

MVC CAPITAL, INC.  
Form 10-Q  
June 11, 2012

# SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

## FORM 10-Q

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

For the quarterly period ended April 30, 2012

or

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

Commission File Number 814-00201

### **MVC CAPITAL, INC.**

(Exact name of the registrant as specified in its charter)

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(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>287 Bowman Avenue</b>	
<b>2nd Floor</b>	
<b>Purchase, New York</b>	<b>10577</b>
(Address of principal executive offices)	(Zip Code)
<b>Registrant's telephone number, including area code: (914) 701-0310</b>	

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 23,916,982 shares of the registrant's common stock, \$.01 par value, outstanding as of June 11, 2012.

MVC Capital, Inc.

(A Delaware Corporation)

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**Part I. Consolidated Financial Information****Item 1. Consolidated Financial Statements****CONSOLIDATED FINANCIAL STATEMENTS****MVC Capital, Inc.****Consolidated Balance Sheets**

	April 30, 2012 (Unaudited)	October 31, 2011
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 31,526,018	\$ 28,317,460
Restricted cash and cash equivalents	6,620,000	6,925,000
Investments at fair value		
Non-control/Non-affiliated investments (cost \$87,823,276 and \$90,292,464)	48,676,090	51,182,558
Affiliate investments (cost \$127,237,497 and \$126,356,770)	188,762,097	187,953,099
Control investments (cost \$148,299,246 and \$141,569,773)	196,662,584	213,079,430
Total investments at fair value (cost \$363,360,019 and \$358,219,007)	434,100,771	452,215,087
Dividends, interest and fee receivables, net of reserves	6,676,244	7,872,867
Escrow receivables	856,563	1,146,899
Prepaid expenses	728,766	629,868
<b>Total assets</b>	<b>\$ 480,508,362</b>	<b>\$ 497,107,181</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Term loan	\$ 50,000,000	\$ 50,000,000
Provision for incentive compensation (Note 10)	19,481,167	23,938,058
Management fee payable	3,050,886	2,600,905
Other accrued expenses and liabilities	581,358	288,111
Professional fees payable	537,537	703,293
Portfolio fees payable	508,781	
Consulting fees payable	81,012	64,999
Taxes payable	1,441	2,099
<b>Total liabilities</b>	<b>74,242,182</b>	<b>77,597,465</b>
<b>Shareholders equity</b>		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 23,916,982 and 23,916,982 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	428,428,139	428,428,139
Accumulated earnings	55,996,061	40,499,006
Dividends paid to stockholders	(85,911,944)	(80,171,868)
Accumulated net realized loss	(25,500,627)	(25,755,440)
Net unrealized appreciation	70,740,752	93,996,080
Treasury stock, at cost, 4,387,466 and 4,387,466 shares held, respectively	(37,769,245)	(37,769,245)
<b>Total shareholders equity</b>	<b>406,266,180</b>	<b>419,509,716</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 480,508,362</b>	<b>\$ 497,107,181</b>

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<b>Net asset value per share</b>	\$	16.99	\$	17.54
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The accompanying notes are an integral part of these consolidated financial statements.

## MVC Capital, Inc.

## Consolidated Statements of Operations

(Unaudited)

	For the Six Month Period November 1, 2011 to April 30, 2012	For the Six Month Period November 1, 2010 to April 30, 2011
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 4,242	\$ 244,215
Affiliate investments	183,307	295,211
Control investments	12,000,000	
Total dividend income	12,187,549	539,426
Interest income		
Non-control/Non-affiliated investments	997,665	1,950,255
Affiliate investments	2,528,127	2,372,553
Control investments	1,599,911	1,240,647
Total interest income	5,125,703	5,563,455
Fee income		
Non-control/Non-affiliated investments	54,119	968,147
Affiliate investments	538,578	577,925
Control investments	374,031	283,533
Total fee income	966,728	1,829,605
Fee income - Asset Management <sup>4</sup>		
Management fees	769,089	594,500
Portfolio fees	698,876	
Total fee income - Asset Management	1,467,965	594,500
Other income	60,137	541,418
<b>Total operating income</b>	<b>19,808,082</b>	<b>9,068,404</b>
<b>Operating Expenses:</b>		
Management fee	4,433,238	4,357,862
Interest and other borrowing costs	1,627,112	1,515,108
Management fee - Asset Management <sup>4</sup>	576,816	445,875
Portfolio fees - Asset Management <sup>4</sup>	524,156	
Other expenses	327,176	632,226
Legal fees	312,520	453,128
Audit fees	288,000	268,800
Consulting fees	217,702	250,501
Directors' fees	175,000	147,000
Insurance	167,226	175,710
Administration	132,203	133,616
Printing and postage	68,400	54,280
Public relations fees	51,000	50,800

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Net Incentive compensation (Note 10)	(2,111,702)	(1,071,941)
<b>Total operating expenses</b>	<b>6,788,847</b>	<b>7,412,965</b>
Less: Voluntary Expense Waiver by Adviser <sup>1</sup>	(75,000)	(75,000)
Less: Voluntary Management Fee Waiver by Adviser <sup>2</sup>	(58,728)	(100,635)
Less: Voluntary Incentive Fee Waiver by Adviser <sup>3</sup>	(2,345,189)	
<b>Total waivers</b>	<b>(2,478,917)</b>	<b>(175,635)</b>
<b>Net operating income before taxes</b>	<b>15,498,152</b>	<b>1,831,074</b>
<b>Tax Expenses:</b>		
Current tax expense	1,097	12,383
<b>Total tax expense</b>	<b>1,097</b>	<b>12,383</b>
<b>Net operating income</b>	<b>15,497,055</b>	<b>1,818,691</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments:</b>		
Net realized gain (loss) on investments		
Non-control/Non-affiliated investments	213,716	(6,433,800)
Affiliate investments		(8,081,806)
Control investments	41,097	
Total net realized gain (loss) on investments	254,813	(14,515,606)
Net change in unrealized (depreciation) appreciation on investments	(23,255,328)	8,755,048
Net realized gain (loss) and net change in unrealized (depreciation) appreciation on investments	(23,000,515)	(5,760,558)
<b>Net decrease in net assets resulting from operations</b>	<b>\$ (7,503,460)</b>	<b>\$ (3,941,867)</b>
<b>Net decrease in net assets per share resulting from operations</b>	<b>\$ (0.31)</b>	<b>\$ (0.16)</b>
<b>Dividends declared per share</b>	<b>\$ 0.24</b>	<b>\$ 0.24</b>

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

<sup>1</sup> Reflects the six month portion of the TTG Advisers' voluntary waiver of \$150,000 of expenses for the 2012 and 2011 fiscal years that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement. Please see Note 9 Management for more information.

<sup>2</sup> Reflects TTG Advisers' voluntary agreement that any assets of the Company invested in exchange-traded funds or the Octagon High Income Cayman Fund Ltd. would not be taken into the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. Please see Note 9 Management for more information.

<sup>3</sup> Reflects TTG Advisers' voluntary waiver of the Incentive Fee associated with pre-incentive fee net operating income for the fiscal quarter ended April 30, 2012. Please see Note 9 Management for more information.

<sup>4</sup> These items are related to the management of the PE Fund. Please see Note 9 Management for more information.

## MVC Capital, Inc.

## Consolidated Statements of Operations

(Unaudited)

	For the Quarter February 1, 2012 to April 30, 2012	For the Quarter February 1, 2011 to April 30, 2011
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 2,662	\$ 242,134
Affiliate investments	92,561	85,512
Control investments	12,000,000	
Total dividend income	12,095,223	327,646
<b>Interest income</b>		
Non-control/Non-affiliated investments	502,194	596,731
Affiliate investments	1,256,461	1,238,695
Control investments	791,573	564,415
Total interest income	2,550,228	2,399,841
<b>Fee income</b>		
Non-control/Non-affiliated investments	15,243	891,721
Affiliate investments	268,756	300,553
Control investments	195,959	141,195
Total fee income	479,958	1,333,469
<b>Fee income - Asset Management<sup>3</sup></b>		
Management fees	251,284	303,000
Portfolio fees	615,459	
Total fee income - Asset Management	866,743	303,000
Other income	171,789	180,310
<b>Total operating income</b>	<b>16,163,941</b>	<b>4,544,266</b>
<b>Operating Expenses:</b>		
Management fee	2,176,819	2,021,564
Interest and other borrowing costs	831,988	745,575
Portfolio fees - Asset Management <sup>3</sup>	461,593	
Management fee - Asset Management <sup>3</sup>	188,463	227,250
Audit fees	144,000	129,000
Other expenses	142,973	249,718
Legal fees	137,500	208,500
Consulting fees	95,451	121,000
Directors' fees	88,000	75,000
Insurance	83,613	87,855
Administration	64,847	65,349
Printing and postage	34,200	27,039
Public relations fees	25,500	25,500



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Net Incentive compensation (Note 10)	(174,566)	531,480
<b>Total operating expenses</b>	<b>4,300,381</b>	<b>4,514,830</b>
Less: Voluntary Expense Waiver by Adviser <sup>1</sup>	(37,500)	(37,500)
Less: Voluntary Incentive Fee Waiver by Adviser <sup>2</sup>	(2,345,189)	
<b>Total waivers</b>	<b>(2,382,689)</b>	<b>(37,500)</b>
<b>Net operating income before taxes</b>	<b>14,246,249</b>	<b>66,936</b>
<b>Tax Expenses:</b>		
Current tax expense	548	2,198
<b>Total tax expense</b>	<b>548</b>	<b>2,198</b>
<b>Net operating income</b>	<b>14,245,701</b>	<b>64,738</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments:</b>		
Net realized gain on investments		
Non-control/Non-affiliated investments	19,923	106,224
Control investments	41,097	
<b>Total net realized gain on investments</b>	<b>61,020</b>	<b>106,224</b>
Net change in unrealized (depreciation) appreciation on investments	(12,792,354)	2,131,024
<b>Net realized gain and net change in unrealized (depreciation) appreciation on investments</b>	<b>(12,731,334)</b>	<b>2,237,248</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 1,514,367</b>	<b>\$ 2,301,986</b>
<b>Net increase in net assets per share resulting from operations</b>	<b>\$ 0.06</b>	<b>\$ 0.10</b>
<b>Dividends declared per share</b>	<b>\$ 0.12</b>	<b>\$ 0.12</b>

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

<sup>1</sup> Reflects the quarterly portion of the TTG Advisers' voluntary waiver of \$150,000 of expenses for the 2012 and 2011 fiscal years, that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement (the "Voluntary Waiver"). Please see Note 9 Management for more information.

<sup>2</sup> Reflects TTG Advisers' voluntary waiver of the Incentive Fee associated with pre-incentive fee net operating income for the fiscal quarter ended April 30, 2012. Please see Note 9 Management for more information.

<sup>3</sup> These items are related to the management of the PE Fund. Please see Note 9 Management for more information.

## MVC Capital, Inc.

## Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Month Period November 1, 2011 to April 30, 2012	For the Six Month Period November 1, 2010 to April 30, 2011
<b>Cash flows from Operating Activities:</b>		
Net decrease in net assets resulting from operations	\$ (7,503,460)	\$ (3,941,867)
Adjustments to reconcile net decrease increase in net assets resulting from operations to net cash provided by operating activities:		
Net realized (gain) loss	(254,813)	14,515,606
Net change in unrealized depreciation (appreciation)	23,255,328	(8,755,048)
Amortization of discounts and fees	(32,663)	(7,696)
Increase in accrued payment-in-kind dividends and interest	(1,535,051)	(1,694,366)
Allocation of flow through loss (income)	17,632	(257,472)
Changes in assets and liabilities:		
Dividends, interest and fees receivable	1,196,623	58,922
Escrow receivables	290,336	956,051
Prepaid expenses	(98,898)	(48,902)
Prepaid taxes		11,363
Incentive compensation (Note 10)	(4,456,891)	(1,071,941)
Other liabilities	1,101,608	15,846
Purchases of equity investments	(6,363,325)	(26,296,492)
Purchases of debt instruments	(1,000,000)	(7,168,600)
Proceeds from equity investments	2,880,201	20,630,017
Proceeds from debt instruments	1,147,007	28,345,899
<b>Net cash provided by operating activities</b>	<b>8,643,634</b>	<b>15,291,320</b>
<b>Cash flows from Financing Activities:</b>		
Repurchase of common stock		(966,655)
Distributions paid to shareholders	(5,740,076)	(5,748,956)
<b>Net cash used in financing activities</b>	<b>(5,740,076)</b>	<b>(6,715,611)</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>2,903,558</b>	<b>8,575,709</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 35,242,460</b>	<b>\$ 56,390,628</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 38,146,018</b>	<b>\$ 64,966,337</b>

During the six months ended April 30, 2012 and 2011 MVC Capital, Inc. paid \$1,453,486 and \$1,437,495 in interest expense, respectively.

During the six months ended April 30, 2012 and 2011 MVC Capital, Inc. paid \$1,967 and \$1,755 in income taxes, respectively.

**Non-cash activity:**

During the six months ended April 30, 2012 and 2011, MVC Capital, Inc. recorded payment in kind dividend and interest of \$1,535,051 and \$1,694,366, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

During the six months ended April 30, 2012 and 2011, MVC Capital, Inc. was allocated \$60,137 and \$541,418, respectively, in flow-through income from its equity investment in Octagon Credit Investors, LLC. Of these amounts, \$77,769 and \$283,946, respectively, was received in

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cash and the balance of (\$17,632) and \$257,472, respectively, was undistributed and therefore (decreased)/increased the cost of the investment. The fair value was then (decreased)/increased by (\$17,632) and \$257,472, respectively, by the Company's Valuation Committee.

On November 30, 2010, a public Uniform Commercial Code ( UCC ) sale of Harmony Pharmacy's assets took place. Prior to this sale, the Company formed a new entity, Harmony Health & Beauty, Inc. ( HH&B ). The Company assigned its secured debt interest in Harmony Pharmacy of approximately \$6.4 million to HH&B in exchange for a majority of the economic ownership. At the UCC sale, HH&B submitted a successful credit bid of approximately \$5.9 million for all of the assets of Harmony Pharmacy. On December 21, 2010, Harmony Pharmacy filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized an \$8.4 million loss on its investment in Harmony Pharmacy.

On January 11, 2011, SHL Group Limited acquired the Company's portfolio company PreVisor. The Company received 1,518,762 common shares of SHL Group Limited for its investment in PreVisor. The cost basis and market value of the Company's investment remained unchanged as a result of the transaction.

On January 13, 2012, the Company received free warrants related to their debt investment in Freshii USA, Inc. The Company allocated the cost basis in the investment between the senior secured loan and the warrant at the time the investment was made. The Company will amortize the discount associated with the warrant over the four year life of the loan. During the six month period ended April 30, 2012, the Company recorded approximately \$3,144 of amortization.

On March 23, 2012, the Company sold its shares in the Octagon High Income Cayman Fund Ltd. ( Octagon Fund ). As part of this transaction, there was approximately \$152,000 held back until Octagon Fund's fiscal year audit is complete.

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

## MVC Capital, Inc.

## Consolidated Statements of Changes in Net Assets

	For the Six Month Period November 1, 2011 to April 30, 2012 (Unaudited)	For the Six Month Period November 1, 2010 to April 30, 2011 (Unaudited)	For the Year Ended October 31, 2011
<b>Operations:</b>			
Net operating income (loss)	\$ 15,497,055	\$ 1,818,691	\$ (2,284,137)
Net realized gain (loss) on investments and foreign currencies	254,813	(14,515,606)	(26,421,609)
Net change in unrealized (depreciation) appreciation on investments	(23,255,328)	8,755,048	35,676,725
<b>Net (decrease) increase in net assets from operations</b>	<b>(7,503,460)</b>	<b>(3,941,867)</b>	<b>6,970,979</b>
<b>Shareholder Distributions:</b>			
Distributions to shareholders from income	(5,740,076)	(1,818,691)	
Distributions to shareholders from return of capital		(3,930,265)	(11,489,032)
<b>Net decrease in net assets from shareholder distributions</b>	<b>(5,740,076)</b>	<b>(5,748,956)</b>	<b>(11,489,032)</b>
<b>Capital Share Transactions:</b>			
Repurchase of common stock		(966,655)	(966,655)
<b>Net decrease in net assets from capital share transactions</b>		<b>(966,655)</b>	<b>(966,655)</b>
<b>Total decrease in net assets</b>	<b>(13,243,536)</b>	<b>(10,657,478)</b>	<b>(5,484,708)</b>
<b>Net assets, beginning of period/year</b>	<b>419,509,716</b>	<b>424,994,424</b>	<b>424,994,424</b>
<b>Net assets, end of period/year</b>	<b>\$ 406,266,180</b>	<b>\$ 414,336,946</b>	<b>\$ 419,509,716</b>
<b>Common shares outstanding, end of period/year</b>	<b>23,916,982</b>	<b>23,916,982</b>	<b>23,916,982</b>

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

## MVC Capital, Inc.

## Consolidated Selected Per Share Data and Ratios

	For the Six Month Period November 1, 2011 to April 30, 2012 (Unaudited)	For the Six Month Period November 1, 2010 to April 30, 2011 (Unaudited)	For the Year Ended October 31, 2011
Net asset value, beginning of period/year	\$ 17.54	\$ 17.71	\$ 17.71
(Loss) gain from operations:			
Net operating income (loss)	0.65	0.07	(0.10)
Net realized and unrealized (loss) gain on investments	(0.96)	(0.23)	0.40
Total (loss) gain from investment operations	(0.31)	(0.16)	0.30
Less distributions from:			
Income	(0.24)	(0.07)	
Return of capital		(0.17)	(0.48)
Total distributions	(0.24)	(0.24)	(0.48)
Capital share transactions			
Anti-dilutive effect of share repurchase program		0.01	0.01
Total capital share transactions		0.01	0.01
Net asset value, end of period/year	\$ 16.99	\$ 17.32	\$ 17.54
Market value, end of period/year	\$ 13.20	\$ 13.83	\$ 12.93
Market discount	(22.31)%	(20.15)%	(26.28)%
<b>Total Return At NAV (a)</b>	<b>(1.78)%</b>	<b>(0.86)%</b>	<b>1.80%</b>
<b>Total Return At Market (a)</b>	<b>5.11%</b>	<b>5.34%</b>	<b>0.35%</b>
<b>Ratios and Supplemental Data:</b>			
Net assets, end of period (in thousands)	\$ 406,266	\$ 414,339	\$ 419,510
Ratios to average net assets:			
Expenses excluding tax expense (benefit)	2.10%(b)	3.48%(b)	4.38%
Expenses including tax expense (benefit)	2.10%(b)	3.49%(b)	4.39%
Expenses excluding incentive compensation	3.13%(b)	4.00%(b)	3.92%
Expenses excluding incentive compensation, interest and other borrowing costs	2.33%(b)	3.27%(b)	3.18%
Net operating income before tax expense (benefit)	7.54%(b)	0.88%(b)	(0.54)%
Net operating income after tax expense (benefit)	7.54%(b)	0.87%(b)	(0.55)%
Net operating income before incentive compensation	6.51%(b)	0.36%(b)	(0.08)%
Net operating income before incentive compensation, interest and other borrowing costs	7.31%(b)	1.09%(b)	0.66%
Ratios to average net assets excluding waivers:			
Expenses excluding tax expense	3.31%(b)	3.56%(b)	4.44%
Expenses including tax expense	3.31%(b)	3.57%(b)	4.45%
Expenses excluding incentive compensation	4.33%(b)	4.08%(b)	3.98%
Expenses excluding incentive compensation,			

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interest and other borrowing costs	3.54%(b)	3.36%(b)	3.24%
Net operating income before tax expense	6.33%(b)	0.80%(b)	(0.60)%
Net operating income after tax expense	6.33%(b)	0.79%(b)	(0.61)%
Net operating income before incentive compensation	5.31%(b)	0.28%(b)	(0.14)%
Net operating income before incentive compensation, interest and other borrowing costs	6.10%(b)	1.00%(b)	0.60%

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

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

## MVC Capital, Inc.

## Consolidated Schedule of Investments

April 30, 2012 (Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Non-control/Non-affiliated investments - 11.98% (a, c, f, g)</b>					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		\$ 5,000,003	
BP Clothing, LLC	Apparel	Second Lien Loan 12.5000% Cash, 4.0000% PIK, 7/18/2012 (b, h, i)	\$ 20,518,602	19,608,864	
		Term Loan A 8.0000% Cash, 07/18/2011 (h, i)	1,987,500	1,987,500	\$ 180,000
		Term Loan B 11.0000% Cash, 07/18/2011 (h, i)	2,000,000	2,000,000	
				23,596,364	180,000
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (d, j)		4,520,355	
FOLIOfn, Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (d, j)		15,000,000	10,790,000
Freshii USA, Inc.	Food Services	Senior Secured Loan 6.0000% Cash, 6.0000% PIK, 1/13/2016 (b, h)	1,013,167	972,567	981,821
		Warrants (d)		33,873	33,873
				1,006,440	1,015,694
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 12.5000% Cash, 4.5000% PIK, 8/31/2011 (b, h, i)	3,348,160	3,237,952	
		Warrants (d)			
				3,237,952	
Integrated Packaging Corporation	Manufacturer of Packaging Material	Warrants (d)			
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000	
NPWT Corporation	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,236,364	50,000
		Series A Convertible Preferred Stock (5,000 shares) (d)			880,000
				1,236,364	930,000
Prepaid Legal Services, Inc.	Consumer Services	Tranche A Term Loan 7.5000% Cash, 1/1/2017 (h)	3,430,894	3,386,952	3,386,952
		Tranche B Term Loan 11.0000% Cash, 1/1/2017 (h)	4,000,000	3,897,538	3,897,538
				7,284,490	7,284,490
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
SGDA Sanierungsgesellschaft für Deponien und	Soil Remediation	Term Loan 7.0000% Cash, 8/31/2012 (e, h)	6,187,350	6,187,350	6,187,350

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Altlasten GmbH					
SHL Group Limited	Talent Management Assessment	Common Stock (1,528,330 shares) (d, e)		6,048,332	15,348,332
Teleguam Holdings, LLC	Telecommunications	Second Lien Loan 9.7500% Cash, 6/9/2017 (h)	7,000,000	6,940,224	6,940,224
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>87,823,276</b>	<b>48,676,090</b>
Affiliate investments - 46.46% (a, c, f, g)					
Centile Holdings B.V.	Software	Common Equity Interest (d, e)		3,001,376	3,001,376
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 7.0000% Cash, 7.0000% PIK , 9/18/2012 (b, h)	15,081,910	15,049,726	15,081,910
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	9,956,000
				25,049,726	25,081,910
Harmony Health & Beauty, Inc.	Health and Beauty - Retail	Common Stock (147,621 shares) (d)		6,700,000	400,000
JSC Tekers Holdings	Real Estate Management	Common Stock (2,250 shares) (d, e)		4,500	4,500
		Secured Loan 8.0000% Cash, 6/30/2014 (e, h)	4,000,000	4,000,000	4,000,000
				4,004,500	4,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 10/26/2017 (b, h)	11,901,057	11,876,435	11,901,057
		Convertible Preferred Stock (20,000 shares) (b)		3,147,077	3,147,077
				15,023,512	15,048,134
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,158,975	5,316,025
RuMe Inc.	Consumer Products	Common Stock (999,999 shares) (d)		160,000	160,000
		Series B-1 Preferred Stock (4,999,076 shares) (d)		999,815	999,815
				1,159,815	1,159,815
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d, e)		40,186,620	33,506,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		20,084,599	10,798,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK , 7/26/2012 (b, h)	9,378,730	9,368,374	9,378,730
		Convertible Series I Preferred Stock (32,200 shares) (d)		500,000	78,515,749
		Convertible Series J Preferred Stock (8,216 shares) (d)			2,551,858
				9,868,374	90,446,337
<b>Sub Total Affiliate investments</b>				<b>127,237,497</b>	<b>188,762,097</b>

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





## MVC Capital, Inc.

## Consolidated Schedule of Investments - (Continued)

April 30, 2012 (Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Control Investments - 48.41% (a, c, f, g)</b>					
	Automotive				
MVC Automotive Group B.V.	Dealerships	Common Equity Interest (d, e) Bridge Loan 10.0000% Cash, 12/31/2012 (e, h)	\$ 34,736,939 \$ 3,643,557	\$ 34,736,939 3,643,557	\$ 35,021,000 3,643,557
				38,380,496	38,664,557
MVC Partners, LLC	Private Equity	Limited Liability Company Interest (d)		7,508,156	6,852,734
MVC Private Equity Fund L.P.	Private Equity	General Partnership Interest (d, k)		157,089	145,893
	Medical Device Manufacturer				
Ohio Medical Corporation		Common Stock (5,620 shares) (d) Series A Convertible Preferred Stock (19,579 shares) (b) Guarantee - Series B Preferred (d)		15,763,636 30,000,000	39,500,000 (700,000)
				45,763,636	38,800,000
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	1,249,000
	Specialty Chemicals				
Summit Research Labs, Inc.		Second Lien Loan 7.0000% Cash, 7.0000% PIK , 8/31/2013 (b, h) Common Stock (1,115 shares)	11,454,343	11,413,598 16,000,000	11,454,344 62,500,000
				27,413,598	73,954,344
	Distributor - Landscaping and				
Turf Products, LLC		Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK , 1/31/2014 (b, h) Junior Revolving Note 6.0000% Cash, 01/31/2014 (h)	8,395,262	8,395,262	8,395,262
Irrigation Equipment		Limited Liability Company Interest (d) Warrants (d)	1,000,000	1,000,000 3,535,694	1,000,000 3,221,794
				12,930,956	12,617,056
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	21,124,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 04/29/2013 (h) Common Stock (81,000 shares) (d)	600,000	600,000 1,850,000	600,000 2,655,000
				2,450,000	3,255,000
<b>Sub Total Control Investments</b>				<b>148,299,246</b>	<b>196,662,584</b>
<b>TOTAL INVESTMENT ASSETS - 106.85% (f)</b>				<b>\$ 363,360,019</b>	<b>\$ 434,100,771</b>

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- (a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Company negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.
  - (b) These securities accrue a portion of their interest/dividends in payment in kind interest/dividends which is capitalized to the investment.
  - (c) All of the Company's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft für Deponien und Altlasten mbH, SIA Tekers Invest, JSC Tekers Holdings, Centile Holdings B.V., Velocitius B.V., Freshii USA, Inc. and MVC Partners, LLC. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.
  - (d) Non-income producing assets.
  - (e) The principal operations of these portfolio companies are located outside of the United States.
  - (f) Percentages are based on net assets of \$406,266,180 as of April 30, 2012.
  - (g) See Note 3 for further information regarding Investment Classification.
  - (h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.
  - (i) All or a portion of the accrued interest on these securities have been reserved against.
  - (j) Legacy Investments.
  - (k) MVC Private Equity Fund, L.P. is a private equity fund focused on control equity investments in the lower middle market. The fund currently holds two investments, one located in the United States and one in Gibraltar, which are in the energy and industrial sectors, respectively.
- PIK - Payment-in-kind  
Denotes zero cost or fair value.

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

## MVC Capital, Inc.

## Consolidated Schedule of Investments

October 31, 2011

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Non-control/Non-affiliated investments- 12.20% (a, c, f, g)</b>					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		\$ 5,000,003	
BP Clothing, LLC	Apparel	Second Lien Loan 12.5000% Cash, 4.0000% PIK, 7/18/2012 (b, h, i)	\$ 20,362,135	19,579,285	
		Term Loan A 8.0000% Cash, 7/18/2011 (h, i)	1,987,500	1,987,500	\$ 280,000
		Term Loan B 11.0000% Cash, 7/18/2011 (h, i)	2,000,000	2,000,000	
				23,566,785	280,000
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (d, j)		4,520,355	
FOLIOfn, Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (d, j)		15,000,000	10,790,000
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 12.5000% Cash, 4.5000% PIK%, 8/31/2011 (b, h, i)	3,348,160	3,237,952	
		Warrants (d)			
				3,237,952	
Integrated Packaging Corporation	Manufacturer of Packaging Material	Warrants (d)			
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000	
NPWT Corporation	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,236,364	56,364
		Series A Convertible Preferred Stock (5,000 shares) (d)			1,000,000
				1,236,364	1,056,364
Octagon High Income Cayman Fund Ltd.	Investment Company	Series 1 Participating Non-Voting Shares (3,014 shares) (e, k)		3,013,952	2,804,543
Prepaid Legal Services, Inc.	Consumer Services	Tranche A Term Loan 7.5000% Cash, 12/31/2016 (h)	4,000,000	3,943,303	3,943,303
		Tranche B Term Loan 11.0000% Cash, 12/31/2016 (h)	4,000,000	3,886,607	3,886,607
				7,829,910	7,829,910
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH	Soil Remediation	Term Loan 7.0000% Cash, 8/31/2012 (e, h)	6,187,350	6,187,350	6,187,350

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SHL Group Limited	Talent Management Assessment	Common Stock (1,518,762 shares) (d, e)		6,000,000	15,300,000
Teleguam Holdings, LLC	Telecommunications	Second Lien Loan 9.7500% Cash, 6/9/2017 (h)	7,000,000	6,934,391	6,934,391
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>90,292,464</b>	<b>51,182,558</b>
<b>Affiliate investments - 44.80% (a, c, f, g)</b>					
Centile Holding B.V.	Software	Common Equity Interest (d, e)		3,001,376	3,001,376
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 7.0000% Cash, 7.0000% PIK, 9/18/2012 (b, h)	14,559,236	14,485,213	14,559,236
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	9,956,000
				24,485,213	24,559,236
Harmony Health & Beauty, Inc.	Health and Beauty - Retail	Common Stock (147,621 shares) (d)		6,700,000	1,000,000
JSC Tekers Holdings	Real Estate Management	Common Stock (2,250 shares) (d, e)		4,500	4,500
		Secured Loan 8.0000% Cash, 6/30/2014 (e, h)	4,000,000	4,000,000	4,000,000
				4,004,500	4,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 10/26/2017 (b, h)	11,958,188	11,921,592	11,958,188
		Convertible Preferred Stock (20,000 shares) (b)		3,024,872	3,024,872
				14,946,464	14,983,060
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,176,607	5,333,657
RuMe Inc.	Consumer Products	Common Stock (999,999 shares) (d)		160,000	160,000
		Series B-1 Preferred Stock (4,999,076 shares) (d)		999,815	999,815
				1,159,815	1,159,815
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d, e)		40,186,620	33,200,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		20,084,598	10,500,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK%, 7/26/2012 (b, h)	9,143,848	9,111,577	9,143,848
		Convertible Series I Preferred Stock (32,200 shares) (d)		500,000	78,515,749
		Convertible Series J Preferred Stock (8,216 shares) (d)			2,551,858
				9,611,577	90,211,455
<b>Sub Total Affiliate investments</b>				<b>126,356,770</b>	<b>187,953,099</b>

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

## MVC Capital, Inc.

## Consolidated Schedule of Investments - (Continued)

October 31, 2011

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Control Investments -50.79% (a, c,f,g)</b>					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e) Bridge Loan 10.0000% Cash, 12/31/2011 (e, h)		\$ 34,736,939	\$ 42,450,000
			\$ 3,643,557	3,643,557	3,643,557
				38,380,496	46,093,557
MVC Partners, LLC	Private Equity	Limited Liability Company Interest (d)		1,350,253	1,133,729
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d) Series A Convertible Preferred Stock (18,102 shares) (b)		15,763,636	
				30,000,000	39,500,000
				45,763,636	39,500,000
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	1,525,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 7.0000% Cash, 7.0000% PIK, 8/31/2013 (b, h) Common Stock (1,115 shares) (d)	11,055,089	10,999,118	11,055,089
				16,000,000	74,500,000
				26,999,118	85,555,089
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK, 1/31/2014 (b, h) Junior Revolving Note 6.0000% Cash, 1/31/2014 (h) Limited Liability Company Interest (d) Warrants (d)	8,395,261	8,395,261	8,395,261
			1,000,000	1,000,000	1,000,000
				3,535,694	2,721,794
				12,930,955	12,117,055
Velocitus B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	25,100,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 4/29/2013 (h) Common Stock (81,000 shares) (d)	600,000	600,000	600,000
				1,850,000	1,455,000
				2,450,000	2,055,000
<b>Sub Total Control Investments</b>				<b>141,569,773</b>	<b>213,079,430</b>
<b>TOTAL INVESTMENT ASSETS - 107.79% (f)</b>				<b>\$ 358,219,007</b>	<b>\$ 452,215,087</b>

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- (a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Company negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.
  - (b) These securities accrue a portion of their interest/dividends in "payment in kind" interest/dividends which is capitalized to the investment.
  - (c) All of the Company's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., Octagon High Income Cayman Fund Ltd., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH, SIA Tekers Invest, JSC Tekers Holdings, Centile Holding B.V. and Velocitius B.V. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.
  - (d) Non-income producing assets.
  - (e) The principal operations of these portfolio companies are located outside of the United States.
  - (f) Percentages are based on net assets of \$419,509,716 as of October 31, 2011.
  - (g) See Note 3 for further information regarding "Investment Classification."
  - (h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.
  - (i) All or a portion of the accrued interest on these securities have been reserved against.
  - (j) Legacy Investments.
  - (k) Octagon High Income Cayman Fund Ltd., which seeks to maximize current income consistent with the preservation of capital through the leveraged loan market and offers monthly liquidity after the initial six months of the investment with a 15-day notice
- PIK - Payment-in-kind

Denotes zero cost or fair value.

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

MVC Capital, Inc. (the Company)

Notes to Consolidated Financial Statements

April 30, 2012

(Unaudited)

### 1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete consolidated financial statements. Certain amounts have been reclassified to adjust to current period presentations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2011, as filed with the U.S. Securities and Exchange Commission (the SEC) on January 12, 2012.

### 2. Consolidation

On July 16, 2004, the Company formed a wholly-owned subsidiary, MVC Financial Services, Inc. (MVCFS). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Company, the Company's portfolio companies and other entities. MVCFS had opening equity of \$1 (100 shares at \$0.01 per share). The Company does not hold MVCFS for investment purposes and does not intend to sell MVCFS. On October 14, 2011, the Company formed a wholly-owned subsidiary, MVC Cayman, an exempted company incorporated in the Cayman Islands, to hold certain of its investments and to make certain future investments. The results of MVCFS and MVC Cayman are consolidated into the Company and all inter-company accounts have been eliminated in consolidation.

MVC GP II, LLC (MVC GP II), an indirect wholly-owned subsidiary of the Company, serves as the general partner to the MVC Private Equity Fund, L.P. (PE Fund). MVC GP II is wholly-owned by MVCFS, a subsidiary of the Company. The results of MVC GP II are consolidated into MVCFS and ultimately the Company. All inter-company accounts have been eliminated in consolidation.

Pursuant to the guidance of the Financial Accounting Standards Board (FASB) ASC 810, *Consolidation of Partnerships and Similar Entities Subtopic*, the Company is not required to consolidate MVC GP II's general partnership interest in the PE Fund. As a result, MVC GP II's general partnership interest in the PE Fund is shown as an investment on the Company's books.

### 3. Investment Classification

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

### 4. Cash and Cash Equivalents

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



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*Restricted Cash and Cash Equivalents*

Cash and cash equivalent accounts that are not available to the Company for day to day use are classified as restricted cash. Restricted cash and cash equivalents are carried at cost which approximates fair value.

**5. Investment Valuation Policy**

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ( ASC ) 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date and majority-owned publicly traded securities and other privately held securities are valued as determined in good faith by the Valuation Committee of our Board of Directors. For legally or contractually restricted securities of companies that are publicly traded, the value is based on the closing market quote on the valuation date minus a discount for the restriction. At April 30, 2012, we did not hold restricted or unrestricted securities of publicly traded companies for which we have a majority-owned interest.

ASC 820 provides a framework for measuring the fair value of assets and liabilities and provides guidance regarding a fair value hierarchy which prioritizes information used to measure value. In determining fair value, the Valuation Committee primarily uses the level 3 inputs referenced in ASC 820.

ASC 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The price used to measure the fair value is not adjusted for transaction costs while the cost basis of our investments may include initial transaction costs. Under ASC 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC 820, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

On May 12, 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). ASU 2011-04 amends ASC 820, which requires entities to change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements related to the application of the highest and best use and valuation premise concepts for financial and nonfinancial instruments, measuring the fair value of an instrument classified in equity, and disclosures about fair value measurements. ASU 2011-04 requires additional disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy, including the valuation processes used by the reporting entity, the sensitivity of the fair value to changes in unobservable inputs, and the interrelationships between those unobservable inputs, if any. All the amendments to ASC 820 made by ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The adoption of this new guidance has not had a material effect on the financial position or results of operations of the Company and has resulted in additional disclosures. Please see Note 7 Portfolio Investments .

**Valuation Methodology**

Pursuant to the requirements of the 1940 Act and in accordance with ASC 820, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with our Valuation Procedures adopted by the Board of Directors which are consistent with ASC 820. As permitted by the SEC, the Board of Directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the Board of Directors' supervision and pursuant to our Valuation Procedures. Our Board of Directors may also hire independent consultants to review our Valuation Procedures or to conduct an independent valuation of one or more of our portfolio investments.

Pursuant to our Valuation Procedures, the Valuation Committee (which is currently comprised of three Independent Directors) determines fair values of portfolio company investments on a quarterly basis (or more frequently, if deemed appropriate under the circumstances). Any changes in valuation are recorded in the consolidated statements of operations as Net change in unrealized appreciation (depreciation) on investments. Currently, our NAV per share is calculated and published on a quarterly basis. The Company calculates our NAV per share by subtracting all liabilities from the total value of our portfolio securities and other assets and dividing the result by the total number of outstanding shares of our common stock on the date of valuation. Fair values of foreign investments determined as of quarter end reflect exchange rates, as applicable, in effect on the last business day of the quarter. Exchange rates fluctuate on a daily basis, sometimes significantly. Exchange rate fluctuations following the most recent quarter end are not reflected in the valuations reported in this Quarterly Report. See Item 3 Risk Factor, Investments in foreign debt or equity may involve significant risks in addition to the risks inherent in U.S. investments.

At April 30, 2012, approximately 90.52% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

Under most circumstances, at the time of acquisition, Fair Value Investments are carried at cost (absent the existence of conditions warranting, in management's and the Valuation Committee's view, a different initial value). During the period that an investment is held by the Company, its original cost may cease to approximate fair value as the result of market and investment specific factors. No pre-determined formula can be applied to determine fair value. Rather, the Valuation Committee analyzes fair value measurements based on the value at which the securities of the portfolio company could be sold in an orderly disposition over a reasonable period of time between willing parties, other than in a forced or liquidation sale. The liquidity event whereby the Company ultimately exits an investment is generally the sale, the merger, the recapitalization or, in some cases, the initial public offering of the portfolio company.

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

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

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

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

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

For non-Control Companies, consistent with ASC 820, the Valuation Committee considers a hypothetical secondary market as the principal market in which it would sell investments in those companies.

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

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

The Valuation Committee determines fair value of loan and debt securities of Control Companies based on the estimate of the enterprise value of the portfolio company. To the extent the enterprise value exceeds the remaining principal amount of the loan and all other debt securities of the company, the fair value of such securities is generally estimated to be their cost. However, where the enterprise value is less than the remaining principal amount of the loan and all other debt securities, the Valuation Committee may discount the value of such securities to reflect an impairment.

For the Company s or its subsidiary s investment in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the general partner ( GP ), the Valuation Committee will rely on the GP s determination of the Fair Value of the PE Fund, which will be made: (i) no less frequently than quarterly as of the Company s fiscal quarter end and (ii) based on methodologies consistent with those set forth in the Company s Valuation Procedures. Additionally, when both the Company and the PE Fund hold investments in the same portfolio company, the GP s Fair Value determination shall be based on the Valuation Committee s determination of the Fair Value of the Company s portfolio security in that portfolio company.

As permitted under GAAP, the Company s interests in private investment funds ( Investment Vehicles ) are generally valued, as a practical expedient, utilizing the net asset valuations provided by management of the underlying Investment Vehicles, without adjustment, unless TTG Advisers is aware of information indicating that a value reported does not accurately reflect the value of the Investment Vehicle, including any information showing that the valuation has not been calculated in a manner consistent with GAAP. Net unrealized appreciation (depreciation) of such investments is recorded based on the Company s proportionate share of the aggregate amount of appreciation (depreciation) recorded by each underlying Investment Vehicle. The Company s proportionate share includes its share of interest and dividend income and expense, and realized and unrealized gains and losses on securities held by the underlying Investment Vehicles, net of operating expenses and fees. Realized gains and losses on withdrawals from Investment Vehicles are generally recognized on a first in, first out basis.

The Company applies the practical expedient to interests in Investment Vehicles on an investment by investment basis, and consistently with respect to the Company s entire interest in an investment. The Company may adjust the valuation obtained from an Investment Vehicle with a premium, discount or reserve if it determines that the net asset value is not representative of the current market conditions.

When the Company receives nominal cost warrants or free equity securities ( nominal cost equity ) with a debt security, the Company typically allocates its cost basis in the investment between debt securities and nominal cost equity at the time of origination.

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. Origination and/or closing fees associated with investments in portfolio companies are accreted into income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as income. Prepayment premiums are recorded on loans when received. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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

Escrows from the sale of a portfolio company are generally valued at an amount which may be expected to be received from the buyer under the escrow s various conditions discounted for both risk and time.

## **6. Concentration of Market Risk**

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, debt instruments and escrow receivables (other than cash equivalents), which collectively represented approximately 90.52% of the Company s total assets at April 30, 2012. As discussed in Note 7, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company s fair value policies and procedures. The Company s investment strategy represents a high degree of business and financial risk due to the fact that the Company s portfolio investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. Additionally, we are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore may invest a significant portion of our assets in a relatively small number of portfolio companies, which gives rise to a risk of significant loss should the performance or financial condition of one or more portfolio companies deteriorate. At this time, the Company s investments in short-term securities are in 90-day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. The Company s cash balances, if not large enough to be invested in 90-day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts or other interest bearing accounts.

## **7. Portfolio Investments**

Pursuant to the requirements of the 1940 Act and ASC 820, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our Board of Directors. As permitted by the SEC, the Board of Directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the Board of Directors supervision and pursuant to our Valuation Procedures.

The levels of fair value inputs used to measure our investments are characterized in accordance with the fair value hierarchy established by ASC 820. Where inputs for an asset or liability fall in more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's fair value measurement. We use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement. The three levels of the fair value hierarchy and investments that fall into each of the levels are described below:

**Level 1:** Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price on the measurement date. We did not value any of our investments using Level 1 inputs as of April 30, 2012.

**Level 2:** Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly or other inputs that are observable or can be corroborated by observable market data. Additionally, the Company's interests in Investment Vehicles that can be withdrawn by the Company at the net asset value reported by such Investment Vehicle as of the measurement date, or within six months of the measurement date, are generally categorized as Level 2 investments. We did not value any of our investments using Level 2 inputs as of April 30, 2012.

**Level 3:** Level 3 inputs are unobservable and cannot be corroborated by observable market data. Additionally, included in Level 3 are the Company's interests in Investment Vehicles from which the Company cannot withdraw at the net asset value reported by such Investment Vehicles as of the measurement date, or within six months of the measurement date. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See Note 5 for the investment valuation policies used to determine the fair value of these investments.

As noted above, the interests in Investment Vehicles are included in Level 2 or 3 of the fair value hierarchy. In determining the appropriate level, the Company considers the length of time until the investment is redeemable, including notice and lock-up periods and any other restriction on the disposition of the investment. The Company also considers the nature of the portfolios of the underlying Investment Vehicles and such vehicles' ability to liquidate their investment.

In accordance with ASU 2011-04, the following table summarizes information about the Company's Level 3 fair value measurements as of April 30, 2012 (in thousands):

## Quantitative Information about Level 3 Fair Value Measurements\*

	Fair value as of 4/30/2012	Valuation technique	Unobservable input	Range		Weighted average (a)
				Low	High	
<b>Common Stock (c) (d)</b>	\$ 82,367	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	33.2%	8.0%
			Real Estate Appraisals	N/A	N/A	N/A
			Income Approach	Discount Rate	11.4%	20.0%
		Market Approach	Non-Control Discount	10.0%	10.0%	10.0%
			Revenue Multiple	0.3x	2.0x	0.8x
			EBITDA Multiple	5.5x	12.0x	8.3x
<b>Guarantees</b>	\$ (700)	Income Approach	Discount Rate	16.0%	16.0%	16.0%
<b>Senior/Subordinated loans and credit facilities (b) (d)</b>	\$ 87,029	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%
			Tangible Book Value of Equity	1.0x	1.0x	1.0x
			Real Estate Appraisals	N/A	N/A	N/A
		Market Approach	EBITDA Multiple	2.8x	8.7x	7.7x
			Forward EBITDA Multiple	6.7x	6.7x	6.7x
			Market Quotes	96.5%	99.0%	97.7%
Income Approach	Discount Rate	14.2%	14.9%	14.7%		
<b>Other Equity Investments (d)</b>	\$ 118,987	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%
			Tangible Book Value of Equity	1.0x	1.0x	1.0x
			Real Estate Appraisals	N/A	N/A	N/A
		Market Approach	EBIT Multiple	8.0x	8.0x	8.0x
			Discount to notional value of CLO equity	50.0%	50.0%	50.0%
			Revenue Multiple	2.0x	2.0x	2.0x
		EBITDA Multiple	4.9x	8.5x	7.5x	
		Euros (millions) per Installed MW	1.24	1.24	1.24	
		Euros per TTM MWhr	0.70	0.70	0.70	
		Euros per Expected MWhr original P50	0.70	0.70	0.70	
		Euros per Expected MWhr new P50	0.70	0.70	0.70	
		Income Approach	Discount Rate	11.2%	21.6%	13.2%
		<b>Preferred Stock (c)</b>	\$ 146,384	Market approach	Revenue Multiple	2.0x
EBITDA Multiple	6.5x				9.0x	7.3x
% of AUM	1.0%				1.0%	1.0%
Income Approach	Illiquidity Discount			20.0%	20.0%	20.0%
	Discount Rate			11.4%	20.0%	15.4%
	Non-Control Discount			10.0%	10.0%	10.0%
<b>Warrants</b>	\$ 34	Market approach	Forward EBITDA Multiple	6.7x	6.7x	6.7x
		Income Approach	Discount Rate	14.9%	14.9%	14.9%
<b>Escrow Receivables</b>	\$ 857	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	50.0%	24.6%
<b>Total</b>	<b>\$ 434,958</b>					

**Notes:**

- (a) Calculated based on fair values.  
(b) Certain investments are priced using non-binding broker or dealer quotes.  
(c) Certain common and preferred stock investments are fair valued based on liquidation-out preferential rights held by the Company.  
(d) Real estate appraisals are performed by independent third parties and the Company does not have reasonable access to the underlying unobservable inputs.

\* The above table excludes certain investments whose fair value is zero due to certain specific situations at the portfolio company level. Following are descriptions of the sensitivity of the Level 3 recurring fair value measurements to changes in the significant unobservable inputs presented in the above table. For securities utilizing the income approach valuation technique, a significant increase (decrease) in the discount rate, risk premium or discount for lack of marketability would result in a significantly lower (higher) fair value measurement. The discount for

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lack of marketability used to determine fair value may include other factors such as liquidity or credit risk. Generally, a change in the discount rate is accompanied by a directionally similar change in the risk premium and discount for lack of marketability. For securities utilizing the market approach valuation technique, a significant increase (decrease) in the EBITDA, revenue multiple or other key unobservable inputs listed in the above table would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the discount for lack of marketability would result in a significantly lower (higher) fair value measurement. The discount for lack of marketability used to determine fair value may include other factors such as liquidity or credit risk. For securities utilizing an adjusted net asset approach valuation technique, a significant increase (decrease) in the price to book value ratio, discount rate or other key unobservable inputs listed in the above table would result in a significantly higher (lower) fair value measurement.

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The following fair value hierarchy table sets forth our investment portfolio by level as of April 30, 2012 and October 31, 2011 (in thousands):

	April 30, 2012			Total
	Level 1	Level 2	Level 3	
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 87,029	\$ 87,029
Common Stock			82,367	82,367
Preferred Stock			146,384	146,384
Warrants			34	34
Other Equity Investments			118,987	118,987
Guarantees			(700)	(700)
Escrow receivables			857	857
<b>Total Investments, net</b>	\$	\$	\$ 434,958	\$ 434,958

	October 31, 2011			Total
	Level 1	Level 2	Level 3	
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 85,587	\$ 85,587
Common Stock			94,001	94,001
Preferred Stock			146,382	146,382
Other Equity Investments		2,804	123,441	126,245
Escrow receivables			1,147	1,147
<b>Total Investments, net</b>	\$	\$ 2,804	\$ 450,558	\$ 453,362

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur. During the six month period ended April 30, 2012 and the year ended October 31, 2011, there were no transfers in and out of Level 1 or 2.

The following tables sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs for the six month period ended April 30, 2012 and April 30, 2011 (in thousands):

	Balances, November 1, 2011	Realized Gains (Losses)	Reversal of Prior Period (Appreciation) Depreciation on Realization		Unrealized Appreciation (Depreciation)	Purchases (4)	Sales (5)	Transfers In & Out of Level 3	Balances, April 30, 2012
			(1)	(2)					
Senior/Subordinated Loans and credit facilities	\$ 85,587	\$ 8	\$	\$	(179)	\$ 2,491	\$ (878)	\$	\$ 87,029
Common Stock	94,001				(11,682)	48			82,367
Preferred Stock	146,382				(120)	122			146,384
Warrants						34			34
Other Equity Investments	123,441	41			(10,793)	6,298			118,987
Guarantees					(700)				(700)
Escrow receivables	1,147	143				152	(585)		857
<b>Total</b>	\$ 450,558	\$ 192	\$	\$	(23,474)	\$ 9,145	\$ (1,463)	\$	\$ 434,958



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	Balances, November 1, 2010	Realized Gains (Losses) (1)	Reversal of Prior Period (Appreciation) Depreciation on Realization (2)	Unrealized Appreciation (Depreciation) (3)	Purchases (4)	Sales (5)	Transfers In & Out of Level 3	Balances, April 30, 2011
Senior/Subordinated Loans and credit facilities	\$ 111,244	\$ (14,189)	\$ 14,215	\$ (7,569)	\$ 6,984	\$ (33,066)	\$	\$ 77,619
Common Stock	78,865	(433)	433	5,115	7,636	(450)		91,166
Preferred Stock	148,995			(4,008)	114	(1,236)		143,865
Warrants								
Other Equity Investments	94,798			569	3,558			98,925
Escrow receivables	2,063					(956)		1,107
<b>Total</b>	<b>\$ 435,965</b>	<b>\$ (14,622)</b>	<b>\$ 14,648</b>	<b>\$ (5,893)</b>	<b>\$ 18,292</b>	<b>\$ (35,708)</b>	<b>\$</b>	<b>\$ 412,682</b>

- (1) Included in net realized gain (loss) on investments in the Consolidated Statement of Operations.
- (2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities disposed of during the three months ended April 30, 2012 and April 30, 2011, respectively.
- (3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities held at April 30, 2012 and April 30, 2011, respectively.

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

**For the Six Month Period Ended April 30, 2012**

During the six month period ended April 30, 2012, the Company made one new investment, a \$1.0 million loan to Freshii USA, Inc. ( Freshii ).

During the six month period ended April 30, 2012, the Company made five follow-on investments in three existing portfolio companies totaling approximately \$6.4 million. The Company through MVC Partners, LLC ( MVC Partners ) Limited Partnership interest and MVCFS General Partnership interest contributed approximately \$6.3 million of its \$20.1 million capital commitment to the private equity fund ( PE Fund ), which as of April 30, 2012, has invested in Plymouth Rock Energy, LLC and Gibdock Limited. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

On November 30, 2011, as part of the Ohio Medical Corporation ( Ohio Medical ) debt refinancing, the Company agreed to guarantee a series B preferred stock tranche of equity. As of April 30, 2012, the amount guaranteed was approximately \$20.0 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

On December 28, 2011, the Company received its third scheduled disbursement from the Vitality Foodservice, Inc. ( Vitality ) escrow of approximately \$585,000. The escrow was fair valued at approximately \$472,000 as of April 30, 2012.

On each of December 31, 2011 and March 31, 2012, Marine Exhibition Corporation ( Marine ) made principal payments of \$150,000 on its senior subordinated loan. The balance of the loan as of April 30, 2012 was approximately \$11.9 million.

On March 7, 2012, the Board of Directors of Summit Research Labs, Inc. ( Summit ) approved a recapitalization and declared a \$15.0 million dividend, of which \$12.0 million was paid to the Company resulting in a reduction in the fair value of the common stock by \$12.0 million.

On March 23, 2012, the Company sold its shares in the Octagon High Income Cayman Fund Ltd. ( Octagon Fund ) for approximately \$3.0 million resulting in a realized gain of approximately \$18,000. The Company received approximately \$2.9 million of the \$3.0 million with the remaining proceeds of approximately \$152,000 to be distributed when the Octagon Fund's fiscal year audit is complete. The Company received additional proceeds of approximately \$86,000 over the life of the investment.

During the six month period ended April 30, 2012, Pre-Paid Legal Services, Inc. ( Pre-Paid Legal ) made principal payments on its tranche A term loan totaling approximately \$569,000. The outstanding balance of the tranche A term loan as of April 30, 2012 was approximately \$3.4 million.

During the quarter ended January 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$84,000, SGDA Europe equity interest by \$265,000, Turf Products, LLC ( Turf ) equity interest by \$500,000 and Security Holdings equity interest by \$205,000. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio Services, Inc. ( Vendio ) by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$759,466. The Valuation Committee also decreased the fair value of the Company's investments in BP Clothing, LLC ( BP ) term loan A by \$100,000, HH&B common stock by \$500,000, MVC Automotive equity interest by approximately \$7.5 million, MVC Partners equity interest by approximately \$326,000, MVCFS General Partnership interest in the PE Fund by approximately \$8,000, NPWT Corporation ( NPWT ) common and preferred stock by

approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$280,000, Velocitius equity interest by approximately \$1.9 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the quarter ended January 31, 2012, the undistributed allocation of flow through losses from the Company's equity investment in Octagon decreased the cost basis and fair value of this investment by approximately \$112,000.

During the quarter ended April 30, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal Manufacturing Enterprises, Inc. ( Vestal ) common stock by \$1.2 million, MVC Automotive Group B.V. ( MVC Automotive ) equity interest by \$106,000, Security Holdings B.V. ( Security Holdings ) equity interest by \$101,000, SGDA Europe B.V. ( SGDA Europe ) equity interest by \$33,000, SIA Tekers Invest ( Tekers ) common stock by \$4,000 and Octagon Fund by approximately \$143,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy Corporation ( Custom Alloy ), Marine, Summit, U.S. Gas & Electric, Inc. ( U.S. Gas ), Freshii and the Marine preferred stock were due to the capitalization of payment in kind ( PIK ) interest/dividends totaling \$775,585. The Valuation Committee also decreased the fair value of the Company's investments in Harmony Health & Beauty, Inc. ( HH&B ) common stock by \$100,000, MVC Partners equity interest by approximately \$113,000, MVCFS General Partnership interest in the PE Fund by approximately \$3,000, and Velocitius B.V. ( Velocitius ) equity interest by approximately \$2.1 million. Also, during the quarter ended April 30, 2012, the undistributed allocation of flow through income from the Company's equity investment in Octagon Credit Investors, LLC ( Octagon ) increased the cost basis and fair value of this investment by approximately \$94,000.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, SGDA Europe equity interest by \$298,000, Turf Products, LLC ( Turf ) equity interest by \$500,000, Vestal common stock by \$1.2 million and Security Holdings equity interest by \$306,000. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio Services, Inc. ( Vendio ) by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit U.S. Gas, and Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,535,051. The Valuation Committee also decreased the fair value of the Company's investments in BP Clothing, LLC ( BP ) term loan A by \$100,000, HH&B common stock by \$600,000, MVC Automotive equity interest by approximately \$7.4 million, MVC Partners equity interest by approximately \$439,000, MVCFS General Partnership interest in the PE Fund by approximately \$11,000, NPWT Corporation ( NPWT ) common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$276,000, and Velocitius equity interest by approximately \$4.0 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the six month period ended April 30, 2012, the undistributed allocation of flow through losses from the Company's equity investment in Octagon decreased the cost basis and fair value of this investment by approximately \$18,000.

At April 30, 2012, the fair value of all portfolio investments, exclusive of short-term investments, was \$434.1 million with a cost basis of \$363.4 million. At April 30, 2012, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.3 million and \$331.1 million, respectively. At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term securities, was \$452.2 million, with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively.

#### **For the Fiscal Year Ended October 31, 2011**

During the fiscal year ended October 31, 2011, the Company made six new investments, committing capital totaling approximately \$26.1 million. The investments were made in Octagon Fund (\$3.0 million), JSC Tekers Holdings ( JSC Tekers ) (\$4.0 million), Teleguam Holdings, LLC ( Teleguam ) (\$7.0 million), Pre-Paid Legal (\$8.0 million), RuMe Inc. ( RuMe ) (\$1.2 million) and Centile Holding B.V. ( Centile ) (\$3.0 million).

During the fiscal year ended October 31, 2011, the Company made seven follow-on investments in four existing portfolio companies totaling approximately \$17.1 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan allowed Security Holdings to secure project guarantees. On May 4, 2011, the Company invested \$500,000 in NPWT to acquire 5,000 shares of convertible preferred stock. On May 26, 2011 and September 14, 2011, the Company invested an additional \$150,000 on each date into HH&B to acquire an additional 47,612 shares of common stock. On September 6, 2011, the Company invested \$7.0 million in Security Holdings in the form of an additional equity interest. On October 17, 2011, the Company invested \$1.0 million in SGDA Europe in the form of additional equity interest. In addition, during the fiscal year ended October 31, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. These investments were sold during the fiscal year ended October 31, 2011, resulting in a realized gain of approximately \$106,000. The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

Effective November 4, 2010, the interest rate on the Turf senior subordinated loan was reduced from 15% to 13% and the maturity date on the senior subordinated loan and junior revolving note was extended to January 31, 2014.

On November 30, 2010, the Company loaned an additional \$700,000 to Harmony Pharmacy & Health Center, Inc. ( Harmony Pharmacy ), which was the remaining portion of the \$1.3 million demand note committed on September 23, 2010.

On November 30, 2010, a public Uniform Commercial Code ( UCC ) sale of Harmony Pharmacy's assets took place. Prior to this sale, the Company formed a new entity, HH&B. The Company assigned its secured debt interest in Harmony Pharmacy of approximately \$6.4 million to HH&B in exchange for a majority of the economic ownership. At the UCC sale, HH&B submitted a successful credit bid of approximately \$5.9 million for all of the assets of Harmony Pharmacy. On December 21, 2010, Harmony Pharmacy filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized an \$8.4 million loss on its investment in Harmony Pharmacy.

On December 1, 2010, Amersham Corporation ( Amersham ) filed for dissolution in the State of California as all operating divisions were sold in 2010. As a result, the Company realized a \$6.5 million loss on its investment in Amersham. The Company may be eligible to receive proceeds from an earnout related to the sale of an operating division once the senior lender is repaid in full. At this time, it is not likely that any proceeds will be received by the Company.

On January 11, 2011, SHL Group Limited, which provides workplace talent assessment solutions, including ability and personality tests, and psychometric assessments, acquired the Company's portfolio company PreVisor. The Company received 1,518,762 common shares of SHL Group Limited for its investment in PreVisor. The cost basis and market value of the Company's investment remained unchanged at the time as a result of the transaction.

On January 25, 2011, the Company sold its common stock in LHD Europe Holding Inc. ( LHD Europe ) and received approximately \$542,000 in proceeds, which resulted in a realized gain of approximately \$317,000.

On March 1, 2011, SP Industries, Inc. ( SP ) repaid its first lien and second lien loans in full including all accrued interest. The Company received a \$500,000 termination fee associated with the repayment of the loans.

On April 29, 2011, assets from a division of Ohio Medical were distributed to Ohio Medical shareholders on a pro-rata basis. The Company received 281 shares of common stock in NPWT as a result of this transaction.

On May 26, 2011, Security Holdings repaid its bridge loan in full, including all accrued interest.

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On August 1, 2011, as part of a restructuring of the Company's investment in HuaMei Capital Company, Inc. ( HuaMei ), the Company sold its shares to HuaMei, resulting in a realized loss of \$2.0 million.

On August 31, 2011, Sonexis, Inc. ( Sonexis ), a Legacy Investment, completed the dissolution of its operations and the sale of its assets. The Company realized a loss of \$10.0 million as a result of this dissolution.

On October 3, 2011, Storage Canada, LLC ( Storage Canada ) repaid its term loan in full including all accrued interest.

On October 17, 2011, the Company converted SGDA Europe's \$1.5 million senior secured loan and all accrued interest to additional common equity interest.

On October 28, 2011, Total Safety U.S., Inc. ( Total Safety ) repaid its first and second lien loans in full including all accrued interest.

On October 31, 2011, the Company received a distribution from NPWT of \$500,000, which was treated as a return of capital and returned all cash invested into NPWT to the Company.

During the fiscal year ended October 31, 2011, Marine made principal payments totaling \$450,000 on its senior subordinated loan. The balance of the loan as of October 31, 2011 was approximately \$12.0 million.

During the fiscal year ended October 31, 2011, Octagon borrowed and repaid \$1.5 million on its revolving line of credit. Octagon cancelled the revolving line of credit effective June 30, 2011. As of October 31, 2011, the revolving credit facility was no longer a commitment of the Company.

During the quarter ended January 31, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$7.5 million and U.S. Gas preferred stock by \$2.5 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of payment in kind ( PIK ) interest/dividends totaling \$980,119. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. Also, during the quarter ended January 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$229,000. The Valuation Committee also decreased the fair value of the Company's investments in BP second lien loan by \$3.9 million and term loan A and B by a combined \$2.0 million, Ohio Medical common stock by \$500,000 and preferred stock by \$8.2 million, MVC Automotive equity interest by \$3.1 million, HuaMei stock by \$325,000 and HH&B by \$1.9 million during the quarter ended January 31, 2011.

During the quarter ended April 30, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$2.0 million, MVC Automotive equity interest by \$3.0 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by \$590,000, Total Safety first lien loan by approximately \$74,000 and Velocitus equity interest by \$2.6 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$714,247. In addition, during the quarter ended April 30, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$28,000. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by approximately \$1.2 million, Ohio Medical preferred stock by approximately \$164,000, HuaMei common stock by approximately \$1.0 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$3.8 million during the quarter ended April 30, 2011.

During the quarter ended July 31, 2011, the Valuation Committee increased the fair value of the Company's investments in SHL Group Limited common stock by \$1.0 million, Octagon Fund by approximately \$25,000 and Security Holdings equity interest by approximately \$2.5 million. In addition, increases in the cost basis and fair value of the loans

to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$731,374. In addition, during the quarter ended July 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$139,000. The Valuation Committee also decreased the fair value of the Company's investments in HuaMei common stock by \$250,000, SGDA Europe equity interest by \$400,000, MVC Automotive by \$2.3 million, Tekers common stock by \$180,000, Velocitius equity interest by \$2.3 million and Vestal common stock by \$670,000 during the quarter ended July 31, 2011.

During the quarter ended October 31, 2011, the Valuation Committee increased the fair value of the Company's investments in SHL Group Limited common stock by \$1.4 million, Security Holdings equity interest by approximately \$13.1 million, Summit common stock by \$5.0 million, Ohio Medical preferred stock by \$400,000 and MVC Automotive equity interest by \$750,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$748,981. In addition, during the quarter ended October 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$193,000. The Valuation Committee also decreased the fair value of the Company's investments in Octagon Fund by approximately \$234,000, Tekers common stock by \$2.7 million, NPWT common and preferred stock by a net amount of approximately \$200,000, Velocitius equity interest by \$100,000 and Vestal common stock by \$75,000 during the quarter ended October 31, 2011.

During the fiscal year ended October 31, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$14.5 million, SHL Group Limited common stock by \$4.9 million, Security Holdings equity interest by approximately \$17.6 million, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$200,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$3,174,721. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. Also, during the fiscal year ended October 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$589,000. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$1.7 million, Tekers common stock by approximately \$2.3 million, Octagon Fund by \$209,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.0 million, NPWT common and preferred stock by a net amount of approximately \$200,000, HuaMei common stock by approximately \$1.5 million, SGDA Europe equity interest by approximately \$4.3 million, Vestal common stock by \$745,000 and HH&B by \$5.7 million during the fiscal year ended October 31, 2011.

At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term investments, was \$452.2 million with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively. At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term securities, was \$433.9 million, with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively.

## 8. Commitments and Contingencies

### *Commitments of the Company:*

At April 30, 2012, the Company's existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed	Amount Funded at April 30, 2012
Turf	\$1.0 million	\$1.0 million
MVC Partners/MVCFS	\$20.1 million	\$6.3 million
<b>Total</b>	<b>\$21.1 million</b>	<b>\$7.3 million</b>

**Guarantees:**

As of April 30, 2012, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed	Amount Funded at April 30, 2012
MVC Automotive	\$5.3 million	
Tekers	\$265,000	
Ohio Medical	\$20.0 million	
<b>Total</b>	<b>\$25.6 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At April 30, 2012, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$700,000.

These guarantees are further described below, together with the Company's other commitments.

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

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 200,000 euros at April 30, 2012, equivalent to approximately \$265,000.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive. The guarantee had a commitment of approximately 5.9 million euros at October 31, 2011, equivalent to approximately \$8.2 million. On April 30, 2012, the mortgage that was guaranteed was repaid by MVC Automotive, resulting in the release of the guarantee. As of April 30, 2012, the guarantee was no longer a commitment of the Company.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately \$5.3 million at April 30, 2012) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive. The Company has consistently reported the amount of the guarantee as 4.0 million Euro. The Company and MVC Automotive continues to view this amount as the full amount of our commitment. Erste Bank, the bank extending the mortgage to MVC Automotive, believes, based on a different methodology, that the balance of the guarantee as of April 30, 2012 is approximately 7.0 million Euro (equivalent to approximately \$9.3 million). The Company and MVC Automotive are working to resolve this discrepancy.

On July 31, 2008, the Company extended a \$1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on January 31, 2014. On July 31, 2008, Turf borrowed \$1.0 million from the secured junior revolving note. At October 31, 2011 and April 30, 2012, the outstanding balance of the secured junior revolving note was \$1.0 million.

On March 31, 2010, the Company pledged its Series I and Series J preferred stock of U.S. Gas to Macquarie Energy, LLC ( Macquarie Energy ) as collateral for Macquarie Energy's trade supply credit facility to U.S. Gas.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as GP. The PE Fund closed on approximately \$104 million of capital commitments. As of April 30, 2012, \$6.3 million of the Company's commitment was contributed.

On April 26, 2011, the Company agreed to collateralize a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., which is classified as restricted cash on the Company's consolidated balance sheet. This letter of credit is being used as collateral for a project guarantee by AB DnB NORDBankas to Security Holdings.

On November 30, 2011, as part of Ohio Medical's refinancing of their debt, the Company agreed to guarantee a series B preferred stock tranche of equity, with a 12% coupon for the first 18 months it is outstanding. After that initial period, the rate increases by 400bps to 16% for the next 6 months and increases by 50 bps (.5%) each 6 month period thereafter. As of April 30, 2012, the amount guaranteed was approximately \$20.0 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

### ***Commitments of the Company***

Effective November 1, 2006, under the terms of the Investment Advisory and Management Agreement with TTG Advisers, which has since been amended and restated (the Advisory Agreement) and described in Note 9 of the consolidated financial statements, Management, TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company's offices continue to be located on the second floor of 287 Bowman Avenue, Purchase, New York 10577.

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million credit facility (the Credit Facility), consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility now only consists of a \$50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. As of April 30, 2012, there was \$50.0 million outstanding on the Credit Facility. The proceeds from borrowings made under the Credit Facility are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under the Credit Facility will bear interest, at the Company's option, at a floating rate equal to either (i) the LIBOR rate with a 1.25% LIBOR floor (for one, two, three or six months), plus a spread of 4.5% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 3.50% per annum. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the consolidated balance sheet include the unamortized portion of these costs. Borrowings under the Credit Facility will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

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

### **9. Management**

On November 6, 2003, Michael Tokarz assumed his positions as Chairman, Portfolio Manager and Director of the Company. From November 6, 2003 to October 31, 2006, the Company was internally managed. Effective November 1, 2006, Mr. Tokarz's employment agreement with the Company terminated and the obligations under Mr. Tokarz's agreement were superseded by those under the Advisory Agreement entered into with TTG Advisers. Under the terms of the Advisory Agreement, the Company pays TTG Advisers a base management fee and an incentive fee for its provision of investment advisory and management services.

Our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), last approved a renewal of the Advisory Agreement at their in-person meeting held on October 25, 2011.



Under the terms of the Advisory Agreement, TTG Advisers determines, consistent with the Company's investment strategy, the composition of the Company's portfolio, the nature and timing of the changes to the Company's portfolio and the manner of implementing such changes. TTG Advisers also identifies and negotiates the structure of the Company's investments (including performing due diligence on prospective portfolio companies), closes and monitors the Company's investments, determines the securities and other assets purchased, retains or sells and oversees the administration, recordkeeping and compliance functions of the Company and/or third parties performing such functions for the Company. TTG Advisers' services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Company is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee. The base management fee is calculated at 2.0% per annum of the Company's total assets excluding cash, the value of any investment in a Third-Party Vehicle covered by a Separate Agreement (as defined in the Advisory Agreement) and the value of any investment by the Company not made in portfolio companies ( Non-Eligible Assets ) but including assets purchased with borrowed funds that are not Non-Eligible Assets. The incentive fee consists of two parts: (i) one part is based on our pre-incentive fee net operating income; and (ii) the other part is based on the capital gains realized on our portfolio of securities acquired after November 1, 2003.

The Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company, to the extent necessary to limit the Company's expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company's average net assets) to 3.5% in each of the 2009 and 2010 fiscal years. For more information, please see Note 10.

On October 26, 2010 and October 25, 2011, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011 and 2012 fiscal years, respectively ( Expense Limitation Agreement ). The amount of any payments made by the general partner ( GP ) of the PE Fund to TTG Advisers pursuant to the Portfolio Management Agreement between the GP and TTG Advisers respecting the PE Fund will be excluded from the calculation of the Company's expense ratio under the Expense Limitation Agreement. In addition, for fiscal years 2010, 2011 and 2012, TTG Advisers has voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver ). TTG Advisers has also voluntarily agreed that any assets of the Company that are invested in exchange-traded funds or the Octagon Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to make additional investments that represent more than 5% of its total assets or more than 10% of the outstanding voting securities of the issuer ( Non-Diversified Investments ) through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees and other fees paid by the PE Fund and its portfolio companies and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors authorization and direction, TTG Advisers is entitled to receive the balance of the fees and any carried interest generated by the PE Fund and its portfolio companies. Given this separate arrangement with the GP and the PE Fund (the PM Agreement ), under the terms of the Company's Advisory Agreement with TTG Advisers, TTG Advisers is not entitled to receive from the Company a management fee or an incentive fee on assets of the Company that are invested in the PE Fund.

Management and portfolio fees (e.g., closing or monitoring fees) generated by the PE Fund (including its portfolio companies) that are paid to the GP are classified on the consolidated statements of operations as Management fee income—Asset Management and Portfolio fee income—Asset Management, respectively. The portion of such fees that the GP pays to TTG Advisers (in accordance with its PM Agreement described above) are classified on the consolidated statements of operations as Management fee—Asset Management and Portfolio fees—Asset Management. Under the PE Fund's agreements, a significant portion of the portfolio fees that are paid by the PE Fund's portfolio companies to the GP and TTG Advisers is subject to recoupment by the PE Fund in the form of an offset to future management fees paid by the PE Fund.

## 10. Incentive Compensation

At October 31, 2011, the provision for estimated incentive compensation was approximately \$23.9 million. During the six month period ended April 30, 2012, this provision for incentive compensation was decreased by a net amount of approximately \$4.4 million to approximately \$19.5 million. The net decrease in the provision for incentive compensation during the six month period ended April 30, 2012 reflects the Valuation Committee's determination to decrease the fair values of seven of the Company's portfolio investments (BP, HH&B, MVC Automotive, NPWT, Tekers, Velocitius and Ohio Medical) by a total of \$13.2 million and the dividend distribution of \$12.0 million received from Summit. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of five of the Company's portfolio investments (Octagon Fund, SGDA Europe, Security Holdings, Vestal and Turf) by a total of approximately \$2.5 million and the escrow receivable related to Vitality by \$130,000. For the six month period ended April 30, 2012, a provision of approximately \$2.3 million was recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income exceeded the hurdle rate for the quarter ended April 30, 2012. TTG Advisers has voluntarily agreed to waive the income-related incentive fee payment of approximately \$2.3 million that the Company would otherwise be obligated to pay to TTG Advisers under the Advisory Agreement.

At October 31, 2010, the provision for estimated incentive compensation was approximately \$22.0 million. During the fiscal year ended October 31, 2011, this provision for incentive compensation was increased by a net amount of approximately \$1.9 million to approximately \$23.9 million. The increase in the provision for incentive compensation during the fiscal year ended October 31, 2011 reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies. The provision also reflects the sale of the SPDR Barclays Capital High Yield Bond Fund and the iShares S&P U.S. Preferred Stock Index Fund for a realized gain of approximately \$106,000, a realized gain of approximately \$55,000 from the Octagon Fund, a realized gain of approximately 317,000 from LHD Europe and a realized loss from the sale of HuaMei of \$2.0 million. Specifically, it reflects the Valuation Committee's determination to increase the fair values of six of the Company's portfolio investments (Summit, SHL Group Limited, Security Holdings, Total Safety, U.S. Gas, and Velocitius) by a total of approximately \$39.7 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of eleven of the Company's portfolio investments (BP, Ohio Medical common and preferred stock, MVC Automotive, HuaMei, Tekers, Octagon Fund, NPWT, SGDA Europe, Vestal and HH&B) by a total of \$32.1 million. During the fiscal year ended October 31, 2011, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

## 11. Tax Matters

At October 31, 2011, the Company had a net capital loss carryforward of \$26,263,731, all of which will expire in the year 2019. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed. The Company had approximately \$21.5 million in unrealized losses associated with Legacy Investments as of April 30, 2012.

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions deemed to meet a more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statement of operations. During the six month period ended April 30, 2012, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal for the Company and MVCFS. The 2007, 2008, 2009, 2010 and 2011 federal tax years for the Company and for MVCFS remain subject to examination by the IRS.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Act) was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, each fund will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

## **12. Dividends and Distributions to Shareholders and Share Repurchase Program**

As a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ), the Company is required to distribute to its shareholders, in a timely manner, at least 90% of its investment company taxable and tax-exempt income each year. If the Company distributes, in a calendar year, at least 98% of its ordinary income for such calendar year and 98.2% of its capital gain net income for the 12-month period ending on October 31 of such calendar year (as well as any portion of the respective 2% balances not distributed in the previous year), it will not be subject to the 4% non-deductible federal excise tax on certain undistributed income of RICs.

Dividends and capital gain distributions, if any, are recorded on the ex-dividend date. Dividends and capital gain distributions are generally declared and paid quarterly according to the Company's policy established on July 11, 2005. An additional distribution may be paid by the Company to avoid imposition of federal income tax on any remaining undistributed net investment income and capital gains. Distributions can be made payable by the Company either in the form of a cash distribution or a stock dividend. The amount and character of income and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. generally accepted accounting principles. These differences are due primarily to differing treatments of income and gain on various investment securities held by the Company, differing treatments of expenses paid by the Company, timing differences and differing characterizations of distributions made by the Company. Key examples of the primary differences in expenses paid are the accounting treatment of MVCFS (which is consolidated for GAAP purposes, but not income tax purposes) and the variation in treatment of incentive compensation expense. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications and may affect the allocation between net operating income, net realized gain (loss) and paid-in capital.

All of our shareholders who hold shares of common stock in their own name will automatically be enrolled in our dividend reinvestment plan (the Plan ). All such shareholders will have any cash dividends and distributions automatically reinvested by Computershare Ltd. ( the Plan Agent ) in shares of our common stock. Of course, any shareholder may elect to receive his or her dividends and distributions in cash. Currently, the Company has a policy of seeking to pay quarterly dividends to shareholders. For any of our shares that are held by banks, brokers or other entities that hold our shares as nominees for individual shareholders, the Plan Agent will administer the Plan on the basis of the number of shares certified by any nominee as being registered for shareholders that have not elected to receive dividends and distributions in cash. To receive your dividends and distributions in cash, you must notify the Plan Agent, broker or other entity that holds the shares.

### **For the Quarter Ended January 31, 2012**

On December 16, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on January 6, 2012 to shareholders of record on December 30, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended January 31, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 1,108 shares of our common stock at an average price of \$11.98, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

**For the Quarter Ended April 30, 2012**

On April 13, 2012, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on April 30, 2012 to shareholders of record on April 23, 2012. The total distribution amounted to \$2,870,038.

During the quarter ended April 30, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 648 shares of our common stock at an average price of \$12.95, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

**Share Repurchase Program**

On April 23, 2010, the Company's Board of Directors approved a share repurchase program authorizing up to \$5.0 million for share repurchases. The share repurchase program was substantially completed during the quarter ended April 30, 2011. Under the program, 380,105 shares were repurchased at an average price of \$13.06, including commission, with a total cost of approximately \$5.0 million. The Company's net asset value per share was increased by approximately \$0.07 as a result of the share repurchases.

On July 19, 2011, the Company's Board of Directors approved another share repurchase program authorizing up to \$5.0 million for additional share repurchases. No shares were repurchased under this new repurchase program as of April 30, 2012. Implementation of the program as well as the timing thereof depends on a variety of factors, including, among others, the availability of capital, the Company's current share price and the ability to conduct the offer under the Credit Facility.

**13. Segment Data**

The Company's reportable segments are its investing operations as a business development company, MVC Capital, Inc. and the wholly-owned subsidiaries MVC Financial Services, Inc and MVC Cayman.

The following table presents book basis segment data for the six month period ended April 30, 2012:

	MVC	MVCFS	Consolidated
Interest and dividend income	\$ 17,313,199	\$ 53	\$ 17,313,252
Fee income		966,728	966,728
Fee income asset management		1,467,965	1,467,965
Other income	60,137		60,137
Total operating income	17,373,336	2,434,746	19,808,082
Total operating expenses	2,239,274	4,549,573	6,788,847
Less: Waivers by Adviser	(2,438,218)	(40,699)	(2,478,917)
Total net operating expenses	(198,944)	4,508,874	4,309,930
Net operating income (loss) before taxes	17,572,280	(2,074,128)	15,498,152
Tax expense		1,097	1,097
Net operating income (loss)	17,572,280	(2,075,225)	15,497,055
Net realized gain on investments	253,791	1,022	254,813
Net change in unrealized depreciation on investments	(23,244,132)	(11,196)	(23,255,328)
Net decrease in net assets resulting from operations	(5,418,061)	(2,085,399)	(7,503,460)

#### 14. Subsequent Events

On May 18, 2012, the Company through MVC Partners and MVCFS contributed approximately \$1.9 million to the PE Fund which then made an investment in Focus Pointe Global Holdings, Inc., a leading provider of marketing research data collection. To date, the Company has invested approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund.

On May 22, 2012, the Company invested \$1.5 million in Biovation Holdings Inc., a manufacturer and marketer of environmentally friendly, organic and sustainable laminate materials and composites, in the form of a loan. The bridge loan bears annual interest at 12% and matures on February 28, 2014.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as *may*, *will*, *expect*, *believe*, *anticipate*, *intend*, *could*, *estimate*, *might* and *continue*, and the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. Forward-looking statements are included in this report pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Such statements are predictions only, and the actual events or results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to adverse conditions in the U.S. and international economies, competition in the markets in which our portfolio companies operate, investment capital demand, pricing, market acceptance, any changes in the regulatory environments in which we operate, changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, competitive forces, adverse conditions in the credit markets impacting the cost, including interest rates and/or availability of financing, the results of financing and investing efforts, the ability to complete transactions, the inability to implement our business strategies and other risks identified below or in the Company's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements, the Notes thereto and the other financial information included elsewhere in this report and the Company's annual report on Form 10-K for the year ended October 31, 2011.

**SELECTED CONSOLIDATED FINANCIAL DATA:**

Financial information for the fiscal year ended October 31, 2011 is derived from the consolidated financial statements included in the Company's annual report on Form 10-K, which have been audited by Ernst & Young LLP, the Company's independent registered public accounting firm. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods.

## Selected Consolidated Financial Data

	Six Month Period Ended April 30, 2012 (Unaudited)	Six Month Period Ended April 30, 2011 (Unaudited)	Year Ended October 31, 2011
(In thousands, except per share data)			
<b>Operating Data:</b>			
Interest and related portfolio income:			
Interest and dividend income	\$ 17,313	\$ 6,103	\$ 11,450
Fee income	967	1,829	2,784
Fee income - asset management	1,468	595	396
Other (loss) income	60	541	1,341
<b>Total operating income</b>	<b>19,808</b>	<b>9,068</b>	<b>15,971</b>
Expenses:			
Management fee	5,010	4,804	9,142
Portfolio fees - asset management	524		
Administrative	1,740	2,166	4,320
Interest and other borrowing costs	1,627	1,515	3,082
Net Incentive compensation (Note 10)	(2,112)	(1,072)	1,948
<b>Total operating expenses</b>	<b>6,789</b>	<b>7,413</b>	<b>18,492</b>
<b>Total waiver by adviser</b>	<b>(2,479)</b>	<b>(176)</b>	<b>(251)</b>
<b>Total net operating expenses</b>	<b>4,310</b>	<b>7,237</b>	<b>18,241</b>
<b>Net operating income (loss) before taxes</b>	<b>15,498</b>	<b>1,831</b>	<b>(2,270)</b>
Tax expense, net	1	12	14
<b>Net operating income (loss)</b>	<b>15,497</b>	<b>1,819</b>	<b>(2,284)</b>
Net realized and unrealized (loss) gain:			
Net realized gain (loss) on investments	255	(14,516)	(26,422)
Net change in unrealized (depreciation) appreciation on investments	(23,255)	8,755	35,677
<b>Net realized and unrealized (loss) gain on investments</b>	<b>(23,000)</b>	<b>(5,761)</b>	<b>9,255</b>
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>\$ (7,503)</b>	<b>\$ (3,942)</b>	<b>\$ 6,971</b>
Per Share:			
Net (decrease) increase in net assets per share resulting from operations	\$ (0.31)	\$ (0.16)	\$ 0.30
Dividends per share	\$ 0.24	\$ 0.24	\$ 0.48
Balance Sheet Data:			
Portfolio at value	\$ 434,101	\$ 414,590	\$ 452,215
Portfolio at cost	363,360	347,515	358,219
Total assets	480,508	488,659	497,107
Shareholders' equity	406,266	414,337	419,510
Shareholders' equity per share (net asset value)	\$ 16.99	\$ 17.32	\$ 17.54
Common shares outstanding at period end	23,917	23,917	23,917
Other Data:			
Number of Investments funded in period	6	5	13
Investments funded (\$) in period	\$ 7,363	\$ 31,251	\$ 43,235





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	2012			2011				2010		
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
(In thousands, except per share data)										
<b>Quarterly Data (Unaudited):</b>										
Total operating income	16,164	3,644	3,421	3,482	4,544	4,524	5,130	5,257	5,336	7,798
Management fee	2,365	2,645	2,155	2,183	2,249	2,555	2,232	2,176	2,467	2,455
Portfolio fees - asset management	462	62								
Administrative	817	923	1,105	1,049	990	1,176	777	910	938	770
Interest, fees and other borrowing costs	832	795	783	784	745	770	770	767	647	641
Net Incentive compensation	(175)	(1,937)	3,483	(463)	531	(1,603)	2,504	(3,270)	2,225	1,020
Total waiver by adviser	(2,383)	(96)	(38)	(37)	(38)	(138)	(50)	(50)	(50)	
Tax expense		1	2		2	10	2		1	5
Net operating income (loss) before net realized and unrealized gains	14,246	1,251	(4,069)	(34)	65	1,754	(1,105)	4,724	(892)	2,907
Net (decrease) increase in net assets resulting from operations	1,515	(9,018)	13,282	(2,369)	2,302	(6,244)	11,307	(11,281)	8,969	7,138
Net (decrease) increase in net assets resulting from operations per share	0.06	(0.37)	0.56	(0.10)	0.10	(0.26)	0.47	(0.47)	0.37	0.29
Net asset value per share	16.99	17.04	17.54	17.10	17.32	17.33	17.71	17.35	17.89	17.64

**OVERVIEW**

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

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

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests, and other private equity transactions. During the year ended October 31, 2011, the Company made six new investments and made seven follow-on investments in existing portfolio companies committing a total of \$43.2 million of capital to these investments. During the quarter ended April 30, 2012, the Company made one new investment and five follow-on investments in three existing portfolio companies, committing capital totaling \$7.4 million.

Prior to the adoption of our current investment objective, the Company's investment objective had been to achieve long-term capital appreciation from venture capital investments in information technology companies. The Company's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of April 30, 2012, 2.25% of the current fair value of our assets consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential liquidity event, *i.e.*, a sale, public offering, merger or other reorganization.

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

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

We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner to a private equity or other investment fund(s). In fact, during fiscal year 2006, we established MVC Partners for this purpose. Furthermore, the Board of Directors has authorized the establishment of the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP. On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees and other fees paid by the PE Fund and its portfolio companies and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors authorization and direction, TTG Advisers is entitled to receive the balance of the fees and any carried interest generated by the PE Fund and its portfolio companies. Given this separate arrangement with the GP and the PE Fund, under the terms of the Company's Advisory Agreement with TTG Advisers, TTG Advisers is not entitled to receive from the Company a management fee or an incentive fee on assets of the Company that are invested in the PE Fund.

As a result of the closing of the PE Fund, consistent with the Board-approved policy concerning the allocation of investment opportunities, the PE Fund will receive a priority allocation of all private equity investments that would otherwise be Non-Diversified Investments for the Company during the PE Fund's investment period.

Additionally, in pursuit of our objective, we may acquire a portfolio of existing private equity or debt investments held by financial institutions or other investment funds should such opportunities arise.

Furthermore, pending investments in portfolio companies pursuant to the Company's principal investment strategy, the Company may invest in certain securities on a short-term or temporary basis. In addition to cash-equivalents and other money market-type investments, such short-term investments may include exchange-traded funds and private investment funds offering periodic liquidity.

#### **OPERATING INCOME**

*For the Six Month Period Ended April 30, 2012 and 2011.* Total operating income was \$19.8 million for the six month period ended April 30, 2012 and \$9.1 million for the six month period ended April 30, 2011, an increase of approximately \$10.7 million.

#### ***For the Six Month Period Ended April 30, 2012***

Total operating income was \$19.8 million for the six month period ended April 30, 2012. The increase in operating income over the same period last year was primarily due to an increase in dividend income offset by a small decrease in interest income due to repayment of investments that provided the Company with current income and a decrease in other income. The main components of operating income for the six month period ended April 30, 2012, was dividend income from portfolio companies and the interest earned on loans. The Company earned approximately \$17.3 million in interest and dividend income from investments in portfolio companies, of which \$12.0 million was a non-recurring dividend. Of the \$17.3 million recorded in interest/dividend income, approximately \$1.5 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 6% to 15%, excluding those investments which interest is being reserved against. The Company also received fee income from asset management of the PE Fund and its portfolio companies totaling approximately \$1.5 million and fee income from portfolio companies of approximately \$1.0 million, totaling approximately \$2.5 million. Of the \$1.5 million of fee income from asset management, 75% of the income is obligated to be paid to TTG Advisers.

#### ***For the Six Month Period Ended April 30, 2011***

Total operating income was \$9.1 million for the six month period ended April 30, 2011. The decrease in operating income over the same period last year was primarily due to the repayment of investments that provide the Company with current income, reserves against non-performing loans and a decrease in dividend income from the sale of portfolio

companies. The main components of operating income were the interest earned on loans and the receipt of closing, monitoring and termination fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately \$6.1 million in interest and dividend income from investments in portfolio companies. Of the \$6.1 million recorded in interest/dividend income, approximately \$1.7 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 3% to 15% excluding those investments which interest is being reserved against. The Company received fee income and other income from portfolio companies and other entities totaling approximately \$3.0 million.

## OPERATING EXPENSES

*For the Six Month Period Ended April 30, 2012 and 2011.* Operating expenses, net of Voluntary Waivers, were approximately \$4.3 million for the six month period ended April 30, 2012 and \$7.2 million for the six month period ended April 30, 2011, a decrease of approximately \$2.9 million.

### *For the Six Month Period Ended April 30, 2012*

Operating expenses, net of the Voluntary Waivers (as defined below), were approximately \$4.3 million or 2.10% of the Company's average net assets, when annualized, for the six month period ended April 30, 2012. Significant components of operating expenses for the six month period ended April 30, 2012 were the management fee expense of totaling approximately \$5.0 million, which includes the management fee related to the Company and the PE Fund, and interest and other borrowing costs of approximately \$1.6 million.

The \$2.9 million decrease in the Company's net operating expenses for the six month period ended April 30, 2012 compared to the six month period ended April 30, 2011, was primarily due to the \$1.0 million decrease in the estimated provision for incentive compensation expense and the \$2.3 million voluntary waiver of the income incentive fee payment, which were offset by the addition of approximately \$524,000 in portfolio fees—asset management expense. The portfolio fees are payable to TTG Advisers for monitoring and other customary fees received by the GP from portfolio companies of the PE Fund. To the extent the GP or TTG Advisers receives advisory, monitoring organization or other customary fees from any portfolio company of the PE Fund, 25% of such fees shall be paid to or retained by the GP and 75% of such fees shall be paid to or retained by TTG Advisers. For the 2010 and 2011 fiscal years, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver). On October 25, 2011, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% and the Voluntary Waiver to the 2012 fiscal year. TTG Advisers had also voluntarily agreed that any assets of the Company that were invested in exchange-traded funds and the Octagon Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. For fiscal year 2011 and for the six month period ended April 30, 2012 annualized, the Company's expense ratio was 3.18% and 2.94%, respectively, (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the six month period ended April 30, 2012, the provision for incentive compensation was decreased by a net amount of approximately \$4.4 million to approximately \$19.5 million. The net decrease in the provision for incentive compensation during the six month period ended April 30, 2012 reflects the Valuation Committee's determination to decrease the fair values of seven of the Company's portfolio investments (BP, HH&B, MVC Automotive, NPWT, Tekers, Velocitius and Ohio Medical) by a total of \$13.2 million. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of five of the Company's portfolio investments (Octagon Fund, SGDA Europe, Security Holdings, Vestal and Turf) by a total of approximately \$2.4 million. The Valuation Committee also increased the fair value of the Company's escrow receivable related to Vitality by \$130,000. For the six month period ended April 30, 2012, a provision of approximately \$2.3 million was recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income exceeded the hurdle rate for the quarter ended April 30, 2012. TTG Advisers has voluntarily agreed to waive the income-related incentive fee payment of approximately \$2.3 million that the Company would otherwise be obligated to pay to TTG Advisers under the Advisory Agreement. Please see Note 10 of our consolidated financial statements—Incentive Compensation—for more information.

***For the Six Month Period Ended April 30, 2011***

Operating expenses, net of the Voluntary Waivers, were approximately \$7.2 million or 3.48% of the Company's average net assets, when annualized, for the six month period ended April 30, 2011. Significant components of operating expenses for the six month period ended April 30, 2011 were management fee expense of \$4.8 million and interest and other borrowing costs of approximately \$1.5 million.

The \$3.9 million decrease in the Company's operating expenses for the six month period ended April 30, 2011 compared to the six month period ended April 30, 2010, was primarily due to the \$4.3 million decrease in the estimated provision for incentive compensation expense offset by minimal increases in interest and other borrowings costs, legal and other expenses totaling approximately \$700,000. The Advisory Agreement extended the expense cap applicable to the Company for an additional two fiscal years (fiscal years 2009 and 2010) and increased the expense cap from 3.25% to 3.5%. For the 2010 fiscal year, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver). On October 26, 2010, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% and the Voluntary Waiver to the 2011 fiscal year. TTG Advisers has also voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. For fiscal year 2010 and for the six month period ended April 30, 2011 annualized, the Company's expense ratio was 2.95% and 3.27%, respectively, (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the six month period ended April 30, 2011, the provision for incentive compensation was decreased by a net amount of approximately \$1.1 million to \$20.9 million. The decrease in the provision for incentive compensation reflects the Valuation Committee's determination to increase the fair values of seven of the Company's portfolio investments (Summit, SHL Group Limited, Security Holdings, Tekers, Total Safety, U.S. Gas and Velocitus) by a total of approximately \$19.8 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. The net decrease in the provision also reflects the Valuation Committee's determination to decrease the fair values of six of the Company's portfolio investments (BP, Ohio Medical, MVC Automotive, HuaMei, SGDA Europe and HH&B) by a total of \$27.0 million. During the six month period ended April 30, 2011, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 10 of our consolidated financial statements Incentive Compensation for more information.

**REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES**

*For the Six Month Period Ended April 30, 2012 and 2011.* Net realized gains for the six month period ended April 30, 2012 were approximately \$255,000 and net realized losses for the six month period ended April 30, 2011 were approximately \$14.5 million, an increase of approximately \$14.8 million.

***For the Six Month Period Ended April 30, 2012***

Net realized gains for the six month period ended April 30, 2012 were approximately \$255,000. The significant components of the Company's net realized gains for the six month period ended April 30, 2012 were primarily the distributions received and the sale of the Octagon Fund, distributions received from the PE Fund and the increase in the fair values of the Vitality and Vendio escrows.

On March 23, 2012, the Company sold its shares in the Octagon Fund for approximately \$3.0 million resulting in a realized gain of approximately \$18,000. Also during the six month period ended April 30, 2012, the Company received distributions from Octagon Fund of approximately \$45,000, which were treated as realized gains.

During the six month period ended April 30, 2012, MVC Partners and MVCFS General Partnership interest received distributions totaling approximately \$41,000 from the PE Fund which were treated as realized gains.

During the six month period ended April 30, 2012, the Valuation Committee determined to increase the fair values of the Vitality and Vendio escrows by a combined amount of approximately \$143,000, which were recorded as realized gains.

***For the Six Month Period Ended April 30, 2011***

Net realized losses for the six month period ended April 30, 2011 were \$14.5 million. The significant components of the Company's net realized losses for the six month period ended April 30, 2011 was primarily due to the loss on the sale of Harmony Pharmacy common stock, demand notes and revolving credit facility and the dissolution of the Amersham loans. A portion of these losses were offset by the gain on the sale of LHD Europe common stock and the gains on the sale of the SPDR Barclays Capital High Yield Bond Fund and the iShares S&P U.S. Preferred Stock Index Fund.

On November 30, 2010, a public Uniform Commercial Code (UCC) sale of Harmony Pharmacy's assets took place. Prior to this sale, the Company formed a new entity, Harmony Health & Beauty, Inc. (HH&B). The Company assigned its secured debt interest in Harmony Pharmacy of approximately \$6.4 million to HH&B in exchange for a majority of the economic ownership. At the UCC sale, HH&B submitted a successful credit bid of approximately \$5.9 million for all of the assets of Harmony Pharmacy. On December 21, 2010, Harmony Pharmacy filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized an \$8.4 million loss on its investment in Harmony Pharmacy.

On December 1, 2010, Amersham filed for dissolution in the State of California as all operating divisions were sold in 2010. As a result, the Company realized a \$6.5 million loss on its investment in Amersham. The Company may be eligible to receive proceeds from an earnout related to the sale of an operating division once the senior lender is repaid in full. At this time, it is not likely that any proceeds will be received by the Company.

On January 25, 2011, the Company sold its common stock in LHD Europe, receiving approximately \$542,000 in proceeds which resulted in a realized gain of approximately \$317,000.

During the six month period ended April 30, 2011, the Company sold its shares in the SPDR Barclays Capital High Yield Bond Fund and the iShares S&P U.S. Preferred Stock Index Fund, which resulted in a realized gain of approximately \$106,000.

**UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES**

*For the Six Month Period Ended April 30, 2012 and 2011.* The Company had a net change in unrealized depreciation on portfolio investments of approximately \$23.3 million for the six month period ended April 30, 2012 and unrealized appreciation on portfolio investments of approximately \$8.8 million for the six month period ended April 30, 2011, a net decrease of approximately \$32.1 million.

***For the Six Month Period Ended April 30, 2012***

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$23.3 million for the six month period ended April 30, 2012. The change in unrealized depreciation for the six month period ended April 30, 2012 primarily resulted from the \$12.0 million dividend distribution received from Summit and the Valuation Committee's decision to decrease the fair values of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$600,000, MVC Automotive equity interest by approximately \$7.4 million, MVC Partners equity interest by approximately \$439,000, MVCFS General Partnership interest in the PE Fund by approximately \$11,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$276,000, Velocitius equity interest by approximately \$4.0 million and value the liability associated with the Ohio Medical guarantee at \$700,000. The Valuation Committee also increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, SGDA Europe equity interest by \$298,000, Turf equity interest by \$500,000, Vestal common stock by \$1.2 million and Security Holdings equity interest by \$306,000.

***For the Six Month Period Ended April 30, 2011***

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$8.8 million for the six month period ended April 30, 2011. The change in unrealized appreciation on investment transactions for the six month period ended April 30, 2011 primarily resulted from the increase in unrealized appreciation reclassification from unrealized to realized, caused by the sale of Harmony Pharmacy and the dissolution of Amersham of approximately \$14.9 million. The other components in the change in unrealized appreciation are the Valuation Committee's decision to increase the fair value of the Company's investments in Summit common stock by \$9.5 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by

approximately \$600,000, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitus equity interest by \$2.6 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions which were treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$100,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.4 million, HuaMei common stock by approximately \$1.3 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$5.7 million during the six month period ended April 30, 2011.

## PORTFOLIO INVESTMENTS

*For the Six Month Period Ended April 30, 2012 and the Year Ended October 31, 2011.* The cost of the portfolio investments held by the Company at April 30, 2012 and at October 31, 2011 was \$363.4 million and \$358.2 million, respectively, an increase of \$5.2 million. The aggregate fair value of portfolio investments at April 30, 2012 and at October 31, 2011 was \$434.1 million and \$452.2 million, respectively, a decrease of \$18.1 million. The Company held cash and cash equivalents at April 30, 2012 and at October 31, 2011 of \$31.5 million and \$28.3 million, respectively, an increase of approximately \$3.2 million.

### *For the Six Month Period Ended April 30, 2012*

During the six month period ended April 30, 2012, the Company made one new investment, a \$1.0 million loan to Freshii.

During the six month period ended April 30, 2012, the Company made five follow-on investments in three existing portfolio companies totaling approximately \$6.4 million. The Company through MVC Partners Limited Partnership interest and MVCFS General Partnership interest contributed approximately \$6.3 million of its \$20.1 million capital commitment to the PE Fund, which as of April 30, 2012, has invested in Plymouth Rock Energy, LLC and Gibdock Limited. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

On November 30, 2011, as part of the Ohio Medical debt refinancing, the Company agreed to guarantee a series B preferred stock tranche of equity. As of April 30, 2012, the amount guaranteed was approximately \$20.0 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

On December 28, 2011, the Company received its third scheduled disbursement from the Vitality escrow of approximately \$585,000. The escrow was fair valued at approximately \$472,000 as of April 30, 2012.

On each of December 31, 2011 and March 31, 2012, Marine made principal payments of \$150,000 on its senior subordinated loan. The balance of the loan as of April 30, 2012 was approximately \$11.9 million.

On March 7, 2012, the Board of Directors of Summit approved a recapitalization and declared a \$15.0 million dividend, of which \$12.0 million was paid to the Company resulting in a reduction in the fair value of the common stock by \$12.0 million.

On March 23, 2012, the Company sold its shares in the Octagon Fund for approximately \$3.0 million resulting in a realized gain of approximately \$18,000. The Company received approximately \$2.9 million of the \$3.0 million with the remaining proceeds of approximately \$152,000 to be distributed when the Octagon Fund's fiscal year audit is complete. The Company received additional proceeds of approximately \$86,000 over the life of the investment.

During the six month period ended April 30, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$569,000. The outstanding balance of the tranche A term loan as of April 30, 2012 was approximately \$3.4 million.

During the quarter ended January 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$84,000, SGDA Europe equity interest by \$265,000, Turf equity interest by \$500,000 and Security Holdings equity interest by \$205,000. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$759,466. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$500,000, MVC Automotive equity interest by approximately \$7.5 million, MVC Partners equity interest by approximately \$326,000, MVCFS General Partnership interest in the PE Fund by approximately \$8,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$280,000, Velocitius equity interest by approximately \$1.9 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the quarter ended January 31, 2012, the undistributed allocation of flow through losses from the Company's equity investment in Octagon decreased the cost basis and fair value of this investment by approximately \$112,000.

During the quarter ended April 30, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by \$1.2 million, MVC Automotive equity interest by \$106,000, Security Holdings equity interest by \$101,000, SGDA Europe equity interest by \$33,000, Tekers common stock by \$4,000 and Octagon Fund by approximately \$143,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, U.S. Gas, Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$775,585. The Valuation Committee also decreased the fair value of the Company's investments in HH&B common stock by \$100,000, MVC Partners equity interest by approximately \$113,000, MVCFS General Partnership interest in the PE Fund by approximately \$3,000, and Velocitius equity interest by approximately \$2.1 million. Also, during the quarter ended April 30, 2012, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$94,000.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, SGDA Europe equity interest by \$298,000, Turf equity interest by \$500,000, Vestal common stock by \$1.2 million and Security Holdings equity interest by \$306,000. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit U.S. Gas, and Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,535,051. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$600,000, MVC Automotive equity interest by approximately \$7.4 million, MVC Partners equity interest by approximately \$439,000, MVCFS General Partnership interest in the PE Fund by approximately \$11,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$276,000, and Velocitius equity interest by approximately \$4.0 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the six month period ended April 30, 2012, the undistributed allocation of flow through losses from the Company's equity investment in Octagon decreased the cost basis and fair value of this investment by approximately \$18,000.

At April 30, 2012, the fair value of all portfolio investments, exclusive of short-term investments, was \$434.1 million with a cost basis of \$363.4 million. At April 30, 2012, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.3 million and \$331.1 million, respectively. At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term securities, was \$452.2 million, with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively.

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***For the Fiscal Year Ended October 31, 2011***

During the fiscal year ended October 31, 2011, the Company made six new investments, committing capital totaling approximately \$26.1 million. The investments were made in Octagon Fund (\$3.0 million), JSC Tekers (\$4.0 million), Teleguam (\$7.0 million), Pre-Paid Legal (\$8.0 million), RuMe (\$1.2 million) and Centile (\$3.0 million).

During the fiscal year ended October 31, 2011, the Company made seven follow-on investments in four existing portfolio companies totaling approximately \$17.1 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan allowed Security Holdings to secure project guarantees. On May 4, 2011, the Company invested \$500,000 in NPWT to acquire 5,000 shares of convertible preferred stock. On May 26, 2011 and September 14, 2011, the Company invested an additional \$150,000 on each date into HH&B to acquire an additional 47,612 shares of common stock. On September 6, 2011, the Company invested \$7.0 million in Security Holdings in the form of an additional equity interest. On October 17, 2011, the Company invested \$1.0 million in SGDA Europe in the form of additional equity interest. In addition, during the fiscal year ended October 31, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. These investments were sold during the fiscal year ended October 31, 2011, resulting in a realized gain of approximately \$106,000. The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

Effective November 4, 2010, the interest rate on the Turf senior subordinated loan was reduced from 15% to 13% and the maturity date on the senior subordinated loan and junior revolving note was extended to January 31, 2014.

On November 30, 2010, the Company loaned an additional \$700,000 to Harmony Pharmacy, which was the remaining portion of the \$1.3 million demand note committed on September 23, 2010.

On November 30, 2010, a public Uniform Commercial Code (UCC) sale of Harmony Pharmacy's assets took place. Prior to this sale, the Company formed a new entity, HH&B. The Company assigned its secured debt interest in Harmony Pharmacy of approximately \$6.4 million to HH&B in exchange for a majority of the economic ownership. At the UCC sale, HH&B submitted a successful credit bid of approximately \$5.9 million for all of the assets of Harmony Pharmacy. On December 21, 2010, Harmony Pharmacy filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized an \$8.4 million loss on its investment in Harmony Pharmacy.

On December 1, 2010, Amersham filed for dissolution in the State of California as all operating divisions were sold in 2010. As a result, the Company realized a \$6.5 million loss on its investment in Amersham. The Company may be eligible to receive proceeds from an earnout related to the sale of an operating division once the senior lender is repaid in full. At this time, it is not likely that any proceeds will be received by the Company.

On January 11, 2011, SHL Group Limited, which provides workplace talent assessment solutions, including ability and personality tests, and psychometric assessments, acquired the Company's portfolio company PreVisor. The Company received 1,518,762 common shares of SHL Group Limited for its investment in PreVisor. The cost basis and market value of the Company's investment remained unchanged at the time as a result of the transaction.

On January 25, 2011, the Company sold its common stock in LHD Europe and received approximately \$542,000 in proceeds, which resulted in a realized gain of approximately \$317,000.

On March 1, 2011, SP repaid its first lien and second lien loans in full including all accrued interest. The Company received a \$500,000 termination fee associated with the repayment of the loans.

On April 29, 2011, assets from a division of Ohio Medical were distributed to Ohio Medical shareholders on a pro-rata basis. The Company received 281 shares of common stock in NPWT as a result of this transaction.



On May 26, 2011, Security Holdings repaid its bridge loan in full, including all accrued interest.

On August 1, 2011, as part of a restructuring of the Company's investment in HuaMei, the Company sold its shares to HuaMei, resulting in a realized loss of \$2.0 million.

On August 31, 2011, Sonexis, a Legacy Investment, completed the dissolution of its operations and the sale of its assets. The Company realized a loss of \$10.0 million as a result of this dissolution.

On October 3, 2011, Storage Canada, LLC ( Storage Canada ) repaid its term loan in full including all accrued interest.

On October 17, 2011, the Company converted SGDA Europe's \$1.5 million senior secured loan and all accrued interest to additional common equity interest.

On October 28, 2011, Total Safety repaid its first and second lien loans in full including all accrued interest.

On October 31, 2011, the Company received a distribution from NPWT of \$500,000, which was treated as a return of capital and returned all cash invested into NPWT to the Company.

During the fiscal year ended October 31, 2011, Marine Exhibition Corporation ( Marine ) made principal payments totaling \$450,000 on its senior subordinated loan. The balance of the loan as of October 31, 2011 was approximately \$12.0 million.

During the fiscal year ended October 31, 2011, Octagon borrowed and repaid \$1.5 million on its revolving line of credit. Octagon cancelled the revolving line of credit effective June 30, 2011. As of October 31, 2011, the revolving credit facility was no longer a commitment of the Company.

During the fiscal year ended October 31, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$14.5 million, SHL Group Limited common stock by \$4.9 million, Security Holdings equity interest by approximately \$17.6 million, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$200,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$3,174,721. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. Also, during the fiscal year ended October 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$589,000. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$1.7 million, Tekers common stock by approximately \$2.3 million, Octagon Fund by \$209,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.0 million, NPWT common and preferred stock by a net amount of \$200,000, HuaMei common stock by approximately \$1.5 million, SGDA Europe equity interest by approximately \$4.3 million, Vestal common stock by \$745,000 and HH&B by \$5.7 million during the fiscal year ended October 31, 2011.

At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term investments, was \$452.2 million with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively. At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term securities, was \$433.9 million, with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively.

**Portfolio Companies**

During the six month period ended April 30, 2012, the Company had investments in:

**Actelis Networks, Inc.**

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

At October 31, 2011 and April 30, 2012, the Company's investment in Actelis consisted of 150,602 shares of Series C preferred stock at a cost of \$5.0 million. The investment has been fair valued at \$0.

**BP Clothing, LLC**

BP, Pico Rivera, California, is a company that designs, manufactures, markets and distributes under several brand names women's apparel.

At October 31, 2011, the Company's investment in BP consisted of a \$20.4 million second lien loan, a \$2.0 million term loan A, and a \$2.0 million term loan B. The second lien loan bears annual interest at 16.5%. The second lien loan had a \$17.5 million principal face amount and was issued at a cost basis of \$17.5 million. The second lien loan's cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the second lien loan is July 18, 2012. The principal balance is due upon maturity. The term loan A bears annual interest at LIBOR plus 7.75% or Prime Rate plus 6.75%. The term loan B bears annual interest at LIBOR plus 10.75% or Prime Rate plus 9.75%. The interest rate option on the loan assignments is at the borrower's discretion. Both term loans matured on July 18, 2011. The combined cost basis and fair value of the investments at October 31, 2011 was \$23.6 million and \$280,000, respectively.

On December 12, 2011, BP filed for Chapter 11 protection in New York with agreement to turn ownership over to secured lenders under a bankruptcy reorganization plan. Secured lenders, including the Company, have agreed to support a Chapter 11 plan where first-lien creditors will take 90 percent of the new stock, second-lien lenders will have 6 percent, and subordinated lenders will have 4 percent. The plan-support agreement requires filing the plan and disclosure statement by year's end, with the expected consummation of the plan not later than June 30, 2012.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the term loan A by \$100,000.

At April 30, 2012, the loans had a combined outstanding balance of \$24.5 million, a cost basis of \$23.6 million and a fair value of \$180,000. The increase in the outstanding balance and cost of the term loans are due to the amortization of loan origination fees and the increase in the outstanding balance of the second lien loan is due to the capitalization of payment in kind interest. The Company's Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest for the six month period ended April 30, 2012. The Company has also reserved in full against all accrued interest starting on July 1, 2010 and stopped accruing interest as of the filing date for bankruptcy.

**Centile Holding B.V.**

Centile, Sophia-Antipolis, France, is a leading European innovator of unified communications, network platforms, hosted solutions, applications and tools that help mobile, fixed and web-based communications service providers serve the needs of enterprise end users.

At October 31, 2011 and April 30, 2012, the Company's investment in Centile consisted of common equity interest at a cost and fair value of approximately \$3.0 million.

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

**Custom Alloy Corporation**

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

At October 31, 2011, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000, 1,991 shares of convertible series B preferred stock at a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan, which bears annual interest at 14% and matures on September 18, 2012, had a cost of \$14.5 million and a fair value of \$14.6 million.

At April 30, 2012, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000 and the 1,991 shares of convertible series B preferred stock had a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan had a cost basis of approximately \$15.0 million and an outstanding balance and fair value of \$15.1 million. The increase in the cost basis and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

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

***DPHI, Inc. (formerly DataPlay, Inc.)***

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

At October 31, 2011 and April 30, 2012, the Company's investment in DPHI consisted of 602,131 shares of Series A-1 preferred stock with a cost of \$4.5 million. This investment has been fair valued at \$0.

***Foliofn, Inc.***

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

At October 31, 2011 and April 30, 2012, the Company's investment in Foliofn consisted of 5,802,259 shares of Series C preferred stock with a cost of \$15.0 million and a fair value of \$10.8 million.

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

***Freshii USA, Inc.***

Freshii, Chicago, Illinois, is a chain of fast casual restaurants serving fresh and healthy food for breakfast, lunch and dinner. Freshii currently has 33 locations in 21 cities and four countries.

On January 13, 2012, the Company invested \$1.0 million in Freshii in the form of a senior secured loan with an annual interest rate of 12% and a maturity date of January 13, 2016, and received a warrant at no cost to the Company. The Company allocated a portion of the cost basis in the senior secured loan to the warrant at the time the investment was made.

At April 30, 2012, the Company's investment in Freshii consisted of a senior secured loan with an outstanding balance, cost basis and fair value of approximately \$1.0 million. The warrant had a cost and fair value of approximately \$34,000. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the discount associated with the warrant. These increases were approved by the Company's Valuation Committee.

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

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

At October 31, 2011 and April 30, 2012, the Company's investment in GDC consisted of a \$3.3 million senior subordinated loan, bearing annual interest at 17% and matured on August 31, 2011. The loan had a principal amount, an outstanding balance of approximately \$3.3 million, a cost basis of approximately \$3.2 million and was fair valued at \$0. The warrant was fair valued at \$0. The Company has reserved in full against the interest accrued on the senior subordinated loan since July 1, 2010.



***Harmony Health & Beauty, Inc.***

Harmony Health & Beauty, Purchase, New York, purchased the assets of Harmony Pharmacy on November 30, 2010, during a public UCC sale for approximately \$6.4 million. HH&B now operates the health and beauty stores previously owned by Harmony Pharmacy in John F. Kennedy International Airport and San Francisco International Airport. The Company's initial investment consisted of 100,010 shares of common stock.

At October 31, 2011, the Company's investment in HH&B consisted of 147,621 shares of common stock with a cost of \$6.7 million and fair value of \$1.0 million.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the common stock by \$600,000.

At April 30, 2012, the Company's investment in HH&B consisted of 147,621 shares of common stock with a cost of \$6.7 million and fair value of \$400,000.

Michael Tokarz, Chairman of the Company, serves as a director of HH&B.

***Integrated Packaging Corporation***

IPC, New Brunswick, New Jersey, is a manufacturer of corrugated boxes and packaging material.

At October 31, 2011 and April 30, 2012, the Company's investment in IPC consisted of a warrant which was received in exchange for services provided to another investor in IPC. The warrant had a zero cost basis and has been fair valued at \$0.

***JSC Tekers Holdings***

JSC Tekers, Latvia, is an acquisition company focused on real estate management.

At October 31, 2011 and April 30, 2012, the Company's investment in JSC Tekers consisted of a secured loan with an outstanding balance, a cost basis and a fair value of \$4.0 million and 2,250 shares of common stock with a cost basis and fair value of \$4,500. The secured loan has an interest rate of 8% and a maturity date of June 30, 2014.

***Lockorder Limited (formerly Safestone Technologies PLC)***

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

At October 31, 2011 and April 30, 2012, the Company's investment in Lockorder consisted of 21,064 shares of common stock with a cost of \$2.0 million. The investment has been fair valued at \$0 by the Company's Valuation Committee.

***Mainstream Data, Inc.***

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

At October 31, 2011 and April 30, 2012, the Company's investment in Mainstream consisted of 5,786 shares of common stock with a cost of \$3.75 million. The investment has been fair valued at \$0.

***Marine Exhibition Corporation***

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

At October 31, 2011, the Company's investment in Marine consisted of a senior secured loan and 20,000 shares of preferred stock. The senior secured loan had an outstanding balance of approximately \$12.0 million and a cost basis of approximately \$11.9 million. The senior secured loan bears annual interest at 11% and matures on October 26, 2017. The senior secured loan was fair valued at approximately \$12.0 million. The preferred stock was fair valued at approximately \$3.0 million. The dividend rate on the preferred stock is 12% per annum.



During the six month period ended April 30, 2012, Marine made principal payments totaling \$300,000 on its senior secured loan.

At April 30, 2012, the Company's senior secured loan had an outstanding balance, cost basis and a fair value of approximately \$11.9 million. The preferred stock had a cost and fair value of approximately \$3.1 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock is due to the amortization of loan origination fees and the capitalization of payment in kind interest/dividends. These increases were approved by the Company's Valuation Committee.

#### ***MVC Automotive Group B.V.***

MVC Automotive, an Amsterdam-based holding company, owns and operates twelve Ford, Jaguar, Land Rover, Mazda, and Volvo dealerships located in Austria, Belgium, and the Czech Republic.

At October 31, 2011, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.7 million and a fair value of approximately \$42.5 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2012, had a cost and fair value of approximately \$3.6 million. The guarantees for MVC Automotive were equivalent to approximately \$13.7 million at October 31, 2011.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the equity interest by approximately \$7.4 million.

At April 30, 2012, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.7 million and a fair value of approximately \$35.0 million. The bridge loan had a cost and fair value of approximately \$3.6 million. The mortgage guarantee for MVC Automotive was equivalent to approximately \$5.3 million at April 30, 2012. This guarantee was taken into account in the valuation of MVC Automotive.

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

#### ***MVC Partners LLC***

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

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP. Of the \$20.1 million total commitment, the Company, via MVC Partners, has committed \$19.6 million to the PE Fund as its anchor limited partner. See MVC Private Equity Fund, L.P. for more information on the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments.

At October 31, 2011, the Company's equity investment in MVC Partners had a cost basis of approximately \$1.4 million and fair value of approximately \$1.1 million.

During the six month period ended April 30, 2012, the Company made two follow-on investments in MVC Partners totaling approximately \$6.2 million which was used to fund MVC Partners' limited partnership commitment to the PE Fund.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the equity interest by approximately \$439,000.

At April 30, 2012, the Company's equity investment in MVC Partners had a cost basis of approximately \$7.5 million and fair value of approximately \$6.9 million.

#### ***MVC Private Equity Fund, L.P.***

MVC Private Equity Fund, L.P., Purchase, New York, is a private equity fund focused on control equity investments in the lower middle market. MVC GP II, an indirect wholly-owned subsidiary of the Company, serves as the GP to the PE Fund. MVC GP II is wholly-owned by MVCFS, a subsidiary of the Company. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to participate in Non-Diversified Investments made by the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees and other fees paid by the PE Fund and its portfolio.





companies and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors authorization and direction, TTG Advisers is entitled to receive the balance of the management and other fees and any carried interest generated by the PE Fund. Given this separate arrangement with the GP and the PE Fund, under the terms of the Company's Advisory Agreement with TTG Advisers, TTG Advisers is not entitled to receive from the Company a management fee or an incentive fee on assets of the Company that are invested in the PE Fund.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. Of the \$20.1 million total commitment, MVCFS, via its wholly-owned subsidiary MVC GP II, has committed \$500,000 to the PE Fund as its general partner. See MVC Partners for more information on the other portion of the Company's commitment to the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments.

During the six month period ended April 30, 2012, the Company, via MVCFS, made two investments in MVC PE Fund totaling approximately \$157,000 in the form of a general partnership interest.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the general partnership interest in the PE Fund by approximately \$11,000.

At April 30, 2012, the Company's equity investment in the PE Fund had a cost basis of approximately \$157,000 and fair value of approximately \$146,000.

#### ***NPWT Corporation***

NPWT, Gurnee, Illinois, is a medical device manufacturer and distributor of negative pressure wound therapy products.

During October of 2011 NPWT completed the sale of all of its assets to Invacare Corporation ( Invacare ). NPWT received an upfront payment as well as a limited five year royalty based on the sales of eligible product lines. On October 31, 2011, the Company received a distribution from NPWT of \$500,000, which was treated as a return of capital and returned all cash invested into NPWT to the Company. This distribution was paid from the upfront payment mentioned previously.

At October 31, 2011, the Company's investment in NPWT consisted of 281 shares of common with a cost basis of approximately \$1.2 million and a fair value of approximately \$56,000 and 5,000 shares of convertible preferred stock with a cost basis of \$0 and a fair value of \$1.0 million.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the common stock by approximately \$6,000 and the preferred stock by approximately \$120,000.

At April 30, 2012, the common stock had a cost basis of approximately \$1.2 million and a fair value of \$50,000. The convertible preferred stock had a cost basis of \$0 and a fair value of \$880,000.

Scott Schuenke, an officer of the Company, serves as a director of NPWT.

#### ***Octagon Credit Investors, LLC***

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

At October 31, 2011, the Company's investment in Octagon consisted of an equity investment with a cost basis of approximately \$2.2 million and a fair value of approximately \$5.3 million.

During the six month period ended April 30, 2012, the cost basis and fair value of the equity investment was decreased by approximately \$18,000 because of an allocation of flow through losses by the Company's Valuation Committee.

At April 30, 2012, the equity investment had a cost basis of approximately \$2.2 million and a fair value of \$5.3 million.

#### ***Octagon High Income Cayman Fund Ltd.***

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Octagon Fund, is a private fund that seeks to maximize current income consistent with the preservation of capital through the leveraged loan market. This fund is managed by Octagon, a current portfolio company.

At October 31, 2011, the Company's investment in Octagon Fund consisted of 3,014 shares of series 1 participating non-voting shares with a cost basis of approximately \$3.0 million and a fair value of approximately \$2.8 million.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the investment by approximately \$227,000.

On March 23, 2012, the Company sold its shares in the Octagon Fund for approximately \$3.0 million resulting in a realized gain of approximately \$18,000. The Company received approximately \$2.9 million of the \$3.0 million with the remaining proceeds of approximately \$152,000 to be distributed when the Octagon Fund's fiscal year audit is complete. The Company received additional proceeds of approximately \$86,000 over the life of the investment.

At April 30, 2012, the Company no longer held an investment in Octagon Fund.

#### ***Ohio Medical Corporation***

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

At October 31, 2011, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of approximately \$15.8 million and \$0, respectively, and 18,102 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$39.5 million.

On November 30, 2011, as part of Ohio Medical's refinancing of their debt, the Company agreed to guarantee a series B preferred stock tranche of equity, with a 12% coupon for the first 18 months it is outstanding. After that initial period, the rate increases by 400bps to 16% for the next 6 months and increases by 50 bps (.5%) each 6 month period thereafter. As of April 30, 2012, the amount guaranteed was approximately \$20.0 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

At April 30, 2012, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis of approximately \$15.8 million and a fair value of \$0 and 19,579 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$39.5 million. The guarantee obligation had a fair value of negative \$700,000.

Michael Tokarz, Chairman of the Company, Peter Seidenberg, Chief Financial Officer of the Company, and Jim O'Connor, a representative of the Company, serve as directors of Ohio Medical.

#### ***Pre-Paid Legal Services, Inc.***

Pre-Paid Legal, Ada, Oklahoma, is the leading marketer of legal counsel and identity theft solutions to families and small businesses in the U.S. and Canada.

At October 31, 2011, the Company's investment in Pre-Paid Legal consisted of a \$4.0 million tranche A term loan and a \$4.0 million tranche B term loan, both purchased at a discount. The tranche A term loan bears annual interest at LIBOR, with a 1.5% floor, plus 6% and matures on January 1, 2017 and the tranche B term loan bears annual interest at LIBOR, with a 1.5% floor, plus 9.5% and matures on January 1, 2017. At October 31, 2011, the loans had a combined outstanding balance of \$8.0 million and a cost basis and fair value of approximately \$7.8 million.

During the six month period ended April 30, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$569,000.

At April 30, 2012, the loans had a combined outstanding balance of \$7.4 million and a cost basis and fair value of approximately \$7.3 million. The increases in the costs of the term loans are due to the amortization of the original issue discount.

#### ***RuMe, Inc.***

RuMe, Denver, Colorado, produces functional, affordable and responsible products for the environmentally and socially-conscious consumer reducing dependence on single-use products.

At October 31, 2011 and April 30, 2012, the Company's investment in RuMe consisted of 999,999 shares of common stock with a cost basis and fair value of approximately \$160,000 and 4,999,076 shares of series B-1 preferred stock with a cost basis and fair value of approximately \$1.0

million.

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

***SafeStone Technologies Limited (formerly Safestone Technologies PLC)***

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

At October 31, 2011 and April 30, 2012, the Company's investment in SafeStone Limited consisted of 21,064 shares of common stock with a cost of \$2.0 million. The investment has been fair valued at \$0 by the Company's Valuation Committee.

***Security Holdings, B.V.***

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

On April 26, 2011, the Company agreed to collateralize a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., which is classified as restricted cash on the Company's consolidated balance sheet. This letter of credit is being used as collateral for a project guarantee by AB DnB NORDBANKAS to Security Holdings.

At October 31, 2011, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of \$33.2 million.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the common equity interest by \$306,000.

At April 30, 2012, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of approximately \$33.5 million.

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

***SGDA Europe B.V.***

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

At October 31, 2011, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of \$10.5 million.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the common equity interest by \$298,000.

At April 30, 2012, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of approximately \$10.8 million.

Christopher Sullivan, a representative of the Company, serves as a director of SGDA Europe.

***SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH***

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

At October 31, 2011 and April 30, 2012, the Company's investment in SGDA consisted of a term loan with an outstanding balance and cost basis of approximately \$6.2 million. The term loan bears annual interest at 7.0% and matures on August 31, 2012. The term loan was fair valued at approximately \$6.2 million.

***SHL Group Limited (formerly PreVisor, Inc.)***

SHL Group Limited, London, United Kingdom, provides workplace talent assessment solutions including ability and personality tests, and psychometric assessments in more than 50 countries and in 30 languages.

On May 31, 2006, the Company invested \$6.0 million in PreVisor in the form of 9 shares of common stock. Mr. Tokarz, our Chairman and Portfolio Manager, is a minority non-controlling shareholder of PreVisor. Our Board of Directors, including all of the Independent Directors, approved the transaction (Mr. Tokarz recused himself from making a determination or recommendation on this matter).



At October 31, 2011, the Company's investment in SHL Group Limited consisted of 1,518,762 shares of common stock with a cost basis and fair value of \$6.0 million and \$15.3 million, respectively.

On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

At April 30, 2012, the Company's investment in SHL Group Limited consisted of 1,528,330 shares of common stock with a cost basis of approximately \$6.0 million and a fair value of approximately \$15.3 million.

#### ***SIA Tekers Invest***

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

At October 31, 2011, the Company's investment in Tekers consisted of 68,800 shares of common stock with a cost of \$2.3 million and a fair value of approximately \$1.5 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately \$348,000 at October 31, 2011 for Tekers.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the common stock by \$276,000.

At April 30, 2012, the Company's investment in Tekers consisted of 68,800 shares of common stock with a cost of \$2.3 million and a fair value of approximately \$1.2 million. The guarantee for Tekers had a commitment of 200,000 euros at April 30, 2012, equivalent to approximately \$265,000. This guarantee was taken into account in the valuation of Tekers.

#### ***Summit Research Labs, Inc.***

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

At October 31, 2011, the Company's investment in Summit consisted of a second lien loan and 1,115 shares of common stock. The second lien loan bears annual interest at 14% and matures on August 31, 2013. The second lien loan had an outstanding balance of \$11.1 million with a cost of \$11.0 million. The second lien loan was fair valued at \$11.1 million. The common stock had been fair valued at \$74.5 million with a cost basis of \$16.0 million.

On March 7, 2012, the Board of Directors of Summit approved a recapitalization and declared a \$15.0 million dividend, of which \$12.0 million was paid to the Company resulting in a reduction in the fair value of the common stock by \$12.0 million.

At April 30, 2012, the Company's second lien loan had an outstanding balance of approximately \$11.5 million with a cost of approximately \$11.4 million. The second lien loan was fair valued at approximately \$11.5 million. The 1,115 shares of common stock were fair valued at approximately \$62.5 million and had a cost basis of approximately \$16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

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

#### ***Teleguam Holdings LLC***

Teleguam, Guam, is a rural local exchange carrier providing broadband services, and local, long-distance and wireless phone services on the island of Guam.

At October 31, 2011, the Company's investment in Teleguam consisted of a \$7.0 million second lien loan, which was purchased at a discount, with an annual interest of LIBOR plus 8%, with a 1.75% LIBOR floor, and a maturity date of June 9, 2017. The loan had an outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 million.

At April 30, 2012, the loan had an outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 million. The increase in the cost of the second lien loan is due to the amortization of the original issue discount.





***Turf Products, LLC***

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

At October 31, 2011, the Company's investment in Turf consisted of a senior subordinated loan, bearing interest at 13% per annum with a maturity date of January 31, 2014, a junior revolving note, bearing interest at 6% per annum with a maturity date of January 31, 2014, LLC membership interest, and warrants. The senior subordinated loan had an outstanding balance, cost basis and a fair valued of \$8.4 million. The junior revolving note had an outstanding balance, cost, and fair value of \$1.0 million. The membership interest had a cost of \$3.5 million and a fair value of \$2.7 million. The warrants had a cost of \$0 and a fair value of \$0.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the membership interest by \$500,000.

At April 30, 2012, the mezzanine loan had an outstanding balance, cost basis and a fair value of approximately \$8.4 million. The junior revolving note had an outstanding balance and fair value of \$1.0 million. The membership interest has a cost of approximately \$3.5 million and a fair value of approximately \$3.2 million. The warrants had a cost of \$0 and a fair value of \$0.

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

***U.S. Gas & Electric, Inc.***

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

At October 31, 2011, the Company's investment in U.S. Gas consisted of a second lien loan with an outstanding balance, cost and fair value of \$9.1 million. The second lien loan bears annual interest at 14% and matures on July 26, 2012. The 32,200 shares of convertible Series I preferred stock had a fair value of \$78.5 million and a cost of \$500,000, and the convertible Series J preferred stock had a fair value of \$2.6 million and a cost of \$0.

At April 30, 2012, the second lien loan had an outstanding balance, cost basis and a fair value of approximately \$9.4 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee. The convertible Series I preferred stock had a fair value of \$78.5 million and a cost of \$500,000 and the convertible Series J preferred stock had a fair value of \$2.6 million and a cost of \$0.

Puneet Sanan, a representative of the Company, and Warren Holsberg, a director of the Company, serve as Chairman and director, respectively, of U.S. Gas.

***Velocitius B.V.***

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

At October 31, 2011, the Company's investment in Velocitius consisted of an equity investment with a cost of \$11.4 million and a fair value of \$25.1 million.

During the six month period ended April 30, 2012, the Valuation Committee decreased the fair value of the equity investment by approximately \$4.0 million.

At April 30, 2012, the equity investment in Velocitius had a cost of \$11.4 million and a fair value of \$21.1 million.

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

***Vestal Manufacturing Enterprises, Inc.***

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

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At October 31, 2011, the Company's investment in Vestal consisted of a senior subordinated promissory note and 81,000 shares of common stock. The senior subordinated note had an annual interest of 12%, a maturity date of April 29, 2013 and an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock had a cost basis of \$1.9 million and a fair value of \$1.5 million.

During the six month period ended April 30, 2012, the Valuation Committee increased the fair value of the common stock by \$1.2 million.

At April 30, 2012, the Company's investment in Vestal consisted of a senior subordinated promissory note and 81,000 shares of common stock. The senior subordinated note had an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock had a cost basis of \$1.9 million and a fair value of \$2.7 million.

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

### **Liquidity and Capital Resources**

Our liquidity and capital resources are derived from our credit facility and cash flows from operations, including investment sales and repayments and income earned. Our primary use of funds includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our credit facility, proceeds generated from our portfolio investments and/or proceeds from public and private offerings of securities to finance pursuit of our investment objective.

At April 30, 2012, the Company had investments in portfolio companies totaling \$434.1 million. Also, at April 30, 2012, the Company had investments in cash and cash equivalents totaling approximately \$31.5 million. The Company also had \$6.6 million in restricted cash and cash equivalents related to the project guarantee for Security Holdings. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid. Pending investments in portfolio companies pursuant to our principal investment strategy, the Company may make other short-term or temporary investments, including in exchange-traded funds and private investment funds offering periodic liquidity.

During the six month period ended April 30, 2012, the Company made one new investment, a \$1.0 million loan to Freshii.

During the six month period ended April 30, 2012, the Company made five follow-on investments in three existing portfolio companies totaling approximately \$6.4 million. The Company through MVC Partners Limited Partnership interest and MVCFS General Partnership interest contributed approximately \$6.3 million of its \$20.1 million capital commitment to the PE Fund, which as of April 30, 2012, has invested in Plymouth Rock Energy, LLC and Gibdock Limited. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

### **Current commitments include:**

#### ***Commitments of the Company:***

At April 30, 2012, the Company's existing commitments to portfolio companies consisted of the following:

<b>Portfolio Company</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2012</b>
Turf	\$ 1.0 million	\$ 1.0 million
MVC Partners/MVCFS	\$ 20.1 million	\$ 6.3 million
<b>Total</b>	<b>\$ 21.1 million</b>	<b>\$ 7.3 million</b>

#### ***Guarantees:***

As of April 30, 2012, the Company had the following commitments to guarantee various loans and mortgages:

<b>Guarantee</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2012</b>
MVC Automotive	\$ 5.3 million	
Tekers	\$ 265,000	
Ohio Medical	\$ 20.0 million	
<b>Total</b>	<b>\$ 25.6 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At April 30, 2012, the

Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$700,000.

These guarantees are further described below, together with the Company's other commitments.

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

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 200,000 euros at April 30, 2012, equivalent to approximately \$265,000.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive. The guarantee had a commitment of approximately 5.9 million euros at October 31, 2011, equivalent to approximately \$8.2 million. On April 30, 2012, the mortgage that was guaranteed was repaid by MVC Automotive, resulting in the release of the guarantee. As of April 30, 2012, the guarantee was no longer a commitment of the Company.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately \$5.3 million at April 30, 2012) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive. The Company has consistently reported the amount of the guarantee as 4.0 million Euro. The Company and MVC Automotive continues to view this amount as the full amount of our commitment. Erste Bank, the bank extending the mortgage to MVC Automotive, believes, based on a different methodology, that the balance of the guarantee as of April 30, 2012 is approximately 7.0 million Euro (equivalent to approximately \$9.3 million). The Company and MVC Automotive are working to resolve this discrepancy.

On July 31, 2008, the Company extended a \$1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on January 31, 2014. On July 31, 2008, Turf borrowed \$1.0 million from the secured junior revolving note. At October 31, 2011 and April 30, 2012, the outstanding balance of the secured junior revolving note was \$1.0 million.

On March 31, 2010, the Company pledged its Series I and Series J preferred stock of U.S. Gas to Macquarie Energy, LLC ( Macquarie Energy ) as collateral for Macquarie Energy's trade supply credit facility to U.S. Gas.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as GP. The PE Fund closed on approximately \$104 million of capital commitments. As of April 30, 2012, \$6.3 million of the Company's commitment was contributed.

On April 26, 2011, the Company agreed to collateralize a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., which is classified as restricted cash on the Company's consolidated balance sheet. This letter of credit is being used as collateral for a project guarantee by AB DnB NORDBankas to Security Holdings.

On November 30, 2011, as part of Ohio Medical's refinancing of their debt, the Company agreed to guarantee a series B preferred stock tranche of equity, with a 12% coupon for the first 18 months it is outstanding. After that initial period, the rate increases by 400bps to 16% for the next 6 months and increases by 50 bps (.5%) each 6 month period thereafter. As of April 30, 2012, the amount guaranteed was approximately \$20.0 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

#### ***Commitments of the Company***

Effective November 1, 2006, under the terms of the Investment Advisory and Management Agreement with TTG Advisers, which has since been amended and restated (the Advisory Agreement) and described in Note 9 of the consolidated financial statements, Management, TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company's offices continue to be located on the second floor of 287 Bowman Avenue, Purchase, New York 10577.

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million credit facility (the Credit Facility), consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility now only consists of a \$50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. As of April 30, 2012, there was \$50.0 million outstanding on the Credit Facility. The proceeds from borrowings made under the Credit Facility are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under the Credit Facility will bear interest, at the Company's option, at a floating rate equal to either (i) the LIBOR rate with a 1.25% LIBOR floor (for one, two, three or six months), plus a spread of 4.5% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 3.50% per annum. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the consolidated balance sheet include the unamortized portion of these costs. Borrowings under the Credit Facility will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

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

### **Subsequent Events**

On May 18, 2012, the Company through MVC Partners and MVCFS contributed approximately \$1.9 million to the PE Fund which then made an investment in Focus Pointe Global Holdings, Inc., a leading provider of marketing research data collection. To date, the Company has invested approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund.

On May 22, 2012, the Company invested \$1.5 million in Biovation Holdings Inc., a manufacturer and marketer of environmentally friendly, organic and sustainable laminate materials and composites, in the form of a loan. The bridge loan bears annual interest at 12% and matures on February 28, 2014.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, debt instruments, and escrow receivables which represent approximately 90.52% of the Company's total assets at April 30, 2012. As discussed in Note 7 Portfolio Investments, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that portfolio company investments are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be: (i) subject to restrictions on

resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. The Company may make short-term investments in 90-day Treasury Bills, which are federally guaranteed securities, or other investments, including exchange-traded funds, private investment funds and designated money market accounts, pending investments in portfolio companies made pursuant to our principal investment strategy.

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

***Investing in private companies involves a high degree of risk.***

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

***Our investments in portfolio companies are generally illiquid.***

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

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

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

At April 30, 2012, approximately 90.52% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

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

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

***Economic recessions or downturns, including the current economic instability in Europe and the United States, could impair our portfolio companies and have a material adverse impact on our business, financial condition and results of operations.***

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

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

Depending on market conditions, we could incur substantial realized losses and suffer unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. In addition, the global financial markets have not fully recovered from the global financial crisis and the economic factors which gave rise to the crisis. The continuation of current global market conditions, uncertainty or further deterioration, including the economic instability in Europe, could result in further declines in the market values of the Company investments. Such declines could also lead to diminished investment opportunities for the Company, prevent the Company from successfully executing its investment strategies or require the Company to dispose of investments at a loss while such adverse market conditions prevail.

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

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

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

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



***We may not realize gains from our equity investments.***

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

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

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

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

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

*There is generally little or no publicly available information about these privately-held companies.* There is generally little or no publicly available operating and financial information about privately-held companies. As a result, we rely on our investment professionals to perform due diligence investigations of these privately-held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations. It is difficult, if not impossible, to protect the Company from the risk of fraud, misrepresentation or poor judgement by our portfolio companies.

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

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

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

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

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore may invest a significant portion of our assets in a relatively small number of portfolio companies, which subjects us to a risk of significant loss should the performance or financial condition of one or more portfolio companies deteriorate.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of portfolio companies in a limited number of industries. As of April 30, 2012, the fair values of our two largest investments, Summit Research Labs, Inc. ( Summit ) and U.S. Gas & Electric, Inc. ( U.S. Gas ), comprised 18.2% and 22.3% of our net assets, respectively. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may continue to be significantly represented among our investments. To the extent that we have large positions in the securities of a small number of portfolio companies, we are subject to an increased risk of significant loss should the performance or financial condition of these portfolio companies or their respective industries deteriorate. We may also be more susceptible to any single economic or regulatory occurrence as a result of holding large positions in a small number of portfolio companies.

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

Our investment strategy has resulted in some investments in debt or equity of foreign companies (subject to applicable limits prescribed by the 1940 Act). Investing in foreign companies can expose us to additional risks not typically associated with investing in U.S. companies. These risks include exchange rates, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. A portion of our investments are located in countries that use the euro as their official currency. The USD/euro exchange rate, like foreign exchange rates in general, can be volatile and difficult to predict. This volatility could materially and adversely affect the value of the Company's shares.

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

We face competition in our investing activities from private equity funds, other business development companies, investment banks, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a regulated business development company, we are required to disclose quarterly the name and business description of portfolio companies and the value of any portfolio securities. Many of our competitors are not subject to this disclosure requirement. Our obligation to disclose this information could hinder our ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make us less attractive as a potential investor to a given portfolio company than a private equity fund not subject to the same regulations. Furthermore, some of our competitors have greater resources than we do. Increased competition would make it more difficult for us to purchase or originate investments at attractive prices. As a result of this competition, sometimes we may be precluded from making certain investments.

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

In order to qualify as a RIC for U.S. federal income tax purposes, we must satisfy tests concerning the sources of our income, the nature and diversification of our assets and the amounts we distribute to our shareholders. We may be unable to pursue investments that would otherwise be advantageous to us in order to satisfy the source of income or asset diversification requirements for qualification as a RIC. In particular, to qualify as a RIC, at least 50% of our assets must

be in the form of cash and cash items, Government securities, securities of other RICs, and other securities that represent not more than 5% of our total assets and not more than 10% of the outstanding voting securities of the issuer. We have from time to time held a significant portion of our assets in the form of securities that exceed 5% of our total assets or more than 10% of the outstanding voting securities of an issuer, and compliance with the RIC requirements currently restricts us from making additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. Thus, compliance with the RIC requirements may hinder our ability to take advantage of investment opportunities believed to be attractive, including potential follow-on investments in certain of our portfolio companies. Furthermore, as a result of the foregoing restrictions, the Board has approved an amended policy for the allocation of investment opportunities, which requires TTG Advisers to give first priority to the PE Fund for all equity investments that would otherwise be Non-Diversified Investments for the Company.

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

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

***Our common stock price can be volatile.***

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

Price and volume fluctuations in the overall stock market from time to time;

Significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;

Volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity participation securities, or LEAPs, or short trading positions;

Changes in regulatory policies or tax guidelines with respect to business development companies or RICs;

Our adherence to applicable regulatory and tax requirements, including the current restriction on our ability to make Non-Diversified Investments;

Actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;

General economic conditions and trends;

Loss of a major funding source, which would limit our liquidity and our ability to finance transactions; or

Departures of key personnel of TTG Advisers.

***We are subject to market discount risk.***

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

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

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

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

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

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

At October 31, 2011, the Company had unused net realized losses of approximately \$26.4 million and had net unrealized losses of \$21.5 million associated with Legacy Investments. Since the Company's realized losses were not entirely offset by realized gains during the six month period ended April 30, 2012, the Company will be able to utilize them as capital loss carryforwards in the future. If we experience an aggregate 50% shift in the ownership of our common stock from shareholder transactions over a three year period (e.g., if a shareholder acquires 5% or more of our outstanding shares of common stock, or if a shareholder who owns 5% or more of our outstanding shares of common stock significantly increases or decreases its investment in the Company), our ability to utilize our capital loss carryforwards to offset future capital gains may be severely limited. Further, in the event that we are deemed to have failed to meet the requirements to qualify as a RIC, our ability to use our capital loss carryforwards could be adversely affected. The Regulated Investment Company Modernization Act of 2010, which was enacted on December 22, 2010, changed various technical rules governing the tax treatment of regulated investment companies, including the treatment of capital loss carryforwards. Please see Note 11 of our consolidated financial statements' Tax Matters' for more information.

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*We may be unable to meet our covenant obligations under our credit facility, which could adversely affect our business.*

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million revolving credit facility (the Credit Facility) with Guggenheim Corporate Funding, LLC (Guggenheim) as administrative agent to the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility consists of a \$50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor. As of April 30, 2012, there was \$50.0 million in term debt outstanding under the Credit Facility. The Credit Facility contains covenants that we may not be able to meet. If we cannot meet these covenants, events of default would arise, which could result in payment of the applicable indebtedness being accelerated and may limit our ability to execute on our investment strategy. As such, from time to time, due to investment activity, changing cash positions and the need to execute against certain corporate strategies, the Company has obtained Guggenheim's consent to waive compliance with certain covenants contained in the Credit Facility and may require such consents in the future. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable.

In addition, if we require working capital greater than that provided by the Credit Facility, we may be required to obtain other sources of funds, which, if available, may result in increased borrowing costs for the Company and/or additional covenant obligations.

*Wars, terrorist attacks, and other acts of violence may affect any market for our common stock, impact the businesses in which we invest and harm our operations and our profitability.*

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

#### **ITEM 4. CONTROLS AND PROCEDURES**

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

(b) There have been no changes in our internal controls over financial reporting that occurred during the quarter ended April 30, 2012, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

We had no unregistered sales of equity securities for the six month period ended April 30, 2012.

On April 23, 2010, the Company's Board of Directors approved a share repurchase program authorizing up to \$5.0 million for share repurchases. The share repurchase program was substantially completed during the quarter ended April 30, 2011. Under the program, 380,105 shares were repurchased at an average price of \$13.06, including commission, with a total cost of approximately \$5.0 million. The Company's net asset value per share was increased by approximately \$0.07 as a result of the share repurchases.

On July 19, 2011, the Company's Board of Directors approved another share repurchase program authorizing up to \$5.0 million for additional share repurchases. No shares were repurchased under this new repurchase program as of April 30, 2012. Implementation of the program as well as the timing thereof depends on a variety of factors, including, among others, the availability of capital, the Company's current share price and the ability to conduct the offer under the Credit Facility.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

**ITEM 6. EXHIBITS**

(a) Exhibits

Exhibit No.	Exhibit
10.1	Second Amendment to Company's Administration Servicing with US Bancorp
10.2	Second Amendment to Company's Accounting Service Agreement with US Bancorp
10.3	Amendment to Company's Custody Agreement with US Bank
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.

Other required Exhibits are included in this Form 10-Q or have been previously filed with the Securities and Exchange Commission (the "SEC") in the Company's Registration Statements on Form N-2 (Reg. Nos. 333-147039, 333-119625, 333-125953) or the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, as filed with the SEC (File No. 814-00201).



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

Date: June 11, 2012

MVC CAPITAL, INC.

/s/ Michael Tokarz  
Michael Tokarz

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

MVC CAPITAL, INC.

Date: June 11, 2012

/s/ Peter Seidenberg  
Peter Seidenberg

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