

WASHINGTON MUTUAL, INC

Form PRER14A

May 09, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the  
Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**WASHINGTON MUTUAL, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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**1301 Second Avenue  
Seattle, Washington 98101  
[        ], 2008**

Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders of Washington Mutual, Inc. that will be held on [    day], [        ], 2008, at [    : a.m./p.m.], local time, at [        ], Seattle, Washington 98101].

On April 8, 2008, we announced that we had entered into definitive agreements to raise an aggregate of approximately \$7 billion through the direct sale of equity securities to affiliates of TPG Capital and to other institutional investors. With the proceeds of this offering, our capital ratios are expected to remain well above our targeted levels during the period of elevated credit costs in our loan portfolios in 2008 and 2009. At the same time, we believe this strengthened capital base will permit us to continue growing our leading national banking franchise.

In the offering, we sold approximately 176 million shares of our common stock and 56,570 shares of contingently convertible, perpetual non-cumulative preferred stock with a liquidation preference of \$100,000 per share, and we issued warrants to purchase shares of our common stock. Upon approval by our shareholders as well as satisfaction of other regulatory conditions to the extent applicable, the preferred stock will automatically convert into approximately 647 million shares of our common stock and the warrants will become exercisable for approximately 68 million shares of our common stock.

At the special meeting, holders of our shares of common stock will be asked to consider and vote on proposals to approve the conversion of the preferred stock into common stock and exercise of the warrants to purchase common stock and to increase the number of authorized shares of our common stock to permit the conversion and exercise of these securities and provide available shares for other corporate purposes. Our board has unanimously approved these proposals and recommends that our shareholders vote for these proposals.

Please read the attached proxy statement carefully for information about the matters you are being asked to consider and vote upon. Your vote is important. Whether or not you attend the meeting in person, I urge you to promptly vote your proxy as soon as possible via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. If you decide to attend the meeting and vote in person, you will, of course, have that opportunity.

Thank you for your continued support of Washington Mutual.

Sincerely,

Kerry Killinger  
Chairman and Chief Executive Officer

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**WASHINGTON MUTUAL, INC.  
1301 Second Avenue  
Seattle, Washington 98101**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
To Be Held [        ], 2008**

**Meeting Date:** [    day], [        ], 2008

**Meeting Time:** [    :    a.m./p.m.] (local time)

**Record Date:** [        ], 2008

**Location:** [        Seattle, Washington 98101]

**Purpose of the Meeting:**

1. To approve an amendment to the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 (and, correspondingly, increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000); and
2. To approve the conversion of our Series S and Series T Perpetual Contingent Convertible Non-Voting Preferred Stock into common stock and the exercise of our Warrants to purchase common stock, in each case issued to the investors pursuant to our recent equity investment transaction referred to in the attached proxy statement.

These items of business are more fully described in the proxy statement accompanying this Notice. Submission of these proposals to our shareholders is required under the terms of the Investment Agreement and certain of the Securities Purchase Agreements, each dated as of April 7, 2008, between Washington Mutual, Inc. and the investors in our recent equity investment transaction.

**The Board of Directors recommends shareholders vote FOR Proposals 1 and 2.**

Shareholders of record of our common stock at the close of business on the record date will be entitled to vote at the Special Meeting and any adjournments or postponements thereof. *Under Securities and Exchange Commission rules, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement is available at our web site at <http://www.wamu.com/ir>.*

**By order of the Board of Directors,**

**Susan R. Taylor**  
*Secretary*

Seattle, Washington  
[        ], 2008

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**IMPORTANT**

If you are a common shareholder, whether or not you expect to attend the Special Meeting in person, we urge you to vote your proxy at your earliest convenience via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. This will ensure the presence of a quorum at the Special Meeting and will save us the expense of additional solicitation. Sending in your proxy will not prevent you from voting your shares in person at the Special Meeting if you desire to do so. Your proxy is revocable at your option in the manner described in the Proxy Statement.

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**WASHINGTON MUTUAL, INC.  
1301 Second Avenue  
Seattle, Washington 98101**

**PROXY STATEMENT**

**For the Special Meeting of Shareholders  
To Be Held On [ ] day], [ ], 2008**

**Our Board of Directors is soliciting proxies to be voted at the Special Meeting of Shareholders on [ ], 2008, at [ : a.m./p.m.], and at any adjournments or postponements thereof, for the purposes set forth in the attached Notice of Special Meeting of Shareholders. The notice, this proxy statement and the form of proxy enclosed are first being sent to shareholders on or about [ ], 2008. As used in this proxy statement, the terms Company, we, us and our refer to Washington Mutual, Inc.**

**Questions and Answers about these Proxy Materials and the Special Meeting:**

**Question: *Why am I receiving these materials?***

**Answer:** Our Board of Directors is providing these proxy materials to you in connection with a Special Meeting of Shareholders of Washington Mutual, to be held on [ ], 2008. As a shareholder of record of our common stock, you are invited to attend the Special Meeting, and are entitled to and requested to vote on the proposals described in this proxy statement.

Holders of our preferred stock are also being provided with this proxy statement and the attached notice of meeting as required by the Washington Business Corporation Act. However, holders of our preferred stock are not entitled to vote on any matters being considered at the special meeting. Unless otherwise indicated, references to you are to common shareholders.

**Question: *Who is soliciting my vote pursuant to this proxy statement?***

**Answer:** Our Board of Directors is soliciting your vote at the Special Meeting. In addition, certain of our officers and employees may solicit, or be deemed to be soliciting, your vote. We have also retained MacKenzie Partners, Inc. and Georgeson Inc. to assist in the solicitation

**Question: *Who is entitled to vote?***

**Answer:** Only shareholders of record of our common stock at the close of business on April , 2008 will be entitled to vote at the Special Meeting.

**Question: *How many shares are eligible to be voted?***

**Answer:** As of the record date of April , 2008, we had [ ] shares of common stock outstanding (including 6,000,000 shares of common stock held in escrow). Each outstanding share of our common stock will entitle its holder to one vote on each matter to be voted on at the Special Meeting.

**Question: *What am I voting on?***

**Answer:** You are voting on the following matters:



Approval of an amendment to the Company's Amended and Restated Articles of Incorporation (the Articles ) to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 (and, correspondingly, to increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000); and

Approval of the conversion of our Series S and Series T Preferred Stock into common stock and exercise of our warrants to purchase shares of common stock, in each case issued to the investors in our recent equity investment transaction.

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**Question: *What securities did the Company issue in the equity investment transaction?***

**Answer:** On April 7, 2008, the Company entered into (i) an Investment Agreement (the *Investment Agreement* ) with affiliates of TPG Capital (the *TPG Investors* ) and (ii) Securities Purchase Agreements (the *Securities Purchase Agreements* ) with a number of institutional investors (the *Institutional Investors* and, together with the TPG Investors, the *Investors* ) including certain of our largest shareholders.

Pursuant to the Investment Agreement, the TPG Investors acquired 822,857 shares of common stock, no par value, 19,928 shares of Series T Perpetual Contingent Convertible Non-Voting Preferred Stock ( *Series T Preferred Stock* ) and warrants to acquire 57,142,857 additional shares of common stock. Pursuant to the Securities Purchase Agreements, the Institutional Investors acquired a total of 175,514,285 shares of common stock, 36,642 shares of Series S Perpetual Contingent Convertible Non-Voting Preferred Stock ( *Series S Preferred Stock* and, together with the Series T Preferred Stock, *Preferred Stock* ) and warrants to acquire 11,159,998 shares of common stock. In this proxy statement, we refer to the warrants issued to the TPG Investors as *A Warrants* and the warrants issued to the Institutional Investors as *B Warrants* and to the two forms of warrants, collectively, as *Warrants* , and we refer to the transactions contemplated by the Investment Agreement and the Securities Purchase Agreements as the *Equity Investment Transaction*.

The shares of Preferred Stock acquired by the Investors are mandatorily convertible into common stock on the final day of the calendar quarter in which certain conditions precedent are satisfied. The conditions to conversion of the Series T Preferred Stock are (i) the affirmative vote of our existing common shareholders (A) approving the amendment of the Company's Articles to increase the number of authorized shares of common stock to at least such number as shall be sufficient to permit full conversion of the Series T Preferred Stock into common stock and (B) approving the conversion of the Series T Preferred Stock into common stock for purposes of Section 312.03 of the NYSE Listed Company Manual (described below and under Proposal 2)(the conditions in (A) and (B), together with the equivalent approvals with respect to the Series S Preferred Stock and the Warrants referred to below, are collectively referred to as *Shareholder Approvals* ) and (ii) the receipt of approvals and authorizations of, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ( *HSR* ) or the competition or merger control laws of other jurisdictions ( *Regulatory Approval* ). Early termination of the waiting period under the HSR Act with respect to the transactions contemplated by the Investment Agreement was received on May 8, 2008.

The only condition precedent to the mandatory conversion of the Series S Preferred Stock into common stock is the receipt of the Shareholder Approvals. The exercise of the Warrants is also subject to the receipt of the Shareholder Approvals and Regulatory Approval to the extent applicable. In the absence of such approvals, the A Warrants are exchangeable for shares of Series T Preferred Stock and the B Warrants are exchangeable for shares of Series S Preferred Stock as further described under *Description of the Warrants* *Exchange for Preferred Stock*.

**Question: *Why is the Company seeking shareholder approval for the authorization of additional common stock?***

**Answer:** The Company currently does not have a sufficient number of authorized shares of common stock to effect the conversion of all of the Preferred Stock into common stock and to issue common stock upon exercise of the Warrants by the Investors, and therefore is seeking to increase the amount of common stock authorized by the Articles in order to be able to deliver shares of common stock upon the conversion of the Preferred Stock and the exercise of the Warrants to purchase shares of common stock, as well as to have enough authorized common stock available for issuance to meet general corporate needs from time to time, including capital raising transactions, employee benefit plans, acquisitions and other uses. Amendment of the Articles requires approval of the holders of our common stock pursuant to the Washington Business Corporation Act.

**Question:** *Why is the Company seeking shareholder approval for the conversion of the Series S and Series T Preferred Stock and exercise of the Warrants to purchase shares of common stock?*

**Answer:** Because our common stock is listed on the New York Stock Exchange (the NYSE ), we are subject to NYSE rules and regulations. Section 312.03 of the NYSE Listed Company Manual requires

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shareholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions (i) if the common stock to be issued has, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance, or (ii) if the number of shares of common stock to be issued is, or will be upon issuance, equal to 20% or more of the number of shares of common stock outstanding before the issuance.

Our proposed conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock falls under this rule because the common stock issued at the closing of the Equity Investment Transaction, together with the common stock issuable upon conversion of the Preferred Stock and exercise of the Warrants, will exceed 20% of both the voting power and number of shares of our common stock outstanding before the issuance, and none of the exceptions to this NYSE rule was applicable to these transactions.

**Question: *How will the conversion of the Preferred Stock occur?***

**Answer:** Upon receipt of the Shareholder Approvals, and subject to Regulatory Approval in the case of the Series T Preferred Stock, each share of Preferred Stock will be automatically converted into shares of common stock on the final day of the calendar quarter in which such approvals are obtained. Each outstanding share of Preferred Stock will automatically be converted into such number of shares of common stock determined by dividing (i) \$100,000 (the purchase price per share of the Preferred Stock) by (ii) the conversion price of the Preferred Stock then in effect, subject to certain adjustments. The initial conversion price of the Preferred Stock is \$8.75 per share, which results in an initial conversion rate of approximately 11,429 shares of common stock for each share of Preferred Stock.

**Question: *How does our Board of Directors recommend that I vote?***

**Answer:** Our Board of Directors unanimously recommends that you vote **FOR** the approval of the amendment to the Company's Articles to increase the number of authorized shares of capital stock and of common stock, and **FOR** the approval of the conversion of the Preferred Stock into common stock and the exercisability of the Warrants for common stock.

**Question: *Why is our Board of Directors recommending approval of the proposals?***

**Answer:** During the first quarter of this year our management and Board of Directors determined that it would be prudent to seek significant additional common equity in order to maintain our capital ratios at well above target levels, in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit costs in our loan portfolio, which we expect to continue through 2008 and into 2009. The Board of Directors also concluded that in light of a variety of factors, including capital markets volatility, rating agency actions and general economic uncertainties, it was important that any process to raise additional common equity be executed promptly and with a high degree of certainty of completion. After exploring and considering a broad range of potential financing and other alternatives, our Board of Directors determined that the Equity Investment Transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our shareholders. Because of the NYSE rule described above as well as the limited number of remaining authorized but unreserved and unissued shares of common stock we have available, it was necessary to structure the Equity Investment Transaction predominantly in the form of convertible preferred stock until we could obtain the necessary Shareholder Approvals to issue common stock in its place.

Accordingly, our Board of Directors recommends that shareholders vote **FOR** the proposals so that the Preferred Stock will convert automatically into shares of common stock, thereby strengthening our common equity base as planned. In addition, as described below, if the Shareholder Approvals are not received by June 30, 2008, the dividend rate on the Preferred Stock will increase substantially and the price at which the Preferred Stock is convertible into,

and the Warrants are exercisable for, common stock will decrease significantly. These adjustments would be disadvantageous to the Company and our existing shareholders.

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**Question: *What happens if the Shareholder Approvals are received?***

**Answer:** If the increase in our authorized number of shares of common stock and the conversion of the Preferred Stock into common stock and the exercise of the Warrants for shares of common stock are approved at the Special Meeting, we will issue to the TPG Investors (assuming receipt of Regulatory Approval) a total of 227,748,571 shares of common stock and to the Institutional Investors a total of 418,765,714 shares of common stock upon conversion of the Preferred Stock which will represent, in the aggregate, approximately 36% of the total number of shares of common stock outstanding immediately after giving effect to the conversion of the Preferred Stock (but before giving effect to the exercise of any Warrants). Upon completion of the conversion, all rights with respect to the Preferred Stock will terminate, all shares of Preferred Stock will be cancelled and no further dividends will accrue thereon.

Additionally, if the approvals described above are received at the Special Meeting, the Investors will be entitled to exercise the Warrants held by each Investor to acquire common stock (assuming, in the case of any Investor the receipt of any required Regulatory Approval), up to a total of 68,302,855 shares in the aggregate. In the event that the Shareholder Approvals are received at the Special Meeting but the Regulatory Approval has not been received by such date, only the Series S Preferred Stock will mandatorily convert into common stock upon receipt of the Shareholder Approvals and the Warrants will only become exercisable for common stock to the extent no Regulatory Approval is required by the applicable holder.

**Question: *What happens if the Shareholder Approvals, or one of them, are not received?***

**Answer:** Unless both the Shareholder Approvals are received at the Special Meeting or unless our shareholders approve similar proposals at a subsequent meeting prior to July 1, 2008, the Preferred Stock will remain outstanding in accordance with its terms. The Company has agreed, pursuant to the Investment Agreement and certain of the Securities Purchase Agreements, to seek to obtain the Shareholder Approvals no less than once in each subsequent six-month period beginning on July 1, 2008 until the Shareholder Approvals are obtained. If the Preferred Stock remains outstanding after June 30, 2008, it will accrue non-cumulative dividends commencing with the quarterly dividend period ending on September 15, 2008 at an annual rate of 14% of the liquidation preference of the Preferred Stock and this rate will further increase to 15.5% of the liquidation preference commencing with the dividend period ending on March 15, 2009 and to 17% of the liquidation preference commencing with the dividend period ending on September 15, 2009. In addition, the conversion price of the Preferred Stock and the exercise price of the Warrants will be reduced by \$0.50 per share of common stock on each six-month anniversary of the date of issuance, if the Shareholder Approvals have not been received by such anniversary, up to a maximum reduction of \$2.00. Further, in the absence of such approvals, the A Warrants are exchangeable for shares of Series T Preferred Stock and the B Warrants are exchangeable for shares of Series S Preferred Stock.

In the event that our shareholders approve the conversion of the Preferred Stock and the exercise of the Warrants to purchase shares of common stock but do not approve the increase in the number of authorized common stock, we are required by the Investment Agreement to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Series T Preferred Stock for (and to exchange their A Warrants for securities exercisable for) depositary receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors may mutually agree.

**Question: *How many votes are required to hold the Special Meeting and what are the voting procedures?***

**Answer:** Quorum Requirement: Washington law and our articles of incorporation provide that any shareholder action at a meeting requires that a quorum exist with respect to that action. A quorum for the actions to be taken at the

Special Meeting will consist of a majority of all of our outstanding shares of common stock that are entitled to vote at the Special Meeting. Therefore, at the Special Meeting, the presence, in person or by proxy, of the holders of at least [ ] shares of common stock will be required to establish a quorum. Shareholders of record who are present at the Special Meeting in person or by proxy and who abstain are considered shareholders who are present and entitled to vote, and will count towards the

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establishment of a quorum. This will include brokers holding customers' shares of record who cause abstentions to be recorded at the Special Meeting.

**Required Votes:** Each outstanding share of our common stock is entitled to one vote on each proposal at the Special Meeting. Approval of the proposal to amend the Company's Articles requires the affirmative vote of a majority of the outstanding shares of common stock. Accordingly, failure to vote or an abstention will have the same effect as a vote against this proposal. Broker non-votes will also have the same effect as a vote against this proposal.

Approval of the proposal to authorize the conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock requires the affirmative vote of a majority of the shares of common stock present at the meeting and eligible to vote. Accordingly, failure to vote and broker non-votes will not affect whether this proposal is approved, but an abstention will have the same effect as a vote against such proposal.

### **Question: *How may I cast my vote?***

**Answer: If you are the shareholder of record:** You may vote by one of the following four methods (as instructed on the enclosed proxy card):

in person at the Special Meeting,

via the Internet,

by telephone, or

by mail.

Whichever method you use, the proxies identified on the proxy card will vote the shares of which you are the shareholder of record in accordance with your instructions. If you submit a proxy card without giving specific voting instructions, the proxies will vote the shares as recommended by our Board of Directors.

**If you own your shares in street name, that is, through a brokerage account or in another nominee form:** You must provide instructions to the broker or nominee as to how your shares should be voted. Brokers do not have the discretion to vote on the proposals and will only vote at the direction of the underlying beneficial owners of the shares of common stock. Accordingly, if you do not instruct your broker to vote your shares, your broker will not have the discretion to vote your shares. Your broker or nominee will usually provide you with the appropriate instruction forms at the time you receive this proxy statement. If you own your shares in this manner, you cannot vote in person at the Special Meeting unless you receive a proxy to do so from the broker or the nominee, and you bring the proxy to the Special Meeting.

**If you are a participant in the WaMu Savings Plan, our 401(k) Plan:** You have the right to direct Fidelity Management Trust Company, as trustee of the plan, regarding how to vote the shares of Company common stock attributable to your individual account under the plan. The enclosed proxy card can be used as a direction form to provide voting directions to Fidelity. Fidelity will vote common stock attributable to participant accounts as directed by such participants. Fidelity will not vote common stock attributable to participant accounts for which it does not receive participant direction by [ ], 2008.

### **Question: *How may I cast my vote over the Internet or by telephone?***



**Answer: Voting over the Internet:** If you are a shareholder of record, you may use the Internet to transmit your vote up until 11:59 P.M. Eastern Time, on [        ], 2008. Visit *www.proxyvote.com* and have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

**Voting by Telephone:** If you are a shareholder of record, you may call [        ] and use any touch-tone telephone to transmit your vote up until 11:59 P.M. Eastern Time on [        ], 2008. Have your proxy card in hand when you call and then follow the instructions.

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If you hold your shares in street name, that is through a broker, bank or other nominee, that institution will instruct you as to how your shares may be voted by proxy, including whether telephone or Internet voting options are available.

**Question:** *How may I revoke or change my vote?*

**Answer:** If you are the record owner of your shares, you may revoke your proxy at any time before it is voted at the Special Meeting by:

submitting a new proxy card,

delivering written notice to our Secretary prior to [ ], 2008, stating that you are revoking your proxy, or

attending the Special Meeting and voting your shares in person.

Please note that attendance at the Special Meeting will not, in itself, constitute revocation of your proxy.

**Question:** *Who is paying for the costs of this proxy solicitation?*

**Answer:** Our Company will bear the cost of preparing, printing and mailing the materials in connection with this solicitation of proxies. In addition to mailing these materials, officers and regular employees of our Company may, without being additionally compensated, solicit proxies personally and by mail, telephone, facsimile or electronic communication. Our Company will reimburse banks and brokers for their reasonable out-of-pocket expenses related to forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation. We have retained MacKenzie Partners, Inc. and Georgeson Inc. to assist in the solicitation at a cost of approximately \$[ ] and \$ [ ], respectively, plus in each case payment of reasonable out-of-pocket expenses and other customary costs.

**Question:** *Who will count the votes?*

**Answer:** Broadridge Financial Solutions, Inc., our inspector of elections for the Special Meeting, will receive and tabulate the ballots and voting instruction forms.

**Question:** *What happens if the Special Meeting is postponed or adjourned?*

**Answer:** Your proxy will still be effective and may be voted at the rescheduled meeting. You will still be able to change or revoke your proxy until it is voted.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement contains or incorporates by reference forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning, or future or verbs such as will, would, should, could, or may.

Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. They may include projections of our revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying or relating to the foregoing. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date they were made. Management does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made except as required by federal securities law.

There are a number of significant factors which could cause actual conditions, events or results to differ materially from those describe in the forward-looking statements, many of which are beyond management's control or its ability to accurately forecast or predict. Factors that might cause our future performance to vary from that described in our forward-looking statements include market, credit, operational, regulatory, strategic, liquidity, capital and economic factors as described under Risk Factors in our periodic reports filed with the Securities and Exchange Commission, including, without limitation, a continued general decline in the U.S. housing prices and mortgage activity, continued increases in the delinquency rates of borrowers, and a continued reduction in the availability of secondary markets for our mortgage loan products. In addition, other factors could adversely affect our results and this list is not a complete set of all potential risks or uncertainties. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included or incorporated by reference in this proxy statement or in our other periodic filings with the Securities and Exchange Commission.

**BACKGROUND TO THE PROPOSALS**

During the first quarter of this year our management and Board of Directors determined that it would be prudent to seek significant additional common equity in order to maintain our capital ratios at well above target levels, in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit costs in our loan portfolio, which we expect to continue through 2008 and into 2009. The Board of Directors also concluded that in light of a variety of factors, including capital markets volatility, rating agency actions and general economic uncertainties, it was important that any process to raise additional common equity be executed promptly and with a high degree of certainty of completion. At the direction of the Board of Directors, beginning during the week of March 3, 2008, the Company and its financial advisors made initial approaches to eight potential private equity investors (including TPG), eight sovereign wealth funds and two international banks regarding a potential equity investment in the Company and also made initial approaches to five U.S. and international banks regarding a potential sale of the Company. These investors and banks were selected by the Company after discussions with the Company's financial advisors, based on their financial ability and likely level of interest in completing a transaction with the Company in the near term. Confidentiality agreements were executed by six of the private equity firms and four of the potential strategic buyers, but none of the sovereign wealth funds or international banks indicated an interest in participating in the potential equity investment process within the specified time frame. After receiving presentations from management and limited written due diligence materials, four private equity investors submitted preliminary indications of interest and elected to proceed with on-site due diligence and, of the potential strategic buyers

approached by the Company and its financial advisors, one potential buyer elected to proceed immediately with on-site due diligence. Another potential strategic buyer began its due diligence review of the Company but indicated that it would not be in a position to submit a proposal in the near term.

In light of the fact that none of the private equity firms proposed to commit the full amount of capital required by the Company, based on consultation with its financial advisors, the Company determined that, in

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the event a private equity investment were ultimately pursued, the Company should also explore additional investments from other major institutional investors that the Company and its financial advisors believed would have both the interest and the capacity to commit substantial capital to the Company in the time frame required by the Company.

Following on-site due diligence, two private equity investors (including TPG) submitted final proposals and a group of two additional private equity investors submitted a joint final proposal. One potential strategic buyer submitted a proposal.

Over multiple board meetings during the week of March 30, 2008, the Board of Directors, together with members of management and its legal and financial advisors, reviewed the proposals received from the private equity investors and the proposal submitted by the strategic buyer. The Board of Directors and the Company's financial advisers valued the proposal by the strategic buyer to acquire all of the Company's outstanding common stock at a price per share of common stock that was significantly less than the proposals received from the private equity investors to purchase a minority interest in the Company. A substantial portion of the value of the proposal from the strategic buyer was based on contingent payments related to the credit performance of certain loans in the Company's portfolio, and the Board believed that these contingent payments would only be partially realized, if at all. In addition, that proposal remained subject to further due diligence and was subject to other material conditions, including that the Company terminate its discussions with other investors and enter into exclusive negotiations with the strategic buyer. The Board of Directors concluded that, while the potential strategic buyer could continue its due diligence review of the Company and that the Company and its financial advisors should continue to discuss the proposal, it was in the best interest of the Company and its shareholders for management to work actively to seek to finalize the most favorable transaction terms from one or more of the private equity investors. Among all the proposals, the Board of Directors determined to proceed with the proposal submitted by TPG because it represented, in the judgment of the Board of Directors, the greatest value and the most favorable terms, including less complexity and the ability to complete an equity investment in the time frame proposed by the Company.

In connection with the Board of Directors' determination to proceed with TPG, the Company's financial advisors approached a number of institutional investors, selected based on their financial resources and likely interest in making a significant equity investment in the Company, regarding a potential equity investment in the Company. After receiving commitments by institutional investors to invest equity in the Company in excess of \$5 billion, our Board of Directors determined that the Equity Investment Transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our shareholders. Because of the NYSE rule described above as well as the limited number of remaining authorized but unreserved and unissued shares of common stock we have available, it was necessary to structure the Equity Investment Transaction predominantly in the form of convertible preferred stock until we could obtain the necessary Shareholder Approvals to issue common stock in its place.

On April 7, 2008, the Company entered into the Investment Agreement with affiliates of TPG Capital, a leading private equity firm. Pursuant to the Investment Agreement, we agreed to issue to the TPG Investors (i) 822,857 shares of common stock at \$8.75 per share, (ii) 19,928 shares of Series T Preferred Stock at \$100,000 per share and (iii) A Warrants to acquire 57,142,857 shares of common stock.

We entered into a series of Securities Purchase Agreements dated as of the same date as the Investment Agreement with a number of qualified institutional buyers and institutional accredited investors which included several of our largest institutional shareholders. Under the Securities Purchase Agreements, we agreed to issue to the Institutional Investors an aggregate of (i) 175,514,285 shares of common stock at \$8.75 per share, (ii) 36,642 shares of Series S Preferred Stock at \$100,000 per share and (iii) B Warrants to acquire 11,159,820 shares of common stock.

Closing for the issuance of the securities to the Investors occurred on April 14, 2008, other than the delayed delivery of approximately \$2 billion of securities which occurred on April 21, 2008. The shares of common stock and Preferred Stock, and the Warrants, issued and sold to the Investors in the Equity Investment

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Transactions are being issued from our authorized share capital and shareholders are not being asked to vote upon the issuance and sale of those securities.

The Company received aggregate consideration of \$7,199,949,993 in the Equity Investment Transaction. The Company has contributed \$3.0 billion of the proceeds from the Equity Investment Transaction to Washington Mutual Bank, our principal bank subsidiary, as additional capital. The Company has retained the remaining net proceeds from the Equity Investment Transaction, which it intends to use to enhance the capital ratios of Washington Mutual Bank on a consolidated basis as well as for general corporate purposes.

In addition to the 176,337,142 shares of common stock that were issued to the Investors immediately upon the consummation of the transactions contemplated by the Investment Agreement and the Securities Purchase Agreements, subject to receipt of Shareholder Approvals and Regulatory Approval, we estimate that we will be required to issue an additional 646,514,286 shares of common stock upon the conversion of all the shares of Preferred Stock and up to an additional 68,302,677 shares of common stock if the Warrants are exercised in full.

**PROPOSAL 1**

**APPROVAL OF AMENDMENT TO THE  
AMENDED AND RESTATED ARTICLES OF INCORPORATION  
TO INCREASE THE AUTHORIZED NUMBER OF SHARES  
OF CAPITAL STOCK AND OF COMMON STOCK**

Our Board of Directors adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to amend the Company's Articles to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 shares (and correspondingly, increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000). The Board of Directors further directed that the proposed action be submitted for consideration by the Company's shareholders at a special meeting to be called for that purpose.

If the shareholders approve the amendment, the Company will amend Article II of the Articles to increase the number of authorized shares of capital stock and of common stock as described above. If adopted by the shareholders, the increase will become effective on the filing of the amendment to the Company's Articles with the Secretary of State of the State of Washington. The only changes in the Company's existing Articles would be those numeric changes required to reflect the increase of the number of authorized shares of capital stock and of common stock as proposed in this Proxy Statement. The portion of paragraph A of Article II of the Articles as it is proposed to be amended is set forth as Annex A to this proxy statement.

The primary purpose of Proposal 1 is to satisfy, in connection with the Company's sale and issuance of the Preferred Stock and Warrants, its obligations under the Investment Agreement and the Securities Purchase Agreements. As of the Record Date, the Company had [ ] shares of common stock outstanding, with an additional [ ] shares of common stock reserved for issuance. The Company currently does not have a sufficient number of authorized common stock to effect the conversion of all the Preferred Stock into common stock and for the issuance of common stock upon the exercise of the Warrants. Accordingly, approval of Proposal 1 is required for the conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock.

Approval of Proposal 1 is one of the conditions to the mandatory conversion of the Preferred Stock into common stock. If the conversion of Preferred Stock is not approved prior to June 30, 2008, the Preferred Stock will remain outstanding in accordance with its terms and will accrue non-cumulative dividends commencing with the dividend period ending on September 15, 2008 at an annual rate of 14% of the liquidation preference of the Preferred Stock and this rate will further increase to 15.5% of the liquidation preference commencing with the dividend period ending on

March 15, 2009 and to 17% of the liquidation preference commencing with the dividend period ending on September 15, 2009. In addition, the conversion price of the Preferred Stock, and the exercise price of the Warrants, will each be reduced by \$0.50 on each six-month anniversary of the date of issuance of the Preferred Stock or the Warrants, as applicable, if



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Proposal 1 and/or Proposal 2 have not been approved prior to such anniversary, up to a maximum reduction of \$2.00.

If Proposal 1 and Proposal 2 are approved and the Preferred Stock is converted into common stock, there will be immediate and substantial dilution to the existing holders of common stock as a result of the mandatory conversion. Additional dilution would result upon the exercise of the Warrants to purchase common stock.

In the event that our shareholders approve Proposal 2 but do not approve Proposal 1, we are required by the Investment Agreement to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Preferred Stock into (and to exchange their A Warrants for securities exercisable for) depositary receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors mutually agree.

It is expected that upon the conversion of the Preferred Stock, 646,514,286 shares of common stock will be issued to the holders of the Preferred Stock. In addition, the total number of shares of common stock issuable upon the full exercise of the Warrants held by the holders is estimated to be 68,302,855.

In the event that either of Proposal 1 or Proposal 2, or both, are not approved by the shareholders at the Special Meeting, we have agreed to include such proposals (and our Board of Directors shall recommend approval of such proposals) at a meeting of our shareholders no less than once in each subsequent six-month period beginning on July 1, 2008 until such approvals are obtained or made.

The additional authorized shares of common stock not used for conversion of the Preferred Stock or reserved for issuance upon exercise of the Warrants will be available for general corporate purposes, including capital raising transactions, employee benefit plans, acquisitions and other uses. The Company currently has no specific plans or understandings with respect to the issuance of any common stock except as described in this proxy statement.

The increase in the authorized number of shares of common stock not used for the conversion of the Preferred Stock or reserved for issuance upon exercise of the Warrants could have possible anti-takeover effects. These authorized but unissued shares could (within the limits imposed by applicable law and NYSE rules) be issued in one or more transactions that could make a change of control of the Company more difficult, and therefore more unlikely. The additional authorized shares could be used to discourage persons from attempting to gain control of the Company by diluting the voting power of shares then outstanding or increasing the voting power of persons who would support the Board of Directors in a potential takeover situation, including by preventing or delaying a proposed business combination that is opposed by the Board of Directors although perceived to be desirable by some shareholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE PROPOSED AMENDMENT.**

**PROPOSAL 2**

**APPROVAL OF THE CONVERSION OF THE  
PREFERRED STOCK INTO COMMON STOCK AND ISSUANCE OF COMMON STOCK UPON  
EXERCISE OF WARRANTS**

On April 6, 2008, the Board of Directors adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to approve (i) the conversion of all shares of the Preferred Stock into shares of common stock and the automatic cancellation of the Preferred Stock upon such conversion and (ii) approve the exercise of the Warrants to purchase common stock.

The Board of Directors further directed that the proposed actions be submitted for consideration of the Company's shareholders at a special meeting to be called for that purpose.

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Because our common stock is listed on the NYSE, we are subject to the NYSE rules and regulations. Section 312.03 of the NYSE Listed Company Manual requires shareholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions if the common stock has, or will have upon issuance, voting power equal to, or in excess of, 20% of the voting power outstanding before the issuance of such shares or of securities convertible into or exercisable for common stock, or if the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance.

Our proposed issuance of common stock to the Investors upon conversion of the Preferred Stock and exercise of the Warrants falls under this rule because the common stock issued at the closing of the Equity Investment Transaction, together with the common stock issuable upon conversion of the Preferred Stock and exercise of the Warrants, will exceed 20% of the voting power and number of shares of common stock outstanding before the Equity Investment Transaction.

The purpose of Proposal 2 is to satisfy, in connection with the Company's sale and issuance of the Preferred Stock and Warrants, its obligations under the Investment Agreement and the Securities Purchase Agreements and to allow the conversion of Preferred Stock and the exercise of the Warrants to purchase shares of common stock in accordance with the NYSE rules described above.

In the event that our shareholders approve Proposal 1 but do not approve Proposal 2, the mandatory conversion of the Preferred Stock into common stock cannot be completed and the holders of the Warrants will not be able to exercise the Warrants to purchase shares of common stock. The holders would, however, retain the ability to exchange their Warrants for Preferred Stock as described below under "Description of the Warrants" Exchange for Preferred Stock.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE PROPOSED CONVERSION OF PREFERRED STOCK AND EXERCISE OF WARRANTS TO PURCHASE SHARES OF COMMON STOCK.**

## **DESCRIPTION OF THE INVESTMENT AGREEMENT**

### *Representations and Warranties*

In the Investment Agreement, we made customary representations and warranties to the TPG Investors relating to us, our business and the issuance of the common stock, Series T Preferred Stock and the A Warrants and agreed to indemnify the TPG Investors for breaches of our representations and warranties in certain circumstances.

### *Covenants*

Pursuant to the Investment Agreement we have agreed to call a special meeting of our shareholders, as promptly as practicable following the later of (1) the closing of the transactions contemplated by the Investment Agreement and (2) the 2008 annual meeting of our shareholders (which was held on April 15), to vote on proposals to (A) approve the conversion of the Series T Preferred Stock into, and exercise of the A Warrants for, common stock for purposes of Section 312.03 of the NYSE Listed Company Manual, and (B) amend the Company's Articles to, among other things, increase the number of authorized shares of common stock to at least such number as shall be sufficient to permit the full conversion of the Series T Preferred Stock into, and exercise of the A Warrants for, common stock. In the event that the approvals necessary to permit the Series T Preferred Stock and A Warrants to be converted into or exercised for common stock are not obtained at such special meeting of shareholders, we have agreed to include a proposal to approve (and our Board of Directors will recommend approval of) such issuance at a meeting of our shareholders no less than once in each subsequent six-month period beginning on July 1, 2008 until such approval is obtained.

In the event that our shareholders approve the conversion of the Preferred Stock into, and exercise of the Warrants for, common stock for purposes of Section 312.03 of the NYSE Listed Company Manual, but do not

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approve the increase in the authorized capital of the common stock of the Company, we are required to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Series T Preferred Stock into (and to exchange their A Warrants for securities exercisable for) depository receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors may mutually agree.

*Board Representation*

Pursuant to the Investment Agreement, one of the TPG Investors is entitled to nominate one person to be elected or appointed to our Board of Directors subject to satisfaction of all legal and governance requirements regarding service as a director of the Company and to the reasonable approval of the Governance Committee of our Board of Directors. After such appointment, so long as the TPG Investors beneficially own at least 2% of the outstanding common stock (including for this purpose shares of common stock issuable upon conversion of the Series T Preferred Stock and exercise of the A Warrants acquired pursuant to the Investment Agreement), the Company will be required to recommend to its shareholders the election of the TPG Investor's board representative at the Company's annual meeting, subject to satisfaction of all legal and governance requirements regarding service as a director of the Company and to the reasonable approval of the Governance Committee of the Board of Directors. The Company has agreed to appoint the TPG Investor's board representative to the Human Resources Committee of the Board of Directors at such board representative's option. In addition to nomination of a director, one of the TPG Investors also has the right to designate a board observer to attend all meetings of our Board of Directors.

*Transfer Restrictions*

The TPG Investors are prohibited from transferring any securities acquired under the Investment Agreement, except as follows: (1) following the 18-month anniversary of the closing of the transactions contemplated by the Investment Agreement, each TPG Investor may transfer 1/18th of the securities owned by such investor per month (except that the investors are entitled to transfer any non-transferred portion

Series A preferred limited partner interests in Special Value Continuation Partners, LP; \$20,000/interest liquidation preference; 6,700 interests authorized, issued and outstanding

134,000,000

Accumulated dividends on Series A preferred equity facility

443,834

Total preferred limited partner interests

134,443,834

Minority interest

General partner interest in Special Value Continuation Partners, LP

-

Net assets applicable to common shareholders

\$206,500,958

Composition of net assets applicable to common shareholders

Common stock, \$0.001 par value; unlimited shares authorized, 418,955.777 shares issued and outstanding

\$419

Paid-in capital in excess of par, net of contributed unrealized gains

364,767,103

Accumulated net investment income

6,737,333

Accumulated net realized losses

(29,169,276)  
Accumulated net unrealized depreciation  
(135,833,673)  
Accumulated dividends to Series Z preferred shareholders  
(948)  
Net assets applicable to common shareholders  
\$206,500,958  
Common stock, NAV per share  
\$492.89

See accompanying notes.

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Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Investments (Unaudited)

June 30, 2009

Showing Percentage of Total Cash and Investments of the Company

Investment	Principal Amount	Fair Value	Percent of Cash and Investments
<b>Debt Investments (55.15%)</b>			
<b>Bank Debt (30.85%) (1)</b>			
<b>Architectural, Engineering, and Related Services (0.82%)</b>			
Alion Science & Technology Corporation, 1st Lien Term Loan, LIBOR + 6%, due 2/6/13 (Acquired 4/14/08, Amortized Cost \$3,042,537)	\$ 3,886,228	\$ 3,244,777	0.82%
<b>Communications Equipment Manufacturing (3.88%)</b>			
Mitel Networks Corporation, 1st Lien Term Loan, LIBOR + 3.25%, due 8/10/14 (Acquired 12/13/07, Amortized Cost \$18,649,293)	\$ 19,839,674	15,326,148	3.88%
<b>Computer and Peripheral Equipment Manufacturing (0.25%)</b>			
Palm, Inc., Tranche B Term Loan, LIBOR + 3.5%, due 4/24/14 (Acquired 5/24/07, Amortized Cost \$1,181,604)	\$ 1,312,893	978,106	0.25%
<b>Data Processing, Hosting, and Related Services (5.07%)</b>			
GXS Worldwide, Inc., 1st Lien Term Loan, Prime + 4.75%, due 3/31/13 (Acquired 10/12/07, Amortized Cost \$6,902,432)	\$ 7,043,299	6,585,484	1.67%
GXS Worldwide, Inc., 2nd Lien Term Loan, LIBOR + 10.25%, due 9/30/13 (Acquired 10/12/07, Amortized Cost \$14,379,238)	\$ 14,598,211	13,430,354	3.40%
<b>Total Data Processing, Hosting, and Related Services</b>		<b>20,015,838</b>	
<b>Electric Power Generation, Transmission and Distribution (0.05%)</b>			
La Paloma Generating Company Residual Bank Debt (Acquired 2/2/05, 3/18/05, and 5/6/05, Cost \$1,885,234) (3)	\$ 23,218,324	211,508	0.05%
<b>Metalworking Machinery Manufacturing (0.14%)</b>			
Mold-Masters Group, 1st Lien Term Loan, LIBOR + 3.5%, due 10/11/14 (Acquired 6/22/09, Amortized Cost \$433,861)	\$ 774,752	561,695	0.14%
<b>Motor Vehicle Manufacturing (1.13%)</b>			
General Motors Corporation, Revolver, LIBOR + 2.5%, due 7/20/11	\$ 4,500,000	4,454,656	1.13%

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(Acquired 9/27/07, 11/27/07, and 12/14/07, Amortized Cost \$4,055,281)

Offices of Real Estate Agents and Brokers (1.51%)

Realty Corporation, Revolver, LIBOR + 2.25%, due 4/10/13

(Acquired 6/28/07, 7/9/07, and 7/13/07, Amortized Cost \$9,893,333) \$ 13,000,000 5,958,333 1.51%

Other Electrical Equipment and Component Manufacturing (1.91%)

EaglePicher Corporation, 1st Lien Tranche B Term Loan, LIBOR + 4.5%, due 12/31/12

(Acquired 12/31/07, Amortized Cost \$7,867,657) (2), (14) \$ 7,867,657 7,533,281 1.91%

Petroleum and Coal Products Manufacturing (0.33%)

Building Materials Corporation of America, 2nd Lien Term Loan, LIBOR + 5.75%, due 9/15/14

(Acquired 5/20/09, 5/28/09, and 6/2/09, Amortized Cost \$1,223,609) \$ 1,599,318 1,283,453 0.33%

Radio and Television Broadcasting (0.17%)

High Plains Broadcasting Operating Company, Term Loan, Prime + 4%, due 9/14/16

(Acquired 9/15/08, Amortized Cost \$179,919) \$ 197,713 138,399 0.04%

Newport Television LLC, Term Loan B, Prime + 5%, due 9/14/16

(Acquired 5/1/08 and 5/29/08, Amortized Cost \$679,615) \$ 746,829 522,781 0.13%

Total Radio and Television Broadcasting 661,180

Satellite Telecommunications (8.05%)

WildBlue Communications, Inc., 1st Lien Delayed Draw Term Loan, LIBOR + 4% Cash

+ 2.5% PIK, due 12/31/09

(Acquired 9/29/06, Amortized Cost \$13,928,218) (4) \$ 13,861,797 13,434,853 3.40%

WildBlue Communications, Inc., 2nd Lien Delayed Draw Term Loan, 8.5% Cash

+ 7.25% PIK, due 8/15/11

(Acquired 9/29/06, Amortized Cost \$17,785,409) (4) \$ 18,197,700 18,354,200 4.65%

Total Satellite Telecommunications 31,789,053

Semiconductor and Other Electronic Component Manufacturing (1.66%)

Celerity, Inc., Senior Secured Notes, LIBOR + 12%, due 11/30/09

(Acquired 4/15/08, 1/21/09, 2/2/09, 2/27/09, and 4/28/09, Amortized Cost \$22,079,264) (3) \$ 22,116,385 6,192,588 1.57%

Celerity, Inc., Senior 2nd Lien Secured Convertible Notes, 12% PIK, due 12/31/09

(Acquired 4/15/08, Amortized Cost \$7,316,697) (3) \$ 7,316,697 365,835 0.09%

Total Semiconductor and Other Electronic Component Manufacturing 6,558,423



Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Investments (Unaudited) (Continued)

June 30, 2009

Showing Percentage of Total Cash and Investments of the Company

Investment	Principal Amount	Fair Value	Percent of Cash and Investments
<b>Debt Investments (continued)</b>			
<b>Wired Telecommunications Carriers (5.88%)</b>			
<b>Cavalier Telephone Corporation, Senior Secured 1st Lien Term Loan,</b>			
<b>PRIME + 6.25% PIK, due 12/31/12</b>			
(Acquired 4/24/08, Amortized Cost \$677,323)	\$ 866,750	\$ 486,825	0.12%
<b>Global Crossing Limited, Tranche B Term Loan, LIBOR + 6.25%, due 5/9/12</b>			
(Acquired 5/13/09, Amortized Cost \$245,897)	\$ 330,063	280,224	0.07%
<b>Integra Telecom, Inc., 1st Lien Term Loan, Prime + 3.75%, due 8/31/13</b>			
(Acquired 5/20/09 and 6/20/09, Amortized Cost \$137,413)	\$ 157,655	143,460	0.04%
<b>Integra Telecom, Inc., 2nd Lien Term Loan, Prime + 6%, due 2/28/14</b>			
(Acquired 9/05/07, 6/17/09, and 6/30/09, Amortized Cost \$3,649,072) (3)	\$ 4,210,144	3,043,934	0.77%
<b>Integra Telecom, Inc., Term Loan, LIBOR + 10% PIK, due 8/31/14</b>			
(Acquired 9/05/07, Amortized Cost \$5,035,778)	\$ 5,035,778	820,832	0.21%
<b>Interstate Fibernet, Inc., 1st Lien Term Loan, LIBOR + 4%, due 7/31/13</b>			
(Acquired 8/01/07, Amortized Cost \$10,940,248) (2), (4)	\$ 11,249,612	9,304,835	2.36%
<b>Interstate Fibernet, Inc., 2nd Lien Term Loan, LIBOR + 7.5%, due 7/31/14</b>			
(Acquired 7/31/07, Amortized Cost \$8,281,636) (2), (4)	\$ 8,281,636	7,540,429	1.91%
<b>NEF Telecom Company BV, 2nd Lien Tranche D Term Loan, EURIBOR + 5.5%, due 2/16/17</b>			
(Acquired 8/29/07 and 11/29/07, Amortized Cost \$2,111,865) - (Netherlands) (4), (9)	€ 1,538,600	1,568,598	0.40%
<b>Total Wired Telecommunications Carriers</b>		<b>23,189,137</b>	
<b>Total Bank Debt (Cost \$162,562,433)</b>		<b>121,765,588</b>	
<b>Other Corporate Debt Securities (24.30%)</b>			
<b>Architectural, Engineering, and Related Services (2.51%)</b>			
<b>Alion Science &amp; Technology Corporation, Senior Notes, 10.25%, due 2/1/15</b>			
	\$ 9,978,000	3,991,200	1.01%

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ESP Holdings, Inc., Junior Unsecured Subordinated Promissory Notes, 18% PIK, due 3/31/15 (2), (4)			
	\$ 6,162,958	5,913,358	1.50%
Total Architectural, Engineering, and Related Services			
		9,904,558	
Couriers and Express Delivery Services (0.03%)			
Federal Express Corporation, Fixed Rate Notes, 5.5%, due 8/15/09	\$ 100,000	100,508	0.03%
Data Processing, Hosting, and Related Services (5.45%)			
Anacomp, Inc., Promissory Note, LIBOR + 6.5% PIK, due 8/31/09 (2), (10)	\$ 1,225,124	1,212,873	0.31%
Anacomp, Inc., Senior Secured Subordinated Notes, 14% PIK, due 3/12/13 (2), (10)	\$ 8,616,624	7,846,795	1.99%
Terremark Worldwide, Inc., Senior Secured Notes, 12%, due 6/15/17 (Acquired 6/17/09, Amortized Cost \$12,462,554) (5)	\$ 13,100,000	12,445,000	3.15%
Total Data Processing, Hosting, and Related Services			
		21,504,668	
Depository Credit Intermediation (0.55%)			
Wells Fargo & Company, FDIC Guaranteed Notes, 3%, due 12/9/11	\$ 2,000,000	2,059,480	0.52%
Wells Fargo & Company, Senior Unsecured FRN, LIBOR + 0.1%, due 9/15/09	\$ 100,000	100,049	0.03%
Total Depository Credit Intermediation			
		2,159,529	
Full-Service Restaurants (1.00%)			
Landry's Restaurant, Inc., Senior Secured Notes, 14%, due 8/15/11 (Acquired 6/9/09, Amortized Cost \$3,948,480) (5)	\$ 4,113,000	3,948,480	1.00%
Gambling Industries (0.05%)			
Harrah's Operating Company Inc., Senior Secured Notes, 10%, due 12/15/18 (Acquired 6/25/09, Amortized Cost \$189,175) (5)	\$ 329,000	194,100	0.05%
Grocery Stores (0.66%)			
Safeway, Inc., Senior Unsecured Notes, 7.5%, due 9/15/09	\$ 2,600,000	2,624,544	0.66%
Industrial Machinery Manufacturing (1.74%)			
GSI Group Corporation, Senior Notes, 11%, due 8/20/13 (Acquired 8/20/08, Amortized Cost \$6,783,482) (5)	\$ 7,778,000	6,852,418	1.74%
Management, Scientific, and Technical Consulting Services (0.03%)			
IBM Corporation, Senior Unsecured Notes, 4.25%, due 9/15/09	\$ 100,000	100,607	0.03%
Nondepository Credit Intermediation (0.77%)			
Fannie Mae, Fixed Rate Notes, 5.125%, due 7/13/09	\$ 100,000	100,165	0.03%
Federal Farm Credit Bank, Fixed Rate Notes, 5.25%, due 8/3/09	\$ 100,000	100,430	0.03%
Federal Home Loan Bank, Fixed Rate Notes, 6.5%, due 8/14/09	\$ 100,000	100,738	0.03%
Freddie Mac, Fixed Rate Notes, 4.25%, due 7/15/09	\$ 100,000	100,154	0.03%
General Electric Capital Corp., FDIC Guaranteed Notes, 1.8%, due 3/11/11	\$ 500,000	504,940	0.13%
	\$ 2,000,000	2,066,280	0.52%

General Electric Capital Corp., FDIC Guaranteed Notes, 3%, due  
12/9/11

Total Nondepository Credit Intermediation

2,972,707

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Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Investments (Unaudited) (Continued)

June 30, 2009

Showing Percentage of Total Cash and Investments of the Company

Investment	Principal Amount or Shares	Fair Value	Percent of Cash and Investments
<b>Debt Investments (continued)</b>			
<b>Offices of Real Estate Agents and Brokers (0.57%)</b>			
Realty Corporation, Senior Note, 10.5%, due 4/15/14	\$ 1,965,000	\$ 854,775	0.22%
Realty Corporation, Senior Subordinated Notes, 12.375%, due 4/15/15	\$ 4,915,000	1,376,200	0.35%
<b>Total Offices of Real Estate Agents and Brokers</b>		<b>2,230,975</b>	
<b>Other Amusement and Recreation Industries (0.57%)</b>			
<b>Bally Total Fitness Holdings, Inc., Senior Subordinated Notes, 14%</b>			
Cash or 15.625% PIK, due 10/1/13 (Acquired 10/1/07, Amortized Cost \$45,025,305) (3), (5)	\$ 44,090,666	2,248,624	0.57%
<b>Other General Merchandise Stores (0.03%)</b>			
Walmart Stores, Inc., Senior Unsecured Notes, 6.875%, due 8/10/09	\$ 100,000	100,620	0.03%
<b>Other Information Services (4.90%)</b>			
IRI Holdco (RW), LLC, Note Receivable, 8%, due 12/12/11 (Acquired 10/31/08, Cost \$18,874,300) (4), (5)	20,044,707	19,343,142	4.90%
<b>Plastics Product Manufacturing (0.34%)</b>			
Pliant Corporation, Senior Secured 2nd Lien Notes, 11.125%, due 9/1/09 (3)	\$ 13,477,000	1,347,700	0.34%
<b>Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing (0.21%)</b>			
AGY Holding Corp., Senior Secured 2nd Lien Notes, 11%, due 11/15/14	\$ 1,029,000	825,773	0.21%
<b>Securities and Commodity Contracts Intermediation and Brokerage (0.38%)</b>			
Goldman Sachs Group, Inc., FDIC Guaranteed Notes, 1.7%, due 3/15/11	\$ 500,000	503,110	0.13%
JP Morgan Chase & Co., FDIC Guaranteed Notes, 1.65%, due 2/23/11	\$ 1,000,000	1,005,840	0.25%

Total Securities and Commodity Contracts Intermediation and Brokerage		1,508,950	
Tobacco Manufacturing (0.03%)			
Philip Morris Capital Corporation, Senior Unsecured Notes, 7.5%, due 7/16/09	\$	115,000	115,107 0.03%
Wired Telecommunications Carriers (4.48%)			
NEF Telecom Company BV, Mezzanine Term Loan, EURIBOR + 10% PIK, due 8/16/17 (Acquired 8/29/07, Amortized Cost \$20,949,884) - (Netherlands) (4), (5), (9)	€	15,156,885	17,685,729 4.48%
Total Other Corporate Debt Securities (Cost \$155,112,510)		95,768,739	
Total Debt Investments (Cost \$317,674,943)		217,534,327	
Equity Securities (30.21%)			
Architectural, Engineering, and Related Services(5.58%)			
ESP Holdings, Inc., Common Stock (Acquired 9/12/07, Cost \$9,311,782) (2), (3), (5), (6), (8)		88,670	16,871,337 4.27%
ESP Holdings, Inc., 15% PIK, Preferred Stock (Acquired 9/12/07, Cost \$4,502,521) (2), (3), (4), (5), (6)		40,618	5,160,563 1.31%
Total Architectural, Engineering, and Related Services		22,031,900	
Data Processing, Hosting, and Related Services (0.71%)			
Anacomp, Inc., Common Stock (Acquired during 2002, 2003, 2005, and 2006, Cost \$26,711,048) (2), (3), (5), (10)		1,253,969	2,815,160 0.71%
Depository Credit Intermediation (0.45%)			
Doral Holdings, LP Interest (Acquired 7/12/07, Cost \$11,138,132) (3), (5)		11,138,132	1,792,013 0.45%
Industrial Machinery Manufacturing (0.03%)			
GSI Group Inc. Common Stock (Acquired 8/20/08, Amortized Cost \$1,136,228) (3), (5)		216,987	107,409 0.03%
Nonferrous Metal (except Aluminum) Production and Processing (7.52%)			
International Wire Group, Inc., Common Stock (Acquired 10/20/04, Cost \$29,012,690) (2), (4), (5), (6)		1,979,441	29,691,615 7.52%
Other Electrical Equipment and Component Manufacturing (10.21%)			
EaglePicher Holdings, Inc., Common Stock (Acquired 3/9/05, Cost \$24,285,461) (2), (3), (4), (5), (6), (7)		1,312,720	40,353,013 10.21%

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Investments (Unaudited) (Continued)

June 30, 2009

Showing Percentage of Total Cash and Investments of the Company

Investment	Principal Amount or Shares	Fair Value	Percent of Cash and Investments
<b>Equity Securities (continued)</b>			
<b>Other Information Services (0.49%)</b>			
IRI Holdco (RW), LLC, Warrants to Purchase IRI Preferred Stock (Acquired 10/31/08, Cost \$1,170,406) (3), (4), (5)	4,063,914	\$ 1,950,679	0.49%
<b>Plastics Product Manufacturing (0.00%)</b>			
Pliant Corporation, Common Stock (Acquired 7/18/06, Cost \$177) (3), (5), (13)	422	-	0.00%
Pliant Corporation, 13% PIK, Preferred Stock (3)	5,570,318	-	0.00%
Total Plastics Product Manufacturing		-	
<b>Satellite Telecommunications (1.69%)</b>			
WildBlue Communications, Inc., Warrants to Purchase Common Stock (Acquired 10/23/06, Cost \$673,094) (3), (4), (5)	51,896	6,688,356	1.69%
<b>Semiconductor and Other Electronic Component Manufacturing (0.00%)</b>			
Celerity, Inc., Common Stock (Acquired 12/23/04, 9/8/05, and 2/1/06, Cost \$12,135,924) (3), (5)	2,427,185	-	0.00%
Kinetics Holdings, LLC, Common Units (Acquired 1/7/05, Cost \$2,587,349) (3), (5)	3,384,000	1	0.00%
Total Semiconductor and Other Electronic Component Manufacturing		1	
<b>Support Activities for Air Transportation (0.05%)</b>			
Alabama Aircraft Industries, Inc., Common Stock (Acquired 3/12/02, 3/13/02, and 12/11/02, Cost \$3,550,121) (3), (5)	164,636	222,259	0.05%
<b>Wire Telecommunications Carriers (3.48%)</b>			
ITC^DeltaCom, Inc., Common Stock (Acquired 7/31/07, Cost \$23,477,380) (2), (3), (5), (6), (12)	10,890,068	10,890,068	2.75%
NEF Kamchia Co-Investment Fund, LP Interest	2,455,500	2,895,738	0.73%

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(Acquired 7/31/07, Cost \$3,367,227) - (Cayman Islands) (3), (4), (5), (9)			
Total Wire Telecommunications Carriers		13,785,806	
Total Equity Securities (Cost \$154,598,322)		119,438,211	
Total Investments (Cost \$472,273,265) (11)		336,972,538	
Cash and Cash Equivalents (14.64%)			
Chevron Funding, Commercial Paper, 0.17%, 7/1/09	\$	1,000,000	1,000,000 0.25%
Wells Fargo & Company, Commercial Paper, 0.05%, 7/1/09	\$	5,000,000	5,000,000 1.26%
Citicorp, Commercial Paper, 0.35%, 7/7/09	\$	6,000,000	5,999,650 1.52%
Toyota Motor Credit Corporation, Commercial Paper, 0.15%, 7/7/09	\$	15,000,000	14,999,625 3.80%
General Electric Capital Corporation, Commercial Paper, 0.15%, 7/10/09	\$	5,000,000	4,999,813 1.26%
UBS Finance, Commercial Paper, 0.17%, 7/13/09	\$	4,000,000	3,999,773 1.01%
General Electric Capital Corporation, Commercial Paper, 0.17%, 7/15/09	\$	10,000,000	9,999,339 2.53%
Wells Fargo & Company, Commercial Paper, 0.20%, 7/22/09	\$	5,000,000	4,999,417 1.26%
Union Bank of California, Commercial Paper, 0.15%, 7/29/09	\$	5,000,000	4,999,417 1.26%
Wells Fargo & Company, Overnight Repurchase Agreement, 0.05%, Collateralized by Federal Home Loan Bank Discount Note	\$	1,536,789	1,536,789 0.39%
Cash Held on Account at Various Institutions	\$	401,801	401,801 0.10%
Total Cash and Cash Equivalents		57,935,624	
Total Cash and Investments		\$ 394,908,162	100.00%

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Investments (Unaudited) (Continued)

June 30, 2009

Notes to Statement of Investments:

- (1) Investments in bank debt generally are bought and sold among institutional investors in transactions not subject to registration under the Securities Act of 1933. Such transactions are generally subject to contractual restrictions, such as approval of the agent or borrower.
- (2) Affiliated issuer - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of this issuer).
- (3) Non-income producing security.
- (4) Priced by an independent third party pricing service.
- (5) Restricted security.
- (6) Investment is not a controlling position.
- (7) The Partnership's advisor may demand registration at any time more than 180 days following the first initial public offering of common equity by the issuer.
- (8) Priced by Investment Manager.
- (9) Principal amount denominated in euros. Amortized cost and fair value converted from euros to US dollars.
- (10) Issuer is a controlled company.
- (11) Includes investments with an aggregate market value of \$5,160,562 that have been segregated to collateralize certain unfunded commitments.
- (12) Priced using the closing price per Pink Sheets.
- (13) The Partnership may demand registration of the shares as part of a majority (by interest) of the holders of the registrable shares of the issuer, or in connection with an initial public offering by the issuer.
- (14) Average quote obtained by multiple market brokers

Aggregate purchases and aggregate sales of investments, other than Government securities, totaled \$45,763,984 and \$61,778,148 respectively.

Aggregate purchases includes investment assets received as payment in-kind. Aggregate sales includes principal paydowns on debt investments.



The total value of restricted securities and bank debt as of June 30, 2009 was \$303,921,292, or 77% of total cash and investments of the Company.

Swaps at June 30, 2009 were as follows:

Instrument	Notional Amount	Fair Value
Swaps		
Euro/US Dollar Cross Currency Basis Swap, Pay Euros/Receive USD, Expires 5/16/14	\$ 12,081,888	\$ (474,069)

See accompanying notes.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Operations (Unaudited)

Six Months Ended June 30, 2009

Investment income	
Interest income:	
Unaffiliated issuers	\$ 9,506,869
Controlled companies	634,336
Other affiliates	1,853,927
Other income:	
Unaffiliated issuers	142,651
Other affiliates	18,222
Total investment income	12,156,005
Operating expenses	
Management and advisory fees	3,393,594
Legal fees, professional fees and due diligence expenses	237,121
Amortization of deferred debt issuance costs	218,335
Interest expense	191,672
Commitment fees	108,625
Director fees	84,500
Insurance expense	59,724
Custody fees	49,014
Other operating expenses	272,767
Total expenses	4,615,352
Net investment income	7,540,653
Net realized and unrealized gain (loss)	
Net realized gain (loss) from:	
Investments in unaffiliated issuers	(5,662,223)
Investments in affiliated issuers	(4,128,345)
Foreign currency transactions	74,519
Net realized loss	(9,716,049)
Net change in net unrealized appreciation/depreciation on:	
Investments	13,996,213
Foreign currency	(80,759)
Net change in unrealized appreciation/depreciation	13,915,454
Net realized and unrealized gain	4,199,405
Dividends paid on Series A preferred equity facility	(1,713,379)
Net change in accumulated dividends on Series A preferred equity facility	729,634
Net change in reserve for dividends to Series Z preferred shareholders	(932)
Net increase in net assets applicable to common shareholders resulting from operations	\$ 10,755,381

See accompanying notes.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statements of Changes in Net Assets (Unaudited)

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Net assets applicable to common shareholders, beginning of period	\$ 195,745,577	\$ 392,541,013
Net investment income	7,540,653	22,519,973
Net realized loss on investments and foreign currency	(9,716,049)	(22,817,266)
Net change in unrealized appreciation/depreciation on investments and foreign currency	13,915,454	(186,457,070)
Net change in undistributed earnings of minority interestholder	-	3,149,915
Dividends on Series A preferred equity facility	(1,713,379)	(5,953,838)
Net change in accumulated dividends on Series A preferred equity facility	729,634	764,735
Dividends to Series Z preferred shareholders from net investment income	-	(4,542)
Net change in reserve for dividends to Series Z preferred shareholders	(932)	2,657
Net increase in net assets applicable to common shareholders resulting from operations	10,755,381	(188,795,436)
Distributions to common shareholders from:		
Net investment income	-	(8,000,000)
Net assets applicable to common shareholders, end of period (including accumulated net investment income of \$6,737,333 and \$180,425, respectively)	\$ 206,500,958	\$ 195,745,577

See accompanying notes.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Statement of Cash Flows (Unaudited)

Six Months Ended June 30, 2009

<b>Operating activities</b>	
Net increase in net assets applicable to common shareholders resulting from operations	\$ 10,755,381
Adjustments to reconcile net increase in net assets applicable to common shareholders resulting from operations to net cash provided by operating activities:	
Net realized loss on investments	9,790,568
Net change in unrealized depreciation on investments	(13,996,213)
Dividends paid on Series A preferred equity facility	1,713,379
Net change in accumulated dividends on Series A preferred equity facility	(729,634)
Net change in reserve for dividends to Series Z preferred shareholders	932
Accretion of original issue discount	(40,937)
Accretion of market discount	(303,556)
Income from paid in-kind capitalization	(4,143,822)
Amortization of deferred debt issuance costs	218,335
Changes in assets and liabilities:	
Purchases of investments	(41,620,162)
Proceeds from sales, maturities and paydowns of investments	61,778,148
Increase in accrued interest income-unaffiliated issuers	(127,529)
Decrease in accrued interest income-controlled companies	1,332
Decrease in accrued interest income-other affiliates	184,627
Decrease in dividends receivable	2,137,796
Increase in receivable for investments sold	(10,384,197)
Increase in prepaid expenses and other assets	(204,636)
Increase in payable for investments purchased	4,289,176
Increase in accrued expenses and other liabilities	13,654
Decrease in interest payable	(605,891)
Decrease in management and advisory fees payable	(125,000)
Decrease in payable to affiliate	(16,089)
Net cash provided by operating activities	18,585,662
<b>Financing activities</b>	
Proceeds from draws on credit facility	35,000,000
Principal repayments on credit facility	(5,000,000)
Dividends paid on Series A preferred equity facility	(1,713,379)
Net cash provided by financing activities	28,286,621
Net increase in cash and cash equivalents	46,872,283
Cash and cash equivalents at beginning of period	11,063,341
Cash and cash equivalents at end of period	\$ 57,935,624
<b>Supplemental cash flow information:</b>	
Interest payments	\$ 797,563

See accompanying notes.

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Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2009

1. Organization and Nature of Operations

Special Value Continuation Fund, LLC (the “Company”), a Delaware Limited Liability Company, is registered as a nondiversified, closed-end management investment company under the Investment Company Act of 1940 (the “1940 Act”). The Company was established for the purpose of enabling qualified investors to participate indirectly in the investment objectives of Special Value Continuation Partners, LP, a Delaware Limited Partnership (the “Partnership”), of which the Company owns 100% of the common limited partner interests. The Partnership is also registered as a nondiversified, closed-end management investment company under the 1940 Act. The Partnership was formed to acquire a portfolio of investments consisting primarily of bank loans, distressed debt, stressed high yield debt, mezzanine investments and public equities. The stated objective of the Company is to achieve high total returns while minimizing losses.

The Company has elected to be treated as a regulated investment company (“RIC”) for U.S. federal income tax purposes. As a RIC, the Company will not be taxed on its income to the extent that it distributes such income each year and satisfies other applicable income tax requirements. The Partnership has elected to be treated as a partnership for U.S. federal income tax purposes. Investment operations commenced and initial funding was received on July 31, 2006.

These consolidated financial statements include the accounts of the Company and the Partnership. All significant intercompany transactions and balances have been eliminated in the consolidation.

The General Partner of the Partnership is SVOF/MM, LLC (“SVOF/MM”). The managing member of SVOF/MM is Tennenbaum Capital Partners, LLC (“TCP”), which serves as the Investment Manager of both the Company and the Partnership. Babson Capital Management LLC serves as Co-Manager of both the Company and the Partnership. Substantially all of the equity interests in the General Partner are owned directly or indirectly by TCP, Babson Capital Management LLC and employees of TCP. The Company, the Partnership, TCP, SVOF/MM and their members and affiliates may be considered related parties.

Company management consists of the Investment Manager and the Board of Directors. Partnership management consists of the General Partner and the Board of Directors. The Investment Manager and the General Partner direct and execute the day-to-day operations of the Company and the Partnership, respectively, subject to oversight from the respective Board of Directors, which sets the broad policies of the Company and performs certain functions required by the 1940 Act in the case of the Partnership. The Board of Directors of the Partnership has delegated investment management of the Partnership’s assets to the Investment Manager and the Co-Manager. Each Board of Directors consist of three persons, two of whom are independent. If the Company has preferred limited partner interests outstanding, as it currently does, the holders of the preferred limited partner interests voting separately as a class will be entitled to elect two of the Directors. The remaining directors will be subject to election by holders of the common shares and preferred limited interests voting together as a single class.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

1. Organization and Nature of Operations (continued)

Company Structure

Total capitalization of the consolidated Company is approximately \$678.8 million, consisting of approximately \$419.0 million of initial contributed common equity, an approximately \$9.8 million initial general partner interest (the “GP Interest”) in the Partnership held by SVOF/MM, \$134 million of preferred limited partner interests in the Partnership (the “Series A Preferred”), \$116 million under a senior secured revolving credit facility (the “Senior Facility”) held by the Partnership and \$23,500 in Series Z preferred shares of the Company. The GP Interest in the Partnership is shown as a minority interest in these consolidated financial statements. The contributed common equity, GP Interest, preferred limited interests and the amount drawn under the Senior Facility are used to purchase Partnership investments and to pay certain fees and expenses of the Partnership and the Company. Most of these investments are included in the collateral for the Senior Facility.

The Company will liquidate and distribute its assets and will be dissolved on June 30, 2016, subject to up to two one-year extensions if requested by the Investment Manager and approved by the outstanding common shares. The Partnership will liquidate and distribute its assets and will be dissolved on June 30, 2016, subject to up to two one-year extensions if requested by the General Partner and approved by SVCF as the holder of the common limited partner interests in the Partnership. However, the Operating Agreement and Partnership Agreement will prohibit liquidation of the Company and the Partnership, respectively, prior to June 30, 2016 if the Series A Preferred are not redeemed in full prior to such liquidation.

Preferred Equity Facility

At June 30, 2009, the Partnership had 6,700 Series A preferred limited partner interests (the “Series A Preferred”) issued and outstanding with a liquidation preference of \$20,000 per interest. The Series A Preferred are redeemable at the option of the Partnership, subject to certain limitations. Additionally, under certain conditions, the Partnership may be required to either redeem certain of the Series A Preferred or repay indebtedness, at the Partnership’s option. Such conditions would include a failure by the Partnership to maintain adequate collateral as required by its credit facility agreement or by the Statement of Preferences of the Series A Preferred or a failure by the Partnership to maintain sufficient asset coverage as required by the 1940 Act. As of June 30, 2009, the Partnership was in full compliance with such requirements.



Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

1. Organization and Nature of Operations (continued)

The Series A Preferred accrue dividends at an annual rate equal to LIBOR plus 0.75%, or in the case of any holders of Series A Preferred that are CP Conduits (as defined in the leveraging documents), the higher of (i) LIBOR plus 0.75% or (ii) the CP Conduit's cost of funds rate plus 0.75%, subject to certain limitations and adjustments.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of the Investment Manager, the consolidated financial results of the Company included herein contain all adjustments necessary to present fairly the consolidated financial position of the Company as of June 30, 2009, the consolidated results of its operations and its consolidated cash flows for the six months then ended, and the consolidated changes in net assets for the six months then ended and for the year ended December 31, 2008. Subsequent events have been evaluated through August 28, 2009, the date of issuance of the financial statements. The following is a summary of the significant accounting policies of the Company and the Partnership.

Investment Valuation

All of the Company's investments are generally held by the Partnership. Management values investments held by the Partnership at fair value based upon the principles and methods of valuation set forth in policies adopted by the Partnership's Board of Directors and in conformity with procedures set forth in the Senior Facility and Statement of Preferences for the Series A Preferred. Fair value is generally defined as the amount for which an investment could be sold in an orderly transaction between market participants at the measurement date.

Investments listed on a recognized exchange or market quotation system, whether U.S. or foreign, are valued for financial reporting purposes as of the last business day of the reporting period using the closing price on the date of valuation. Liquid investments not listed on a recognized exchange or market quotation system are priced by a nationally recognized pricing service or by using quotations from broker-dealers. Investments not priced by a pricing service or for which market quotations are either not readily available or are determined to be unreliable are valued by one or more independent valuation services or, for investments aggregating less than 5% of the total capitalization of the Partnership, by the Investment Manager.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Fair valuations of investments are determined under guidelines adopted by the Partnership's Board of Directors, and are subject to their approval. Generally, to increase objectivity in valuing the Partnership's investments, the Investment Manager will utilize external measures of value, such as public markets or third-party transactions, whenever possible. The Investment Manager's valuation is not based on long-term work-out value, immediate liquidation value, nor incremental value for potential changes that may take place in the future. The values assigned to investments that are valued by the Investment Manager are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

On January 1, 2008, the Company and the Partnership adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), which defines fair value, expands disclosures about fair value measurements, and establishes a hierarchy that prioritizes the inputs used to measure fair value. The adoption of FAS 157 did not have a material impact on the financial statements of the Company or the Partnership. The level category in which an investment falls is based on the lowest level input that is significant to the valuation of the investment in its entirety. At June 30, 2009, the investments of the Partnership were categorized as follows:

Level	Basis for Determining Fair Value	Aggregate Value
1	Quoted prices in active markets for identical assets	\$ -
2	Other observable market inputs*	70,860,640
3	Independent third-party pricing sources that employ significant unobservable inputs	245,432,729
3	Internal valuations with significant unobservable inputs	20,679,169

\* E.g. quoted prices in inactive markets or quotes for comparable instruments

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Changes in investments categorized as Level 3 during the six months ended June 30, 2009 were as follows:

	Independent Third Party Valuation	Investment Manager Valuation
Beginning balance	\$ 268,078,662	\$ 48,236,979
Net realized and unrealized gains (losses)	(6,933,887)	(4,321,017)
Net acquisitions and dispositions	(28,322,350)	-
Net transfers into (out of) category	12,610,304	(23,236,793)
Ending balance	\$ 245,432,729	\$ 20,679,169

Net change in unrealized gains (losses) during the period on investments still held at period end (included in net realized and unrealized gains/losses, above)	\$ (2,889,194)	\$ (4,321,017)
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#### Investment Transactions

The Partnership records investment transactions on the trade date, except for private transactions that have conditions to closing, which are recorded on the closing date. The cost of investments purchased is based upon the purchase price plus those professional fees which are specifically identifiable to the investment transaction. Realized gains and losses on investments are recorded based on the specific identification method, which typically allocates the highest cost inventory to the basis of investments sold.

#### Cash and Cash Equivalents

Cash consists of amounts held in accounts with brokerage firms and the custodian bank. Cash equivalents consist of highly liquid investments with an original maturity of three months or less. For purposes of reporting cash flows, cash consists of the cash held with brokerage firms and the custodian bank, and cash equivalents maturing within 90 days.

#### Repurchase Agreements

In connection with transactions in repurchase agreements, it is the Partnership's policy that its custodian take possession of the underlying collateral, the fair value of which is required to exceed the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Partnership may be delayed or limited.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Restricted Investments

The Partnership may invest in instruments that are subject to legal or contractual restrictions on resale. These instruments generally may be resold to institutional investors in transactions exempt from registration or to the public if the securities are registered. Disposal of these investments may involve time-consuming negotiations and additional expense, and prompt sale at an acceptable price may be difficult. Information regarding restricted investments is included at the end of the Statement of Investments. Restricted investments, including any restricted investments in affiliates, are valued in accordance with the investment valuation policies discussed above.

Foreign Investments

The Partnership may invest in instruments traded in foreign countries and denominated in foreign currencies. At June 30, 2009, the Partnership held foreign currency denominated investments with an aggregate fair value of approximately 5.6% of the Partnership's total cash and investments. Such positions were converted at the closing rate in effect at June 30, 2009 and reported in U.S. dollars. Purchases and sales of investments and income and expense items denominated in foreign currencies, when they occur, are translated into U.S. dollars on the respective dates of such transactions. The portion of gains and losses on foreign investments resulting from fluctuations in foreign currencies is included in net realized and unrealized gain or loss from investments.

Investments in foreign companies and securities of foreign governments may involve special additional risks and considerations not typically associated with investing in U.S. companies and securities of the U.S. government. These risks include, among other things, revaluation of currencies, less reliable information about issuers, different transactions clearance and settlement practices and potential future adverse political and economic developments. Moreover, investments in some foreign companies and securities of foreign governments and their markets may be less liquid and their prices more volatile than those of comparable U.S. companies and the U.S. government.

Derivatives

In order to mitigate certain currency exchange and interest rate risks, the Partnership has entered into several swaps and forward currency transactions. All derivatives are recognized as either assets or liabilities in the statement of assets and liabilities. The transactions entered into are accounted for using the mark-to-market method with the resulting change in fair value recognized in earnings for the current period.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Gains from swaps during the six months ended June 30, 2009 were included in the Statement of Operations as follows:

Instrument	Location	Gains
Cross currency basis swaps	Net change in net unrealized depreciation on investments	\$ 67,660

Valuations of swap transactions at June 30, 2009 were determined as follows:

Level	Basis for Determining Fair Value	Aggregate Value
2	Other observable market inputs	\$ (474,069)

Debt Issuance Costs

Costs of approximately \$3.5 million were incurred in connection with placing the Partnership's Senior Facility. These costs were deferred and are being amortized on a straight-line basis over eight years, the estimated life of the Senior Facility. The impact of utilizing the straight-line amortization method versus the effective-interest method is not expected to be material to the operations of the Company or the Partnership.

Purchase Discounts

The majority of the Partnership's high yield and distressed debt investments are purchased at a considerable discount to par as a result of the underlying credit risks and financial results of the issuer, as well as general market factors that influence the financial markets as a whole. GAAP requires that discounts on corporate (investment grade) bonds municipal bonds and treasury bonds be amortized using the effective-interest or constant-yield method. The process of accreting the purchase discount of a debt investment to par over the holding period results in accounting entries that increase the cost basis of the investment and record a noncash income accrual to the statement of operations. The Partnership considers it prudent to follow GAAP guidance that requires the Investment Manager to consider the collectibility of interest when making accruals. AICPA Statement of Position 93-1 discusses financial accounting and reporting for high yield debt investments for which, because of the credit risks associated with high yield and distressed debt investments, income recognition must be carefully considered and constantly evaluated for collectibility.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Accordingly, when accounting for purchase discounts, management recognizes discount accretion income when it is probable that such amounts will be collected and when such amounts can be estimated. A reclassification entry is recorded at disposition to reflect purchase discounts on all realized investments. For income tax purposes, the economic gain resulting from the sale of debt investments purchased at a discount is allocated between interest income and realized gains.

Income Taxes

The Company intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes. Accordingly, no provision for income taxes is required in the consolidated financial statements. The Partnership's income or loss is reported in the partners' income tax returns. As of June 30, 2009, all tax years of the Company and the Partnership since inception remain subject to examination by federal and state tax authorities. No such examinations are currently pending.

Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from accounting principles generally accepted in the United States. Capital accounts within the financial statements are adjusted at year-end for permanent book and tax differences. Temporary differences are primarily attributable to differing book and tax treatments for the timing of the recognition of gains and losses on certain investment transactions and the timing of the deductibility of certain expenses, and will reverse in subsequent periods.

Cost and unrealized appreciation (depreciation) for U.S. federal income tax purposes of the investments of the Partnership at June 30, 2009 were as follows:

Unrealized appreciation	\$ 34,198,214
Unrealized depreciation	(169,973,010)
Net unrealized depreciation	\$(135,774,796)
Cost of investments	\$ 472,273,265

Dividends to holders of the Series A Preferred are treated as ordinary income for federal tax purposes.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates and assumptions to be reasonable, actual results could differ from those estimates.

3. Allocations and Distributions

Common distributions are generally based on the estimated taxable earnings of the Company, and are recorded on the ex-dividend date. Distributions to the common shareholders of the Company are generally based on distributions received from the Partnership, less any Company-level expenses and dividends to Series Z preferred shareholders.

Net income and gains of the Partnership are distributed first to the Company until it has received an 8% annual weighted-average return on its undistributed contributed equity, and then to the General Partner until it has received 20% of all cumulative income and gain distributions. 80% of all remaining net income and gain distributions are allocated to the Company, with the remaining 20% allocated to the General Partner. Net investment income or loss, realized gain or loss on investments, and appreciation or depreciation on investments for the period are allocated to the Company and the General Partner in a manner consistent with that used to determine distributions.

The timing of distributions to the Company is determined by the General Partner, which has provided the Investment Manager with certain criteria for such distributions. The timing and amount to be paid by the Company as a distribution to its shareholders is determined by its Board of Directors, which has provided the Investment Manager with criteria for such distributions. Any net long-term capital gains are distributed at least annually. As of June 30, 2009, the Company had distributed \$108,800,000 to the common shareholders since inception.

The Series Z share dividend rate is fixed at 8% per annum.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

#### 4. Management Fees and Other Expenses

The Investment Manager receives an annual management and advisory fee, payable monthly in arrears, equal to 1.0% of the sum of the maximum amount of the Series A Preferred, the maximum amount available under the Senior Facility, the initial value of the contributed general partnership equity and the initial value of the contributed common equity, subject to reduction by the amount of the Senior Facility commitment when the Senior Facility is no longer outstanding, and by the amount of the Series A Preferred when less than \$1 million in liquidation value of preferred securities is outstanding. For purposes of computing the management fee, total capital during the six months ended June 30, 2009 was approximately \$678.8 million, consisting of contributed common equity of approximately \$419.0 million, contributed general partnership equity of approximately \$9.8 million, \$134 million of Series A Preferred and \$166 million of debt commitments. In addition to the management fee, the General Partner is entitled to a performance allocation as discussed in Note 3, above. As compensation for its services, the Co-Manager receives a portion of the management fees paid to the Investment Manager. The Co-Manager also receives a portion of any allocation paid to the General Partner.

The Company and the Partnership pay all respective expenses incurred in connection with the business of the Company and the Partnership, including fees and expenses of outside contracted services, such as custodian, administrative, legal, audit and tax preparation fees, costs of valuing investments, insurance costs, brokers' and finders' fees relating to investments and any other transaction costs associated with the purchase and sale of investments of the Partnership.

#### 5. Senior Secured Revolving Credit Facility

The Partnership has entered into a credit agreement with certain lenders, which provides for a senior secured revolving credit facility (the "Senior Facility"), pursuant to which amounts may be drawn up to \$116 million. The Senior Facility matures July 31, 2014, subject to extension by the lenders at the request of the Partnership for one 12-month period.

Advances under the Senior Facility bear interest at LIBOR plus 0.375% per annum, except in the case of loans from CP Conduits, which bear interest at the higher of LIBOR plus 0.375% or the CP Conduit's cost of funds plus 0.375%, subject to certain limitations. In addition to amounts due on outstanding debt, the Senior Facility accrues commitment fees of 0.20% per annum on the unused portion of the Senior Facility, or 0.25% per annum when less than \$46,400,000 in borrowings are outstanding.



Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2009

6. Commitments, Concentration of Credit Risk and Off-Balance Sheet Risk

The Partnership conducts business with brokers and dealers that are primarily headquartered in New York and Los Angeles and are members of the major securities exchanges. Banking activities are conducted with a firm headquartered in the New York area.

In the normal course of business, the Partnership's investment activities involve executions, settlement and financing of various transactions resulting in receivables from, and payables to, brokers, dealers and the Partnership's custodian. These activities may expose the Company and the Partnership to risk in the event such parties are unable to fulfill contractual obligations. Management does not anticipate any material losses from counterparties with whom it conducts business.

Consistent with standard business practice, the Company and the Partnership enter into contracts that contain a variety of indemnifications. The maximum exposure of the Company and the Partnership under these arrangements is unknown. However, the Company and the Partnership expect the risk of loss to be remote.

The Consolidated Statement of Investments includes certain revolving loan facilities held by the Partnership with aggregate unfunded balances of approximately \$2.4 million at June 30, 2009. These instruments are reflected at fair value and may be drawn up to the principal amount shown.

7. Related Parties

From time to time the Partnership advances payments to third parties on behalf of the Company which are reimbursable through deductions from distributions to the Company.

8. Series Z Preferred Capital

In addition to the Series A Preferred of the Partnership described in Note 1, the Company had 47 Series Z preferred shares authorized, issued and outstanding as of June 30, 2009. The Series Z preferred shares have a liquidation preference of \$500 per share plus accumulated but unpaid dividends and pay dividends at an annual rate equal to 8% of liquidation preference. The Series Z preferred shares are redeemable at any time at the option of the Company and may only be transferred with the consent of the Company.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Continued)

June 30, 2009

9. Financial Highlights

	Six Months Ended			July 31, 2006
	June 30, 2009 (Unaudited)	Year Ended December 31, 2008	2007	(Inception) to December 31, 2006
<b>Per Common Share</b>				
Net asset value, beginning of year	\$ 467.22	\$ 936.95	\$ 1,036.13	\$ 1,000.00
<b>Investment operations:</b>				
Net investment income	18.00	53.75	166.54	48.14
Net realized and unrealized gain on investments and foreign currency	10.02	(499.51)	(28.73)	62.27
<b>Distributions to minority interestholder from:</b>				
Net investment income	-	-	(29.74)	(7.98)
Net realized gains	-	-	(17.76)	(3.39)
Returns of capital	-	-	(1.30)	-
Net change in undistributed earnings of minority interest holder	-	7.52	24.89	(9.10)
Dividends on Series A preferred equity facility	(4.09)	(14.21)	(19.96)	(3.38)
Net change in accumulated dividends on Series A preferred equity facility	1.74	1.82	0.35	(4.98)
<b>Dividends to Series Z preferred shareholders from:</b>				
Net investment income	-	(0.01)	-	-
Net change in reserve for dividends to Series Z preferred shareholders	-	0.01	-	-
<b>Total from investment operations</b>	<b>25.67</b>	<b>(450.63)</b>	<b>94.29</b>	<b>81.58</b>
<b>Distributions to common shareholders from:</b>				
Net investment income	-	(19.10)	(117.36)	(31.90)
Net realized gains	-	-	(71.03)	(13.55)
Returns of capital	-	-	(5.08)	-
<b>Total distributions to common shareholders</b>	<b>-</b>	<b>(19.10)</b>	<b>(193.47)</b>	<b>(45.45)</b>
Net asset value, end of year	\$ 492.89	\$ 467.22	\$ 936.95	\$ 1,036.13

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Return on invested assets (1), (2)	4.8%	(31.7)%	11.7%	8.4%
Gross return to common shareholders (1)	5.5%	(49.3)%	11.4%	10.3%
Less: Allocation to General Partner of Special Value Continuation Partners, LP (1)	0.0%	0.5%	(2.2)%	(2.1)%
Return to common shareholders (1), (3)	5.5%	(48.8)%	9.2%	8.2%

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Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements (Continued)

June 30, 2009

9. Financial Highlights (continued)

	Six Months Ended June 30, 2009  (Unaudited)	Year Ended December 31,  2008                      2007		July 31, 2006 (Inception) to December 31, 2006
<b>Ratios and Supplemental Data:</b>				
Ending net assets attributable to common shareholders	\$ 206,500,958	\$ 195,745,577	\$ 392,541,013	\$ 434,092,909
Net investment income / average common shareholder equity (4), (5), (6)	8.0%	6.9%	12.8%	10.4%
<b>Operating expenses and General Partner allocation / average common shareholder equity</b>				
Operating expenses (4), (6)	4.9%	4.5%	4.6%	5.7%
General Partner allocation (1)	-	(1.0)%	2.3%	2.0%
Total expenses and General Partner allocation	4.9%	3.5%	6.9%	7.7%
Portfolio turnover rate (1), (7)	14.0%	33.3%	64.6%	17.3%
Weighted-average debt outstanding	\$ 29,607,735	\$ 123,873,973	\$ 162,460,274	\$ 168,292,208
Weighted-average interest rate	1.2%	3.7%	5.8%	5.8%
Weighted-average number of shares	418,956	418,956	418,956	418,956
Average debt per share	\$ 70.67	\$ 295.67	\$ 387.77	\$ 401.69

Annualized Inception-to-Date Performance Data as of June 30, 2009:

Return on common shareholder equity (3)	(14.2)%
Return on invested assets (2)	(4.8)%
Internal rate of return to common shareholder equity (8)	(11.6)%

(1) Not annualized for periods of less than one year.

(2)

Return on invested assets is a time-weighted, geometrically linked rate of return and excludes cash and cash equivalents.

- (3) Returns (net of dividends on the preferred equity facility, allocations to General Partner and fund expenses, including financing costs and management fees) are calculated on a monthly geometrically linked, time-weighted basis.
- (4) Annualized for periods of less than one year.
- (5) Net of income and expense allocation to the minority interestholder.
- (6) These ratios include interest expense but do not reflect the effect of dividends on the preferred equity facility.
- (7) Excludes securities acquired from Special Value Bond Fund II, LLC and Special Value Absolute Return Fund, LLC at the inception of the Company and the Partnership.
- (8) Net of dividends on the preferred equity facility of the Partnership, allocation to General Partner, and fund expenses, including financing costs and management fees. Internal rate of return (“IRR”) is the imputed annual return over an investment period and, mathematically, is the rate of return at which the discounted cash flows equal the initial cash outlays. The internal rate of return presented assumes liquidation of the fund at net asset value as of the balance sheet date, and is reduced by the organizational costs that were expensed at the inception of the Company.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidated Schedule of Changes in Investments in Affiliates (1) (Unaudited)

Six Months Ended June 30, 2009

Security	Value, Beginning of Period	Acquisitions	Dispositions	Value, End of Period
Anacomp, Inc., Common Stock	\$ 4,971,987	\$ -	\$ -	\$ 2,815,160
Anacomp, Inc., Promissory Note, LIBOR + 6.5% PIK, due 8/31/09	1,081,614	-	-	1,212,873
Anacomp, Inc., Senior Secured Subordinated Notes, 14% PIK, due 3/12/13	7,259,224	-	-	7,846,795
EaglePicher Corporation, 1st Lien Tranche B Term Loan LIBOR + 4.5%, due 12/31/12	6,946,821	-	-	7,533,281
EaglePicher Corporation, 2nd Lien Term Loan LIBOR + 7.5%, due 12/31/13	5,862,500	-	(5,862,500)	-
EaglePicher Holdings, Inc., Common Stock	40,057,651	-	-	40,353,013
ESP Holdings, Inc., 1st Lien Revolver LIBOR + 4.5%, due 06/30/09	79,263	-	(79,263)	-
ESP Holdings, Inc., 1st Lien Term Loan LIBOR + 4.5%, due 6/30/09	1,244,052	-	(1,244,052)	-
ESP Holdings, Inc., 2nd Lien Term Loan LIBOR + 10%, due 9/12/14	15,187,920	-	(15,187,920)	-
ESP Holdings, Inc., Junior Unsecured Subordinated Promissory Notes, 18% PIK, due 3/31/15	5,479,440	-	-	5,913,358
ESP Holdings, Inc., Common Stock	18,169,132	-	-	16,871,337
ESP Holdings, Inc., 15% PIK, Preferred Stock	5,283,853	-	-	5,160,563
International Wire Group, Inc., Common Stock	36,461,303	-	-	29,691,615
Interstate Fibernet, Inc., 1st Lien Term Loan, LIBOR + 4%, due 7/31/13	8,189,645	-	-	9,304,835
Interstate Fibernet, Inc., 2nd Lien Senior Secured Note, LIBOR + 7.5%, due 7/31/14	6,360,297	-	-	7,540,429
ITC^DeltaCom, Inc., Common Stock	5,445,034	-	-	10,890,068

Note to Schedule of Changes in Investments in Affiliates:

(1) The issuers of the securities listed on this schedule are considered affiliates under the Investment Company Act of 1940 due to the ownership by the Company of 5% or more of the issuer's voting securities.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidating Statement of Assets and Liabilities (Unaudited)

June 30, 2009

	Special Value Continuation Fund, LLC Standalone	Special Value Continuation Partners, LP Standalone	Eliminations	Special Value Continuation Fund, LLC Consolidated
<b>Assets</b>				
<b>Investments:</b>				
Unaffiliated issuers	\$ -	\$ 191,839,211	\$ -	\$ 191,839,211
Investment in subsidiary	206,798,544	-	(206,798,544)	-
Controlled companies	-	11,874,828	-	11,874,828
Other affiliates	-	133,258,499	-	133,258,499
<b>Total investments</b>	<b>206,798,544</b>	<b>336,972,538</b>	<b>(206,798,544)</b>	<b>336,972,538</b>
Cash and cash equivalents	1,342	57,934,282	-	57,935,624
Accrued interest income	-	3,885,528	-	3,885,528
Receivable for investment securities sold	-	10,384,197	-	10,384,197
Deferred debt issuance costs	-	2,240,044	-	2,240,044
Receivable from parent	-	179,811	(179,811)	-
Prepaid expenses and other assets	118,712	160,017	-	278,729
<b>Total assets</b>	<b>206,918,598</b>	<b>411,756,417</b>	<b>(206,978,355)</b>	<b>411,696,660</b>
<b>Liabilities</b>				
Credit facility payable	-	64,000,000	-	64,000,000
Payable for investment securities purchased	-	4,989,066	-	4,989,066
Management and advisory fees payable	-	565,599	-	565,599
Interest payable	-	69,314	-	69,314
Unrealized depreciation on swaps	-	474,069	-	474,069
Payable to subsidiary	179,811	-	(179,811)	-
Payable to affiliate	-	88,754	-	88,754
Accrued expenses and other liabilities	213,381	327,237	-	540,618
<b>Total liabilities</b>	<b>393,192</b>	<b>70,514,039</b>	<b>(179,811)</b>	<b>70,727,420</b>
<b>Preferred stock</b>				
Series Z preferred stock	23,500	-	-	23,500
Accumulated dividends on Series Z preferred stock	948	-	-	948
<b>Total preferred stock</b>	<b>24,448</b>	<b>-</b>	<b>-</b>	<b>24,448</b>
<b>Preferred equity facility</b>				
Series A preferred limited partner interests	-	134,000,000	-	134,000,000
Accumulated dividends on Series A preferred equity facility	-	443,834	-	443,834
<b>Total preferred limited partner interests</b>	<b>-</b>	<b>134,443,834</b>	<b>-</b>	<b>134,443,834</b>

## Minority interests

General partner interest in Special Value

Continuation Partners, LP

	-	-	-	-
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Net assets	\$ 206,500,958	\$ 206,798,544	\$ (206,798,544)	\$ 206,500,958
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## Composition of net assets

Common stock	\$ 419	\$ -	\$ -	\$ 419
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Paid-in capital in excess of par, net of contributed unrealized gains	364,767,103	-	-	364,767,103
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Paid-in capital	-	358,636,781	(358,636,781)	-
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Distributable earnings	(158,265,616)	(151,838,237)	151,838,237	(158,265,616)
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Minority interest	-	-	-	-
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Accumulated dividends to Series Z preferred shareholders	(948)	-	-	(948)
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Net assets	\$ 206,500,958	\$ 206,798,544	\$ (206,798,544)	\$ 206,500,958
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Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Consolidating Statement of Operations (Unaudited)

Six Months Ended June 30, 2009

	Special Value Continuation Fund, LLC Standalone	Special Value Continuation Partners, LP Standalone	Eliminations	Special Value Continuation Fund, LLC Consolidated
<b>Investment income</b>				
Interest income:				
Unaffiliated issuers	\$ -	\$ 9,506,869	\$ -	\$ 9,506,869
Controlled companies	-	634,336	-	634,336
Other affiliates	-	1,853,927	-	1,853,927
Other income:				
Unaffiliated issuers	-	142,651	-	142,651
Other affiliates	-	18,222	-	18,222
<b>Total interest and related investment income</b>	<b>-</b>	<b>12,156,005</b>	<b>-</b>	<b>12,156,005</b>
<b>Operating expenses</b>				
Management and advisory fees	-	3,393,594	-	3,393,594
Legal fees, professional fees and due diligence expenses	6,441	230,680	-	237,121
Amortization of deferred debt issuance costs	-	218,335	-	218,335
Interest expense	-	191,672	-	191,672
Commitment fees	-	108,625	-	108,625
Director fees	28,374	56,126	-	84,500
Insurance expense	19,908	39,816	-	59,724
Custody fees	1,750	47,264	-	49,014
Other operating expenses	58,581	214,186	-	272,767
<b>Total expenses</b>	<b>115,054</b>	<b>4,500,298</b>	<b>-</b>	<b>4,615,352</b>
<b>Net investment income</b>	<b>(115,054)</b>	<b>7,655,707</b>	<b>-</b>	<b>7,540,653</b>
<b>Net realized and unrealized gain (loss)</b>				
Net realized gain (loss) from:				
Investments in unaffiliated issuers	-	(5,662,223)	-	(5,662,223)
Investments in affiliated issuers	-	(4,128,345)	-	(4,128,345)
Foreign currency transactions	-	74,519	-	74,519
<b>Net realized loss</b>	<b>-</b>	<b>(9,716,049)</b>	<b>-</b>	<b>(9,716,049)</b>
Net change in net unrealized appreciation/depreciation on:				
Investments	10,871,367	13,996,213	(10,871,367)	13,996,213
Foreign currency	-	(80,759)	-	(80,759)
<b>Net change in unrealized appreciation/depreciation</b>	<b>10,871,367</b>	<b>13,915,454</b>	<b>(10,871,367)</b>	<b>13,915,454</b>
<b>Net realized and unrealized gain</b>	<b>10,871,367</b>	<b>4,199,405</b>	<b>(10,871,367)</b>	<b>4,199,405</b>

Dividends paid on Series A preferred equity facility	-	(1,713,379)	-	(1,713,379)
Net change in accumulated dividends on Series A preferred equity facility	-	729,634	-	729,634
Net change in reserve for dividends to Series Z preferred shareholders	(932)	-	-	(932)
Net increase in net assets resulting from operations	\$ 10,755,381	\$ 10,871,367	\$(10,871,367)	\$ 10,755,381

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Approval of Investment Management Agreements  
(Unaudited)

On May 6, 2009, the Boards of Directors of the Company and the Partnership, including the “non-interested” Directors (the “Independent Directors”), voted to approve the respective Investment Management Agreement and Co-Management Agreement of the Company and the Partnership (each a “Management Agreement” and collectively, the “Management Agreements”) for an additional one-year term.

In considering whether to recommend re-approval of the Management Agreements, the Independent Directors reviewed materials provided by the Investment Manager, the Co-Manager, fund counsel and independent counsel. The Directors also met with senior personnel of the Investment Manager and discussed a number of topics affecting their determination, including the following.

(i) The nature, extent and quality of services provided by the Investment Manager and Co-Manager. The Independent Directors reviewed the services that the Investment Manager and Co-Manager provide to the Company and the Partnership. The Independent Directors noted the comprehensive range of such services and that the Investment Manager had developed reporting, valuation and other procedures that were customized to the specialized natures of the Company and the Partnership, and that the Investment Manager had expertise in administering such procedures. In addition, the Independent Directors considered the size, education, background and experience of the Investment Manager’s and Co-Manager’s staff. They also took into consideration the Investment Manager’s and Co-Manager’s quality of service and noted their longevity in the industry. Lastly, the Independent Directors reviewed the Investment Manager’s ability to attract and retain quality and experienced personnel. The Independent Directors concluded that the scope of services expected to be provided by the Investment Manager and Co-Manager to the Company and the Partnership and the experience and expertise of the personnel performing such services was consistent with the nature, extent and quality expected of an Investment Manager of investment vehicles such as the Company and the Partnership.

(ii) Investment performance of the Company, the Partnership and the Investment Manager. The Independent Directors reviewed the past investment performance of the Company and the Partnership and other funds for which the Investment Manager provides investment advisory services, both on an absolute basis and as compared to other funds that had invested in similar investments, as well as general market indices, and the Independent Directors noted that the Company and the Partnership had performed satisfactorily in light of the extremely adverse market conditions during 2008. The Independent Directors discussed the circumstances surrounding the performance of the Company and the Partnership as well as actions to be taken and prospects for improved performance in the future.

Special Value Continuation Fund, LLC  
(A Delaware Limited Liability Company)

Approval of Investment Management Agreements (Continued)  
(Unaudited)

(iii) Cost of the services provided and profits realized by the Investment Manager from its relationship with the Company and the Partnership. The Independent Directors considered the cost of the services provided by the Investment Manager. As part of their analysis, the Independent Directors gave substantial consideration to the compensation payable to the Investment Manager, the terms of which are summarized in the footnotes to the financial statements included in this report. The Independent Directors also noted the types of expenses for which the Company and the Partnership on the one hand, or the Investment Manager and Co-Manager on the other, are responsible. In reviewing the management compensation, the Independent Directors considered the management fees and operating expense ratios of other registered and non-registered funds managed by the Investment Manager and by other managers that had somewhat comparable investment programs. The Independent Directors also noted that the compensation provisions had been subject to extensive discussion with several of the large institutional investors in the Company and the Partnership.

The Independent Directors also reviewed information regarding the profitability to the Investment Manager of its relationship with the Company and the Partnership and information on the financial condition of the Investment Manager. The Independent Directors noted that the Investment Manager and Co-Manager and their affiliates did not receive revenues from any other source, such as brokerage commissions or origination fees, in relation to the Company and the Partnership. The Independent Directors found that the profits realized by the Investment Manager from its relationship with the Company and the Partnership were reasonable and consistent with the Investment Manager's fiduciary duties. The Independent Directors noted that the Co-Manager was unable to provide the Directors with the information requested on the profitability to the Co-Manager of its relationship with the Company and the Partnership. The Independent Directors also found that the Investment Manager and Co-Manager each had the financial resources necessary to continue to carry out their respective functions.

The Independent Directors concluded that the management and performance fees for the Investment Manager and Co-Manager were reasonable.

(iv) The extent to which economies of scale would be realized as the Company and the Partnership grow and whether fee levels would reflect such economies of scale. In light of the Company's and the Partnership's predetermined sizes and policies of distributing all realized income, the Independent Directors determined that the possibility of economies of scale was not relevant with respect to the current structures of the Company and the Partnership and accordingly did not consider whether fee levels would reflect any economies of scale.

In considering the Management Agreements, no single factor was determinative to the decision of the Directors. Rather, after weighing all of the reasons discussed above, the Independent Directors unanimously recommended re-approval of each of the Management Agreements.

ITEM 2. CODE OF ETHICS.

Not applicable for filing of Semiannual Reports to Shareholders.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable for filing of Semiannual Reports to Shareholders.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable for filing of Semiannual Reports to Shareholders.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS

Included in Semiannual Shareholder Report in Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable for filing of Semiannual Reports to Shareholders.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT COMPANIES.

Not applicable for filing of Semiannual Reports to Shareholders.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

None.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The Registrant's Chief Executive Officer and Chief Financial Officer have evaluated the Registrant's disclosure controls and procedures within 90 days of this filing and have concluded that the Registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the Registrant in this Form N-CSR was recorded, processed, summarized, and reported in a timely manner.

(b) None.

ITEM 12. EXHIBITS.

(a) (1) Not applicable for filing of Semiannual Reports to Shareholders.

(a) (2) Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.

(a) (3) Not applicable.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) is furnished and attached hereto as Exhibit 99.906CERT.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Special Value Continuation Fund, LLC

By: /s/ Hugh Steven Wilson  
Name: Hugh Steven Wilson  
Title: Chief Executive Officer  
Date: August 28, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Hugh Steven Wilson  
Name: Hugh Steven Wilson  
Title: Chief Executive Officer  
Date: August 28, 2009

By: /s/ Paul L. Davis  
Name: Paul L. Davis  
Title: Chief Financial Officer  
Date: August 28, 2009

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