inc. (Vitality) common stock and warrants by approximately $2.9 million. In addition, increases in the cost basis and fair value of the loans to GDC Acquisitions, LLC (GDC), SP, Harmony, Timberland, Amersham Corporation (Amersham), Marine Exhibition Corporation (Marine), BP, Summit, U.S. Gas, WBS, and Custom Alloy and the Vitality and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $4,218,554. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $2.9 million due to a PIK distribution which was treated as a return of capital. Also, during the nine month period ended July 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 $136,000. The Valuation Committee also decreased the fair value of the Company s investments in Vendio Services, Inc. (Vendio) preferred stock by $2.3 million, Vestal common stock by $1.2 million and Timberland common stock by $3.4 million during the nine month period ended July 31, 2008.

At July 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $453.3 million with a cost basis of $414.9 million. At July 31, 2008, 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 $20.8 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 $432.5 million and $359.0 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.

For the Year Ended October 31, 2007

During the fiscal year ended October 31, 2007, the Company made ten new investments, committing capital totaling approximately $117.3 million. The investments were made in WBS ($3.2 million), HuaMei Capital Company, Inc. (HuaMei) ($200,000), Levlad Arbonne International LLC (Levlad) ($10.1 million), Total Safety ($4.5 million), MVC Partners ($71,000), Genevac ($14.0 million), Tekers ($2.3 million), U.S. Gas ($18.9 million), Custom Alloy ($24.0 million), and MVC Automotive ($40.0 million).

The Company also made 16 follow-on investments in existing portfolio companies committing capital totaling approximately $49.8 million. On November 7, 2006, the Company invested $100,000 in SGDA by purchasing an additional common equity interest. On December 22, 2006, the Company purchased an additional 56,472 shares of common stock in Vitality at a cost of approximately $565,000. On January 9, 2007, the Company extended to Turf a $1.0 million junior revolving note. Turf immediately borrowed $1.0 million from the note. On January 11, 2007, the Company provided Harmony Pharmacy a $4.0 million revolving credit facility. Harmony Pharmacy immediately borrowed $1.75 million from the credit facility. On February 16, 2007, the Company invested $1.8 million in HuaMei purchasing 450 shares of common stock. At the same time, the previously issued $200,000 convertible promissory note was exchanged for 50 shares of HuaMei common stock at the same price. On February 19, 2007, the Company invested an additional $8.4 million of common equity interest in Velocitius. On February 21, 2007 and May 4, 2007, the Company provided BP a $5.0 million and a $2.5 million second lien loan, respectively. On March 26, 2007, the Company extended a $1.0 million bridge loan to BENI. On March 30, 2007, the Company invested an additional $5.0 million in SP in the form of a subordinated term loan B. On May 1, 2007, the Company extended to Velocitius a $650,000 revolving line of credit Line II (as defined in Note 6 Commitments and Contingencies). Velocitius immediately borrowed approximately $547,000. The balance of the line of credit as of October 31, 2007 was approximately $613,000. On May 8, 2007, the Company provided Baltic Motors Corporation (Baltic Motors) a $5.5 million bridge loan. On May 9, 2007, the Company purchased 1.0 million shares of Dakota Growers Pasta Company, Inc. (Dakota Growers) preferred stock at a cost of $10.0 million. At that time, 65,000 shares of Dakota Growers common stock were converted to 65,000 shares of convertible preferred stock. On June 19, 2007, the Company increased the bridge loan to BENI to $2.0 million. The remaining available amount of $1.7 million was immediately drawn. On July 30, 2007, the Company provided Ohio Medical a $2.0 million convertible unsecured promissory note. On August 20, 2007, the Company contributed an additional $45,000 to MVC Partners, increasing the Company s limited liability interest. On September 27, 2007, the Company invested an additional $1.25 million in Ohio Medical by increasing the convertible unsecured promissory note to $3.25 million.

At the beginning of the 2007 fiscal year, the junior revolving note provided to Timberland had a balance outstanding of approximately $2.8 million. On November 27, 2006, the amount available on the revolving note was increased by $750,000 to $4.0 million. Net borrowings during for the fiscal year ended October 31, 2007 were $1.2 million resulting in a balance as of October 31, 2007 of $4.0 million.

At October 31, 2006, the balance of the revolving credit facility provided to Octagon was $3.25 million. Net borrowings during the fiscal year ended October 31, 2007 were $850,000 resulting in a balance outstanding of $4.1 million.

At October 31, 2006, the balance of Line I provided to Velocitius was approximately $144,000. Net borrowings during the fiscal year October 31, 2007 were approximately $47,000. As of October 31, 2007, the balance of Line I was approximately $191,000.

On December 1, 2006, the Company received a principal payment of approximately $100,000 from Vestal on its senior subordinated debt. As of October 31, 2007, the balance of the loan was $700,000.

On December, 8, 2006, Total Safety repaid term loan A and term loan B in full including all accrued interest and prepayment fees. The total amount received for term loan A was $5,043,775 and for term loan B was $1,009,628.

On December 29, 2006, March 30, 2007, June 29, 2007, and September 28, 2007, the Company received quarterly principal payments from BP on term loan A of $90,000.

On January 1, 2007, April 2, 2007, July 2, 2007, and October 1, 2007, the Company received principal payments of $37,500 on the term loan provided to Innovative Brands on each payment date.

On January 2, 2007, March 1, 2007, and September 27, 2007, the Company received principal payments of approximately $96,000, $1.0 million, and $63,000, respectively, on term loan A from Henry Company.

On January 5, 2007, Baltic Motors repaid the bridge loan in full including all accrued interest. The total amount received from the repayment was $1,033,000.

On January 19, 2007, Storage Canada borrowed an additional $705,000 under their credit facility. The borrowing bears annual interest of 8.75% and has a maturity date of January 19, 2014.

On February 16, 2007, the Company exchanged the $200,000 convertible promissory note due from HuaMei for 50 shares of its common stock.

On March 8, 2007, Levlad repaid its loan in full, including all accrued interest and a prepayment fee. The total amount received from the payment was approximately $10.4 million.

On March 30, 2007, June 29, 2007, and September 28, 2007, Total Safety made principal payments of $2,500 on its first lien loan.

On April 12, 2007 and April 18, 2007, BENI made principal payments of $200,000 and $500,000, respectively, on its bridge loan.

On April 16, 2007, the assets and liabilities of SafeStone Technologies PLC were transferred to two new companies, Lockorder Limited (Lockorder) and SafeStone Technologies Limited (SafeStone Limited). The Company received 21,064 shares of SafeStone Limited and 21,064 shares of Lockorder as a result of this corporate action. On a combined basis, there was no change in the cost basis or fair value due to this transaction.

On May 1, 2007, Turf repaid its secured junior revolving note in full, including accrued interest. The total amount received from the payment was approximately $1.0 million. There were no borrowings outstanding on the revolving note as of October 31, 2007.

Beginning on May 1, 2007, the Company receives monthly principal payments of $111,111 from SP on term loan B. Total principal payments for the fiscal year ended October 31, 2007 was $666,666.

On July 7, 2007, the Company extended the maturity date of the Timberland junior revolver to July 7, 2009.

On July 24, 2007, the Company sold the common stock of Baltic Motors and SIA BM Auto (BM Auto). The amount received from the sale of the 60,684 common shares of Baltic Motors was approximately $62.0

million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. Baltic Motors repaid all debt from the Company in full including all accrued interest. Total amount received from the repayment of the debt was approximately $10.2 million including all accrued interest. The remaining $51.8 million, less the $8.0 million cost basis of Baltic Motors, resulted in $43.8 million recorded as realized gain. The difference between the $51.8 million received from the Baltic Motors equity and the carrying value at October 31, 2006 is $30.6 million and the amount of the increase in net assets attributable to fiscal year 2007. The portion of the capital gain related to the equity investment made on June 24, 2004 ($40.9 million), will be treated as long-term capital gain and the portion related to the equity investment made on September 28, 2006 ($2.9 million) will be treated as a short-term capital gain. The amount received from the sale of the 47,300 common shares of BM Auto was approximately $29.7 million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. The $29.7 million, less the $8.0 million cost basis of BM Auto, resulted in $21.7 million recorded as a long term capital gain. The difference between the $29.7 million received from the BM Auto equity and the carrying value at October 31, 2006 is $21.7 million, which is the amount of the increase in net assets attributable to fiscal year 2007.

As mentioned above, a reserve account of approximately $3.0 million was created for post closing conditions that are required of the seller as a part of the purchase agreement. The cash held in the reserve account was held in Euros. On October 17, 2007, all post-closing conditions from the acquisition were satisfied. Of the $3.0 million held in reserve, $1.0 million was not needed to satisfy the post-closing conditions and as a result was added to the Company s gain on the sale. Of the $1.0 million gain from the reserve account, approximately $887,000 is attributable to the sale of Baltic Motors and approximately $148,000 is attributable to the sale to BM Auto. The Company also had a currency gain of approximately $42,000 from the reserve account. Total gain from the sale of Baltic Motors and BM Auto was $66.5 million.

On July 27, 2007, U.S. Gas repaid its bridge loan in full, including accrued interest. The total amount received was approximately $908,000.

On August 1, 2007, Phoenix Coal repaid its second lien loan in full including all accrued interest and fees. Total amount received from the repayment was approximately $8.4 million.

On October 31, 2007, the Company restructured the terms of the Amersham loans. The accrued interest on the loan with an outstanding balance of $2.7 million at October 31, 2007 was capitalized. The default PIK interest on the loan with a balance of $3.1 million at October 31, 2007 was forgiven up to 75%. The interest rate on this loan has been reduced to the original rate of 16%.

Net borrowings on the Harmony Pharmacy revolving credit facility during the fiscal year ended October 31, 2007 were $4.0 million, resulting in a balance outstanding of approximately $4.0 million.

Net borrowings on the U.S. Gas senior credit facility during the fiscal year ended October 31, 2007 were approximately $85,000, resulting in a balance outstanding of approximately $85,000.

During the fiscal year ended October 31, 2007, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $1.9 million, Octagon s membership interest by approximately $1.6 million, SGDA common equity interest by approximately $121,000 and preferred equity interest by $600,000, PreVisor common stock by $3.0 million, Foliofn preferred stock by $2.6 million, Tekers common stock by $300,000, BENI common stock by $700,000, Summit preferred stock by $1.0 million, Vendio preferred stock by $6.1 million, and Vendio common stock by approximately $15,000. In addition, increases in the cost basis and fair value of the loans to Impact, GDC, SP, Timberland, Amersham, Marine, Phoenix Coal, BP, Turf, Summit, U.S. Gas, Custom Alloy, Vitality and Marine preferred stock, and Genevac common stock were due to the capitalization of PIK interest/dividends totaling $2,850,999.

Also, during the fiscal year ended October 31, 2007, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of the Company s investment by $216,275. The Valuation Committee also decreased the fair value of the Company s investments in Ohio Medical by $9.0 million and Timberland common stock by $1.0 million during the fiscal year ended October 31, 2007.

At October 31, 2007, the fair value of all portfolio investments was $379.2 million with a cost basis of $393.4 million. At October 31, 2007, the fair value and cost basis of the 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. At October 31, 2006, the fair value of all portfolio investments was $275.9 million with a cost basis of $286.9 million. At October 31, 2006, the fair value and cost basis of Legacy Investments was $8.4 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 $267.5 million and $231.0 million, respectively.

6. Commitments and Contingencies

Commitments to/for Portfolio Companies:

At July 31, 2008, the Company s existing commitments to portfolio companies consisted of the following:

Commitments of MVC Capital, Inc.

Portfolio Company		Amount Committed		Amount Funded at July 31, 2008
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		
Octagon Revolving Credit Facility	$	12.0 million	$	2.9 million
Velocitius Revolving Line I	$	260,000		
Turf Junior Revolver	$	1.0 million	$	1.0 million
Harmony Pharmacy Revolving Credit Facility	$	4.0 million	$	4.0 million
Velocitius Revolving Line II	$	650,000		
Tekers Guarantee	$	2.2 million		
U.S. Gas Revolving Credit Facility	$	10.0 million	$	3.0 million
U.S. Gas Junior Revolver	$	2.0 million		
MVC Automotive Guarantee	$	10.1 million		
MVC Automotive Guarantee	$	6.2 million		
Total	$	**61.4 million**	$	**17.1 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. As of October 31, 2007, the funded debt under the junior revolving line of credit was $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 nine month period ended July 31, 2008 were $1.0 million resulting in a balance as of July 31, 2008 of $5.0 million.

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, 2007, the outstanding balance of the loan commitment was $2.7 million. Net repayments during the nine month period ended July 31, 2008 were approximately $1.5 million, 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. There was no amount outstanding on the revolving loan facility as of July 31, 2008.

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, 2007 the outstanding balance of the revolving credit facility provided to Octagon was $4.1 million. Net repayments during the nine month period ended July 31, 2008 were $1.2 million resulting in a balance outstanding of $2.9 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%. At October 31, 2007, the balance of the Line I was approximately $191,000. Repayments during the nine month period ended July 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of July 31, 2008.

On January 9, 2007, the Company extended to Turf a $1.0 million secured junior revolving note. The note bears annual interest at 12.5% and expires on May 1, 2008. The Company also receives a fee of 0.25% of the unused portion of the note. There was no amount outstanding on the secured junior revolving note as of October 31, 2007. On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. Turf repaid $1.0 million on the secured junior revolving note on April 28, 2008. This note matured on May 1, 2008.

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, 2007 and July 31, 2008, the outstanding balance of the revolving credit facility provided 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%. At October 31, 2007, there was approximately $613,000 outstanding. Repayments during the nine month period ended July 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of July 31, 2008.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $2.2 million at July 31, 2008.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility and a $2.0 million junior revolver 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 junior revolver bears annual interest at 14%. The Company receives a fee of 0.50% on the unused portion of the senior credit facility and the junior revolver. The revolving senior credit facility and junior revolver expire on July 26, 2010. At October 31, 2007, there was approximately $85,000 outstanding on the revolving senior credit facility. During the nine month period ended July 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 July 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 $2.4 million, resulting in a balance outstanding of $2.5 million at such date. There was no amount outstanding on the junior revolver as of October 31, 2007 and July 31, 2008.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $10.1 million at July 31, 2008.

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 $6.2 million at July 31, 2008) 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 2.0% and expires on December 31, 2008. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note resulting in a balance of $1.0 million at such date.

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.

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, 2007, there was $50.0 million in term debt and $30.0 million in revolving credit on Credit Facility I outstanding. During the nine month period ended July 31, 2008, the Company s net borrowings on Credit Facility I were $20.0 million. As of July 31, 2008, there was $50.0 million in term debt and $50.0 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). During the nine month period ended July 31, 2008, the Company s net borrowings on Credit Facility II were $50.0 million. 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.

7. Certain Issuances of Equity Securities by the Issuer

On February 28, 2007, the Company completed its public offering of 5,000,000 shares of the Company s common stock at a price of $16.25 per share. On March 28, 2007, pursuant to the 30-day over-allotment option granted by the Company to the underwriters in connection with the offering, the underwriters purchased an additional 158,500 shares of common stock at the purchase price of $16.25 per share. The Company raised approximately $78.4 million in net proceeds after deducting the underwriting discount and commissions and estimated offering expenses. The Company expects to use the net proceeds of the offering to fund additional investments and for general corporate purposes, including the repayment of debt.

8. Management

On November 6, 2003, Michael Tokarz assumed his positions as Chairman, Portfolio Manager and Director of the Company. From November 6, 2003 to October 31, 2006, the Company was internally managed. The Company entered into the Advisory Agreement, effective November 1, 2006, which provides for the Company to be managed externally by TTG Advisers, which is controlled by Mr. Tokarz.

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. Please see Note 9 Incentive Compensation for more information.

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9. Incentive Compensation

Effective November 1, 2006, Mr. Tokarz s employment agreement with the Company terminated and the obligations under Mr. Tokarz s agreement were superseded by those under the Advisory Agreement entered into with TTG Advisers. Pursuant to the Advisory Agreement, the Company pays an incentive fee to TTG Advisers which is generally: (i) 20% of pre-incentive fee net operating income and (ii) 20% of net realized capital gains less unrealized depreciation (on our portfolio securities acquired after November 1, 2003). TTG Advisers is entitled to an incentive fee with respect to our pre-incentive fee net operating income in each fiscal quarter as follows: no incentive fee in any fiscal quarter in which our pre-incentive fee net operating income does not exceed the hurdle rate of 1.75% of net assets, 100% of our pre-incentive fee net operating income with respect to that portion of such pre-incentive fee net operating income, if any, that exceeds the hurdle rate but is less than 2.1875% of net assets in any fiscal quarter and 20% of the amount of our pre-incentive fee net operating income, if any, that exceeds 2.1875% of net assets in any fiscal quarter. Under the Advisory Agreement, the accrual of the provision for incentive compensation for net realized capital gains is consistent with the accrual that was required under the employment agreement with Mr. Tokarz.

Under internal management, Mr. Tokarz was entitled to compensation pursuant to his agreement with the Company, under which the Company was required to pay Mr. Tokarz incentive compensation in an amount equal to the lesser of (a) 20% of the net income of the Company for the fiscal year; or (b) the sum of (i) 20% of the net capital gains realized less unrealized depreciation by the Company in respect of the investments made during his tenure as Portfolio Manager; and (ii) the amount, if any, by which the Company s total expenses for a fiscal year were less than two percent of the Company s net assets (determined as of the last day of the period).

At October 31, 2007, the provision for estimated incentive compensation was $17,875,496. During the nine month period ended July 31, 2008, this provision for incentive compensation was decreased by a net amount of $3,576,743 to $14,298,753. 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 $50.3 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $2.9 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 nine month period ended July 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). 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 and 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 two of the Company s portfolio investments (Timberland and Vestal) by a total of $4.6 million. During the nine month period ended July 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, 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.

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 do not believe that FIN 48 has a material impact on the Company s financial condition or results of operations. 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.

Management has provided a full valuation allowance for the net operating loss deferred tax asset of approximately $414,000 for the nine month period ended July 31, 2008. Based on FAS109, management expects it is more likely than not that all or portion of the deferred tax asset will not be realized in the near future and there is sufficient negative evidence to support this decision. Management will revisit this at year end.

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, timing differences and differing characterizations of distributions made by the Company. 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.

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For the Quarter Ended January 31, 2008

On December 20, 2007, the Company s board of directors declared a dividend of $0.12 per share. The dividend was payable on January 9, 2008 to shareholders of record on December 31, 2007. The total distribution amounted to $2,913,738, including distributions reinvested. In accordance with the Company s dividend reinvestment plan (the Plan), Computershare Ltd., the Plan Agent, re-issued 15,930 shares of common stock from the Company s treasury to shareholders participating in the Plan.

For the Quarter Ended April 30, 2008

On April 11, 2008, the Company s board of directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2008 to shareholders of record on April 23, 2008. The total distribution amounted to $2,915,651, including distributions reinvested.

For the Quarter Ended July 31, 2008

On July 10, 2008, the Company s board of directors declared a dividend of $0.12 per share. The dividend was payable on July 31, 2008 to shareholders of record on July 24, 2008. The total distribution amounted to $2,915,651, including distributions reinvested.

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 nine month period ended July 31, 2008:

	MVC	MVCFS	Consolidated
Interest and dividend income	$20,347,689	$ 110,465	$20,458,154
Fee income	159,487	2,728,068	2,887,555
Other income	435,560		435,560
Total operating income	20,942,736	2,838,533	23,781,269
Total operating expenses	17,229,313	4,170,922	21,400,235
Net operating income (loss) before taxes	3,713,423	(1,332,389)	2,381,034
Tax benefit		(106,123)	(106,123)
Net operating income (loss)	3,713,423	(1,226,266)	2,487,157
Net realized gain on investments and foreign currency	1,418,641		1,418,641
Net change in unrealized appreciation on investments	52,688,629		52,688,629
Net increase (decrease) in net assets resulting from operations	57,820,693	(1,226,266)	56,594,427

In all periods prior to July 16, 2004, all business was conducted through MVC Capital, Inc. With the externalization of the Company s management on November 1, 2006, separate invoices are now sent to MVC Capital and MVCFS for the quarterly base management fee due to TTG Advisers.

13. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* Statement No. 157 (FAS 157), which provides enhanced guidance for using fair value to measure assets and liabilities. FAS 157 also provides guidance regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This guidance, as required, will be applicable to our financial statements for our fiscal year 2009. Based upon the Company s initial review of FAS 157 s impact, FAS 157 is not expected to have a material impact on our consolidated financial statements.

14. Subsequent Events

Since July 31, 2008, net borrowings on the U.S. Gas senior credit facility were approximately $424,000.

Since July 31, 2008, net repayments on the Octagon credit facility were approximately $2.8 million.

On August 4, 2008, U.S.Gas drew on their $2.0 million junior revolver in full. Interest rate on the revolver is 14% with a maturity date of July 25, 2012.

On August 4, 2008, the Company repaid $50.0 million on Credit Facility I and repaid $50.0 million on Credit Facility II.

On August 5, 2008, Custom Alloy made a principal payment of $2.0 million on its unsecured subordinated loan.

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

On August 29, 2008, GDC made a principal payment of $250,000 on its senior subordinated loan.

On August 29, 2008, the Company borrowed $50.0 million from on Credit Facility I and $50.0 million on Credit Facility II.

On September 3, 2008, the Company invested approximately $28.0 million in Security Holdings B.V. in the form of an equity interest.

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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, 2007.

SELECTED CONSOLIDATED FINANCIAL DATA:

Financial information for the fiscal year ended October 31, 2007 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.

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Selected Consolidated Financial Data

	Nine Month Period Ended July 31, **2008** (Unaudited)	Nine Month Period Ended July 31, **2007** (Unaudited)	Year Ended October 31, **2007**
	(In thousands, except per share data)		
Operating Data:			
Interest and related portfolio income:			
Interest and dividend income	$ 20,458	$ 15,982	$ 22,826
Fee income	2,888	2,278	3,750
Other income	435	252	374
Total operating income	23,781	18,512	26,950
Expenses:			
Incentive compensation (Note 9)	9,326	10,042	10,813
Administrative	2,321	1,929	2,559
Interest, fees and other borrowing costs	3,274	3,636	4,859
Management fee	6,479	5,105	7,034
Total operating expenses	21,400	20,712	25,265
Net operating income (loss) before taxes	2,381	(2,200)	1,685
Tax benefit	(106)	(452)	(375)
Net operating income (loss)	2,487	(1,748)	2,060
Net realized and unrealized gains (losses):			
Net realized gains (losses)	1,419	65,850	66,944
Net change in unrealized appreciation (depreciation)	52,689	(6,914)	(3,302)
Net realized and unrealized gains on investments	54,108	58,936	63,642
Net increase in net assets resulting from operations	$ 56,595	$ 57,188	$ 65,702
Per Share:			
Net increase in net assets per share resulting from operations	$ 2.33	$ 2.57	$ 2.92

Dividends per share	$ 0.36	$ 0.42	$ 0.54
Balance Sheet Data:			
Portfolio at fair value	$ 453,301	$ 316,867	$ 379,168
Portfolio at cost	414,874	334,740	393,428
Total assets	585,051	436,549	470,491
Shareholders equity	417,429	363,453	369,097
Shareholders equity per share (net asset value)	$ 17.18	$ 14.98	$ 15.21
Common shares outstanding at period end	24,297	24,262	24,265
Other Data:			
Number of Investments funded in period	11	22	26
Investments funded ($) in period	$ 93,471	$ 100,700	$ 167,134

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	2008		2007					2006			
	Qtr 3	Qtr 2	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	6,804	8,081	8,896	8,438	7,030	6,073	5,409	6,104	4,607	3,915	3,882
Incentive compensation	3,929	3,740	1,657	771	1,618	4,898	3,526	1,338	1,161	2,005	1,551
Interest, fees and other borrowing costs	1,022	1,081	1,171	1,223	1,252	1,256	1,128	910	636	39	9
Management fee	2,276	2,185	2,018	1,929	1,616	1,854	1,635				
Other expenses	887	753	681	630	608	652	669	2,117	1,676	1,739	1,387
Tax expense (benefit)	58	(186)	22	77	(78)	(394)	20	16	62	(24)	105
Net operating income (loss) before net realized and unrealized gains	(1,368)	508	3,347	3,808	2,014	(2,193)	(1,569)	1,723	1,072	156	830
Net increase in net assets resulting from operations	18,682	17,158	20,813	8,514	13,788	24,323	19,077	15,866	8,046	11,117	12,307
Net increase in net assets resulting from operations per share	0.77	0.70	0.86	0.35	0.57	1.00	1.00	0.83	0.42	0.58	0.65
Net asset value per share	17.18	16.53	15.95	15.21	14.98	14.53	13.23	12.41	11.70	11.40	10.94

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, 2007, the Company made ten new investments and 16 follow-on investments in existing portfolio companies, committing capital totaling approximately $167.1 million pursuant to our current investment objective. During the nine month period ended July 31, 2008, the Company made two new investments and nine follow-on investments in existing portfolio companies, committing capital totaling approximately $93.5 million.

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 July 31, 2008, 3.56% 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.

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 is currently considering authorizing the establishment of one or more investment vehicles that would have the ability, among other things, to make Non-Diversified Investments. 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 Nine Month Periods Ended July 31, 2008 and 2007. Total operating income was $23.8 million for the nine month period ended July 31, 2008 and $18.5 million for the nine month period ended July 31, 2007, an increase of $5.3 million.

For the Nine Month Period Ended July 31, 2008

Total operating income was $23.8 million for the nine month period ended July 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 $19.6 million in interest and dividend income from investments in portfolio companies. Of the $19.6 million recorded in interest/dividend income, approximately $4.2 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 2% to 17%. Also, the Company earned approximately $830,000 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 $2.9 million and $436,000, respectively.

For the Nine Month Period Ended July 31, 2007

Total operating income was $18.5 million for the nine month period ended July 31, 2007. 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 and dividend income earned on loans to portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $15.5 million in interest and dividend income from investments in portfolio companies. Of the $15.5 million recorded in interest/dividend income, approximately $2.4 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 0% to 27%. Also, the Company earned approximately $508,000 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 $2.3 million and $252,000, respectively.

OPERATING EXPENSES

For the Nine Month Periods Ended July 31, 2008 and 2007. Operating expenses were $21.4 million for the nine month period ended July 31, 2008 and $20.7 million for the nine month period ended July 31, 2007, an increase of $700,000.

For the Nine Month Period Ended July 31, 2008

Operating expenses were $21.4 million or 7.30% of the Company s average net assets, when annualized, for the nine month period ended July 31, 2008. Significant components of operating expenses for the nine month period ended July 31, 2008, included the estimated provision for incentive compensation expense of approximately $9.3 million, the management fee of $6.5 million, and interest expense and other borrowing costs of $3.3 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $700,000 increase in the Company s operating expenses for the nine month period ended July 31, 2008 compared to the nine month period ended July 31, 2007, was primarily due to the $1.4 million increase in the management fee expense offset by the decrease of $700,000 in the provision for estimated incentive compensation. 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. 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 nine month period ended July 31, 2008, the estimated provision for incentive compensation on the balance sheet, was decreased by a net amount of $3,576,743 to $14,298,753. 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, MVC Automotive, PreVisor and Velocitius by a total of $50.3 million. The provision also reflects the Valuation Committee s determination to increase the fair value of the Ohio Medical preferred stock by approximately $2.9 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 nine month period ended July 31, 2008 was a result of the incentive compensation payment to TTG Advisers of $12.9 million due to the sale of Baltic Motors and BM Auto (20% of the realized gain from the sale less unrealized depreciation on the portfolio). 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 $12.1 million or 4.06% of average net assets when annualized as compared to 7.24%, which is reported on the Consolidated Per Share Data and Ratios, for the nine month period ended July 31, 2008. The net decrease also reflects the Valuation Committee s determination to decrease the fair values of two of the Company s portfolio investments (Timberland and Vestal) by a total of $4.6 million. During the nine month period ended July 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.

For the Nine Month Period Ended July 31, 2007

Operating expenses were $20.7 million or 9.05% of the Company s average net assets, when annualized, for the nine month period ended July 31, 2007. Significant components of operating expenses for the nine month period ended July 31, 2007 included the estimated provision for incentive compensation expense of approximately $10.0 million, management fee of $5.1 million, and interest expense and other borrowing costs of $3.6 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $10.5 million increase in the Company s operating expenses in the nine month period ended July 31, 2007 compared to the nine month period ended July 31, 2006, was primarily due to the $5.3 million increase in the provision for estimated incentive compensation, the $2.9 million increase in the Company s interest expense and other borrowings, and the $2.3 million increase in the management fee expense compared to the facilities and employee compensation and benefits expense incurred when the Company was internally managed. 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 a given fiscal year.

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 the nine month period ended July 31, 2007, the expense ratio was 3.07% (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the nine month period ended July 31, 2007, the provision for incentive compensation was increased by a net amount of $9,931,942 to $17,104,294. The increase in the provision for incentive compensation during the nine month period ended July 31, 2007 primarily resulted from the sale of Baltic Motors and BM Auto for a combined realized gain of $65.5 million, which was a $52.3 million increase from the carrying value at October 31, 2006. The Valuation Committee also determined to increase the fair values of five of the Company s portfolio investments (Dakota, Octagon, SGDA, PreVisor and Vitality) by a total of $5.8 million and decrease the fair value of Ohio by $9.0 million. During the year ended October 31, 2006, Mr. Tokarz was paid no cash or other compensation. However, on October 2, 2006, the Company realized a gain of $551,092 from the sale of a portion of the Company s LLC membership interest in Octagon. This transaction triggered an incentive compensation payment obligation of $110,218 to Mr. Tokarz, which was paid on January 12, 2007. After the increase in the provision for incentive compensation due to the sale of Baltic Motors and BM Auto and the decrease in the provision due to the Valuation Committee s determinations and payment made to Mr. Tokarz, the reserve balance at July 31, 2007 was $17,104,294. This reserve balance of $17,104,294 will remain unpaid until net capital gains are realized, if ever, by the Company. 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 $10.7 million or 4.47% of average net assets when annualized as compared to 8.86%, which is reported on the Consolidated Per Share Data and Ratios, for the nine month period ended July 31, 2007. During the nine month period ended July 31, 2007, 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.

REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES

For the Nine Month Periods Ended July 31, 2008 and 2007. Net realized gains for the nine month period ended July 31, 2008 were $1.4 million and $65.8 million for the nine month period ended July 31, 2007, a decrease of approximately $64.4 million.

For the Nine Month Period Ended July 31, 2008

Net realized gains for the nine month period ended July 31, 2008 were $1.4 million. The significant component of the Company s net realized gains for the nine month period ended July 31, 2008 was primarily due to the gain on the sale of Genevac common stock and Phoenix Coal 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. 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 500,000 more 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. The Company also received a distribution related to the sale of Baltic of approximately $283,000.

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

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For the Nine Month Period Ended July, 2007

Net realized gains for the nine month period ended July 31, 2007 were $65.8 million. The significant component of the Company s net realized gains for the nine month period ended July 31, 2007 was primarily due to the gain on the sale of Baltic and BM Auto. On July 24, 2007, the Company sold the common stock of Baltic Motors and BM Auto. The amount received from the sale of the 60,684 common shares of Baltic Motors was approximately $62.0 million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. Baltic Motors repaid all debt from the Company in full including all accrued interest. The total amount received from the repayment of the debt was approximately $10.2 million including all accrued interest. The remaining $51.8 million less the $8.0 million cost basis of Baltic resulted in $43.8 million recorded as realized gain. The difference between the $51.8 million received from the Baltic equity and the carrying value at October 31, 2006 is $30.6 million and the amount of the increase in net assets attributable to fiscal year 2007. The portion of the capital gain related to the equity investment made on June 24, 2004 ($40.9 million), will be treated as long-term capital gain and the portion related to the equity investment made on September 28, 2006 ($2.9 million) will be treated as a short-term capital gain. The amount received from the sale of the 47,300 common shares of BM Auto was approximately $29.7 million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. The $29.7 million less the $8.0 million cost basis of BM Auto resulted in $21.7 million recorded as a long term capital gain. The difference between the $29.7 million received from the BM Auto equity and the carrying value at October 31, 2006 is $21.7 million and the amount of the increase in net assets attributable to fiscal 2007.

As mentioned above, a reserve account of approximately $3.0 million was created for post closing conditions that are required of the seller as a part of the purchase agreement. The cash held in the reserve account is held in Euros. At July 31, 2007, the balance of the reserve account was approximately $2.9 million. Expenses such as finishing a road to a dealership and Latvian tax withholding payments, among other things have been estimated by management and will be paid from this account. This reserve account is owned and controlled by the Company. The Company has recorded the cash in the reserve account to its books denominated as foreign currency. It has also recorded a liability for the same amount so there is no impact to net asset value until all post closing conditions are met. The remaining cash, if any, will be converted to USD and recorded as a long term capital gain. We do not anticipate any overages; however, if they occur it would reduce the capital gain that has already been recorded. Any difference recorded due to changes in exchange rates since the Euros were received will be recorded as currency gain (loss). During the interim, at each month end, the Euros will be valued based on that day s exchange rate and the liability will be adjusted to match the USD equivalent. Management believes all post closing conditions will be met before October 31, 2007.

On June 14, 2007, the Company received approximately $451,000 as a final disbursement from the sale of Process Claims. This amount was deposited into a reserve account at the time of sale. Due to the contingencies associated with the escrow, the Company placed no value on the proceeds deposited in escrow.

The Company also realized a loss from the prepayment from Levlad on the second lien loan, which was purchased at a premium and thus resulted in a realized loss of approximately $121,000.

UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES

For the Nine Month Periods Ended July 31, 2008 and 2007. The Company had a net change in unrealized appreciation on portfolio investments of $52.7 million for the nine month period ended July 31, 2008 and unrealized depreciation of $6.9 million for the nine month period ended July 31, 2007.

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For the Nine Month Period Ended July 31, 2008

The Company had a net change in unrealized appreciation on portfolio investments of $52.7 million for the nine month period ended July 31, 2008. The change in unrealized appreciation on investment transactions for the nine month period ended July 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 $5.2 million, SGDA preferred equity interest by $375,000, Foliofn preferred stock by $6.0 million, Tekers common stock by $575,000, Custom Alloy preferred stock by $12.5 million, Velocitius equity interest by $10.6 million, MVC Automotive equity interest by $9.6 million, PreVisor common stock by $2.7 million, Summit common stock by $6.0 million, Vitality common stock and warrants by approximately $2.9 million and Ohio Medical preferred stock by approximately $2.9 million due to a PIK distribution which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company s investments in Vendio preferred stock by $2.3 million, Vestal common stock by $1.2 million and Timberland common stock by $3.4 million.

For the Nine Month Period Ended July 31, 2007

The Company had a net change in unrealized depreciation on portfolio investments of $6.9 million for the nine month period ended July 31, 2007. The net change in unrealized depreciation on investment transactions for the nine month period ended July 31, 2007, primarily resulted from the sale of Baltic Motors and BM Auto for a combined realized gain of $65.5 million, which was a $52.3 million increase from the carrying value at October 31, 2006. The Valuation Committee s decision to increase the fair values of the Company s investments in Dakota common stock by $1.9 million, Octagon s membership interest by approximately $1.6 million, SGDA s preferred equity by $350,000 and common equity by approximately $276,000, PreVisor common stock by $1.7 million, Vendio preferred stock by $6.1 million and common stock by $15,000, Foliofn preferred stock by $2.1 million, and Vitality preferred stock by approximately $1.1 million and a decrease in the fair value of Ohio common stock by $9.0 million, resulted in a net unrealized appreciation of $6.1 million. The net increase of $6.1 million in the fair values of the Company s investments determined by the Valuation Committee and the sale of Baltic Motors and BM Auto, with a $52.3 million increase from the carrying value at October 31, 2006, was offset by the unrealized depreciation reclassification from unrealized to realized caused by the sale of Baltic Motors and BM Auto of $65.5 million. These were the primary components for the unrealized depreciation of $6.9 million for the nine month period ended July 31, 2007.

PORTFOLIO INVESTMENTS

For the Nine Month Period Ended July 31, 2008 and the Year Ended October 31, 2007. The cost of the portfolio investments held by the Company at July 31, 2008 and at October 31, 2007 was $414.9 million and $393.4 million, respectively, an increase of $21.5 million. The aggregate fair value of portfolio investments at July 31, 2008 and at October 31, 2007 was $453.3 million and $379.2 million, respectively, an increase of $74.1 million. The cost and aggregated market value of short-term securities held by the Company at July 31, 2008 and at October 31, 2007 was $0. The cost and aggregate fair value of cash and cash equivalents held by the Company at July 31, 2008 and at October 31, 2007 was $125.0 million and $84.7, respectively, an increase of approximately $40.3 million.

For the Nine Month Period Ended July 31, 2008

During the nine month period ended July 31, 2008, the Company made two new investments, committing capital totaling approximately $24.8 million. The investments were made in SP ($24.0 million) and SGDA Europe ($750,000).

The Company also made nine follow-on investments in existing portfolio companies committing capital totaling approximately $68.7 million. During the nine month period ended July 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 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 nine month period ended July 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 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 2% and a maturity date of December 31, 2008. Turf immediately borrowed $1.0 million on the note.

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 nine month period ended July 31, 2008 were $1.0 million resulting in a balance as of July 31, 2008 of $5.0 million.

At October 31, 2007, the balance of the revolving credit facility provided to Octagon was $4.1 million. Net repayments during the nine month period ended July 31, 2008 were $1.2 million resulting in a balance outstanding as of July 31, 2008 of $2.9 million.

At October 31, 2007, the balance of Line I (as defined in Note 6 Commitments and Contingencies), provided to Velocitius was approximately $191,000. Repayments during the nine month period ended July 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of July 31, 2008.

At October 31, 2007, the balance of Line II (as defined in Note 6 Commitments and Contingencies), provided to Velocitius was approximately $613,000. Repayments during the nine month period ended July 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of July 31, 2008.

At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the nine month period ended July 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 July 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 $2.4 million resulting, in a balance outstanding of $2.5 million at such date.

During the nine month period ended July 31, 2008, the Company received approximately $1.5 million in principal payments on the term loan provided to Storage Canada. The balance of the term loan at July 31, 2008 was approximately $1.2 million.

During the nine month period ended July 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 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 November 2, 2007, Genevac made a principal payment of $1.0 million on its senior subordinated loan.

On December 31, 2007, March 31, 2008, and June 30, 2008, the Company received quarterly principal payments from BP on term loan A of $90,000. The balance of term loan A as of July 31, 2008 was approximately $2.3 million.

On December 31, 2007, March 31, 2008, and June 30, 2008, Total Safety made principal payments of $2,500 on its first lien loan. The balance of the first lien loan as of July 31, 2008 was approximately $985,000.

On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. This was repaid on April 28, 2008. The note matured on May 1, 2008.

On January 2, 2008, February 1, 2008, and July 1, 2008, the Company received principal payments of $37,500, $1,666,667, and $37,500, respectively, on the term loan provided to Innovative Brands. The balance of the term loan as of July 31, 2008 was approximately $13.1 million.

On January 2, 2008, SP repaid term loan B and 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 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 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 and June 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 July 31, 2008, was approximately $1.0 million.

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 July 31, 2008, was $600,000.

On June 9, 2008, BENI was acquired by MVC Automotive to achieve operating efficiencies. Both entities were 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 July 31, 2008 was $3.6 million and the common stock had a fair value of $45.0 million.

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 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.

During the nine month period ended July 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 $375,000, Foliofn preferred stock by $6.0 million, Tekers common stock by $575,000, Custom Alloy preferred stock by $12.5 million, Velocitius equity interest by $10.6 million, MVC Automotive equity interest by $9.6 million, PreVisor common stock by $2.7 million, Summit common stock by $6.0 million, and Vitality common stock and warrants by approximately $2.9 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, and Custom Alloy and the Vitality and Marine preferred stock were due to the capitalization of PIK interest/dividends totaling $4,218,554. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $2.9 million due to a PIK distribution which was treated as a return of capital. Also, during the nine month period ended July 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 $136,000. The Valuation Committee also decreased the fair value of the Company s investments in Vendio preferred stock by $2.3 million, Vestal common stock by $1.2 million and Timberland common stock by $3.4 million during the nine month period ended July 31, 2008.

At July 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $453.3 million with a cost basis of $414.9 million. At July 31, 2008, the fair value and cost basis of Legacy Investments was $20.8 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 $432.5 million and $359.0 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.

For the Year Ended October 31, 2007

During the fiscal year ended October 31, 2007, the Company made ten new investments, committing capital totaling approximately $117.3 million. The investments were made in WBS ($3.2 million), HuaMei ($200,000), Levlad ($10.1 million), Total Safety ($4.5 million), MVC Partners ($71,000), Genevac ($14.0 million), Tekers ($2.3 million), U.S. Gas ($18.9 million), Custom Alloy ($24.0 million), and MVC Automotive ($40.0 million).

The Company also made 16 follow-on investments in existing portfolio companies committing capital totaling approximately $49.8 million. On November 7, 2006, the Company invested $100,000 in SGDA by purchasing an additional common equity interest. On December 22, 2006, the Company purchased an additional 56,472 shares of common stock in Vitality at a cost of approximately $565,000. On January 9, 2007, the Company extended to Turf a $1.0 million junior revolving note. Turf immediately borrowed $1.0 million from the note. On January 11, 2007, the Company provided Harmony Pharmacy a $4.0 million revolving credit facility. Harmony Pharmacy immediately borrowed $1.75 million from the credit facility. On February 16, 2007, the Company invested $1.8 million in HuaMei purchasing 450 shares of common stock. At the same time, the previously issued $200,000 convertible promissory note was exchanged for 50 shares of HuaMei common stock at the same price. On February 19, 2007, the Company invested an additional $8.4 million of common equity interest in Velocitius. On February 21, 2007 and May 4, 2007, the Company provided BP a $5.0 million and a $2.5 million second lien loan, respectively. On March 26, 2007, the Company extended a $1.0 million bridge loan to BENI. On March 30, 2007, the Company invested an additional $5.0 million in SP in the form of a subordinated term loan B. On May 1, 2007, the Company extended to Velocitius a $650,000 revolving line of credit.

Velocitius immediately borrowed approximately $547,000. The balance of the line of credit as of October 31, 2007 was approximately $613,000. On May 8, 2007, the Company provided Baltic Motors a $5.5 million bridge loan. On May 9, 2007, the Company purchased 1.0 million shares of Dakota Growers preferred stock at a cost of $10.0 million. At that time, 65,000 shares of Dakota Growers common stock were converted to 65,000 shares of convertible preferred stock. On June 19, 2007, the Company increased the bridge loan to BENI to $2.0 million. The remaining available amount of $1.7 million was immediately drawn. On July 30, 2007, the Company provided Ohio Medical a $2.0 million convertible unsecured promissory note. On August 20, 2007, the Company contributed an additional $45,000 to MVC Partners, increasing the Company s limited liability interest. On September 27, 2007, the Company invested an additional $1.25 million in Ohio Medical by increasing the convertible unsecured promissory note to $3.25 million.

At the beginning of the 2007 fiscal year, the junior revolving note provided to Timberland had a balance outstanding of approximately $2.8 million. On November 27, 2006, the amount available on the revolving note was increased by $750,000 to $4.0 million. Net borrowings during for the fiscal year ended October 31, 2007 were $1.2 million resulting in a balance as of October 31, 2007 of $4.0 million.

At October 31, 2006, the balance of the revolving credit facility provided to Octagon was $3.25 million. Net borrowings during the fiscal year ended October 31, 2007 were $850,000 resulting in a balance outstanding of $4.1 million.

At October 31, 2006, the balance of Line I provided to Velocitius was approximately $144,000. Net borrowings during the fiscal year October 31, 2007 were approximately $47,000. As of October 31, 2007, the balance of Line I was approximately $191,000.

On December 1, 2006, the Company received a principal payment of approximately $100,000 from Vestal on its senior subordinated debt. As of October 31, 2007, the balance of the loan was $700,000.

On December, 8, 2006, Total Safety repaid term loan A and term loan B in full including all accrued interest and prepayment fees. The total amount received for term loan A was $5,043,775 and for term loan B was $1,009,628.

On December 29, 2006, March 30, 2007, June 29, 2007, and September 28, 2007, the Company received quarterly principal payments from BP on term loan A of $90,000.

On January 1, 2007, April 2, 2007, July 2, 2007, and October 1, 2007, the Company received principal payments of $37,500 on the term loan provided to Innovative Brands on each payment date.

On January 2, 2007, March 1, 2007, and September 27, 2007, the Company received principal payments of approximately $96,000, $1.0 million, and $63,000, respectively, on term loan A from Henry Company.

On January 5, 2007, Baltic Motors repaid the bridge loan in full including all accrued interest. The total amount received from the repayment was $1,033,000.

On January 19, 2007, Storage Canada borrowed an additional $705,000 under their credit facility. The borrowing bears annual interest of 8.75% and has a maturity date of January 19, 2014.

On February 16, 2007, the Company exchanged the $200,000 convertible promissory note due from HuaMei for 50 shares of its common stock.

On March 8, 2007, Levlad repaid its loan in full, including all accrued interest and a prepayment fee. The total amount received from the payment was approximately $10.4 million.

On March 30, 2007, June 29, 2007, and September 28, 2007, Total Safety made principal payments of $2,500 on its first lien loan.

On April 12, 2007 and April 18, 2007, BENI made principal payments of $200,000 and $500,000, respectively, on its bridge loan.

On April 16, 2007, the assets and liabilities of SafeStone Technologies PLC were transferred to two new companies, Lockorder and SafeStone Limited. The Company received 21,064 shares of SafeStone Limited and 21,064 shares of Lockorder as a result of this corporate action. On a combined basis, there was no change in the cost basis or fair value due to this transaction.

On May 1, 2007, Turf repaid its secured junior revolving note in full, including accrued interest. The total amount received from the payment was approximately $1.0 million. There were no borrowings outstanding on the revolving note as of October 31, 2007.

Beginning on May 1, 2007, the Company receives monthly principal payments of $111,111 from SP on term loan B. Total principal payments for the fiscal year ended October 31, 2007 was $666,666.

On July 7, 2007, the Company extended the maturity date of the Timberland junior revolver to July 7, 2009.

On July 24, 2007, the Company sold the common stock of Baltic Motors and BM Auto. The amount received from the sale of the 60,684 common shares of Baltic Motors was approximately $62.0 million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. Baltic Motors repaid all debt from the Company in full including all accrued interest. Total amount received from the repayment of the debt was approximately $10.2 million including all accrued interest. The remaining $51.8 million, less the $8.0 million cost basis of Baltic Motors, resulted in $43.8 million recorded as realized gain. The difference between the $51.8 million received from the Baltic Motors equity and the carrying value at October 31, 2006 is $30.6 million and the amount of the increase in net assets attributable to fiscal year 2007. The portion of the capital gain related to the equity investment made on June 24, 2004 ($40.9 million), will be treated as long-term capital gain and the portion related to the equity investment made on September 28, 2006 ($2.9 million) will be treated as a short-term capital gain. The amount received from the sale of the 47,300 common shares of BM Auto was approximately $29.7 million, net of closing and other transaction costs, working capital adjustments and a reserve established by the Company to satisfy certain post-closing conditions requiring capital and other expenditures. The $29.7 million, less the $8.0 million cost basis of BM Auto, resulted in $21.7 million recorded as a long term capital gain. The difference between the $29.7 million received from the BM Auto equity and the carrying value at October 31, 2006 is $21.7 million, which is the amount of the increase in net assets attributable to fiscal year 2007.

As mentioned above, a reserve account of approximately $3.0 million was created for post closing conditions that are required of the seller as a part of the purchase agreement. The cash held in the reserve account was held in Euros. On October 17, 2007, all post-closing conditions from the acquisition were satisfied. Of the $3.0 million held in reserve, $1.0 million was not needed to satisfy the post-closing conditions and as a result was added to the Company s gain on the sale. Of the $1.0 million gain from the reserve account, approximately $887,000 is attributable to the sale of Baltic Motors and approximately $148,000 is attributable to the sale to BM Auto. The Company also had a currency gain of approximately $42,000 from the reserve account. Total gain from the sale of Baltic Motors and BM Auto was $66.5 million.

On July 27, 2007, U.S. Gas repaid its bridge loan in full, including accrued interest. The total amount received was approximately $908,000.

On August 1, 2007, Phoenix Coal repaid its second lien loan in full including all accrued interest and fees. Total amount received from the repayment was approximately $8.4 million.

On October 31, 2007, the Company restructured the terms of the Amersham loans. The accrued interest on the loan with an outstanding balance of $2.7 million at October 31, 2007 was capitalized. The default PIK interest on the loan with a balance of $3.1 million at October 31, 2007 was forgiven up to 75%. The interest rate on this loan has been reduced to the original rate of 16%.

Net borrowings on the Harmony Pharmacy revolving credit facility during the fiscal year ended October 31, 2007 were $4.0 million, resulting in a balance outstanding of approximately $4.0 million.

Net borrowings on the U.S. Gas senior credit facility during the fiscal year ended October 31, 2007 were approximately $85,000, resulting in a balance outstanding of approximately $85,000.

During the fiscal year ended October 31, 2007, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $1.9 million, Octagon s membership interest by approximately $1.6 million, SGDA common equity interest by approximately $121,000 and preferred equity interest by $600,000, PreVisor common stock by $3.0 million, Foliofn preferred stock by $2.6 million, Tekers common stock by $300,000, BENI common stock by $700,000, Summit preferred stock by $1.0 million, Vendio preferred stock by $6.1 million, and Vendio common stock by approximately $15,000. In addition, increases in the cost basis and fair value of the loans to Impact, GDC, SP, Timberland, Amersham, Marine, Phoenix Coal, BP, Turf, Summit, U.S. Gas, Custom Alloy, Vitality and Marine preferred stock, and Genevac common stock were due to the capitalization of PIK interest/dividends totaling $2,850,999. Also, during the fiscal year ended October 31, 2007, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of the Company s investment by $216,275. The Valuation Committee also decreased the fair value of the Company s investments in Ohio Medical by $9.0 million and Timberland common stock by $1.0 million during the fiscal year ended October 31, 2007.

At October 31, 2007, the fair value of all portfolio investments was $379.2 million with a cost basis of $393.4 million. At October 31, 2007, the fair value and cost basis of the 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. At October 31, 2006, the fair value of all portfolio investments was $275.9 million with a cost basis of $286.9 million. At October 31, 2006, the fair value and cost basis of Legacy Investments was $8.4 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 $267.5 million and $231.0 million, respectively.

Portfolio Companies

During the nine month period ended July 31, 2008, 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, 2007 and July 31, 2008, 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 Corp.

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

On October 31, 2007, the Company restructured the terms of the Amersham loans. The accrued interest on the loan with an outstanding balance of $2.7 million at October 31, 2007 was capitalized. At October 31, 2007, 75% of the default PIK interest on the loan with a balance of $3.1 million was forgiven. Amersham was accruing interest at a default interest rate of 19% due to covenant violations. As of April 30, 2008, the interest rate on this loan has been reduced from the default interest rate of 19% to the original rate of 16%.

At October 31, 2007, the Company s investment in Amersham consisted of a $2.6 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 $2.6 million. The Company s investment also included an additional $3.1 million note bearing annual interest at 16% from June 30, 2006 to June 30, 2008. The interest rate then steps down to 14% for the period July 1, 2008 to June 30, 2010, 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 $3.1 million.

At October 31, 2007, the notes had a combined outstanding balance, cost, and fair value of $5.7 million.

During the nine month period ended July 31, 2008, the Company received all interest due from Amersham.

At July 31, 2008, the notes had a combined outstanding balance, cost, and fair value of $5.9 million. The increase in the outstanding balance, cost and fair value of the loan, is due to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Auto MOTOL BENI

BENI, consists of two leased Ford sales and service dealerships located in the western side of Prague, in the Czech Republic.

At October 31, 2007, the Company s investment in BENI consisted of 200 shares of common stock with a cost of $2.0 million and was fair valued at $2.7 million. The bridge loan, with an annual interest rate of 12% and maturity date of June 25, 2007, had a balance of $2.0 million with a cost and fair value of $2.0 million. On October 10, 2006, the Company agreed to guarantee a 375,000 Euro inventory financing facility for BENI, equivalent to approximately $542,550 at October 31, 2007. The maturity date of the bridge loan has been extended to June 30, 2008.

On April 25, 2008, the Company invested an additional $11.8 million in BENI by purchasing 874 shares of common stock.

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 July 31, 2008 was $3.6 million and the common stock had a fair value of $45.0 million.

At July 31, 2008, the Company no longer held an investment in BENI.

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, 2007, the Company s investment in BP consisted of a $17.8 million second lien loan, $2.6 million term loan A, and $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 $2.6 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, 2007 was $22.0 million and $22.3 million respectively.

On December 31, 2007, March 31, 2008, and June 30, 2008, the Company received quarterly principal payments from BP on term loan A of $90,000.

At July 31, 2008, the loans had a combined cost basis and fair value of $22.1 million and $22.3 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, 2007, the Company s investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost of $44,000 and was fair valued at $44,000, 1,991 shares of convertible series B preferred stock at a cost of approximately $9.9 million and was fair valued at approximately $9.9 million. The unsecured subordinated loan, which bears annual interest at 14% and matures on September 18, 2012, had a cost and was fair valued at $14.0 million.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of Series A preferred stock by $55,000 and Series B preferred stock by approximately $12.5 million.

At July 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 was fair valued at $99,000, 1,991 shares of convertible series B preferred stock at a cost of approximately $10.0 million and was fair valued at approximately $22.4 million. The unsecured subordinated loan had an outstanding balance of $14.0 million, a cost of $13.6 million, and was fair valued at $14.0 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.

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, 2007 and July 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 fair valued at $10.2 million and 1,065,000 shares of convertible preferred stock with a cost of $10.4 million and fair valued at $10.7 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, 2007 and July 31, 2008, 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, 2007 and July 31, 2008, 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, 2007, 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 $7.6 million.

During the nine month period ended July 31, 2008, the Valuation Committee determined to increase the fair value of the investment by $6.0 million.

The fair value of the Company s equity investment in Folio*fn* at July 31, 2008 was $13.6 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, 2007, the Company s investment in GDC consisted of a $3.2 million senior subordinated loan, bearing annual interest at 17% with a maturity date of January 31, 2009. The loan had a principal face amount, an outstanding balance, and a cost basis of $3.2 million. The loan was fair valued at $3.2 million.

At July 31, 2008, the loan had an outstanding balance and cost of $3.3 million. The loan was fair valued at $3.3 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.

Genevac U.S. Holdings, Inc.

Genevac, Ipswich, United Kingdom, produces solvent evaporation systems for drug recovery, molecular biology, and life science research markets.

At October 31, 2007, the Company s investment in Genevac consisted of 140 shares of common stock with a cost of $1.1 million and was fair valued at $1.1 million. The increases in the cost and fair value of the common stock are due to the capitalization of payment in kind dividends. These increases were approved by the Company s Valuation Committee. The senior secured loan, which bears annual interest at 12.5% and matures on January 3, 2008, had a cost and fair value of $13.0 million.

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 short-term capital gain of $595,000.

At July 31, 2008, the Company no longer held an investment in Genevac.

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 their second store in Greenwich, Connecticut in October of 2007.

At October 31, 2007, the Company s investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of $750,000 and was fair valued at $750,000. The revolving credit facility had an outstanding balance of $4.0 million with a cost and 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.

During the nine month period ended July 31, 2008, the Company 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%.

At July 31, 2008, the Company s investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of $750,000 and was fair valued at $750,000. The revolving credit facility had an outstanding balance of $4.2 million, a cost of $4.2 million, and a fair value of $4.0 million. The demand note had an outstanding balance of $3.3 million with a cost and fair value of $3.3 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. These increases were approved by the Company s Valuation Committee. The Company has reserved against the interest accrued on the revolving credit facility and demand note 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, 2007, 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.

At July 31, 2008, the loans had a combined outstanding balance, cost basis, and fair value of $3.8 million.

HuaMei Capital Company, Inc.

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

At October 31, 2007 and July 31, 2008, the Company s investment in HuaMei consisted of 500 shares of common stock with a cost and fair value $2.0 million.

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

Impact Confections, Inc.

Impact, Roswell, New Mexico founded in 1981, is a manufacturer and distributor of children s candies.

At October 31, 2007, the Company s investment in Impact consisted of 252 shares of common stock at a cost of $2.7 million, a senior subordinated note with an outstanding balance of $5.7 million and the secured promissory note with a cost of approximately $323,000. The senior subordinated note bears annual interest at 17.0% and matures on July 30, 2009. The promissory note bears annual interest at LIBOR plus 4.0% and matures on July 29, 2008. At October 31, 2007, the equity investment, loan and secured promissory note were fair valued at $2.7 million, $5.7 million and $325,000, respectively.

On January 15, 2008, Impact repaid its promissory note and senior subordinated loan in full, including all accrued interest. The total amounts received for the promissory note and the senior subordinated loan were approximately $331,000 and $5.8 million, respectively. The Company, at this time, sold 252 shares of common stock for $2.7 million resulting in no gain or loss on the investment.

At July 31, 2008, the Company no longer held an investment in Impact.

Innovative Brands, LLC

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

At October 31, 2007, the Company s investment in Innovative Brands consisted of a $14.9 million loan assignment. The $14.9 million term loan bears annual interest at 11.125% and matures on September 25, 2011. The loan had a cost basis and fair value of $14.9 million as of October 31, 2007.

On January 2, 2008, February 1, 2008, and April 1, 2008, the Company received principal payments of $37,500, $1,666,667, and $37,500, respectively, on the term loan provided to Innovative Brands.

At July 31, 2008, the loan had an outstanding balance, cost basis, and was fair valued at approximately $13.1 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, 2007 and July 31, 2008, 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, 2007 and July 31, 2008, 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, 2007, 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 $10.5 million and a cost of $10.0 million. The senior secured loan bears annual interest at 11% and matures on June 30, 2013. The senior secured loan was fair valued at $10.5 million. The secured revolving note was not drawn upon. 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 $2.2 million. The dividend rate on the preferred stock is 12% per annum.

At July 31, 2008, the Company s senior secured loan had an outstanding balance of $10.8 million, a cost of $10.7 million and was fair valued at $10.8 million. The secured revolving note was not drawn upon. The preferred stock had been fair valued at $2.3 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.

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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, 2007, the Company s investment in MVC Automotive consisted of an equity interest with a cost of $20.9 million and was fair valued at $20.9 million. The bridge loan, which bears annual interest at 10% and matures on March 17, 2008, had a cost and fair value of $19.1 million.

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

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the Company s equity interest in MVC Automotive by approximately $9.6 million.

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.

At July 31, 2008, the Company s investment in MVC Automotive consisted of an equity interest with a cost of $34.7 million and was fair valued at $45.0 million. The bridge loan had a balance of $3.6 million with a cost basis and fair value of $3.6 million.

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

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 or managing member of private investment vehicles or other portfolios.

At October 31, 2007, the Company s equity investment in MVC Partners had a cost basis and fair value of approximately $116,000.

During the nine month period ended July 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 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. We have agreed to serve as the corporate sponsor of MVC Acquisition Corp. Michael Tokarz, our Chairman and Portfolio Manager and the Manager of TTG Advisers, and Peter Seidenberg, our Chief Financial Officer, currently serve as Chairman of the Board and Chief Financial Officer, respectively, for MVC Acquisition Corp. In connection with our sponsorship of MVC Acquisition Corp., we have agreed to purchase, through MVC Partners, an aggregate of $5,000,000 of warrants from MVC Acquisition Corp. concurrent with the consummation of its initial public offering. In addition, we anticipate the execution of a letter agreement with MVC Acquisition Corp., providing MVC Acquisition Corp. with a right of first review with respect to target businesses with a fair market value in excess of $250 million.

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

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, 2007, the Company s investment in Octagon consisted of a term loan with an outstanding balance of $5.0 million with a cost of $4.9 million, a revolving line of credit with an outstanding balance of $4.1 million with a cost of $4.1 million, and an equity investment with a cost basis of approximately $1.1 million. The combined fair value of the investment at October 31, 2007 was $12.9 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 repayments during the nine month period ended July 31, 2008 were $1.2 million resulting in a balance outstanding as of July 31, 2008 of $2.9 million.

During the nine month period ended July 31, 2008, the Company allocated approximately $436,000 in flow-through income and approximately $24,000 in capital gains. Of these amounts, approximately $324,000 was received in cash and $136,000 was undistributed and therefore increased the cost of the investment.

At July 31, 2008, 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 $2.9 million with a cost and fair value of $2.9 million.

At July 31, 2008, the equity investment had a cost basis of approximately $1.2 million and was fair valued at $3.9 million by the Company s Valuation Committee.

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, 2007 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 the promissory note, which had an outstanding balance of $3.3 million with a cost and fair value of $3.3 million. The note bears annual interest at LIBOR plus 12% and matures on July 30, 2008.

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 for a total investment of $40.0 million. 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.

At July 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 10,871 shares of convertible preferred stock with a cost basis of $30.0 million and a fair value of $32.9 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, and David Hadani, a representative 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, 2007, the Company s investment in Phoenix Coal consisted of 1,666,667 shares of common stock which had a cost basis of approximately $1.0 million and was fair valued at $1.0 million.

During the nine month period ended July 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 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.

At July 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 was fair valued at approximately $707,000.

Forrest Mertens, a representative of the Company, serves as a director of Phoenix Coal.

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, 2007, the common stock had been fair valued at $9.0 million.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the common stock by $2.7 million.

At July 31, 2008, the common stock had a cost basis and fair value of $6.0 million and $11.7 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, 2007 and July 31, 2008, 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.

SGDA Europe B.V.

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

On November 6, 2007, the Company invested $750,000 in SGDA Europe in the form of a common equity interest.

On April 30, 2008, the Company invested $2.7 million in SGDA Europe in the form of an additional equity interest.

On July 31, 2008, the Company invested $4.0 million in SGDA Europe in the form of an additional equity interest. The Company s equity investment, at such date, had a cost basis, and was fair valued at $7.5 million.

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, 2007, 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 $438,551. The preferred equity interest had been fair valued at $5.6 million with a cost basis of $5.0 million.

During the nine month period ended July 31, 2008, the Valuation Committee determined to increase the fair value of the Company s preferred equity interest by $375,000.

At July 31, 2008, 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 $6.0 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, 2007, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and was fair valued at $2.6 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately $2.0 million at October 31, 2007, for Tekers.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the common stock by $575,000.

At July 31, 2008, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and was fair valued at $3.2 million. The guarantee was equivalent to approximately $2.2 million at July 31, 2008, 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, 2007 and July 31, 2008, 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, 2007, the Company s investment in SP consisted of a mezzanine loan and a term loan that had outstanding balances of $13.5 million and $7.4 million, respectively, with a cost basis of $13.2 million and $7.4 million, respectively. The mezzanine loan bears annual interest at 16% and matures on March 31, 2012. The term loan bears annual interest at LIBOR plus 8% and matures on March 31, 2011. The mezzanine loan and term loan had fair values of $12.9 million and $3.1 million, respectively.

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 senior subordinated loan in full including all accrued interest. The total amount received for term loan B was $7.1 million and for the senior subordinated loan was $13.6 million.

Also on January 2, 2008, the Company invested $24.0 million in SP in the form of a $1.0 million first lien loan, which bears annual interest of LIBOR plus 5% and matures on December 28, 2012, and a $23.0 million second lien loan, which bears annual interest 15% and matures on December 31, 2013. The second lien loan bears annual interest at 14%. The first and second lien loans have a $1.0 million and $23.0 million principal face amount, respectively, and were issued at a cost basis of $1.0 million and $23.0 million, respectively. The first and second lien loan s cost basis were subsequently discounted to reflect loan origination fees received.

On March 31, 2008 and June 30, 2008, SP made principal payments of $17,361 on its first lien loan on each payment date.

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On July 30, 2008, the Company increased their investment in SP by $1.3 million, investing an additional $1.2 million in the second lien loan and $50,000 in the first lien loan.

At July 31, 2008, the first lien loan and the second lien loan had outstanding balances of approximately $1.0 million and $24.5 million, respectively, with a cost basis of approximately $627,000 and $24.0 million, respectively. The first lien loan and second loan had fair values of approximately $1.0 million and $24.5 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, 2007, the Company s investment in Storage Canada consisted of a term loan with an outstanding balance, cost basis, and a fair value of $2.7 million. The borrowing bears annual interest at 8.75%. On March 30, 2013, $1.3 million of the term loan matures, on October 6, 2013, $619,000 of the term loan matures, and on January 19, 2014, $705,000 of the term loan matures.

During the nine month period ended July 31, 2008, the Company received approximately $1.5 million in principal payments on the term loan provided to Storage Canada.

At July 31, 2008, 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, 2007, 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 16, 2012. The second lien loan had an outstanding balance of $5.4 million with a cost of $5.3 million. The second lien loan was fair valued at $5.4 million. The common stock had been fair valued at $12.2 million.

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.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the common stock by $6.0 million.

At July 31, 2008, the Company s second lien loan had an outstanding balance of $8.8 million with a cost of $8.6 million. The second lien loan was fair valued at $8.8 million. The 1,115 shares of common stock had been fair valued at $23.0 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.

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, 2007, 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 $6.9 million with a cost of $6.8 million. The mezzanine loan bore annual interest at 14.55% and matures on August 4, 2009. The mezzanine loan was fair valued at $6.9 million. The junior revolving note had a cost of $4.0 million and was fair valued at $4.0 million. The junior revolving note bears annual interest at 12.5% and matures on July 7, 2009. The common stock was fair valued at $3.4 million. The warrant was fair valued at $0.

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 nine month period ended July 31, 2008 were $1.0 million resulting in a balance as of July 31, 2008 of $5.0 million.

During the nine month period ended July 31, 2008, the Valuation Committee decreased the fair value of the common stock by $3.4 million.

At July 31, 2008, the Company s mezzanine loan had an outstanding balance of $7.2 million with a cost of $7.1 million. The mezzanine loan was fair valued at $7.2 million. The junior revolving note was fair valued at $5.0 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. 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, 2007, the Company s investment in Total Safety consisted of a $1.0 million 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 $4.5 million.

On December 31, 2007, March 31, 2008, and June 30, 2008, Total Safety made principal payments of $2,500 on its first lien loan on each payment date.

At July 31, 2008, the loans had a combined outstanding balance and cost basis of $4.5 million. The loan assignments were fair valued at $4.5 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, 2007, 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 $7.6 million. The loan was fair valued at $7.7 million. The membership interest had a cost of $3.8 million and had been fair valued at $5.8 million. The warrants had a cost of $0 and were fair valued at $0.

On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. This was repaid on April 28, 2008. This note matured on May 1, 2008.

On July 31, 2008, the Company extended Turf a $1.0 million junior revolving note which bears annual interest at 2% and matures December 31, 2008. Turf immediately borrowed $1.0 million on the note.

At July 31, 2008, the mezzanine loan had an outstanding balance, cost basis and was fair valued at $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 and the capitalization of payment in kind interest. 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 was fair valued at $5.8 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.

U.S. Gas & Electric, Inc.

U.S. Gas, North Miami Beach, FL, 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, 2007, the second lien loan had an outstanding balance of $5.6 million with a cost of $5.3 million and a fair value of $5.6 million. The senior credit facility had an outstanding balance, cost, and fair value of $84,882 as of October 31, 2007. There was no amount outstanding on the junior revolver. The second lien loan bears annual interest at 14% and matures on July 25, 2012. The senior credit facility bears annual interest at LIBOR plus 6% or Prime plus 4.5% and matures July 25, 2010. The junior revolver bears annual interest at 14%, matures on July 25, 2010 and has an unused fee of .50% per annum. The 32,200 shares of convertible Series B preferred stock has been fair valued equal to the cost of $500,000. The convertible Series C preferred stock and the convertible Series F preferred stock were fair valued at $0.

On July 1, 2008, U.S. Gas changed its capitalization structure, which resulted in a reduction of the Company s voting rights in U.S. Gas. The Company s economic ownership did not change as a result of this restructuring.

During the nine month period ended July 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 was approximately $571,000 at July 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 $2.4 million resulting, in a balance outstanding of $2.5 million at such date. During the nine month period ended July 31, 2008, the Valuation Committee determined to increase the fair value of the convertible Series B preferred stock by $4.8 million and convertible Series C preferred stock by $350,000.

During the nine month period ended July 31, 2008, as was anticipated when the Company made its investment, all 1,535 shares of convertible Series F preferred stock were allocated to a strategic partner of U.S. Gas for services performed. If certain conditions are not met by the strategic partner, these shares could be transferred back to the Company.

At July 31, 2008, the second lien loan had an outstanding balance of $5.8 million with a cost of $5.6 million and a fair value of $5.8 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 $3.0 million outstanding on the senior credit facility. There was no amount outstanding on the junior revolver. The convertible Series B preferred stock was fair valued at $5.3 million and had a cost of $500,000, and the convertible Series C preferred stock was fair valued at $350,000 and had 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 company, manages wind farms based in Germany through operating subsidiaries.

At October 31, 2007, the equity investment in Velocitius had a cost and has been fair valued of $11.4 million. Line I, which expires on October 31, 2009 and bears annual interest at 8%, had a cost and fair value of $191,084 and Line II, which expires on April 30, 2010 and bears annual interest at 8%, had a cost and fair value of $612,882.

Repayments during the nine month period ended July 31, 2008 on Line I were approximately $191,000. As of July 31, 2008, there was no amount outstanding on Line I.

Repayments during the nine month period ended July 31, 2008 on Line II were approximately $613,000. As of July 31, 2008, there was no amount outstanding on Line II.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the Company s equity investment by $10.6 million.

At July 31, 2008, the equity investment in Velocitius had a cost of $11.4 million and was fair valued at $22.0 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, 2007, 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 $9.5 million, $15,421 for the common stock and approximately $9.5 million for the Series A preferred stock.

During the nine month period ended July 31, 2008, the Valuation Committee decreased the fair value of the preferred stock by $2.3 million.

At July 31, 2008, 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 $7.2 million, $15,421 for the common stock and approximately $7.2 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.

At October 31, 2007, 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 $700,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.9 million were fair valued at $3.7 million.

On April 15, 2008, the Company received a principal payment of $100,000 from Vestal on its senior subordinated debt.

During the nine month period ended July 31, 2008, the Valuation Committee decreased the fair value of the common stock by $1.2 million.

At July 31, 2008, the senior subordinated promissory note 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 $2.5 million.

David Hadani and Ben Harris, representatives 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, 2007, 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 $9.7 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 $9.1 million, $12.6 million and $1.1 million, respectively.

During the nine month period ended July 31, 2008, the Valuation Committee increased the fair value of the Company s common stock and warrants in Vitality by $2.9 million.

At July 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 $10.1 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 $9.5 million, $13.0 million and $3.6 million, respectively.

David Hadani, a representative of the Company, serves as a director of Vitality.

WBS Carbons Acquisitions Corp.

WBS Carbons Acquisitions Corp. (WBS), Middletown, New York, is a manufacturer of antiperspirant actives and water treatment chemicals.

At October 31, 2007, the bridge loan had an outstanding balance, cost, and fair value of $1.6 million. The 400 shares of common stock of WBS have a cost basis of $1.6 million and were fair valued at $1.6 million. The bridge loan bears annual interest at 5% and matures on November 22, 2011.

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

At July 31, 2008, the bridge loan had an outstanding balance, cost, and fair value of $1.7 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 July 31, 2008, the Company had investments in portfolio companies totaling $453.3 million. Also, at July 31, 2008, the Company had cash equivalents totaling approximately $125.0 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 nine month period ended July 31, 2008, the Company made two new investments, committing capital totaling approximately $24.8 million. The investments were made in SP ($24.0 million) and SGDA Europe ($750,000).

The Company also made nine follow-on investments in existing portfolio companies committing capital totaling approximately $68.7 million. During the nine month period ended July 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 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. We have agreed to serve as the corporate sponsor of MVC Acquisition Corp. Michael Tokarz, our Chairman and Portfolio Manager and the Manager of TTG Advisers, and Peter Seidenberg, our Chief Financial Officer, currently serve as Chairman of the Board and Chief Financial Officer, respectively, for MVC Acquisition Corp. In connection with our sponsorship of MVC Acquisition Corp., we have agreed to purchase, through MVC Partners, an aggregate of $5,000,000 of warrants from MVC Acquisition Corp. concurrent with the consummation of its initial public offering. During the nine month period ended July 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 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.

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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 $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 2% and a maturity date of December 31, 2008. Turf immediately borrowed $1.0 million on the note.

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 July 31, 2008, the Company s existing commitments to portfolio companies consisted of the following:

Commitments of MVC Capital, Inc.

Portfolio Company		Amount Committed		Amount Funded at July 31, 2008
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		
Octagon Revolving Credit Facility	$	12.0 million	$	2.9 million
Velocitius Revolving Line I	$	260,000		
Turf Junior Revolver	$	1.0 million	$	1.0 million
Harmony Pharmacy Revolving Credit Facility	$	4.0 million	$	4.0 million
Velocitius Revolving Line II	$	650,000		
Tekers Guarantee	$	2.2 million		
U.S. Gas Revolving Credit Facility	$	10.0 million	$	3.0 million
U.S. Gas Junior Revolver	$	2.0 million		
MVC Automotive Guarantee	$	10.1 million		
MVC Automotive Guarantee	$	6.2 million		
Total	**$**	**61.4 million**	**$**	**17.1 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. As of October 31, 2007, the funded debt under the junior revolving line of credit was $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 nine month period ended July 31, 2008 were $1.0 million resulting in a balance as of July 31, 2008 of $5.0 million.

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, 2007, the outstanding balance of the loan commitment was $2.7 million. Net repayments during the nine month period ended July 31, 2008 were approximately $1.5 million, 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. There was no amount outstanding on the revolving loan facility as of July 31, 2008.

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, 2007 the outstanding balance of the revolving credit facility provided to Octagon was $4.1 million. Net repayments during the nine month period ended July 31, 2008 were $1.2 million resulting in a balance outstanding of $2.9 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%. At October 31, 2007, the balance of the Line I was approximately $191,000. Repayments during the nine month period ended July 31, 2008 were approximately $191,000. There was no amount outstanding on Line I as of July 31, 2008.

On January 9, 2007, the Company extended to Turf a $1.0 million secured junior revolving note. The note bears annual interest at 12.5% and expires on May 1, 2008. The Company also receives a fee of 0.25% of the unused portion of the note. There was no amount outstanding on the secured junior revolving note as of October 31, 2007. On December 31, 2007, Turf borrowed $1.0 million from the secured junior revolving note. Turf repaid $1.0 million on the secured junior revolving note on April 28, 2008. This note matured on May 1, 2008.

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, 2007 and July 31, 2008, the outstanding balance of the revolving credit facility provided was $4.0 million.

On May 1, 2007, the Company provided Line II to Velocitius. Line II expires on April 30, 2010 and bears annual interest at 8%. At October 31, 2007, there was approximately $613,000 outstanding. Repayments during the nine month period ended July 31, 2008 were approximately $613,000. There was no amount outstanding on Line II as of July 31, 2008.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $2.2 million at July 31, 2008.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility and a $2.0 million junior revolver 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 junior revolver bears annual interest at 14%. The Company receives a fee of 0.50% on the unused portion of the senior credit facility and the junior revolver. The revolving senior credit facility and junior revolver expire on July 26, 2010. At October 31, 2007, there was approximately $85,000 outstanding on the revolving senior credit facility. During the nine month period ended July 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 July 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 $2.4 million, resulting in a balance outstanding of $2.5 million at such date. There was no amount outstanding on the junior revolver as of October 31, 2007 and July 31, 2008.

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On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $10.1 million at July 31, 2008.

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 $6.2 million at July 31, 2008) 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 2.0% and expires on December 31, 2008. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note resulting in a balance of $1.0 million at such date.

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.

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, $100 million 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, 2007, there was $50.0 million in term debt and $30.0 million in revolving credit on Credit Facility I outstanding. During the nine month period ended July 31, 2008, the Company s net borrowings on Credit Facility I were $20.0 million. As of July 31, 2008, there was $50.0 million in term debt and $50.0 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 II with BB&T. During the nine month period ended July 31, 2008, the Company s net borrowings on Credit Facility II were $50.0 million. 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.

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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 July 31, 2008, net borrowings on the U.S. Gas senior credit facility were approximately $424,000.

Since July 31, 2008, net repayments on the Octagon credit facility were approximately $2.8 million.

On August 4, 2008, U.S.Gas drew on their $2.0 million junior revolver in full. Interest rate on the revolver is 14% with a maturity date of July 25, 2012.

On August 4, 2008, the Company repaid $50.0 million on Credit Facility I and repaid $50.0 million on Credit Facility II.

On August 5, 2008, Custom Alloy made a principal payment of $2.0 million on its unsecured subordinated loan.

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

On August 29, 2008, GDC made a principal payment of $250,000 on its senior subordinated loan.

On August 29, 2008, the Company borrowed $50.0 million from on Credit Facility I and $50.0 million on Credit Facility II.

On September 3, 2008, the Company invested approximately $28.0 million in Security Holdings B.V. in the form of an equity interest.

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 77.48% of the Company s total assets at July 31, 2008. As discussed in Note 5 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.

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At July 31, 2008, approximately 77.48% 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 (depreciation) appreciation on investments.

We are currently analyzing the effect on our financial position, including our net asset value and results of operations, of the adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurements, issued by the Financial Accounting Standards Board (FAS 157).

FAS 157 will be applicable to our financial statements for our fiscal year 2009. The actual impact on our financial statements, including our net asset value, in the period of adoption and subsequent to the period of adoption, although not expected to be material, cannot be determined at this time because it will be influenced by the fair values determined by the Valuation Committee for that period and the number and amount of investments we originate, acquire or exit. Based on the Company s initial review of FAS 157 s impact, FAS 157 is not expected to have a material impact on our consolidated financial statements. Adoption of FAS 157 generally requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Due to the uncertainty inherent in a fair valuation process, the fair values determined may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations assigned. Accordingly, there continues to be some uncertainty in the industry and among industry professionals regarding how to implement FAS 157 and the extent of its impact on a reporting company following its adoption.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

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.

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.

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.

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.

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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. 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;

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- 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.

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 July 31, 2008, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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).

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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: September 4, 2008

/s/ Michael Tokarz

Michael Tokarz

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

MVC Capital, Inc.

Date: September 4, 2008

/s/ Peter Seidenberg

Peter Seidenberg

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