

MVC CAPITAL, INC.
Form 10-K
December 27, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended October 31, 2012

or

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

For the transition period from to

Commission file number: 814-00201

MVC CAPITAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

*(State or other jurisdiction of
incorporation or organization)*

94-3346760

*(I.R.S. Employer
Identification No.)*

287 Bowman Avenue, Purchase, New York 10577

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

(Title of each class)

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Approximate aggregate market value of common stock held by non-affiliates of the registrant as of the last business day of the Company's most recently completed fiscal second quarter: \$237,938,798 computed on the basis of \$13.20 per share, closing price of the common stock on the New York Stock Exchange (the NYSE) on April 30, 2012. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

There were 23,916,982 shares of the registrant's common stock, \$.01 par value, outstanding as of December 27, 2012.

Document Incorporated by Reference:

Proxy Statement for the Company's Annual Meeting of Shareholders 2013, incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

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MVC Capital, Inc.

(A Delaware Corporation)

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PART I

Factors That May Affect Future Results

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the federal securities laws that involve substantial uncertainties and risks. The Company's future results may differ materially from its historical results and actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors. These factors are described in the Risk Factors section below. Readers should pay particular attention to the considerations described in the section of this report entitled Management's Discussion and Analysis of Financial Condition and Results of Operations. Readers should also carefully review the risk factors described in the other documents the Company files, or has filed, from time to time with the United States Securities and Exchange Commission (the SEC).

In this Annual Report on Form 10-K, unless otherwise indicated, MVC Capital, we, us, our or the Company refer to MVC Capital, and its wholly-owned subsidiaries, MVC Financial Services, Inc. and MVC Cayman, and TTG Advisers or the Adviser refers to The Tokarz Group Advisers LLC.

**ITEM 1. BUSINESS
GENERAL**

MVC Capital, Inc. is an externally managed, non-diversified closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). MVC Capital provides equity and debt investment capital to fund growth, acquisitions and recapitalizations of small and middle-market companies in a variety of industries primarily located in the United States. Our investments can take the form of common and preferred stock and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol MVC. Effective November 1, 2006, the Company has been externally managed by The Tokarz Group Advisers LLC (TTG Advisers) pursuant to an Amended and Restated Investment Advisory and Management Agreement (the Advisory Agreement). 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 the renewal of the Advisory Agreement at their in-person meeting held on October 23, 2012.

Fiscal year 2012 represented a year where we increased our liquidity, continued to allocate capital at a deliberate pace into new opportunities while supporting our existing portfolio companies. The Company made two new investments in Freshii USA, Inc. (Freshii) and Biovation Holdings, Inc. (Bioventions) and nine follow-on investments in the following five existing portfolio companies: MVC Partners, LLC (MVC Partners) Limited Partnership interest, MVCFS General Partnership interest, Centile Holdings B.V. (Centile), SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH (SGDA) and SHL Group Limited. The total capital committed in fiscal year 2012 was \$11.3 million compared to \$43.2 million and \$8.3 million in fiscal years 2011 and 2010, respectively.

The fiscal year 2011 new investments were in Octagon High Income Cayman Fund Ltd. (Octagon Fund), JSC Tekers Holdings (JSC Tekers), Teleguam Holdings, LLC (Teleguam), Pre-Paid Legal Services, Inc. (Pre-Paid Legal), RuMe, Inc. (RuMe) and Centile. The seven follow-on investments were made in the following four portfolio companies: Harmony Health & Beauty, Inc. (HH&B), SGDA Europe B.V. (SGDA Europe), NPWT Corporation (NPWT) and Security Holdings B.V. (Security Holdings).

The fiscal year 2010 new investment was Integrated Packaging Corporation (IPC) and the follow-on investments were in Harmony Pharmacy & Health Center, Inc. (Harmony Pharmacy), SGDA Europe, and Security Holdings.

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We continue to perform due diligence and seek new investments that are consistent with our objective of maximizing total return from capital appreciation and/or income. We believe that we have extensive relationships with private equity firms, investment banks, business brokers, commercial banks, accounting firms, law firms, hedge funds, other investment firms, industry professionals and management teams of several companies that may provide us with investment opportunities.

We are working on an active pipeline of potential new investment opportunities. Our equity and loan investments will generally range between \$3.0 million and \$25.0 million each, though we may occasionally invest smaller or greater amounts of capital depending upon the particular investment. While the Company does not adhere to a specific equity and debt asset allocation mix, no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses as of the close of each quarter. Our portfolio company investments are typically illiquid and are made through privately negotiated transactions. We generally seek to invest in companies with a history of strong, predictable, positive EBITDA (net income before net interest expense, income tax expense, depreciation and amortization).

Our portfolio company investments currently consist of common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, and convertible securities. At October 31, 2012, the value of our investments in portfolio companies was approximately \$404.2 million and our gross assets were approximately \$456.4 million compared to the value of investments in portfolio companies of approximately \$452.2 million and gross assets of approximately \$497.1 million at October 31, 2011.

We expect that our investments in senior loans and subordinated debt will generally have stated terms of three to ten years. However, there are no constraints on the maturity or duration of any security in our portfolio. Our debt investments are not, and typically will not be, rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than Baa3 by Moody's or lower than BBB- by Standard & Poor's). In addition, we may invest without limit in debt of any rating, including debt that has not been rated by any nationally recognized statistical rating organization.

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 and the Company's portfolio companies. The Company does not hold MVCFS for investment purposes. The results of MVCFS are consolidated into the Company and all inter-company accounts have been eliminated in consolidation. 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. The results of MVC Cayman are also consolidated into the Company. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company.

Our Board of Directors has the authority to change any of the strategies described in this report without seeking the approval of our shareholders. However, the 1940 Act prohibits us from altering or changing our investment objective, strategies or policies such that we cease to be a business development company, nor can we voluntarily withdraw our election to be regulated as a business development company, without the approval of the holders of a majority of the outstanding voting securities, as defined in the 1940 Act, of our shares.

Substantially all amounts not invested in securities of portfolio companies are invested in short-term, highly liquid money market investments or held in cash in interest bearing accounts. As of October 31, 2012, the Company's investments in short-term securities, cash and cash equivalents were valued at \$42.6 million. Of the \$42.6 million in cash and cash equivalents, approximately \$6.5 million was restricted cash, relating to the Company's agreement to collateralize a letter of credit being used as collateral for a project guarantee for Security Holdings.

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CORPORATE HISTORY AND OFFICES

The Company was organized on December 2, 1999. Prior to July 2004, our name was meVC Draper Fisher Jurvetson Fund I, Inc. On March 31, 2000, the Company raised \$330.0 million in an initial public offering whereupon it commenced operations as a closed-end investment company. On December 4, 2002, the Company announced it had commenced doing business under the name MVC Capital.

We are a Delaware corporation and a non-diversified closed-end management investment company that has elected to be regulated as a business development company under the 1940 Act. On July 16, 2004, the Company formed MVCFS.

Although the Company has been in operation since 2000, the year 2003 marked a new beginning for the Company. In February 2003, shareholders elected an entirely new board of directors. (All but two of the independent members of the current Board of Directors were first elected at the February 2003 Annual Meeting of the shareholders.) The Board of Directors developed a new long-term strategy for the Company. In September 2003, upon the recommendation of the Board of Directors, shareholders voted to adopt a new investment objective for the Company of seeking to maximize total return from capital appreciation and/or income. The Company's prior objective had been limited to seeking long-term capital appreciation from venture capital investments in the information technology industries. Consistent with our broader objective, we adopted a more flexible investment strategy of providing equity and debt financing to small and middle-market companies in a variety of industries. With the recommendation of the Board of Directors, shareholders also voted to appoint Michael Tokarz as Chairman and Portfolio Manager to lead the implementation of our new objective and strategy and to stabilize the existing portfolio. Prior to the arrival of Mr. Tokarz and his new management team in November 2003, the Company had experienced significant valuation declines from investments made by the former management team.

Mr. Tokarz and his team managed the Company under an internal structure through October 31, 2006. On September 7, 2006, the shareholders of the Company approved the Advisory Agreement (with over 92% of the votes cast on the agreement voting in its favor) that provided for the Company to be externally managed by TTG Advisers. The agreement took effect on November 1, 2006. TTG Advisers is a registered investment adviser that is controlled by Mr. Tokarz. All of the individuals (including the Company's investment professionals) that had been previously employed by the Company as of the fiscal year ended October 31, 2006 became employees of TTG Advisers. The Company's investment strategy and selection process has remained the same under the externalized management structure. 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 23, 2012.

Our principal executive office is located at 287 Bowman Avenue, Purchase, New York 10577 and our telephone number is (914) 701-0310. Our website is <http://www.mvccapital.com>. Copies of the Company's annual regulatory filings on Form 10-K, quarterly regulatory filings on Form 10-Q, Form 8-K, other regulatory filings, code of ethics, audit committee charter, compensation committee charter, nominating and corporate governance committee charter, corporate governance guidelines, and privacy policy may be obtained from our website, free of charge.

Our Investment Strategy

On November 6, 2003, Mr. Tokarz assumed his current positions as Chairman and Portfolio Manager. We seek 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 common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. During the fiscal year ended October 31, 2012,

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the Company made two new investments and nine follow-on investments in five existing portfolio companies, committing a total of \$11.3 million of capital to these investments.

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 October 31, 2012, 2.36% of our assets consisted of investments made by the Company's former management team pursuant to the prior investment objective (the "Legacy Investments"). We are, however, managing these Legacy Investments to try and realize maximum returns. At October 31, 2012, the fair value of portfolio investments of the Legacy Investments was \$10.8 million. 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 portfolio investments are made pursuant to our 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 have the authority to invest, without limit, in any one portfolio company, subject to any diversification limits that may be required in order for us to continue to qualify as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). Due to our asset growth and composition, compliance with the RIC requirements currently restricts our ability to make additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of an issuer ("Non-Diversified Investments").

We participate in the private equity business generally by providing negotiated equity and/or long-term debt investment capital. Our financing is generally used to fund growth, buyouts, acquisitions, recapitalizations, note purchases and/or bridge financings. We are typically the lead investor in such transactions, but may also provide equity and debt financing to companies led by private equity firms or others. We generally invest in private companies, though, from time to time, we may invest in small public companies that 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 authorized the establishment of the MVC Private Equity Fund, L.P. ("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 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners' operations. Previously, MVC Partners was presented as a Portfolio Company on the Consolidated Schedule of Investments. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company. Please see Note 2 of our consolidated financial statements "Consolidation" for more information.

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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. For further discussion of this allocation policy, please see "Our Investment Strategy - Allocation of Investment Opportunities" below.

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.

As of October 31, 2012, October 31, 2011 and October 31, 2010, the fair value of the invested portion (excluding cash, escrow receivables and short-term securities) of our net assets as a percentage consisted of the following:

Type of Investment	Fair Value as a Percentage of Our Net Assets		
	As of October 31, 2012	As of October 31, 2011	As of October 31, 2010
Senior/Subordinated Loans and credit facilities	23.18%	20.40%	26.17%
Common Stock	18.05%	22.41%	18.56%
Warrants	0.01%	0.00%	0.00%
Preferred Stock	35.77%	34.89%	35.06%
Guarantees	(.21)%	0.00%	0.00%
Other Equity Investments	27.90%	30.09%	22.30%

Substantially all amounts not invested in securities of portfolio companies are invested in short-term, highly liquid money market investments or held in cash in an interest bearing account. As of October 31, 2012, these investments were valued at approximately \$42.6 million or 11.05% of net assets.

The current portfolio has investments in a variety of industries, including energy, specialty chemicals, automotive dealerships, medical devices, consumer products, value-added distribution, industrial manufacturing, financial services, and information technology in a variety of geographical areas, including the United States and Europe.

Market. We have developed and maintain relationships with intermediaries, including investment banks, industry executives, financial services companies and private mezzanine and equity sponsors to source investment opportunities. Through these relationships, we have been able to strengthen our position as an investor.

Investment Criteria. Prospective investments are evaluated by the investment team based upon criteria that may be modified from time to time. The criteria currently being used by management in determining whether to make an investment in a prospective portfolio company include, but are not limited to, management's view of:

Opportunity to revitalize and redirect a company's resources and strategy;

Stable free cash flow of the business;

Businesses with secure market niches and predictable profit margins;

The presence or availability of highly qualified management teams;

The line of products or services offered and their market potential;

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The presence of a sustainable competitive advantage; and

Favorable industry and competitive dynamics.

Due diligence includes a thorough review and analysis of the business plan and operations of a potential portfolio company. We generally perform financial and operational due diligence, study the industry and competitive landscape, and meet with current and former employees, customers, suppliers and/or competitors. In addition, as applicable, we engage attorneys, independent accountants and other consultants to assist with legal, environmental, tax, accounting and marketing due diligence.

Investment Sourcing. Mr. Tokarz and the other investment professionals have established an extensive network of investment referral relationships. Our network of relationships with investors, lenders and intermediaries includes:

Private mezzanine and equity investors;

Investment banks;

Industry executives;

Business brokers;

Merger and acquisition advisors;

Financial services companies; and

Banks, law firms and accountants.

Allocation of Investment Opportunities. In allocating investment opportunities, TTG Advisers adheres to the following policy, which was approved by the Board of Directors: TTG Advisers will give the Company priority with respect to all investment opportunities in (i) mezzanine and debt securities and (ii) equity or other non-debt investments that are (a) expected to be equal to or less than the lesser of 10% of the Company's net assets or \$25.0 million, and (b) issued by U.S. companies with less than \$150.0 million in revenues during the prior twelve months. However, as a result of the PE Fund's close, the PE Fund will now receive a priority allocation of all equity investments that would otherwise be Non-Diversified Investments for the Company, which will terminate on the later of: (i) the deployment of 80% of the committed capital of the PE Fund or (ii) two years from the first closing date of the PE Fund.

Investment Structure. Portfolio company investments typically will be negotiated directly with the prospective portfolio company or its affiliates. The investment professionals will structure the terms of a proposed investment, including the purchase price, the type of security to be purchased or financing to be provided and the future involvement of the Company and affiliates in the portfolio company's business (including potential representation on its Board of Directors). The investment professionals will seek to structure the terms of the investment as to provide for the capital needs of the portfolio company and at the same time seek to maximize the Company's total return.

Once we have determined that a prospective portfolio company is a suitable investment, we work with the management and, in certain cases, other capital providers, such as senior, junior and/or equity capital providers, to structure an investment. We negotiate on how our investment is expected to relate relative to the other capital in the portfolio company's capital structure.

We make preferred and common equity investments in companies as a part of our investing activities, particularly when we see a unique opportunity to profit from the growth of a company and the potential to enhance our returns. At times, we may invest in companies that are undergoing new strategic initiatives or a restructuring but have several of the above attributes and a management team that we believe has the

potential to

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successfully execute their plans. Preferred equity investments may be structured with a dividend yield, which may provide us with a current return, if earned and received by the Company.

Our senior, subordinated and mezzanine debt investments are tailored to the facts and circumstances of the deal. The specific structure is negotiated over a period of several weeks and is designed to seek to protect our rights and manage our risk in the transaction. We may structure the debt instrument to require restrictive affirmative and negative covenants, default penalties, lien protection, equity calls, take control provisions and board observation. Our debt investments are not, and typically will not be, 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).

Our mezzanine debt investments are typically structured as subordinated loans (with or without warrants) that carry a fixed rate of interest. The loans may have interest-only payments in the early years and payments of both principal and interest in the later years, with maturities of three to ten years, although debt maturities and principal amortization schedules vary.

Our mezzanine debt investments may include equity features, such as warrants or options to buy a minority interest in a portfolio company. Any warrants or other rights we receive with our debt securities generally require only a nominal cost to exercise, and thus, as the portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide minority rights provisions and event-driven puts. We may seek to achieve additional investment return from the appreciation and sale of our warrants.

Under certain circumstances, the Company or PE Fund may acquire more than 50% of the common stock of a company in a control buyout transaction. In addition to our common equity investment, we may also provide additional capital to the controlled portfolio company in the form of senior loans, subordinated debt or preferred stock.

We fund new investments using cash, the reinvestment of accrued interest and dividends in debt and equity securities, or the current reinvestment of interest and dividend income through the receipt of a debt or equity security (payment-in-kind income). From time to time, we may also opt to reinvest accrued interest receivable in a new debt or equity security, in lieu of receiving such interest in cash and funding a subsequent investment. We may also acquire investments through the issuance of common or preferred stock, debt, or warrants representing rights to purchase shares of our common or preferred stock. The issuance of our stock as consideration may provide us with the benefit of raising equity without having to access the public capital markets in an underwritten offering, including the added benefit of the elimination of any commissions payable to underwriters.

Providing Management Assistance. As a business development company, we are required to make managerial assistance available to the companies in our investment portfolio. In addition to the interest and dividends received from our investments, we often generate additional fee income for the structuring, diligence, transaction, administration and management services and financial guarantees we provide to our portfolio companies through the Company or our wholly-owned subsidiary, MVCFS. In some cases, officers, directors and employees of the Company or the Adviser may serve as members of the Board of Directors of portfolio companies. The Company may provide guidance and management assistance to portfolio companies with respect to such matters as budgets, profit goals, business and financing strategies, management additions or replacements and plans for liquidity events for portfolio company investors such as a merger or initial public offering.

Portfolio Company Monitoring. We monitor our portfolio companies closely to determine whether or not they continue to be attractive candidates for further investment. Specifically, we monitor their ongoing performance and operations and provide guidance and assistance where appropriate. We would decline additional investments in portfolio companies that, in TTG Advisers' view, do not continue to show promise. However, we may make follow-on investments in portfolio companies that we believe may perform well in the future.

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TTG Advisers follows established procedures for monitoring equity and loan investments. The investment professionals have developed a multi-dimensional flexible rating system for all of the Company's portfolio investments. The rating grids are updated regularly and reviewed by the Portfolio Manager, together with the investment team. Additionally, the Company's Valuation Committee (the "Valuation Committee") meets at least quarterly, to review a written valuation memorandum for each portfolio company and to discuss business updates. Furthermore, the Company's Chief Compliance Officer administers the Company's compliance policies and procedures, which includes the Company's investments in portfolio companies.

We exit our investments generally when a liquidity event takes place, such as the sale, recapitalization or initial public offering of a portfolio company. Our equity holdings, including shares underlying warrants, after the exercise of such warrants, typically include registration rights, which would allow us to sell the securities if the portfolio company completes a public offering.

Investment Approval Procedures. Generally, prior to approving any new investment, we follow the process outlined below. We usually conduct one to four months of due diligence and structuring before an investment is considered for approval. However, depending on the type of investment being contemplated, this process may be longer or shorter.

The typical key steps in our investment approval process are:

Initial investment screening by deal person or investment team;

Investment professionals present an investment proposal containing key terms and understandings (verbal and written) to the entire investment team;

Our Chief Compliance Officer reviews the proposed investment for compliance with the 1940 Act, the Code and all other relevant rules and regulations;

Investment professionals are provided with authorization to commence due diligence;

Any investment professional can call a meeting, as deemed necessary, to: (i) review the due diligence reports; (ii) review the investment structure and terms; (iii) or to obtain any other information deemed relevant;

Once all due diligence is completed, the proposed investment is rated using a rating system, which tests several factors including, but not limited to, cash flow, EBITDA growth, management and business stability. We use this rating system as the base line for tracking the investment in the future;

Our Chief Compliance Officer confirms that the proposed investment will not cause us to violate the 1940 Act, the Code or any other applicable rule or regulation;

Mr. Tokarz approves the transaction; and

The investment is funded.

Employees

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Upon the effectiveness of the Advisory Agreement on November 1, 2006, the Company no longer has any direct employees. TTG Advisers employs 20 individuals, including investment and portfolio management professionals, operations professionals and administrative staff.

OPERATING EXPENSES

During the fiscal year ended October 31, 2012, the Company bore the costs relating to the Company's operations, including fees and expenses of the Independent Directors; fees of unaffiliated transfer agents,

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registrars and disbursing agents; legal and accounting expenses; costs of printing and mailing proxy materials and reports to shareholders; NYSE fees; custodian fees and other extraordinary or nonrecurring expenses and other expenses properly payable by the Company. It should be noted that the Company and TTG Advisers had entered into an agreement pursuant to which TTG Advisers would absorb or reimburse operating expenses of the Company to the extent necessary to limit the Company's expense ratio to 3.5% in each of the 2009 and 2010 fiscal years (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, payments made by the GP of the PE Fund to TTG Advisers pursuant to the Portfolio Management Agreement between the GP and TTG Advisers respecting the PE Fund and extraordinary expenses taken as a percentage of the Company's average net assets). On October 25, 2010, October 26, 2011 and October 23, 2012, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011, 2012 and 2013 fiscal years, respectively. For fiscal year 2012, the Company's expense ratio was 2.95% (taking into account the same exclusions as those applicable to the expense cap). On the same basis, for fiscal years 2011 and 2010, the expense ratios were 3.18% and 2.95%, respectively. For the 2012, 2011 and 2010 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). 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.

Under the externalized structure, all investment professionals of TTG Advisers and its staff, when and to the extent engaged in providing services required to be provided by TTG Advisers under the Advisory Agreement and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by TTG Advisers and not by the Company, except that costs or expenses relating to the following items are borne by the Company: (i) the cost and expenses of any independent valuation firm; (ii) expenses incurred by TTG Advisers payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Company and in monitoring the Company's investments and performing due diligence on its prospective portfolio companies, provided, however, the retention by TTG Advisers of any third party to perform such services shall require the advance approval of the board (which approval shall not be unreasonably withheld) if the fees for such services are expected to exceed \$30,000; once the third party is approved, any expenditure to such third party will not require additional approval from the board; (iii) interest payable on debt and other direct borrowing costs, if any, incurred to finance the Company's investments or to maintain its tax status; (iv) offerings of the Company's common stock and other securities; (v) investment advisory and management fees; (vi) fees and payments due under any administration agreement between the Company and its administrator; (vii) transfer agent and custodial fees; (viii) federal and state registration fees; (ix) all costs of registration and listing the Company's shares on any securities exchange; (x) federal, state and local taxes; (xi) independent directors' fees and expenses; (xii) costs of preparing and filing reports or other documents required by governmental bodies (including the SEC); (xiii) costs of any reports, proxy statements or other notices to stockholders, including printing and mailing costs; (xiv) the cost of the Company's fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; (xv) direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, independent auditors and outside legal costs; (xvi) the costs and expenses associated with the establishment of a special purpose vehicle; (xvii) the allocable portion of the cost (excluding office space) of the Company's Chief Financial Officer, Chief Compliance Officer and Secretary in an amount not to exceed \$200,000, per year, in the aggregate; (xviii) subject to a cap of \$150,000 in any fiscal year of the Company, fifty percent of the unreimbursed travel and other related (e.g., meals) out-of-pocket expenses (subject to item (ii) above) incurred by TTG Advisers in sourcing investments for the Company; *provided that*, if the investment is sourced for multiple clients of TTG Advisers, then the Company shall only reimburse fifty percent of its allocable pro rata portion of such expenses; and (xix) all other expenses incurred by the Company in connection with administering the Company's business (including travel and other out-of-pocket expenses (subject to item (ii) above) incurred in providing significant managerial assistance to a portfolio company).

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VALUATION OF PORTFOLIO SECURITIES

Pursuant to the requirements of the 1940 Act and in accordance with the Accounting Standards Codification (ASC), *Fair Value Measurements and Disclosures* (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 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 fiscal year end are not reflected in the valuations reported in this Annual Report. See Item 1A Risk Factor, Investments in foreign debt or equity may involve significant risks in addition to the risks inherent in U.S. investments.

At October 31, 2012, approximately 88.77% of total assets represented investments in Portfolio Companies and escrow receivables recorded at fair value (Fair Value Investments).

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.

Valuation Methodology

There is no one methodology to determine fair value and, in fact, for any portfolio security, fair value may be expressed as a range of values, from which the Company derives a single 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, third-party real estate and asset appraisals if appropriate and available, 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

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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.

Our investments are carried at fair value in accordance with the 1940 Act and 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 the 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 October 31, 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 to which the reporting entity has access to 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 FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (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, but it has resulted in additional disclosures. Please see Note 9 Portfolio 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 unless restricted and a restricted discount is applied.

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,

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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, and third-party asset and real estate appraisals. 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 (the GP) of the PE Fund, the Valuation Committee relies on the GP's determination of the fair value of the PE Fund which will be generally valued, as a practical expedient, utilizing the net asset valuations provided by the GP, which will be made: (i) no less frequently than quarterly as of the Company's fiscal quarter end and (ii) with respect to the valuation of PE Fund investments in portfolio companies, will be based on methodologies consistent with those set forth in the Company's valuation procedures. The determination of the net asset value of the Company's or its subsidiary's investment in the PE Fund will follow the methodologies described for valuing interests in private investment funds (Investment Vehicles) described below. 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.

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As permitted under GAAP, the Company's interests in private investment funds 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 investment interest 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 distributions 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 fair value.

If the Company intends to sell all or a portion of its interest in an Investment Vehicle to a third-party in a privately negotiated transaction near the valuation date, the Company will consider offers from third parties to buy the interest in an Investment Vehicle in valuations which may be discounted for both probability of close and time.

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, adjusted for amortization of premium and accretion of discount on a yield to maturity methodology, 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 the Company expects 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.

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*. The Valuation Committee typically will look at the pricing of the security in which the guarantee provided support for the security and compare it to the price of a similar or hypothetical security without guarantee support. The difference in pricing will be discounted for time and risk over the period in which the guarantee is expected to remain outstanding.

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CUSTODIAN

US Bank National Association is the primary custodian (the **Primary Custodian**) of the Company's portfolio securities. The principal business office of the Primary Custodian is 1555 North River Center Drive, Suite 302, Milwaukee, WI 53212.

JP Morgan Chase Bank, N.A. (**JP Morgan**) also serves as a custodian for certain securities and other assets of the Company. The principal business office of JP Morgan is 270 Park Avenue, New York, NY 10017.

TRANSFER AGENT AND PLAN AGENT

The Company employs Computershare Ltd. (the **Plan Agent**) as its transfer agent to record transfers of the shares, maintain proxy records, process distributions and to act as agent for each participant in the Company's dividend reinvestment plan. The principal business office of the Plan Agent is 250 Royall Street, Canton, Massachusetts 02021 and the phone number for the plan agent is (781) 575-2000.

CERTAIN GOVERNMENT REGULATIONS

We operate in a highly regulated environment. The following discussion generally summarizes certain government regulations.

Business Development Company. A business development company is defined and subject to the regulations of the 1940 Act. A business development company must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A business development company may use capital provided by public shareholders and from other sources to invest in long-term, private investments in businesses.

As a business development company, we may not acquire any asset other than **qualifying assets** unless, at the time we make the acquisition, the value of our qualifying assets represents at least 70% of the value of our total assets. In accordance with the 1940 Act, valuation for these purposes are based on the Company's most recently filed quarterly or annual report, as applicable. The principal categories of qualifying assets relevant to our business are:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):
 - (a) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
 - (i) is organized under the laws of, and has its principal place of business in, the United States;
 - (ii) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (iii) satisfies one of the following:
 - does not have any class of securities with respect to which a broker or dealer may extend margin credit;
 - is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or
 - is a small and solvent company having total assets of not more than \$4.0 million and capital and surplus of not less than \$2.0 million.

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- (b) is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:
- (i) at the time of the purchase, we own at least 50% of the (x) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (y) the greatest amount of debt securities of such issuer, held by us at any point in time during the period when such issuer was an eligible portfolio company; and
- (ii) we are one of the 20 largest holders of record of such issuer's outstanding voting securities; or
- (c) is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if the aggregate market value of such company's outstanding voting and non-voting common equity is less than \$250.0 million.
- (2) Securities of any eligible portfolio company which we control.
- (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
- (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
- (6) Cash, cash equivalents, U.S. Government securities or high-quality debt maturing in one year or less from the time of investment.

To include certain securities described above as qualifying assets for the purpose of the 70% test, a business development company must make available to the issuer of those securities significant managerial assistance such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company, or making loans to a portfolio company. We offer to provide managerial assistance to each of our portfolio companies.

As a business development company, the Company is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage ratio of at least 200% immediately after each such issuance. See Risk Factors. The Company may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors and, in some cases, prior approval by the SEC. On July 11, 2000, the SEC granted us an exemptive order permitting us to make co-investments with certain of our affiliates in portfolio companies, subject to certain conditions. Under the exemptive order, the Company is permitted to co-invest in certain portfolio companies with its affiliates, subject to specified conditions. Under the terms of the exemptive order, portfolio companies purchased by the Company and its affiliates are required to be approved by the Independent Directors and are required to satisfy certain other conditions established by the SEC.

As with other companies subject to the regulations of the 1940 Act, a business development company must adhere to certain other substantive ongoing regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the business development

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company. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to the company or our shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and TTG Advisers maintain a code of ethics that establishes procedures for personal investment and restricts certain transactions by our personnel. The code of ethics generally does not permit investment by our employees in securities that may be purchased or held by us. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at (202) 942-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC Internet site at <http://www.sec.gov>. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, 100 F Street, NE, Washington, D.C. 20549. The code of ethics is also posted on our website at <http://www.mvccapital.com>.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company unless authorized by vote of a majority of the outstanding voting securities, as defined in the 1940 Act, of our shares. A majority of the outstanding voting securities of a company is defined by the 1940 Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

We are periodically examined by the SEC for compliance with the 1940 Act.

ITEM 1A. RISK FACTORS

Investing in MVC Capital involves a number of significant risks relating to our business and investment objective. As a result, there can be no assurance that we will achieve our investment objective.

BUSINESS RISKS

Business risks are risks that are associated with general business conditions, the economy, and the operations of the Company. Business risks are not risks associated with our specific investments or an offering of our securities.

We depend on key personnel of TTG Advisers, especially Mr. Tokarz, in seeking to achieve our investment objective.

We depend on the continued services of Mr. Tokarz and certain other key management personnel of TTG Advisers. If we were to lose access to any of these personnel, particularly Mr. Tokarz, it could negatively impact our operations and we could lose business opportunities. There is a risk that Mr. Tokarz's expertise may be unavailable to the Company, which could significantly impact the Company's ability to achieve its investment objective.

Our returns may be substantially lower than the average returns historically realized by the private equity industry as a whole.

Past performance of the private equity industry is not necessarily indicative of that sector's future performance, nor is it necessarily a good proxy for predicting the returns of the Company. We cannot guarantee that we will meet or exceed the rates of return historically realized by the private equity industry as a whole. Additionally, our overall returns are impacted by certain factors related to our structure as a publicly-traded business development company, including:

The lower return we are likely to realize on short-term liquid investments during the period in which we are identifying potential investments, and

The periodic disclosure required of business development companies, which could result in the Company being less attractive as an investor to certain potential portfolio companies.

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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 October 31, 2012, approximately 88.77% 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 adverse economic conditions. Adverse economic conditions 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 loans or 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.

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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.

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 sell. 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.

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.

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

At October 31, 2011, the Company had \$26.3 million in capital loss carryforwards. During the fiscal year ended October 31, 2012, the Company had net realized losses of approximately \$20.5 million, primarily associated with the realized losses from BP Clothing, LLC (BP), SafeStone Technologies Limited (SafeStone), MVC Partners and GDC Acquisition, LLC (GDC), which were partially offset by the realized gain from the sale of SHL Group Limited. The Company also had net unrealized losses of \$19.5 million associated with Legacy Investments as of October 31, 2012. Since the Company's realized losses were not offset by realized gains during fiscal year 2012, the Company will be able to utilize them as capital loss carryforwards in future years. If, over a three year period, we experience an aggregate shift of more than 50% in the ownership of our common stock attributable to transactions involving one or more 5% shareholders (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.

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Loss of pass-through tax treatment would substantially reduce net assets and income available for dividends.

We have operated so as to qualify as a RIC. If we meet source of income, diversification and distribution requirements, we will qualify for effective pass-through tax treatment. We would cease to qualify for such pass-through tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting the requirement to make distributions to our shareholders because in certain cases we may recognize income before or without receiving cash representing such income, such as in the case of debt obligations that are treated as having original issue discount. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for distribution to our shareholders, and all of our distributions will be taxed to our shareholders as ordinary corporate distributions. Even if we qualify as a RIC, we generally will be subject to a corporate-level income tax on the income we do not distribute. Moreover, if we do not distribute at least; (1) 98% of our ordinary income during each calendar year, (2) 98.2% of our net capital gains realized in the period from November 1 of the prior year through October 31 of the current year, and (3) all such ordinary income and net capital gains for the previous years that were not distributed during those years, we generally will be subject to a 4% excise tax on certain undistributed amounts.

There are certain risks associated with the Company holding debt obligations that are treated under applicable tax rules as having original issue discount.

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (OID) (such as debt instruments with payment-in-kind, or PIK, interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discount or other income required to be included in taxable income prior to receipt of cash. Further, we may elect to amortize market discounts and include such amounts in our taxable income in the current year, instead of upon disposition, as an election not to do so would limit our ability to deduct interest expenses for tax purposes.

Any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual. Therefore, we may be required to make a distribution to our shareholders in order to satisfy the annual distribution requirement necessary to qualify for and maintain RIC tax treatment under Subchapter M of the Code, even though we will not have received any corresponding cash amount. As a result, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for or maintain RIC tax treatment and thus become subject to corporate-level income tax, as described in the previous risk factor regarding loss of pass-through tax treatment.

Additionally, the higher interest rates of OID instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID instruments generally represent a significantly higher credit risk than coupon loans. Even if the accounting conditions for income accrual are met, the borrower could still default when the Company's actual collection is supposed to occur at the maturity of the obligation.

OID instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID income may also create uncertainty about the source of the Company's cash distributions. For accounting

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purposes, any cash distributions to shareholders representing OID income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. Thus, despite the fact that a distribution of OID income comes from the cash invested by the shareholders, the 1940 Act does not require that shareholders be given notice of this fact by reporting it as a return of capital. PIK interest has the effect of generating investment income and potentially increasing the incentive fees payable to TTG Adviser at a compounding rate. In addition, the deferral of PIK interest also reduces the loan-to-value ratio at a compounding rate. Furthermore, OID creates the risk that fees will be paid to TTG Adviser based on non-cash accruals that ultimately may not be realized, while TTG Adviser will be under no obligation to reimburse the Company for these fees.

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 and other institutions or obtain debt sources of capital. Unfavorable economic conditions could increase our funding costs, limit our access to the public 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 facility or obtain other lines of credit at all or on terms acceptable to us.

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. For a further discussion of this allocation policy, please see Our Investment Strategy Allocation of Investment Opportunities above.

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

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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.

Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.

We intend to continue to qualify as a business development company (BDC) under the 1940 Act. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly-traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a business development company. If we decide to withdraw our election, or if we otherwise fail to qualify as a business development company, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business.

Changes in the law or regulations that govern business development companies and RICs, including changes in tax regulations, may significantly impact our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels, including federal securities law and federal taxation law. These laws and regulations, as well as their interpretation, may change from time to time. A change in these laws or regulations may significantly affect our business.

Results may fluctuate and may not be indicative of future performance.

Our operating results will fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. In addition to many of the above-cited risk factors, other factors could cause operating results to fluctuate including, among others, variations in the investment origination volume and fee income earned, variation in timing of prepayments, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions.

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 by third parties in derivative instruments that use our common stock as the referenced asset, including puts, calls, long-term equity participation securities, or LEAPs, or short trading positions;

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

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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.

We have not established a minimum dividend payment level and we cannot assure you of our ability to make distributions to our shareholders in the future.

We cannot assure that we will achieve investment results that will allow us to make cash distributions or year-to-year increases in cash distributions. Our ability to make distributions is impacted by, among other things, the risk factors described in this report. In addition, the asset coverage test applicable to us as a business development company can limit our ability to make distributions. Any distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status and such other factors as our board of directors may deem relevant from time to time. We cannot assure you of our ability to make distributions to our shareholders.

During certain periods, our distribution proceeds (dividends) have exceeded and may, in the future, exceed our taxable earnings and profits. Therefore, during those times, portions of the distributions that we make may represent a return of capital to you for tax purposes, which will reduce your tax basis in your shares.

During certain periods, our distribution proceeds have exceeded and may, in the future, exceed our earnings and profits. For example, in the event that we encounter delays in locating suitable investment opportunities, we may pay all or a portion of our distributions from the proceeds of any securities offering, from borrowings that were made in anticipation of future cash flow or from available funds. Therefore, portions of the distributions that we make may be a return of the money that you originally invested and represent a return of capital to you for tax purposes. A return of capital generally is a return of your investment rather than a return of earnings or gains derived from our investment activities and will be made after deducting the fees and expenses payable in connection with the offering. Such a return of capital is not taxable, but reduces your tax basis in your shares, which may result in higher taxes for you even if your shares are sold at a price below your original investment.

We have borrowed and may continue to borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

We have borrowed and may continue to borrow money (subject to the 1940 Act limits) in seeking to achieve our investment objective going forward. Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, can increase the risks associated with investing in our securities.

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Under the provisions of the 1940 Act, we are permitted, as a business development company, to borrow money or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

We may borrow from, and issue senior debt securities to, banks, insurance companies and other private and public lenders. Lenders of these senior securities have fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the NAV attributable to our common stock to increase more sharply than it would had we not used leverage. Conversely, if the value of our consolidated assets decreases, leveraging would cause the NAV to decline more sharply than it otherwise would had we not used leverage. Similarly, any increase in our consolidated income in excess of consolidated interest expense on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

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 facility as a means to bridge to long-term financing. Our long-term fixed-rate investments are financed primarily with equity and intermediate or long-term 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.

We may be unable to meet our covenant obligations under our credit facility or renew such 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 October 31, 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 would be the case if we were unable to renew such facility. 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

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future. There can be no assurance that future waivers or consents will be granted. During the year ended October 31, 2012, the Company requested Guggenheim's consent to waive compliance with a particular covenant of the Credit Facility. In order to obtain this waiver, the Company agreed to increase the interest rate on the Credit Facility if the Company did not meet a newly established covenant level that was more stringent than required in the Company's Credit Facility documents. The covenant level for an event of default remained the same. As of October 31, 2012, the Company has met all of its original covenant levels and is not in default, but was unable to meet the increased covenant level required by Guggenheim as part of the waiver obtained earlier in the year. As a result, the interest rate on the Credit Facility has increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate will be effective until the Company demonstrates that it has passed the higher covenant level. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. Although not currently expected, in the event we are unable to renew such facility (or enter into a similar facility), our business could be adversely affected by, among other things, being forced to sell a portion of our investments quickly and prematurely to meet outstanding financing obligations and/or support working capital requirements at what may be disadvantageous prices.

In addition, if we require working capital greater than that provided by the Credit Facility or are unable to renew 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.

A portion of our existing investment portfolio was not selected by the investment team of TTG Advisers.

As of October 31, 2012, 2.36% of the Company's assets were represented by Legacy Investments. These investments were made pursuant to the Company's prior investment objective of seeking long-term capital appreciation from venture capital investments in information technology companies. Generally, a cash return may not be received on these investments until a liquidity event, i.e., a sale, public offering or merger, occurs. Until then, these Legacy Investments remain in the Company's portfolio. The Company is managing them to seek to realize maximum returns.

Under the Advisory Agreement, TTG Advisers is entitled to compensation based on our portfolio's performance. This arrangement may result in riskier or more speculative investments in an effort to maximize incentive compensation. Additionally, because the base management fee payable under the Advisory Agreement is based on total assets less cash, TTG Advisers may have an incentive to increase portfolio leverage in order to earn higher base management fees.

The way in which the compensation payable to TTG Advisers is determined may encourage the investment team to recommend riskier or more speculative investments and to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would adversely affect our shareholders, including investors in this offering. In addition, key criteria related to determining appropriate investments and investment strategies, including the preservation of capital, might be under-weighted if the investment team focuses exclusively or disproportionately on maximizing returns.

There are potential conflicts of interest that could impact our investment returns.

Our officers and directors, and members of the TTG Advisers investment team, may serve other entities, including the PE Fund and others that operate in the same or similar lines of business as we do. Accordingly, they may have obligations to those entities, the fulfillment of which might not be in the best interests of us or our shareholders. It is possible that new investment opportunities that meet our investment objective may come to the attention of one of the management team members or our officers or directors in his or her role as an officer or director of another entity or as an investment professional associated with that entity, and, if so, such opportunity might not be offered, or otherwise made available, to us.

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Additionally, as an investment adviser, TTG Advisers has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if TTG Advisers manages any additional investment vehicles or client accounts (which includes its current management of the PE Fund), TTG Advisers will endeavor to allocate investment opportunities in a fair and equitable manner. When the investment professionals of TTG Advisers identify an investment, they will have to choose which investment fund should make the investment. As a result, there may be times when the management team of TTG Advisers has interests that differ from those of our shareholders, giving rise to a conflict. In an effort to mitigate situations that give rise to such conflicts, TTG Advisers adheres to a policy (which was approved by our Board of Directors) relating to allocation of investment opportunities, which generally requires, among other things, that TTG Advisers continue to offer the Company investment opportunities in mezzanine and debt securities as well as non-control equity investments in small and middle market U.S. companies. For a further discussion of this allocation policy, please see *Our Investment Strategy Allocation of Investment Opportunities* above.

Our relationship with any investment vehicle we or TTG Advisers manage could give rise to conflicts of interest with respect to the allocation of investment opportunities between us on the one hand and the other vehicles on the other hand.

Our subsidiaries are authorized to and serve as a general partner or managing member to a private equity or other investment vehicle(s) (*Other Vehicles*). We or TTG Advisers may serve as an investment manager, sub-adviser or portfolio manager to the Other Vehicles. This raises a potential conflict of interest with respect to allocation of investment opportunities to us, on the one hand and to the Other Vehicles on the other hand. In fact, our Board authorized the establishment of the PE Fund (See discussion on the PE Fund in *Management's Discussion and Analysis of Financial Condition and Results of Operations*). The PE Fund has generally been given priority on all Non-Diversified Investments, which investments would otherwise have been made available to us. (We note that we are currently restricted from making Non-Diversified Investments.) The Board and TTG Advisers have adopted an allocation policy (described above) to help mitigate potential conflicts of interest among us and similarly managed vehicles.

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.

Our financial condition and results of operations will depend on our ability to effectively manage our future growth.

Our ability to achieve our investment objective can depend on our ability to sustain continued growth. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide competent, attentive and efficient services and our access to financing sources on acceptable terms. As we grow, TTG Advisers may need to hire, train, supervise and manage new employees. Failure to effectively manage our future growth could have a material adverse effect on our business, financial condition and results of operations.

INVESTMENT RISKS

Investment risks are risks associated with our determination to execute on our business objective. These risks are not risks associated with general business conditions or those relating to an offering of our securities.

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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.

Our investments in small and middle-market privately-held companies are extremely risky and the Company could lose its 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 judgment 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.

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

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

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

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 not, and typically will not be, 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 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 October 31, 2012, the fair values of our two largest investments, Summit Research Labs, Inc. (Summit) and U.S. Gas & Electric, Inc. (U.S. Gas), comprised 19.3% and 23.5% 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. See the risk factor below regarding the industries in which Summit and U.S. Gas operate.

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As a result of our significant portfolio investment in Summit, we are particularly subject to the risks of that company and the specialty chemical industry.

Given the extent of our investment in Summit, the Company is particularly subject to the risks impacting Summit and the specialty chemicals industry.

Summit operates in a competitive marketplace. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Summit's competitors may be larger than it is and may have greater financial resources. These competitors may also be able to maintain significantly greater operating and financial flexibility than it does. As a result, these competitors may be better able to withstand changes in conditions within the industry, changes in the prices of raw materials and energy and in general economic conditions. Additionally, competitors pricing decisions could compel Summit to decrease its prices, which could affect its margins and profitability adversely. Summit's ability to maintain or increase its profitability is, and will continue to be, dependent upon its ability to offset changes in the prices and margins of its products by improving production efficiency and volume, shifting to higher margin chemical products and improving existing products through innovation and research and development. If it is unable to do so or to otherwise maintain its competitive position, it could lose market share to its competitors.

Additionally, downturns in the businesses that use Summit's specialty chemicals will adversely affect its sales. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices, and Summit may experience similar problems in the future. A decline in economic conditions in Summit's customers' cyclical industries may have a material adverse effect on its sales and profitability. Furthermore, increases in the price of the raw materials or energy utilized for Summit's products, or any disruption in the availability of such raw materials or energy, may have a material adverse effect on Summit's operating results.

Summit, like others in its industry, is subject to extensive federal, state, local and foreign environmental, health and safety laws and regulations concerning, among other things, emissions in the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. These requirements, and enforcement of these requirements, may become more stringent in the future. In addition, future regulatory or other developments could also restrict or eliminate the use of, or require Summit to make modifications to, its products, packaging, manufacturing processes and technology, which could have a significant adverse impact on its financial condition, results of operations and cash flows.

As a result of our significant portfolio investment in U.S. Gas, we are particularly subject to the risks of that company and the energy services industry.

Given the extent of our investment in U.S. Gas, the Company is particularly subject to the risks impacting U.S. Gas and the energy service industry.

U.S. Gas's operating results may fluctuate on a seasonal or quarterly basis and with general economic conditions. Weather conditions and other natural phenomena can also have an adverse impact on earnings and cash flows. Unusually mild weather in the future could diminish U.S. Gas's results of operations and harm its financial condition. U.S. Gas enters into contracts to purchase and sell electricity and natural gas as part of its operations. With respect to such transactions, the rate of return on its capital investments is not determined through mandated rates, and its revenues and results of operations are likely to depend, in large part, upon prevailing market prices for power in its regional markets and other competitive markets. These market prices can fluctuate substantially over relatively short periods of time. Trading margins may erode as markets mature and there may be diminished opportunities for gain should volatility decline. Fuel prices may also be volatile, and the price U.S. Gas can obtain for power sales may not change at the same rate as changes in fuel costs. These factors could reduce U.S. Gas's margins and therefore diminish its revenues and results of operations.

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U.S. Gas relies on a firm supply source to meet its energy management obligations for its customers. Should U.S. Gas's suppliers fail to deliver supplies of natural gas and electricity, there could be a material impact on its cash flows and statement of operations. U.S. Gas depends on natural gas pipelines and other storage and transportation facilities owned and operated by third parties to deliver natural gas to wholesale markets and to provide retail energy services to customers. If transportation or storage of natural gas is disrupted, including for reasons of force majeure, the ability of U.S. Gas to sell and deliver its services may be hindered. As a result, it may be responsible for damages incurred by its customers, such as the additional cost of acquiring alternative supply at then-current market rates. Additionally, U.S. Gas depends on transmission facilities owned and operated by unaffiliated power companies to deliver the power it sells at wholesale. If transmission is disrupted, or transmission capacity is inadequate, U.S. Gas may not be able to deliver its wholesale power.

U.S. Gas is subject to substantial regulation by federal, state and local regulatory authorities. It is required to comply with numerous laws and regulations and to obtain numerous authorizations, permits, approvals and certificates from governmental agencies. U.S. Gas cannot predict the impact of any future revisions or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to it. Changes in regulations or the imposition of additional regulations could influence its operating environment and may result in substantial costs to U.S. Gas.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

We anticipate making debt and minority equity investments; therefore, we will be subject to the risk that a portfolio company may make business decisions with which we disagree, and the shareholders and management of such company may take risks or otherwise act in ways that do not serve our interests. Due to the lack of liquidity in the markets for our investments in privately held companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.

Some of our loans to our portfolio companies may be structured to include customary business and financial covenants placing affirmative and negative obligations on the operation of each company's business and its financial condition. However, from time to time, we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay dividends and cause you to lose all or part of your investment.

Our portfolio companies may incur obligations that rank equally with, or senior to, our investments in such companies. As a result, the holders of such obligations may be entitled to payments of principal or interest prior to us, preventing us from obtaining the full value of our investment in the event of an insolvency, liquidation, dissolution, reorganization, acquisition, merger or bankruptcy of the relevant portfolio company.

Our portfolio companies may have other obligations that rank equally with, or senior to, the securities in which we invest. By their terms, such other securities may provide that the holders are entitled to receive

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payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in the relevant portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying investors that are more senior than us, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of other securities ranking equally with securities in which we invest, we would have to share on an equal basis any distributions with other investors holding such securities in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. As a result, we may be prevented from obtaining the full value of our investment in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

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 and our interests in affected portfolio companies.

Investing in our securities may involve a high degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our securities may not be suitable for someone with a low risk tolerance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Effective November 1, 2006, under the terms of the Advisory Agreement, TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company's offices continue to be located on the second floor of 287 Bowman Avenue, Purchase, NY 10577.

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material pending legal proceedings.

ITEM 4. (REMOVED AND RESERVED)

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's shares of common stock began to trade on the NYSE on June 26, 2000, under the symbol MVC. The Company had 8,993 shareholders on December 3, 2012.

The following table reflects, for the periods indicated, the high and low closing prices per share of the Company's common stock on the NYSE, by quarter.

QUARTER ENDED	HIGH	LOW
FISCAL YEAR 2012		
10/31/12	\$ 12.86	\$ 12.26
07/31/12	\$ 13.13	\$ 12.33
04/30/12	\$ 13.30	\$ 12.28
01/31/12	\$ 12.98	\$ 11.01
FISCAL YEAR 2011		
10/31/11	\$ 13.14	\$ 10.23
07/31/11	\$ 13.70	\$ 12.51
04/30/11	\$ 14.74	\$ 12.96
01/31/11	\$ 15.12	\$ 13.07

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PERFORMANCE GRAPH

This graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the Russell 2000 Financial Index for the fiscal years 2008 through 2012. The graph assumes that, on October 31, 2007, a person invested \$10,000 in each of our common stock, the S&P 500 Stock Index, and the Russell 2000 Financial Index. The graph measures total shareholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are reinvested in additional shares of our common stock. Past performance is no guarantee of future results.

Shareholder Return Performance Graph

Five-Year Cumulative Total Return¹

(Through October 31, 2012)

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS

As a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), the Company is required to distribute to its shareholders, in a timely manner, at least 90% of its investment company taxable and tax-exempt income each year. If the Company distributes, in a calendar year, at least (1) 98% of our ordinary income during each calendar year, (2) 98.2% of our capital gains realized in the period from November 1 of the prior year through October 31 of the current year, and (3) all such ordinary income and capital gains for previous years that were not distributed during those years, 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

¹ Total Return includes reinvestment of dividends through October 31, 2012. Past performance is no guarantee of future results.

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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 the Plan Agent in additional 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.

The Plan Agent serves as agent for the shareholders in administering the Plan. When we declare a dividend or distribution payable in cash or in additional shares of our common stock, those shareholders participating in the Plan will receive their dividend or distribution in additional shares of our common stock. Such shares will be either newly issued by us or purchased in the open market by the Plan Agent. If the market value of a share of our common stock on the payment date for such dividend or distribution equals or exceeds the NAV per share on that date, we will issue new shares at the NAV. If the NAV exceeds the market price of our common stock, the Plan Agent will purchase in the open market such number of shares of our common stock as is necessary to complete the distribution.

The Plan Agent will maintain all shareholder accounts in the Plan and furnish written confirmation of all transactions. Shares of our common stock in the Plan will be held in the name of the Plan Agent or its nominee and such shareholder will be considered the beneficial owner of such shares for all purposes.

There is no charge to shareholders for participating in the Plan or for the reinvestment of dividends and distributions. We will not incur brokerage fees with respect to newly issued shares issued in connection with the Plan. Shareholders will, however, be charged a pro rata share of any brokerage fee charged for open market purchases in connection with the Plan.

We may terminate the Plan upon providing written notice to each shareholder participating in the Plan at least 60 days prior to the effective date of such termination. We may also materially amend the Plan at any time upon providing written notice to shareholders participating in the Plan at least 30 days prior to such amendment (except when necessary or appropriate to comply with applicable law or rules and policies of the SEC or other regulatory authority). You may withdraw from the Plan upon providing notice to the Plan Agent. You may obtain additional information about the Plan from the Plan Agent. Below is a description of our dividends declared during fiscal years 2011 and 2012:

For the Quarter Ended January 31, 2011

On December 17, 2010, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on January 7, 2011 to shareholders of record on December 31, 2010. The total distribution amounted to \$2,878,918.

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During the quarter ended January 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,211 shares of our common stock at an average price of \$14.86, 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, 2011

On April 15, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on April 29, 2011 to shareholders of record on April 25, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended April 30, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,252 shares of our common stock at an average price of \$13.70, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended July 31, 2011

On July 15, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on July 29, 2011 to shareholders of record on July 25, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended July 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,693 shares of our common stock at an average price of \$12.56, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended October 31, 2011

On October 14, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on October 31, 2011 to shareholders of record on October 24, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended October 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,492 shares of our common stock at an average price of \$12.82, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

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.

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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.

For the Quarter Ended July 31, 2012

On July 13, 2012, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on July 31, 2012 to shareholders of record on July 24, 2012. The total distribution amounted to \$2,870,038.

During the quarter ended July 31, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 671 shares of our common stock at an average price of \$12.55, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended October 31, 2012

On October 15, 2012, the Company's Board of Directors declared a dividend of \$0.135 per share. The dividend was payable on October 31, 2012 to shareholders of record on October 25, 2012, which represents a 12.5% increase over the prior dividend. The total distribution amounted to \$3,228,793.

During the quarter ended October 31, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 766 shares of our common stock at an average price of \$12.29, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

The Company designated 100% of dividends declared and paid during the fiscal year ending October 31, 2012 from net operating income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003.

Corporate shareholders may be eligible for a dividend received deduction for certain ordinary income distributions paid by the Company. The Company designated 100% of dividends declared and paid during the fiscal year ending October 31, 2012 from net operating income as qualifying for the dividends received deduction. The information necessary to prepare and complete shareholder's tax returns for the 2012 calendar year will be reported separately on form 1099-DIV, if applicable, in January 2013.

The Company reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Company, and shareholders will be able to claim their proportionate share of the federal income taxes paid by the Company on such gains as a credit against their own federal income tax liabilities. Shareholders will also be entitled to increase the adjusted tax basis of their company shares by the difference between their undistributed capital gains and their tax credit.

Table of Contents**Purchases of Common Stock**

In fiscal 2012, as part of the Plan, we directed the Plan Agent to purchase a total of 3,193 shares of our common stock for an aggregate amount of approximately \$40,000 in the open market in order to satisfy the reinvestment portion of our dividends. The following chart outlines repurchases of our common stock during fiscal 2012.

Quarter Ended	Total Number of Shares Purchased	Average Price paid Per Share Including Commission
10/31/2012	766	\$ 12.29
7/31/2012	671	\$ 12.55
4/30/2012	648	\$ 12.95
1/31/2012	1,108	\$ 11.98

SHARE REPURCHASE PROGRAM

The Company had no unregistered sales of equity securities for the year ended October 31, 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 October 31, 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.

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Financial information for the fiscal years ended October 31, 2012, 2011, 2010, 2009 and 2008 are derived from the consolidated financial statements, which have been audited by Ernst & Young LLP, the Company's current 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. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

Selected Consolidated Financial Data

	Year Ended October 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Operating Data:					
Interest and related portfolio income:					
Interest and dividend income	\$ 25,205	\$ 11,450	\$ 19,315	\$ 21,755	\$ 26,047
Fee income	1,940	2,784	3,696	4,099	3,613
Fee income - asset management	2,300	396			
Other income	442	1,341	510	255	367
Total operating income	29,887	15,971	23,521	26,109	30,027
Expenses:					
Management fee	8,588	8,845	9,330	9,843	8,989
Portfolio fees - asset management	968				
Management fee - asset management	757	297			
Administrative	3,573	4,320	3,395	3,519	3,620
Interest and other borrowing costs	3,367	3,082	2,825	3,128	4,464
Net Incentive compensation (Note 5)	(5,937)	1,948	2,479	3,717	10,822
Total operating expenses	11,316	18,492	18,029	20,207	27,895
Total waiver by adviser	(2,554)	(251)	(150)		
Total net operating expenses	8,762	18,241	17,879	20,207	27,895
Net operating (loss) income before taxes	21,125	(2,270)	5,642	5,902	2,132
Tax expense (benefit), net	4	14	8	1,377	(936)
Net operating (loss) income	21,121	(2,284)	5,634	4,525	3,068
Net realized and unrealized gain (loss):					
Net realized (loss) gain on investments and foreign currency	(20,518)	(26,422)	32,188	(25,082)	1,418
Net change in unrealized appreciation (depreciation) on investments	(22,257)	35,677	(21,689)	34,804	59,465
Net realized and unrealized (loss) gain on investments and foreign currency	(42,775)	9,255	10,499	9,722	60,883
Net (decrease) increase in net assets resulting from operations	\$ (21,654)	\$ 6,971	\$ 16,133	\$ 14,247	\$ 63,951
Per Share:					
Net (decrease) increase in net assets per share resulting from operations	\$ (0.90)	\$ 0.30	\$ 0.66	\$ 0.59	\$ 2.63
Dividends per share	\$ 0.495	\$ 0.480	\$ 0.480	\$ 0.480	\$ 0.480
Balance Sheet Data:					
Portfolio at value	\$ 404,171	\$ 452,215	\$ 433,901	\$ 502,803	\$ 490,804
Portfolio at cost	332,432	358,219	375,582	422,794	445,600
Total assets	456,431	497,107	500,373	510,846	510,711

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Shareholders' equity	386,016	419,510	424,994	424,456	421,871
Shareholders' equity per share (net asset value)	\$ 16.14	\$ 17.54	\$ 17.71	\$ 17.47	\$ 17.36
Common shares outstanding at period end	23,917	23,917	23,991	24,297	24,297
Other Data:					
Number of Investments funded in period	11	13	5	6	15
Investments funded (\$) in period	\$ 11,300	\$ 43,235	\$ 8,332	\$ 6,293	\$ 126,300

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	2012				2011				2010			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Quarterly Data (Unaudited):												
Total operating income	6,148	3,931	16,164	3,644	3,421	3,482	4,544	4,524	5,130	5,257	5,336	7,798
Management fee	2,027	2,127	2,177	2,257	2,155	2,183	2,022	2,485	2,232	2,176	2,467	2,455
Portfolio fees asset management	106	338	462	62								
Management fee asset management	140	41	188	388			227	70				
Administrative	862	971	817	923	1,105	1,049	990	1,176	777	910	938	770
Interest, fees and other borrowing costs	886	854	832	795	783	784	745	770	770	767	647	641
Net Incentive compensation	(1,410)	(2,415)	(175)	(1,937)	3,483	(463)	531	(1,603)	2,504	(3,270)	2,225	1,020
Total waiver by adviser	(38)	(37)	(2,383)	(96)	(38)	(37)	(38)	(138)	(50)	(50)	(50)	
Tax expense	3			1	2		2	10	2		1	5
Net operating income (loss) before net realized and unrealized gains	3,572	2,052	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	(3,557)	(10,595)	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	(0.14)	(0.45)	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	16.14	16.42	16.99	17.04	17.54	17.1	17.32	17.33	17.71	17.35	17.89	17.64

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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 management team 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 fiscal year ended October 31, 2011, the Company made six new

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investments and made seven additional investments in four existing portfolio companies committing a total of \$43.2 million of capital to these investments. During the fiscal year ended October 31, 2012, the Company made two new investments and made nine additional investments in five existing portfolio companies committing a total of \$11.3 million of capital to these investments.

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 October 31, 2012, 2.36% 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 portfolio investments are made pursuant to our objective and strategy. We are concentrating our investment efforts on small and middle-market companies that, in our view, provide opportunities to maximize total return from capital appreciation and/or income. Under our investment approach, we are permitted to invest, without limit, in any one portfolio company, subject to any diversification limits required in order for us to continue to qualify as a RIC under Subchapter M of the Code. Due to our asset growth and composition, compliance with the RIC requirements currently restricts our ability to make 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, LLC (MVC Partners) for this purpose. Furthermore, the Board of Directors authorized the establishment of a PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP and which may raise up to \$250 million. 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 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. Previously, MVC Partners was presented as a Portfolio Company on the Schedule of Investments. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company. There are additional disclosures resulting from this consolidation. Please see Note 2 of our consolidated financial statements' Consolidation' for more information.

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

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investments that would otherwise be Non-Diversified Investments for the Company during the PE Fund's investment period. For a further discussion of this allocation policy, please see "Our Investment Strategy - Allocation of Investment Opportunities" above.

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 Fiscal Years Ended October 31, 2012, 2011 and 2010. Total operating income was \$29.9 million for the fiscal year ended October 31, 2012 and \$16.0 million for the fiscal year ended October 31, 2011, an increase of \$13.9 million. Fiscal year 2011 operating income decreased by \$7.5 million compared to fiscal year 2010 operating income of \$23.5 million.

For the Fiscal Year Ended October 31, 2012

Total operating income was \$29.9 million for the fiscal year ended October 31, 2012. The increase in operating income over the same period last year was primarily due to an increase in dividend income and fee income from asset management offset by a decrease in fees from portfolio companies and other income. The main components of operating income for the year ended October 31, 2012, was dividend income from portfolio companies and the interest earned on loans. The Company earned approximately \$25.2 million in interest and dividend income from investments in portfolio companies, of which \$12.0 million was a non-recurring dividend. Of the \$25.2 million recorded in interest/dividend income, approximately \$3.1 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 14%, 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 \$2.3 million and fee income from portfolio companies of approximately \$1.9 million, totaling approximately \$4.2 million. Of the \$2.3 million of fee income from asset management, 75% of the income is obligated to be paid to TTG Advisers. However, 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.

For the Fiscal Year Ended October 31, 2011

Total operating income was \$16.0 million for the fiscal year ended October 31, 2011. The decrease in operating income over the same period last year was primarily due to the repayment of investments that provided 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 \$11.5 million in interest and dividend income from investments in portfolio companies. Of the \$11.5 million recorded in interest/dividend income, approximately \$3.2 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 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 \$4.5 million.

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For the Fiscal Year Ended October 31, 2010

Total operating income was \$23.5 million for the fiscal year ended October 31, 2010. The decrease of \$2.6 million in operating income over the same period last year was primarily due to the repayment of investments that provided the Company with current income, reserves against non-performing loans and a decrease in fee income because of fewer new investments closed. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately \$19.3 million in interest and dividend income from investments in portfolio companies. Of the \$19.3 million recorded in interest/dividend income, approximately \$5.6 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 1.3% to 17% excluding those investments in which accrued interest is being reserved against. The Company received fee income and other income from portfolio companies and other entities totaling approximately \$4.2 million.

OPERATING EXPENSES

For the Fiscal Years Ended October 31, 2012, 2011 and 2010. Net Operating expenses were \$8.8 million for the fiscal year ended October 31, 2012 and \$18.2 million for the fiscal year ended 2011, a decrease of \$9.4 million. Fiscal year 2011 operating expenses increased by approximately \$300,000 compared to fiscal year 2010 operating expenses of \$17.9 million.

For the Fiscal Year Ended October 31, 2012

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$8.8 million or 2.17% of the Company's average net assets, when annualized, for the year ended October 31, 2012. Significant components of operating expenses for the year ended October 31, 2012 were management fee expense totaling approximately \$9.3 million, which includes management fees related to the Company of approximately \$8.6 million and the PE Fund of approximately \$757,000, and interest and other borrowing costs of approximately \$3.4 million.

The \$9.4 million decrease in the Company's net operating expenses for the year ended October 31, 2012 compared to the year ended October 31, 2011, was primarily due to the \$7.9 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 \$968,000 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 through 2012 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 23, 2012, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% and the Voluntary Waiver to the 2013 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 fiscal year 2012, the Company's expense ratio was 3.18% and 2.95%, 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 year ended October 31, 2012, the provision for incentive compensation was decreased by a net amount of approximately \$8.3 million to approximately \$15.7 million. The net decrease in the provision for incentive compensation during the year ended October 31,

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2012 reflects the Valuation Committee's determination to decrease the fair values of eleven portfolio investments (BP, HH&B, MVC Automotive Group B.V. (MVC Automotive), Security Holdings, SGDA Europe, NPWT, SIA Tekers Invest (Tekers), Velocitius B.V. (Velocitius), BPC II, LLC (BPC), Centile and Ohio Medical Corporation (Ohio Medical)) by a total of \$35.4 million and the dividend distribution of \$12.0 million received from Summit Research Labs, Inc. (Summit). The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of five portfolio investments (Octagon Fund, Vestal Manufacturing Enterprises, Inc. (Vestal), Octagon Credit Investors, LLC (Octagon), Turf Products, LLC (Turf) and RuMe) by a total of approximately \$5.7 million. The Valuation Committee also increased the fair value of the Company's escrow receivable related to Vitality by \$130,000. For the year ended October 31, 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 5 of our consolidated financial statements Incentive Compensation for more information.

For the Fiscal Year Ended October 31, 2011

Operating expenses, net of the Voluntary Waiver defined below, were approximately \$18.2 million or 4.38% of the Company's average net assets for the fiscal year ended October 31, 2011. Significant components of operating expenses for the fiscal year ended October 31, 2011 were management fee expense of \$9.1 million and interest and other borrowing costs of approximately \$3.1 million.

The \$300,000 increase in the Company's operating expenses for the fiscal year ended October 31, 2011 compared to the fiscal year ended October 31, 2010, was primarily due to the increases in interest and other borrowing costs, legal and other expenses totaling approximately \$1.0 million offset by the decreases in management fee and the estimated provision for incentive compensation expense of approximately \$700,000. 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 26, 2010, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011 fiscal year. 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 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 fiscal year 2011, the Company's expense ratio was 2.95% and 3.18%, 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 fiscal year ended October 31, 2011, the 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, realized gains of approximately \$55,000 and \$317,000 from the Octagon Fund and LHD Europe Holding, Inc. (LHD Europe), respectively, 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., Inc. (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 Capital Company, Inc. (HuaMei), Tekers, Octagon Fund, NPWT,

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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. Please see Note 5 of our consolidated financial statements *Incentive Compensation* for more information.

For the Fiscal Year Ended October 31, 2010

Operating expenses, net of the Voluntary Waiver, were \$17.9 million or 4.19% of the Company's average net assets for the fiscal year ended October 31, 2010. Significant components of operating expenses for the fiscal year ended October 31, 2010, included the management fee of \$9.3 million, interest and other borrowing costs of approximately \$2.8 million and incentive compensation expense of approximately \$2.5 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The \$2.2 million decrease in the Company's operating expenses for the fiscal year ended October 31, 2010 compared to the fiscal year ended October 31, 2009, was primarily due to the \$1.2 million decrease in the estimated provision for incentive compensation expense, an approximately \$500,000 decrease in management fee expense and an approximately \$300,000 decrease in interest and other borrowing costs. 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 fiscal year 2009 and fiscal year 2010, the Company's expense ratio was 3.23% and 2.95%, respectively, (taking into account the same carve outs as those applicable to the expense cap). 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.

Pursuant to the terms of the Advisory Agreement, during the fiscal year ended October 31, 2010, the provision for incentive compensation was increased by a net amount of \$2.5 million to \$22.0 million. The increase in the provision for incentive compensation reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies and the sale of Vitality for a realized gain of \$13.9 million. The difference between the amount received from the sale and Vitality's carrying value at October 31, 2009 was an increase of \$3.0 million. The amount of the provision also reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Octagon, Summit, Velocitius, LHD Europe, PreVisor, Inc. (*PreVisor*), U.S. Gas, Vestal and Dakota Growers Pasta Company, Inc. (*Dakota Growers*)) by a total of \$54.2 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 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 ten of the Company's portfolio investments (Amersham Corporation (*Amersham*), BP, Ohio Medical, MVC Automotive, Security Holdings, Harmony Pharmacy, GDC Acquisition, LLC (*GDC*), SGDA Europe, Turf and SGDA) by a total of \$50.5 million and the Valuation Committee determination not to increase the fair values of the Amersham loan, the BP second lien loan and the GDC senior subordinated loan for the accrued PIK interest totaling approximately \$732,000. As of October 31, 2010, the Company does not anticipate an incentive compensation payment being made to TTG Advisers for fiscal year 2010 based on the terms of the Advisory Agreement. During the fiscal year ended October 31, 2010, 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 5 of the consolidated financial statements, *Incentive Compensation* for more information.

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REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES

For the Fiscal Years Ended October 31, 2012, 2011 and 2010. Net realized losses for the fiscal year ended October 31, 2012 were \$20.5 million and for the fiscal year ended October 31, 2011 were \$26.4 million, a decrease of approximately \$5.9 million. Net realized gains for the fiscal year ended October 31, 2010 were \$32.2 million.

For the Fiscal Year Ended October 31, 2012

Net realized losses for the year ended October 31, 2012 were approximately \$20.5 million. The significant components of the Company's net realized losses for the year ended October 31, 2012 were primarily due to the reorganization of BP, the sale of Safestone Technologies Limited (Safestone), and the realization of the losses on GDC and MVC Partners, which were partially offset by the realized gain from the sale of SHL Group Limited.

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. On June 20, 2012, BP completed the bankruptcy process, which resulted in a realized loss of approximately \$23.4 million on the Company's second lien loan, term loan A and term loan B.

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 year ended October 31, 2012, the Company received distributions from the Octagon Fund of approximately \$45,000, which were treated as realized gains.

On July 10, 2012, the Company sold its 21,064 common shares of Safestone, a Legacy Investment. The amount received from the sale was approximately \$50,000 and resulted in a realized loss of approximately \$2.0 million.

On August 9, 2012, the Company sold its common shares of SHL Group Limited and received gross proceeds of approximately \$15.3 million, resulting in a realized gain of approximately \$9.2 million. The \$15.3 million in proceeds includes all transaction expenses and approximately \$225,000 held in escrow, which was fair valued at \$135,000 as of October 31, 2012.

On October 31, 2012, the Company realized the loss of approximately \$3.2 million on GDC because GDC was no longer doing business due to alleged accounting discrepancies, which has resulted in an investigation by the U.S. Department of Justice.

During the year ended October 31, 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 fiscal year ended October 31, 2012, the Company realized a loss on its investment in MVC Partners of approximately \$1.4 million. Please see Note 2 of our consolidated financial statements Consolidation for more information.

During the year ended October 31, 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.

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For the Fiscal Year Ended October 31, 2011

Net realized losses for the fiscal year ended October 31, 2011 were \$26.4 million. The significant components of the Company's net realized losses for the fiscal year ended October 31, 2011 was primarily due to the loss on the sale of Harmony Pharmacy common stock, demand notes and revolving credit facility, the dissolution of Amersham, the dissolution of Sonexis and the sale of HuaMei common stock. A portion of these losses were offset by the gains on the sale of LHD Europe common stock, SPDR Barclays Capital High Yield Bond Fund, the iShares S&P U.S. Preferred Stock Index Fund, and distributions from the Octagon 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.

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, Inc., a Legacy Investment, completed the dissolution of its operations and the sales of its assets. The Company realized a loss of \$10.0 million as a result of this dissolution.

During the fiscal year ended October 31, 2011, the Company received distributions from Octagon Fund of approximately \$55,000 which were treated as realized gains.

During the fiscal year ended October 31, 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.

For the Fiscal Year Ended October 31, 2010

Net realized gains for the fiscal year ended October 31, 2010 were \$32.2 million. The significant components of the Company's net realized gains for the fiscal year ended October 31, 2010 were primarily due to the gains on the sale of Vitality Foodservice, Inc. (Vitality) common and preferred stock and warrants and the sale of Dakota Growers common and preferred stock which were offset by the losses on the sale of Vendio common and preferred stock and Phoenix Coal common stock.

On December 29, 2009, the Company sold its common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately \$10.0 million, for the 1 million preferred shares was approximately \$14.0 million, and for the 1 million warrants was approximately \$3.8 million. As part of this transaction, there was approximately \$2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the

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Company received its first scheduled disbursement from the Vitality escrow totaling approximately \$522,000. There were no claims against the escrow, so 100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company's share of the proceeds from the working capital adjustment totaled approximately \$471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately \$993,000. The value of the escrow was increased by \$150,000 by the Valuation Committee during the fiscal year ended October 31, 2010. This escrow is currently valued at approximately \$1.9 million on the Company's consolidated balance sheet as of October 31, 2010. The total amount received from the sale as of October 31, 2010 was approximately \$30.6 million resulting in a realized gain of approximately \$13.9 million, which was treated as a long-term capital gain.

On March 10, 2010, the Company announced that its portfolio company, Dakota Growers had signed a definitive merger agreement with Viterra Inc. (TSX: VT) (Viterra), Canada's leading agri-business that provides premium quality ingredients to leading global food manufacturers, under which Dakota Growers would be acquired by a subsidiary of Viterra for approximately \$240 million in cash. Under the terms of the agreement, Viterra would commence a tender offer to acquire all of the outstanding shares of Dakota Growers' common stock at a price of \$18.28 per share resulting in anticipated proceeds of approximately \$37.9 million. The acquisition closed shortly after completion of a tender of a majority (50.1%) of the outstanding shares of Dakota Growers common stock, the receipt of various regulatory approvals and the satisfaction of other customary closing conditions and contingencies. On May 3, 2010, the Company converted its 1,065,000 preferred shares of Dakota Growers to 1,065,000 common shares of Dakota Growers. On May 6, 2010, the Company tendered its shares in Dakota Growers for approximately \$37.9 million, resulting in a realized gain of approximately \$22.0 million.

On July 2, 2010, the Company sold its common and preferred stock of Vendio Services, Inc. (Vendio), a legacy investment. The amount received from the sale of the 10,476 common shares was approximately \$2,900 and for the 6,443,188 preferred shares was approximately \$2.9 million, which resulted in a realized loss of approximately \$3.5 million, including proceeds held in escrow. As part of this transaction, there was approximately \$465,205 deposited in an escrow account, subject to a reduction over an eighteen month period. This escrow is valued at approximately \$180,000 on the Company's consolidated balance sheet as of October 31, 2010.

During the fiscal year ended October 31, 2010, the Company sold the remaining 666,667 shares of Phoenix Coal Corporation (Phoenix Coal) common stock. The total amount received from the sale net of commission was approximately \$295,000, resulting in a realized loss of approximately \$205,000.

UNREALIZED APPRECIATION AND DEPRECIATION ON PORTFOLIO SECURITIES

For the Fiscal Years Ended October 31, 2012, 2011 and 2010. The Company had a net change in unrealized depreciation on portfolio investments of \$22.3 million for the fiscal year ended October 31, 2012 and a net change in unrealized appreciation of \$35.7 million for the fiscal year ended October 31, 2011, a decrease of \$58.0 million. The Company had a net change in unrealized depreciation on portfolio investments of \$21.7 million for the fiscal year ended October 31, 2010.

For the Fiscal Year Ended October 31, 2012

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$22.3 million for the year ended October 31, 2012. The change in unrealized depreciation for the year ended October 31, 2012 primarily resulted from the \$12.0 million cash dividend received from Summit, the reclassification from unrealized to realized, caused by the sale of SHL Group Limited of approximately \$9.2 million and the Valuation Committee's decision to decrease the fair values of the Company's investments in

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BP term loan A by \$100,000, HH&B common stock by \$900,000, MVC Automotive equity interest by approximately \$8.9 million, SGDA Europe equity interest by approximately \$2.6 million, Security Holdings equity interest by approximately \$9.2 million, BPC equity interest by \$180,000, MVC Partners equity interest by approximately \$1.1 million, NPWT common and preferred stock by approximately \$31,000 and \$560,000, respectively, Tekers common stock by \$278,000, Velocitius equity interest by approximately \$3.4 million, Ohio Medical preferred stock by \$8.4 million, Centile equity interest by approximately \$34,000 and value the liability associated with the Ohio Medical guarantee at \$825,000. These changes in unrealized depreciation were partially off-set by the reclassifications from unrealized depreciation to realized losses caused by BP, Safestone, MVC Partners and GDC of approximately \$29.9 million and the Valuation Committee decision to increase the fair values of the Company's investments in Octagon Fund by approximately \$227,000, RuMe preferred stock by approximately \$417,000, Turf equity interest by approximately \$153,000, MVCFS General Partnership interest in the PE Fund by approximately \$1,000, Octagon equity interest by \$700,000 and Vestal common stock by approximately \$4.2 million.

For the Fiscal Year Ended October 31, 2011

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$35.7 million for the fiscal year ended October 31, 2011. The change in unrealized appreciation on investment transactions for the fiscal year ended October 31, 2011 primarily resulted from the increase in unrealized appreciation reclassification from unrealized to realized, caused by the sales of Harmony Pharmacy and HuaMei and the dissolutions of Amersham and Sonexis of approximately \$26.9 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 \$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. 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 \$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.

For the Fiscal Year Ended October 31, 2010

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$21.7 million for the fiscal year ended October 31, 2010. The change in unrealized depreciation on investment transactions for the fiscal year ended October 31, 2010 primarily resulted from the increase in unrealized depreciation due to the reclassification from unrealized to realized, caused by the sale of Vitality, Dakota Growers, and Vendio, of approximately \$29.2 million. The other components in the change in unrealized depreciation are the Valuation Committee's decision to increase the fair value of the Company's investments in Dakota Growers common stock by approximately \$3.4 million and preferred stock by approximately \$3.6 million, Octagon equity interest by \$1.5 million, Summit common stock by \$22.0 million, Velocitius equity interest by \$1.7 million, PreVisor common stock by \$3.4 million, U.S. Gas preferred stock by \$17.8 million, Vestal common stock by \$600,000 and LHD Europe series A common stock by approximately \$166,000 and series B common stock by approximately \$58,000. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 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 Amersham second lien notes by \$2.4 million, BP second lien loan by \$14.1 million, Ohio Medical common stock

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by \$8.6 million, SGDA preferred equity interest by approximately \$2.4 million, MVC Automotive equity interest by \$2.4 million, Security Holdings equity interest by approximately \$6.4 million, SGDA Europe equity interest by approximately \$4.1 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of \$6.4 million, Turf equity interest by \$500,000, GDC senior subordinated loan by approximately \$3.2 million and Vendio preferred stock by approximately \$1.9 million and common stock by \$5,500 during the fiscal year ended October 31, 2010. The net decrease of \$6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by \$7.5 million and ascribed value of \$1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Amersham loan, BP second lien loan, and GDC senior subordinated loan for the accrued PIK interest totaling approximately \$732,000.

PORTFOLIO INVESTMENTS

For the Fiscal Years Ended October 31, 2012 and 2011. The cost of the portfolio investments held by the Company at October 31, 2012 and 2011 was \$332.4 million and \$358.2 million, respectively, representing a decrease of \$25.8 million. The primary reasons for the decrease in the cost of the portfolio investments are the realizations on investments and repayment of debt investments, as well as other factors. The aggregate fair value of portfolio investments at October 31, 2012 and at October 31, 2011 was \$404.2 million and \$452.2 million, respectively, representing a decrease of \$48.0 million. The cost and aggregate market value of cash and cash equivalents held by the Company at October 31, 2012 and 2011 was \$42.6 million and \$35.2 million, respectively, representing an increase of approximately \$7.4 million.

For the Fiscal Year Ended October 31, 2012

During the fiscal year ended October 31, 2012, the Company made two new investments, committing capital totaling \$2.5 million. The investments were made in Freshii (\$1.0 million) and Biovation (\$1.5 million).

During the fiscal year ended October 31, 2012, the Company made nine follow-on investments in five existing portfolio companies totaling approximately \$8.8 million. The Company through MVC Partners Limited Partnership interest and MVCFS General Partnership interest contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of October 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. 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 September 17, 2012, the Company loaned SGDA \$360,000, increasing the term loan to approximately \$6.5 million at October 31, 2012 and extended the maturity date to August 31, 2014. On October 3, 2012, the Company increased its common equity interest in Centile by approximately \$173,000, which was fair valued at \$3.1 million as of October 31, 2012.

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 October 31, 2012, the amount guaranteed was approximately \$21.1 million and the guarantee obligation was fair valued at \$825,000 by the Valuation Committee.

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. On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the Company's second lien loan, term loan A and term loan B. As a result of the bankruptcy process, the Company received a limited liability company interest in BPC.

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 October 31, 2012.

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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 \$12.0 million reduction in the fair value of the common stock.

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.

On June 27, 2012, IPC completed the liquidation process filed under Chapter 7. There was no realized gain or loss as a result of the liquidation.

On July 10, 2012, the Company sold its 21,064 common shares of Safestone Limited, a Legacy Investment, which had a fair value of \$0. The amount received from the sale was approximately \$50,000 and resulted in a realized loss of approximately \$2.0 million.

On August 9, 2012, the Company sold its common shares of SHL Group Limited and received gross proceeds of approximately \$15.3 million, resulting in a realized gain of approximately \$9.2 million. The \$15.3 million in proceeds includes all transaction expenses and approximately \$225,000 held in escrow, which had a fair value of \$135,000 as of October 31, 2012.

On October 12, 2012, the Company received a dividend from U.S. Gas of approximately \$2.4 million. U.S. Gas's board approved an initial dividend to its shareholders, with future distributions projected to be paid quarterly. The Company anticipates receiving dividends from U.S. Gas for as long as it maintains its equity investment in U.S. Gas, and its cash flows can support the dividend. Each quarterly dividend must be approved by U.S. Gas's board of directors and be permissible under its gas and electric supply credit agreement.

During the fiscal year ended October 31, 2012, Marine Exhibition Corporation (Marine) made principal payments totaling \$600,000 on its senior subordinated loan. As of October 31, 2012, the balance of the loan was approximately \$11.8 million.

During the fiscal year ended October 31, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$976,000. The outstanding balance of the tranche A term loan was approximately \$3.0 million.

During the fiscal year ended October 31, 2012, the Company realized a loss on its investment in MVC Partners of approximately \$1.4 million. Please see Note 2 of our consolidated financial statements Consolidation for more information.

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's 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, Velocitus equity interest by approximately \$1.9 million. The Valuation Committee also determined to value the liability associated with

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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 quarter ended July 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by approximately \$1.2 million and RuMe preferred stock by approximately \$417,000. 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 \$759,887. The Valuation Committee also decreased the fair value of the Company's investments in BPC equity interest by \$180,000, HH&B common stock by \$150,000, MVC Automotive equity interest by approximately \$1.1 million, MVC Partners equity interest by approximately \$565,000, Security Holdings equity interest by approximately \$6.5 million, SGDA Europe equity interest by approximately \$3.1 million, Tekers common stock by \$141,000, Turf equity interest by \$618,000 and Velocitius equity interest by approximately \$1.9 million. Also, during the quarter ended July 31, 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 \$107,000.

During the quarter ended October 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by approximately \$1.8 million, Octagon equity interest by \$700,000, Velocitius equity interest by approximately \$2.5 million, Turf equity interest by \$271,000, SGDA Europe equity interest by \$239,000, Tekers common stock by \$139,000 and MVCFS General Partnership interest in the PE Fund 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, Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$836,104. The Valuation Committee also decreased the fair value of the Company's investments in HH&B common stock by \$150,000, MVC Automotive equity interest by \$362,000, MVC Partners equity interest by approximately \$71,000, Security Holdings equity interest by approximately \$3.0 million, Ohio Medical preferred stock and guarantee by \$8.4 million and \$125,000, respectively, NPWT common and preferred stock by approximately \$25,000 and \$440,000, respectively, and Centile equity interest by approximately \$34,000. Also, during the quarter ended October 31, 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 \$99,000.

During the fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, RuMe preferred stock by approximately \$417,000, Turf equity interest by approximately \$153,000, MVCFS General Partnership interest in the PE Fund by approximately \$1,000, Octagon equity interest by \$700,000 and Vestal common stock by approximately \$4.2 million. 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 \$3,131,042. The Valuation Committee also

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decreased the fair value of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$900,000, MVC Automotive equity interest by approximately \$8.9 million, SGDA Europe equity interest by approximately \$2.6 million, Security Holdings equity interest by approximately \$9.2 million, BPC equity interest by \$180,000, MVC Partners equity interest by approximately \$1.1 million, NPWT common and preferred stock by approximately \$31,000 and \$560,000, respectively, Tekers common stock by \$278,000, Velocitius equity interest by approximately \$3.4 million, Ohio Medical preferred stock by \$8.4 million, Centile equity interest by approximately \$34,000 and valued the liability associated with the Ohio Medical guarantee at \$825,000. Also, during the fiscal year ended October 31, 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 \$188,000.

At October 31, 2012, the fair value of all portfolio investments, exclusive of short-term investments, was \$404.2 million with a cost basis of \$332.4 million. At October 31, 2012, the fair value and cost basis of portfolio investments of the Legacy Investments were \$10.8 million and \$30.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team were \$393.4 million and \$303.5 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 (\$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.

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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 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.

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 sales 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 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.

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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 Velocitius 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,

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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 \$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 fiscal year ended October 31, 2012, the Company had investments in the following portfolio companies:

Actelis Networks, Inc.

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

At October 31, 2011 and October 31, 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.

Biovation Holdings Inc.

Biovation, Mankato, Minnesota, is a manufacturer and marketer of environmentally friendly, organic and sustainable laminate materials and composites.

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On May 22, 2012, the Company invested \$1.5 million in Biovation in the form of a loan. The loan bears annual interest at 12% and matures on February 28, 2014.

At October 31, 2012, the Company's investment in Biovation had an outstanding balance, cost basis and fair value of approximately \$1.5 million.

Peter Seidenberg, Chief Financial Officer of the Company, and Jim Lynch, a representative of the Company, serve as directors of Biovation.

BP Clothing, LLC

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

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, agreed to support a Chapter 11.

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the term loan A by \$100,000.

On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the Company's second lien loan, term loan A and term loan B. As a result of the bankruptcy process, the Company received a limited liability company interest in BPC.

At October 31, 2012, the Company no longer held an investment in BP.

BPC II, LLC

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

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, agreed to support a Chapter 11.

On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the second lien loan, term loan A and term loan B. As a result of the bankruptcy process, the Company received limited liability company interest in BPC.

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During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the limited liability company interest in BPC by \$180,000.

At October 31, 2012, the equity investment had a cost basis of \$180,000 and a fair value of \$0.

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, the Company's investment in Centile consisted of common equity interest at a cost and fair value of approximately \$3.0 million.

On October 3, 2012, the Company increased its common equity interest in Centile by approximately \$173,000.

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common equity interest by approximately \$34,000.

At October 31, 2012, the Company's investment in Centile consisted of common equity interest at a cost of \$3.2 million and a fair value of approximately \$3.1 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 and 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 was to mature on September 18, 2012, had a cost of \$14.5 million and a fair value of \$14.6 million.

At October 31, 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, outstanding balance and fair value of approximately \$15.6 million. The Company extended the maturity date of the loan to June 18, 2013. 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.

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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 October 31, 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 October 31, 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 11, 2017, 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 October 31, 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, the capitalization of payment in kind interest 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, was a distributor of commercial lighting and electrical products.

At October 31, 2011, 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 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.

On October 31, 2012, the Company realized the loss of approximately \$3.2 million because GDC was no longer doing business due to alleged accounting discrepancies, which has resulted in an investigation by U.S. Department of Justice.

At October 31, 2012, the Company no longer held an investment in GDC.

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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 fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common stock by \$900,000.

At October 31, 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 \$100,000.

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, 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.

On June 27, 2012, IPC completed the liquidation process filed under Chapter 7. There was no realized gain or loss as a result of the liquidation.

At October 31, 2012, the Company no longer held an investment in IPC.

JSC Tekers Holdings

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

At October 31, 2011 and October 31, 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 October 31, 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.

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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 October 31, 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 August 30, 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 fiscal year ended October 31, 2012, Marine made principal payments totaling \$600,000 on its senior secured loan.

At October 31, 2012, the Company's senior secured loan had an outstanding balance, cost basis and fair value of approximately \$11.8 million. The preferred stock had a cost and fair value of approximately \$3.3 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock is due to the amortization of loan origination fees and the capitalization of payment in kind interest/dividends. These increases were approved by the Company's Valuation Committee.

MVC Automotive Group B.V.

MVC Automotive, an Amsterdam-based holding company, owns and operates ten 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 fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the equity interest by approximately \$8.9 million.

At October 31, 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 \$33.5 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 \$5.2 million at October 31, 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.

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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 fiscal year ended October 31, 2012, the Company made three follow-on investments in MVC Partners totaling approximately \$8.0 million, which was used to fund MVC Partners' limited partnership commitment to the PE Fund.

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the equity interest in MVC Partners by approximately \$1.1 million.

During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. Previously, MVC Partners was presented as a Portfolio Company on the Schedule of Investments. See MVC Private Equity Fund, L.P. below for more information.

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 and is exempt from the requirement to register with the Securities and Exchange Commission as an investment adviser under Section 203 of the Investment Advisers Act of 1940. 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 the remaining 75% of the management and other fees generated by the PE Fund and its portfolio companies and any carried interest generated by the PE Fund. 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. 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. The PE Fund's term will end on October 29, 2016; unless the GP, in its sole discretion, extends the term of the PE Fund for two additional periods of one year each.

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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 fiscal year ended October 31, 2012, the Company, via MVCFS, made three investments in MVC PE Fund totaling approximately \$204,000 in the form of a general partnership interest.

During the fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the general partnership interest in the PE Fund by approximately \$1,000.

During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. At October 31, 2012, the cost basis of the limited partnership interest in the PE Fund was equal to the investments made in the PE Fund of approximately \$8.0 million and had a fair value of approximately \$8.1 million.

At October 31, 2012, the Company's general partnership interest in the PE Fund had a cost basis of approximately \$204,000 and fair value of approximately \$206,000.

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 fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common stock by approximately \$31,000 and the preferred stock by approximately \$560,000.

At October 31, 2012, the common stock had a cost basis of approximately \$1.2 million and a fair value of \$25,000. The convertible preferred stock had a cost basis of \$0 and a fair value of \$440,000.

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.

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During the fiscal year ended October 31, 2012, the cost basis and fair value of the equity investment was increased by approximately \$188,000 because of an allocation of flow through income by the Company's Valuation Committee.

During the fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the equity investment by \$700,000.

At October 31, 2012, the equity investment had a cost basis of approximately \$2.4 million and a fair value of \$6.2 million.

Octagon High Income Cayman Fund Ltd.

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 fiscal year ended October 31, 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 October 31, 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. The amount guaranteed was approximately \$19.0 million and initially fair valued at \$700,000 by the Valuation Committee.

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the preferred stock by \$8.4 million and increased the guarantee obligation by \$125,000.

At October 31, 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 21,176 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$31.1 million. The guarantee obligation had a fair value of negative \$825,000.

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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 fiscal year ended October 31, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$976,000.

At October 31, 2012, the loans had a combined outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 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, 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.

During the fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the preferred stock by approximately \$417,000.

At October 31, 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 of approximately \$1.0 million and a fair value of approximately \$1.4 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, 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.

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On July 10, 2012, the Company sold its 21,064 common shares of Safestone Limited. The amount received from the sale was approximately \$50,000 and resulted in a realized loss of approximately \$2.0 million.

At October 31, 2012, the Company no longer held an investment in Safestone Limited.

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.

On August 29, 2012, TTG Advisers extended a short-term, below market interest rate loan to FIMA. Our Board of Directors, including all of the Independent Directors, approved the loan (Mr. Tokarz recused himself from making a determination or recommendation on this matter).

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common equity interest by \$9.2 million.

At October 31, 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 \$24.0 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 fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common equity interest by approximately \$2.6 million.

At October 31, 2012, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of approximately \$7.9 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.

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At October 31, 2011, 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.

On September 17, 2012, the Company loaned SGDA \$360,000, increasing the term loan to approximately \$6.5 million and extended the maturity date to August 31, 2014.

At October 31, 2012, the Company's investment in SGDA consisted of a term loan with an outstanding balance and cost basis of approximately \$6.5 million. The term loan bears annual interest at 7.0%. The term loan was fair valued at approximately \$6.5 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.

On August 9, 2012, the Company sold its common shares of SHL Group Limited and received gross proceeds of approximately \$15.3 million, resulting in a realized gain of approximately \$9.2 million. The \$15.3 million in proceeds includes all transaction expenses and approximately \$225,000 held in escrow, which had a fair value of \$135,000 as of October 31, 2012.

At October 31, 2012, the Company no longer held an investment in SHL Group Limited.

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 fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the common stock by \$278,000.

At October 31, 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 150,000 euros at October 31, 2012, equivalent to approximately \$194,000. This guarantee was taken into account in the valuation of Tekers.

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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 \$12.0 million reduction in the fair value of the common stock.

At October 31, 2012, the Company's second lien loan had an outstanding balance of approximately \$11.9 million with a cost of approximately \$11.8 million. The second lien loan was fair valued at approximately \$11.9 million. The maturity date for the second lien loan was extended to September 30, 2017. The 1,115 shares of common stock were fair valued at \$62.5 million and had a cost basis of \$16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

Michael Tokarz, Chairman of the Company, 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 October 31, 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 and fair value 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 fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the membership interest by \$153,000.

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At October 31, 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 \$2.9 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 was to mature 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.

On October 12, 2012, the Company received a dividend from U.S. Gas of approximately \$2.4 million. U.S. Gas' board approved an initial dividend to its shareholders, with future distributions projected to be paid quarterly. The Company anticipates receiving dividends from U.S. Gas for as long as it maintains its equity investment in U.S. Gas, and its cash flows can support the dividend. Each quarterly dividend must be approved by U.S. Gas' board of directors and be permissible under its gas and electric supply credit agreement.

At October 31, 2012, the second lien loan had an outstanding balance, cost basis and a fair value of approximately \$9.6 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 maturity date for the second lien loan was extended to July 25, 2015. The convertible Series I preferred stock had a fair value of \$81.1 million and a cost of \$500,000 and the convertible Series J preferred stock had a cost and fair value of \$0. The value of the Series J preferred shares was allocated to the Series I preferred shares as a result of share buybacks, cancellations of certain other shareholders shares and U.S. Gas exceeding performance targets.

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

Velocitus B.V.

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

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

During the fiscal year ended October 31, 2012, the Valuation Committee decreased the fair value of the equity investment by approximately \$3.4 million.

At October 31, 2012, the equity investment in Velocitus had a cost of \$11.4 million and a fair value of \$21.7 million.

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

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Vestal Manufacturing Enterprises, Inc.

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

At October 31, 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 fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the common stock by approximately \$4.2 million.

At October 31, 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 approximately \$1.9 million and a fair value of \$5.7 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 proceeds from public and private offerings of securities to finance pursuit of our investment objective.

At October 31, 2012, the Company had investments in portfolio companies totaling \$404.2 million. Also, at October 31, 2012, the Company had investments in cash and cash equivalents totaling approximately \$42.6 million. Of the \$42.6 million in cash and cash equivalents, \$6.5 million was restricted cash 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 significantly more liquidity than traditional portfolio company investments.

During the fiscal year ended October 31, 2012, the Company made two new investments, committing capital totaling \$2.5 million. The investments were made in Freshii (\$1.0 million) and Biovation (\$1.5 million).

During the fiscal year ended October 31, 2012, the Company made nine follow-on investments in five existing portfolio companies totaling approximately \$8.8 million. The Company, through MVC Partners Limited Partnership interest and MVCFS General Partnership interest, contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of October 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. 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 September 17, 2012, the Company loaned SGDA \$360,000, increasing the term loan to approximately \$6.5 million at October 31, 2012 and extended the maturity date to August 31, 2014. On October 3, 2012, the

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Company increased its common equity interest in Centile by approximately \$173,000, which was fair valued at \$3.1 million as of October 31, 2012.

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

Commitments to/for Portfolio Companies

At October 31, 2012, the Company's existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed	Amount Funded at October 31, 2012
Turf	\$ 1.0 million	\$ 1.0 million
MVC Partners/MVCFS	\$ 20.1 million	\$ 8.2 million
Total	\$ 21.1 million	\$ 9.2 million

Guarantees

As of October 31, 2012, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed	Amount Funded at October 31, 2012
MVC Automotive	\$ 5.2 million	
Tekers	\$ 194,000	
Ohio Medical	\$ 21.1 million	
Total	\$ 26.5 million	

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 October 31, 2012, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$825,000.

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 150,000 euros at October 31, 2012, equivalent to approximately \$194,000.

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 July 31, 2012, the mortgage that was guaranteed was repaid by MVC Automotive, resulting in the release of the guarantee. As of October 31, 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 \$5.2 million at October 31, 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 continue to view this amount as the full amount of our

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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 October 31, 2012 is approximately 6.3 million Euro (equivalent to approximately \$8.2 million).

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 October 31, 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. As of October 31, 2012, \$8.2 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 October 31, 2012, the amount guaranteed was approximately \$21.1 million and the guarantee obligation was fair valued at \$825,000 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, 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 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 October 31, 2012, there was \$50.0 million in term debt outstanding under the Credit Facility and approximately \$9,000 of interest payable. The proceeds from the borrowings made under the Credit Facility are used to fund new and existing portfolio investments and for general corporate purposes. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. During the year ended October 31, 2012, the Company requested Guggenheim s consent to waive compliance with a particular covenant of the Credit Facility. In order to obtain this waiver, the Company agreed to increase the interest rate on the Credit Facility if the Company did not meet a newly established covenant level that was more stringent than required in the Company s Credit Facility documents. The covenant level for an event of default remained the same. As of October 31, 2012, the Company has met all of its original covenant levels and is not in default, but was unable to meet the increased covenant

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level required by Guggenheim as part of the waiver obtained earlier in the year. As a result, the interest rate on the Credit Facility has increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate will be effective until the Company demonstrates that it has passed the higher covenant level. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs are being 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 are 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.

At October 31, 2012, the carrying amount of our Credit Facility approximates the fair value, using Level 3 inputs under the fair value hierarchy, of our Credit Facility, which was \$50.0 million. The fair value of our debt obligation is determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of our Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any.

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.

A summary of our contractual payment obligations as of October 31, 2012 is as follows:

	Total	Payments Due by Period			After 5 years
		Less than 1 year	1-3 years	4-5 years	
Credit Facility I	\$ 50,000,000	\$ 50,000,000	N/A	N/A	N/A
Total Debt	\$ 50,000,000	\$ 50,000,000	N/A	N/A	N/A

SUBSEQUENT EVENTS

On November 26, 2012, the Company loaned an additional \$8.0 million to JSC Tekers, increasing the secured loan amount to \$12.0 million. The interest rate remains at 8% per annum and the maturity date was extended to December 31, 2014.

On December 14, 2012, the Company loaned an additional \$500,000 to Bioventions, increasing the loan amount to \$2.0 million.

On December 17, 2012, the Company declared a dividend of \$0.135 per share, or a total of approximately \$3.2 million. The dividend is payable on January 7, 2013 to shareholders of record on December 31, 2012.

On December 17, 2012, the Company received a dividend from Vestal of approximately \$426,000.

On December 19, 2012, MVC Automotive made a principal payment of approximately \$2.0 million on its bridge loan.

SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Company in the preparation of its consolidated financial statements:

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

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Recent Accounting Pronouncements

On May 12, 2011, the 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 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 9 Portfolio Investments.

Tax Status and Capital Loss Carryforwards

As a RIC, the Company is not subject to federal income tax to the extent that it distributes all of its investment company taxable income and net realized capital gains for its taxable year (see Notes 12 and 13. Notes to Consolidated Financial Statements). This allows us to attract different kinds of investors than other publicly held corporations. The Company is also exempt from excise tax if it distributes at least (1) 98% of its ordinary income during each calendar year, (2) 98.2% of its capital gains realized in the period from November 1 of the prior year through October 31 of the current year, and (3) all such ordinary income and capital gains for previous years that were not distributed during those years. At October 31, 2011, the Company had \$26.3 million in capital loss carryforwards. During fiscal year 2012, the Company had net realized losses of approximately \$18.8 million, net of book/tax difference related to the treatment of partnership income, and as a result, the Company had approximately \$45.1 million in capital loss carryforwards as of October 31, 2012. The Company also has approximately \$19.5 million in unrealized losses associated with Legacy Investments.

Valuation of Portfolio Securities

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 to which the reporting entity has access 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.

Pursuant to our Valuation Procedures, the Valuation Committee (which is 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

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of the quarter. Exchange rates fluctuate on a daily basis, sometimes significantly. Exchange rate fluctuations following the most recent fiscal year end are not reflected in the valuations reported in this Annual Report. See Item 1A Risk Factor, Investments in foreign debt or equity may involve significant risks in addition to the risks inherent in U.S. investments.

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.

At October 31, 2012, approximately 88.77% of our total assets represented portfolio investments and escrow receivables recorded at fair value (Fair Value Investments).

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, third-party real estate and asset appraisals if appropriate and available, 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.

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification, *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 October 31, 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.

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.

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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, and third-party asset and real estate appraisals. 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 (the GP) of the PE Fund, the Valuation Committee relies on the GP's determination of the Fair Value of the PE Fund which will be generally valued, as a practical

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expedient, utilizing the net asset valuations provided by the GP, which will be made: (i) no less frequently than quarterly as of the Company's fiscal quarter end and (ii) with respect to the valuation of PE Fund investments in portfolio companies, will be based on methodologies consistent with those set forth in the valuation procedures. The determination of the net asset value of the Company's or its subsidiary's investment in the PE Fund will follow the methodologies described for valuing interests in private investment funds (Investment Vehicles) described below. 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 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 investment interest 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 fair value.

If the Company intends to sell all or a portion of its interest in an Investment Vehicle to a third-party in a privately negotiated transaction, the Company will consider offers from third parties to buy the interest in an Investment Vehicle in valuations which may be discounted for both probability of close and time.

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, adjusted for amortization of premium and accretion of discount on a yield to maturity methodology, 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 the Company expects 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.

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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*. The Valuation Committee typically will look at the pricing of the security in which the guarantee provided support for the security and compare it to the price of a similar or hypothetical security without guarantee support. The difference in pricing will be discounted for time and risk over the period in which the guarantee is expected to remain outstanding.

Investment Classification

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 the 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.

Investment Transactions and Related Operating Income

Investment transactions and related revenues and expenses are accounted for on the trade date (the date the order to buy or sell is executed). The cost of securities sold is determined on a first-in, first-out basis, unless otherwise specified. Dividend income and distributions on investment securities is recorded on the ex-dividend date. The tax characteristics of such distributions received from our portfolio companies will be determined by whether or not the distribution was made from the investment's current taxable earnings and profits or accumulated taxable earnings and profits from prior years. Interest income, which includes accretion of discount and amortization of premium, if applicable, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Fee income includes fees for guarantees and services rendered by the Company or its wholly-owned subsidiary to portfolio companies and other third parties such as due diligence, structuring, transaction services, monitoring services, and investment advisory services. Guaranty fees are recognized as income over the related period of the guaranty. Due diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Monitoring and investment advisory services fees are generally recognized as income as the services are rendered. Any fee income determined to be loan origination fees, original issue discount, and market discount are capitalized and then amortized into income using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as income and any unamortized original issue discount or market discount is recorded as a realized gain. For investments with PIK interest and dividends, we base income and dividend accrual on the valuation of the PIK notes or securities received from the borrower. If the portfolio company indicates a value of the PIK notes or securities that is not sufficient to cover the contractual interest or dividend, we will not accrue interest or dividend income on the notes or securities.

Cash Equivalents

For the purpose of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, the Company considers all money market and all highly liquid temporary cash investments purchased with an original maturity of less than three months to be cash equivalents.

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.

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Restricted Securities

The Company will invest in privately-placed restricted securities. These securities may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and a prompt sale at an acceptable price may be difficult.

Distributions to Shareholders

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

Income Taxes

It is the policy of the Company to meet the requirements for qualification as a RIC under Subchapter M of the Code. As a RIC, the Company is not subject to income tax to the extent that it distributes all of its investment company taxable income and net realized capital gains for its taxable year. The Company is also exempt from excise tax if it distributes at least 98% of its income and 98.2% of its capital gains during each calendar year.

Our consolidated operating subsidiary, MVCFS, is subject to federal and state income tax. We use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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 fiscal year ended October 31, 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 fiscal years 2009, 2010, 2011 and 2012 for the Company and MVCFS remain subject to examination by the IRS.

Table of Contents**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS****MVC Capital, Inc.****Consolidated Balance Sheets**

	October 31, 2012	October 31, 2011
ASSETS		
Assets		
Cash and cash equivalents	\$ 36,160,558	\$ 28,317,460
Restricted cash and cash equivalents	6,480,000	6,925,000
Investments at fair value		
Non-control/Non-affiliated investments (cost \$54,629,419 and \$90,292,464)	34,197,990	51,182,558
Affiliate investments (cost \$128,521,214 and \$126,356,770)	178,396,856	187,953,099
Control investments (cost \$149,281,248 and \$141,569,773)	191,575,802	213,079,430
Total investments at fair value (cost \$332,431,881 and \$358,219,007)	404,170,648	452,215,087
Dividends and interest receivables, net of reserves	4,559,703	3,277,126
Fee and other receivables	3,314,116	4,595,741
Escrow receivables	991,563	1,146,899
Prepaid expenses	753,501	629,868
Prepaid taxes	591	
Total assets	\$ 456,430,680	\$ 497,107,181
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Term loan	\$ 50,000,000	\$ 50,000,000
Provision for incentive compensation (Note 5)	15,655,438	23,938,058
Management fee payable	2,027,571	2,303,655
Management fee payable Asset Management	1,054,433	297,250
Professional fees payable	767,835	703,293
Other accrued expenses and liabilities	734,501	288,111
Portfolio fees payable Asset Management	140,293	
Consulting fees payable	34,476	64,999
Taxes payable		2,099
Total liabilities	70,414,547	77,597,465
Shareholders equity		
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	425,651,660	428,428,139
Accumulated earnings	64,524,665	40,499,006
Dividends paid to stockholders	(92,010,775)	(80,171,868)
Accumulated net realized loss	(46,401,983)	(25,755,440)
Net unrealized appreciation	71,738,767	93,996,080
Treasury stock, at cost, 4,387,466 and 4,387,466 shares held, respectively	(37,769,245)	(37,769,245)
Total shareholders equity	386,016,133	419,509,716

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Total liabilities and shareholders equity	\$ 456,430,680	\$ 497,107,181
Net asset value per share	\$ 16.14	\$ 17.54

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments****October 31, 2012**

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments 8.86% (a, c, f, g)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		\$ 5,000,003	
Biovation Holdings, Inc.	Manufacturer of Laminate Material & Composites	Bridge Loan 6.0000% Cash, 6.0000% PIK, 02/28/2014 (b, h)	\$ 1,500,000	1,500,000	\$ 1,500,000
BPC II, LLC	Apparel	Limited Liability Company Interest (d)		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, 01/11/2017 (b, h)	1,044,304	1,009,230	1,017,224
		Warrants (d, m)		33,873	33,873
				1,043,103	1,051,097
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	25,000
		Series A Convertible Preferred Stock (5,000 shares) (d)			440,000
				1,236,364	465,000
Prepaid Legal Services, Inc.	Consumer Services	Tranche A Term Loan 7.5000% Cash, 01/1/2017 (h)	3,024,390	2,989,832	2,989,832
		Tranche B Term Loan 11.0000% Cash, 01/1/2017 (h)	4,000,000	3,908,589	3,908,589
				6,898,421	6,898,421
SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH	Soil Remediation	Term Loan 7.0000% Cash, 08/31/2014 (e, h)	6,547,350	6,547,350	6,547,350
Teleguam Holdings, LLC	Telecommunications	Second Lien Loan 9.7500% Cash, 06/09/2017 (h)	7,000,000	6,946,122	6,946,122
Sub Total Non-control/Non-affiliated investments					
Affiliate investments 46.21% (a, c, f, g)					
Centile Holdings B.V.	Software	Common Equity Interest (d, e)		3,174,376	3,140,000
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 7.0000% Cash, 7.0000% PIK, 06/18/2013 (b, h)	15,623,348	15,623,348	15,623,348
		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
				25,623,348	25,623,348
Harmony Health & Beauty, Inc.	Health & Beauty - Retail	Common Stock (147,621 shares) (d)		6,700,000	100,000
JSC Tekers Holdings	Real Estate Management	Common Stock (2,250 shares) (d, e)		4,500	4,500
		Secured Loan 8.0000% Cash, 06/30/2014 (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, 08/30/2017 (b, h)	11,842,742	11,829,348	11,842,742
		Convertible Preferred Stock (20,000 shares) (b)		3,274,219	3,274,219
				15,103,567	15,116,961
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,364,745	6,221,796

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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	1,417,000
			1,159,815	1,577,000
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d, e)	40,186,620	24,011,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)	20,084,599	7,915,000

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments (Continued)****October 31, 2012**

Company	Industry	Investment	Principal	Cost	Fair Value
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK , 07/25/2015 (b, h)	\$ 9,619,644	\$ 9,619,644	\$ 9,619,644
		Convertible Series I Preferred Stock (32,200 shares) (d, l)		500,000	81,067,607
		Convertible Series J Preferred Stock (8,216 shares) (d)			
				10,119,644	90,687,251
Sub Total Affiliate investments				128,521,214	178,396,856
Control Investments 49.63% (a, c, f, g)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		34,736,939	33,519,000
		Bridge Loan 10.0000% Cash, 12/31/2012 (e, h)	3,643,557	3,643,557	3,643,557
				38,380,496	37,162,557
MVC Private Equity Fund LP	Private Equity	Limited Partnership Interest (d, k)		8,013,749	8,072,249
		General Partnership Interest (d, k)		204,432	205,924
				8,218,181	8,278,173
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,636	
		Series A Convertible Preferred Stock (21,176 shares) (b)		30,000,000	31,100,000
		Guarantee - Series B Preferred (d)			(825,000)
				45,763,636	30,275,000
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	1,247,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 7.0000% Cash, 7.0000% PIK , 09/30/2017 (b, h)	11,868,017	11,842,665	11,868,017
		Common Stock (1,115 shares)		16,000,000	62,500,000
				27,842,665	74,368,017
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK , 01/31/2014 (b, h)	8,395,261	8,395,261	8,395,261
		Junior Revolving Note 6.0000% Cash, 01/31/2014 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,535,694	2,874,794
		Warrants (d)			
				12,930,955	12,270,055
Velocitus B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	21,725,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 04/29/2013 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	5,650,000
				2,450,000	6,250,000
Sub Total Control Investments				149,281,248	191,575,802
TOTAL INVESTMENT ASSETS 104.70% (f)				\$ 332,431,881	\$ 404,170,648

(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., 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., Velocitus B.V. and Freshii USA, Inc. The Company makes available significant

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- 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 in Europe which represents approximately 23% of the total assets. The remaining portfolio companies are located in North America which represents approximately 65% of the total assets.
 - (f) Percentages are based on net assets of \$386,016,133 as of October 31, 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, LP is a private equity fund focused on control equity investments in the lower middle market. The fund currently holds three investments, two located in the United States and one in Gibraltar, which are in the energy, services, and industrial sectors, respectively.
 - (l) Upon a liquidity event, the Company may receive additional ownership in U.S. Gas & Electric, Inc.
 - (m) Includes a warrant in Freshii One LLC, an affiliate of Freshii USA, Inc.
- PIK Payment-in-kind.
Denotes zero cost or fair value.

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments****October 31, 2011**

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments 12.20% (a, c, f, g)					
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 fur 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
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
Sub Total Non-control/Non-affiliated investments				90,292,464	51,182,558
Affiliate investments 44.80% (a, c, f, g)					
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
	Health and Beauty - Retail	Common Stock (147,621 shares) (d)		6,700,000	1,000,000

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Harmony Health & Beauty, Inc.					
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

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments (Continued)****October 31, 2011**

Company	Industry	Investment	Principal	Cost	Fair Value
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
Sub Total Affiliate investments				126,356,770	187,953,099
Control Investments 50.79% (a, c, f, g)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		34,736,939	42,450,000
		Bridge Loan 10.0000% Cash, 12/31/2011 (e, h)	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)		15,763,636	
		Series A Convertible Preferred Stock (18,102 shares) (b)		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)	11,055,089	10,999,118	11,055,089
		Common Stock (1,115 shares) (d)		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)	8,395,261	8,395,261	8,395,261
		Junior Revolving Note 6.0000% Cash, 1/31/2014 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,535,694	2,721,794
		Warrants (d)			
				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)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	1,455,000
				2,450,000	2,055,000
Sub Total Control Investments				141,569,773	213,079,430
TOTAL INVESTMENT ASSETS 107.79% (f)				\$ 358,219,007	\$ 452,215,087

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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 für 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.

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

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- (d) Non-income producing assets.
 - (e) The principal operations of these portfolio companies are located in Europe.
 - (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.

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MVC Capital, Inc.

Consolidated Schedule of Investments (Continued)

October 31, 2011

Table of Contents**MVC Capital, Inc.****Consolidated Statements of Operations**

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011	For the Year Ended October 31, 2010
Operating Income:			
Dividend income			
Non-control/Non-affiliated investments	\$ 7,755	\$ 246,234	\$ 1,893,133
Affiliate investments	2,481,234	341,043	1,893,133
Control investments	12,000,000		
Total dividend income	14,488,989	587,277	1,893,133
Payment-in-kind dividend income			
Affiliate investments	249,347	230,358	382,398
Total payment-in-kind dividend income	249,347	230,358	382,398
Interest income			
Non-control/Non-affiliated investments	2,050,801	2,356,210	6,720,255
Affiliate investments	3,111,318	2,978,289	2,751,668
Control investments	2,423,174	2,353,376	2,388,872
Total interest income	7,585,293	7,687,875	11,860,795
Payment-in-kind interest income			
Non-control/Non-affiliated investments	44,304	268,423	1,972,985
Affiliate investments	2,024,462	1,920,686	2,256,028
Control investments	812,929	755,254	949,897
Total payment-in-kind interest income	2,881,695	2,944,363	5,178,910
Fee income			
Non-control/Non-affiliated investments	68,056	1,086,961	352,679
Affiliate investments	1,105,226	1,130,131	2,717,090
Control investments	766,631	566,426	626,780
Total fee income	1,939,913	2,783,518	3,696,549
Fee income Asset Management			
Portfolio fees	1,290,160		
Management fees	1,009,577	396,333	
Total fee income Asset Management	2,299,737	396,333	
Other income	442,138	1,341,241	509,712
Total operating income	29,887,112	15,970,965	23,521,497
Operating Expenses:			
Management fee	8,587,992	8,844,572	9,329,809

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Interest and other borrowing costs	3,366,756	3,082,125	2,824,788
Portfolio fees Asset Management	967,620		
Management fee Asset Management	757,183	297,250	
Audit & tax preparation fees	769,500	560,800	548,500
Legal fees	635,238	884,472	487,000
Other expenses	590,859	1,209,693	832,391
Consulting fees	384,104	550,271	366,200
Directors fees	348,833	329,000	346,800
Insurance	333,752	348,027	353,135
Administration	261,914	268,146	273,986
Printing and postage	129,942	80,280	103,396

Table of Contents**MVC Capital, Inc.****Consolidated Statements of Operations (Continued)**

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011	For the Year Ended October 31, 2010
Public relations fees	119,700	89,800	84,000
Net Incentive compensation (Note 5)	(5,937,431)	1,947,744	2,479,167
Total operating expenses	11,315,962	18,492,180	18,029,172
Less: Voluntary Expense Waiver by Adviser ²	(150,000)	(150,000)	(150,000)
Less: Voluntary Management Fee Waiver by Adviser ³	(58,728)	(100,635)	
Less: Voluntary Incentive Fee Waiver by Adviser ⁴	(2,345,189)		
Total waivers	(2,553,917)	(250,635)	(150,000)
Net operating income (loss) before taxes	21,125,067	(2,270,580)	5,642,325
Tax Expenses:			
Current tax expense	3,997	13,557	8,476
Total tax expense	3,997	13,557	8,476
Net operating income (loss)	21,121,070	(2,284,137)	5,633,849
Net Realized and Unrealized Gain (Loss) on Investments and foreign currency:			
Net realized (loss) gain on investments and foreign currency			
Non-control/Non-affiliated investments	(19,209,277)	(16,339,803)	(205,245)
Affiliate investments		(10,081,806)	36,111,253
Control investments	(1,309,156)		(3,717,209)
Foreign currency			(389)
Total net realized (loss) gain on investments and foreign currency	(20,518,433)	(26,421,609)	32,188,410
Net change in unrealized (depreciation) appreciation on investments	(22,257,313)	35,676,725	(21,689,497)
Net realized (loss) gain and net change in unrealized (depreciation) appreciation on investments and foreign currency	(42,775,746)	9,255,116	10,498,913
Net (decrease) increase in net assets resulting from operations	\$ (21,654,676)	\$ 6,970,979	\$ 16,132,762
Net (decrease) increase in net assets per share resulting from operations	\$ (0.90)	\$ 0.30	\$ 0.66
Dividends declared per share	\$ 0.495	\$ 0.480	\$ 0.480

1 These items are related to the management of the MVC Private Equity Fund, L.P. (PE Fund). Please see Note 4 Management for more information.

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- Reflects TTG Advisers voluntary waiver of \$150,000 of expenses for the 2012, 2011 and 2010 fiscal years that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement. Please see Note 4 Management for more information.
- 3 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 4 Management for more information.
- 4 Reflects TTG Advisers voluntary waiver of the Incentive Fee associated with pre-incentive fee net operating income for the fiscal year ended October 31, 2012. Please see Note 4 Management for more information.

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

Table of Contents**MVC Capital, Inc.****Consolidated Statements of Cash Flows**

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011	For the Year Ended October 31, 2010
Cash flows from Operating Activities:			
Net (decrease) increase in net assets resulting from operations	\$ (21,654,676)	\$ 6,970,979	\$ 16,132,762
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized loss (gain)	20,518,433	26,421,609	(32,188,410)
Net change in unrealized depreciation (appreciation)	22,257,313	(35,676,725)	21,689,497
Amortization of discounts and fees	(62,602)	(34,327)	(15,517)
Increase in accrued payment-in-kind dividends and interest	(3,131,042)	(3,174,721)	(5,561,308)
Increase in allocation of flow through income	(188,138)	(589,371)	(298,058)
Changes in assets and liabilities:			
Dividends, interest and fees receivable	(952)	(1,498,553)	(988,981)
Escrow receivables	155,336	916,521	(2,063,420)
Prepaid expenses	(123,633)	934,438	(292,953)
Prepaid taxes	(591)	78,463	299,420
Incentive compensation (Note 5)	(8,282,620)	1,947,744	2,479,167
Other liabilities	1,099,702	271,525	(1,190,987)
Purchases of equity investments	(8,439,513)	(39,507,490)	(6,456,751)
Purchases of debt instruments	(2,860,000)	(25,909,586)	(2,500,000)
Proceeds from equity investments	18,187,072	20,630,017	71,987,346
Proceeds from debt instruments	1,762,916	39,526,996	22,244,985
Net cash provided by (used in) operating activities	19,237,005	(8,692,481)	83,276,792
Cash flows from Financing Activities:			
Repurchase of common stock		(966,655)	(3,999,128)
Distributions paid to shareholders	(11,838,907)	(11,489,032)	(11,594,909)
Net repayments under revolving credit facility			(12,300,000)
Net cash used in financing activities	(11,838,907)	(12,455,687)	(27,894,037)
Net change in cash and cash equivalents for the year	7,398,098	(21,148,168)	55,382,755
Unrestricted and restricted cash and cash equivalents, beginning of year	\$ 35,242,460	\$ 56,390,628	\$ 1,007,873
Unrestricted and restricted cash and cash equivalents, end of year	\$ 42,640,558	\$ 35,242,460	\$ 56,390,628

During the year ended October 31, 2012, 2011 and 2010 MVC Capital, Inc. paid \$2,968,757, \$2,898,949 and \$2,205,644 in interest expense, respectively.

During the year ended October 31, 2012, 2011 and 2010 MVC Capital, Inc. paid \$6,815, \$2,134 and \$2,039 in income taxes, respectively.

Non-cash activity:

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During the year ended October 31, 2012, 2011 and 2010, MVC Capital, Inc. recorded payment in kind dividend and interest of \$3,131,042, \$3,174,721 and \$5,561,308, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

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During the year ended October 31, 2012, 2011 and 2010, MVC Capital, Inc. was allocated \$442,138, \$1,335,755 and \$509,712, respectively, in flow-through income from its equity investment in Octagon Credit Investors, LLC. Of these amounts, \$254,000, \$746,384 and \$211,654, respectively, was received in cash and the balance of \$188,138, \$589,371 and \$298,058, respectively, was undistributed and therefore increased the cost of the investment. The fair value was then increased by \$188,138, \$589,371 and \$298,058, respectively, by the Company's Valuation Committee.

On March 17, 2010, MVC Capital, Inc. transferred its equity interest in SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH to their equity interest in SGDA Europe B.V. The Company owned 70% of the common stock of SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH and a majority economic ownership in SGDA Europe B.V. SGDA Europe B.V. increased its shareholders' equity by \$4.2 million as a result of the cashless transaction.

On July 2, 2010, MVC Capital, Inc. sold its common and preferred shares of Vendio Services, Inc. As part of this transaction, there was approximately \$180,020 deposited in an escrow account subject to a reduction over an 18 month period in accordance with a specified schedule. This escrow is currently carried at \$232,603 on the Company's consolidated balance sheet.

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 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 Corporation as part of this transaction.

On October 17, 2011, MVC Capital, Inc. converted the SGDA Europe B.V. senior secured loan of \$1.5 million to additional common equity interest.

On December 12, 2011, BP Clothing, LLC (BP) filed for Chapter 11 protection in New York with agreement to turn ownership over to secured lenders under a bankruptcy reorganization plan. On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the second lien loan, term loan A and term loan B. As a result of the bankruptcy process, the Company received limited liability company interest in BPC II, LLC (BPC).

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 year ended October 31, 2012, the Company recorded \$6,793 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 \$152,000 held back until Octagon Fund's fiscal year 2012 audit is complete.

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

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

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011	For the Year Ended October 31, 2010
Operations:			
Net operating income (loss)	\$ 21,121,070	\$ (2,284,137)	\$ 5,633,849
Net realized (loss) gain on investments and foreign currencies	(20,518,433)	(26,421,609)	32,188,410
Net change in unrealized (depreciation) appreciation on investments	(22,257,313)	35,676,725	(21,689,497)
Net (decrease) increase in net assets from operations	(21,654,676)	6,970,979	16,132,762
Shareholder Distributions from:			
Income	(11,838,907)		(5,633,849)
Realized gain			(1,910,585)
Return of capital		(11,489,032)	(4,050,475)
Net decrease in net assets from shareholder distributions	(11,838,907)	(11,489,032)	(11,594,909)
Capital Share Transactions:			
Repurchase of common stock		(966,655)	(3,999,128)
Net decrease in net assets from capital share transactions		(966,655)	(3,999,128)
Total (decrease) increase in net assets	(33,493,583)	(5,484,708)	538,725
Net assets, beginning of year	419,509,716	424,994,424	424,455,699
Net assets, end of year	\$ 386,016,133	\$ 419,509,716	\$ 424,994,424
Common shares outstanding, end of year	23,916,982	23,916,982	23,990,987
Undistribtued net operating income	\$ 9,282,163	\$	\$

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

Table of Contents**MVC Capital, Inc.****Consolidated Selected Per Share Data and Ratios**

	For the Year Ended October 31, 2012	For the Year Ended October 31, 2011	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009	For the Year Ended October 31, 2008
Net asset value, beginning of year	\$ 17.54	\$ 17.71	\$ 17.47	\$ 17.36	\$ 15.21
Gain from operations:					
Net operating income (loss)	0.88	(0.10)	0.23	0.19	0.24
Net realized and unrealized (loss) gain on investments	(1.78)	0.40	0.43	0.40	2.39
Total (loss) gain from investment operations	(0.90)	0.30	0.66	0.59	2.63
Less distributions from:					
Income	(0.50)		(0.23)	(0.19)	(0.09)
Realized gain			(0.08)		
Return of capital		(0.48)	(0.17)	(0.29)	(0.39)
Total distributions	(0.50)	(0.48)	(0.48)	(0.48)	(0.48)
Capital share transactions					
Anti-dilutive effect of share repurchase program		0.01	0.06		
Total capital share transactions		0.01	0.06		
Net asset value, end of year	\$ 16.14	\$ 17.54	\$ 17.71	\$ 17.47	\$ 17.36
Market value, end of year	\$ 12.36	\$ 12.93	\$ 13.35	\$ 9.18	\$ 12.30
Market premium (discount)	(23.42)%	(26.28)%	(24.62)%	(47.45)%	(29.15)%
Total Return At NAV (a)	(5.21)%	1.80%	4.16%	3.50%	17.49%
Total Return At Market (a)	0.44%	0.35%	50.86%	(21.48)%	(25.44)%
Ratios and Supplemental Data:					
Portfolio turnover ratio	3.31%	13.90%	3.15%	3.51%	26.13%
Net assets, end of year (in thousands)	\$ 386,016	\$ 419,510	\$ 424,994	\$ 424,456	\$ 421,871
Ratios to average net assets:					
Expenses excluding tax expense	2.17%	4.38%	4.19%	4.88%	7.00%
Expenses including tax expense	2.17%	4.39%	4.19%	5.21%	6.77%
Net operating income (loss) before tax expense	5.22%	(0.54)%	1.32%	1.42%	0.54%
Net operating income (loss) after tax expense	5.22%	(0.55)%	1.32%	1.09%	0.77%
Ratios to average net assets excluding waivers:					
Expenses excluding tax expense	2.80%	4.44%	4.22%	N/A	N/A
Expenses including tax expense	2.80%	4.45%	4.22%	N/A	N/A
Net operating income (loss) before tax expense	4.59%	(0.60)%	1.29%	N/A	N/A
Net operating income (loss) after tax expense	4.59%	(0.61)%	1.29%	N/A	N/A

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

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(b) Supplemental Ratio information

Ratios to average net assets: (b)

Expenses excluding incentive compensation	4.21%	3.92%	3.61%	4.31%	4.05%
Expenses excluding incentive compensation, interest and other borrowing costs	3.38%	3.18%	2.95%	3.56%	2.93%
Net operating income (loss) before incentive compensation	3.18%	(0.08)%	1.90%	1.99%	3.49%
Net operating income before incentive compensation, interest and other borrowing costs	4.01%	0.66%	2.56%	2.74%	4.61%
Ratios to average net assets excluding waivers: (b)					
Expenses excluding incentive compensation	4.27%	3.98%	3.64%	N/A	N/A
Expenses excluding incentive compensation, interest and other borrowing costs	3.44%	3.24%	2.98%	N/A	N/A
Net operating income (loss) before incentive compensation	3.12%	(0.14)%	1.87%	N/A	N/A
Net operating income before incentive compensation, interest and other borrowing costs	3.95%	0.60%	2.53%	N/A	N/A

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

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MVC Capital, Inc.

Notes to Consolidated Financial Statements

October 31, 2012

1. Organization and Business Purpose

MVC Capital, Inc. and its wholly-owned subsidiaries, MVC Financial Services, Inc. and MVC Cayman (the Company), formerly known as meVC Draper Fisher Jurvetson Fund I, Inc., is a Delaware corporation organized on December 2, 1999 which commenced operations on March 31, 2000. On December 2, 2002, the Company announced that it would begin doing business under the name MVC Capital, Inc. The Company's investment objective is to seek to maximize total return from capital appreciation and/or income. The Company seeks to achieve its investment objective by providing equity and debt financing to companies that are, for the most part, privately owned (Portfolio Companies). The Company's current investments in Portfolio Companies consist principally of senior and subordinated loans, venture capital, mezzanine and preferred instruments and private equity investments.

The Company has elected to be treated as a business development company under the 1940 Act. The shares of the Company commenced trading on the NYSE under the symbol MVC on June 26, 2000.

The Company had entered into an advisory agreement with meVC Advisers, Inc. (the Former Advisor) which had entered into a sub-advisory agreement with Draper Fisher Jurvetson MeVC Management Co., LLC (the Former Sub-Advisor). On June 19, 2002, the Former Advisor resigned without prior notice to the Company as the Company's investment advisor. This resignation resulted in the automatic termination of the advisory agreement between the Former Advisor and the Former Sub-Advisor to the Company. As a result, the Company's board internalized the Company's operations, including management of the Company's investments.

At the February 28, 2003 Annual Meeting of Shareholders, a new board of directors (the Board) replaced the former board of directors of the Company (the Former Board) in its entirety. On March 6, 2003, the results of the election were certified by the Inspector of Elections, whereupon the Board terminated John M. Grillos, the Company's previous CEO. Shortly thereafter, other members of the Company's senior management team, who had previously reported to Mr. Grillos, resigned. With these significant changes in the Board and management of the Company, the Company operated in a transition mode and, as a result, no portfolio investments were made from early March 2003 through the end of October 2003 (the end of the Fiscal Year). During this period, the Board explored various alternatives for a long-term management plan for the Company. Accordingly, at the September 16, 2003 Special Meeting of Shareholders, the Board voted and approved the Company's revised business plan.

On November 6, 2003, Michael Tokarz assumed his position as Chairman, Portfolio Manager and Director of the Company.

On March 29, 2004 at the Annual Shareholders meeting, the shareholders approved the election of Emilio Dominianni, Robert S. Everett, Gerald Hellerman, Robert C. Knapp and Michael Tokarz to serve as members of the Board of Directors of the Company and adopted an amendment to the Company's Certificate of Incorporation authorizing the changing of the name of the Company from meVC Draper Fisher Jurvetson Fund I, Inc. to MVC Capital, Inc.

On July 7, 2004, the Company's name change from meVC Draper Fisher Jurvetson Fund I, Inc. to MVC Capital, Inc. became effective.

On July 16, 2004, the Company commenced the operations of MVC Financial Services, Inc. (MVCFS). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other

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services to the Company and the Company's Portfolio Companies. 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company.

On September 7, 2006, the stockholders of MVC Capital approved the adoption of the investment advisory and management agreement (the Advisory Agreement). The Advisory Agreement, which was entered into on October 31, 2006, provides for external management of the Company by TTG Advisers, which is led by Michael Tokarz. The agreement took effect on November 1, 2006. Upon the effectiveness of the Advisory Agreement, Mr. Tokarz's employment agreement with the Company terminated. All of the individuals (including the Company's investment professionals) that had been previously employed by the Company as of the fiscal year ended October 31, 2006 became employees of TTG Advisers.

On December 11, 2008, our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), at their in-person meeting approved an amended and restated investment advisory and management agreement (also, the Advisory Agreement), which was approved by stockholders of the Company on April 14, 2009. The renewal of the Advisory Agreement was last approved by the Independent Directors at their in-person meeting held on October 22, 2012.

2. Consolidation

On July 16, 2004, the Company formed a wholly owned subsidiary company, 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. The results of MVCFS and MVC Cayman are consolidated into the Company and all inter-company accounts have been eliminated in consolidation.

During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. Previously, MVC Partners was presented as a Portfolio Company on the Consolidated Schedule of Investments. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company. There are additional disclosures resulting from this consolidation.

3. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Company in the preparation of its consolidated financial statements:

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Recent Accounting Pronouncements On May 12, 2011, the 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 the Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820, which requires entities to change the wording used to describe the requirements in 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

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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.

Valuation of Investments 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 to which the reporting entity has access to 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.

Pursuant to our Valuation Procedures, the Valuation Committee (which is 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, NAV per share is calculated and published on a quarterly basis. The Company calculates NAV per share by subtracting all liabilities from the total value of portfolio securities and other assets and dividing the result by the total number of outstanding shares of 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 fiscal year end are not reflected in the valuations reported in this Annual Report.

At October 31, 2012, approximately 88.77% of total assets represented portfolio investments in Portfolio Companies and escrow receivables recorded at fair value (Fair Value Investments).

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, third-party real estate and asset appraisals if appropriate and available, 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.

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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.

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification, 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 the 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 October 31, 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.

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 unless restricted and a restrict discount is applied.

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, and third-party asset and real estate appraisals. 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.

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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 GP of the PE Fund, the Valuation Committee relies on the GP's determination of the Fair Value of the PE Fund which will be generally valued, as a practical expedient, utilizing the net asset valuations provided by the GP, which will be made: (i) no less frequently than quarterly as of the Company's fiscal quarter end and (ii) with respect to the valuation of PE Fund investments in Portfolio Companies, will be based on methodologies consistent with those set forth in the valuation procedures. The determination of the net asset value of the Company's or its subsidiary's investment in the PE Fund will follow the methodologies described for valuing interests in private investment funds (Investment Vehicles) described below. 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 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 investment interest 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 distributions 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 fair value.

If the Company intends to sell all or a portion of its interest in an Investment Vehicle to a third-party in a privately negotiated transaction near the valuation date, the Company will consider offers from third parties to buy the interest in an Investment Vehicle in valuations, which may be discounted for both probability of close and time.

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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, adjusted for amortization of premium and accretion of discount on a yield to maturity methodology, 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 the Company expects 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.

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*. The Valuation Committee typically will look at the pricing of the security in which the guarantee provided support for the security and compare it to the price of a similar or hypothetical security without guarantee support. The difference in pricing will be discounted for time and risk over the period in which the guarantee is expected to remain outstanding.

Investment Classification 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.

Investment Transactions and Related Operating Income Investment transactions and related revenues and expenses are accounted for on the trade date. The cost of securities sold is determined on a first-in, first-out basis, unless otherwise specified. Dividend income and distributions on investment securities is recorded on the ex-dividend date. The tax characteristics of such distributions received from our Portfolio Companies will be determined by whether or not the distribution was made from the investment's current taxable earnings and profits or accumulated taxable earnings and profits from prior years. Interest income, which includes accretion of discount and amortization of premium, if applicable, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Fee income includes fees for guarantees and services rendered by the Company or its wholly-owned subsidiary to Portfolio Companies and other third parties such as due diligence, structuring, transaction services, monitoring services, and investment advisory services. Guaranty fees are recognized as income over the related period of the guaranty. Due diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are

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completed. Monitoring and investment advisory services fees are generally recognized as income as the services are rendered. Any fee income determined to be loan origination fees, original issue discount, and market discount are capitalized and then amortized into income using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as income and any unamortized original issue discount or market discount is recorded as a realized gain. For investments with PIK interest and dividends, we base income and dividend accrual on the valuation of the PIK notes or securities received from the borrower. If the Portfolio Company indicates a value of the PIK notes or securities that is not sufficient to cover the contractual interest or dividend, the Company does not accrue interest or dividend income on the notes or securities.

The functional currency of the Company is the U.S. Dollar. Assets and liabilities denominated in a currency other than the U.S. Dollar are translated into U.S. Dollars at the closing rates of exchange on the date of determination. Purchases and sales of investments and income and expenses denominated in currencies other than U.S. Dollars are translated at the rates of exchange on the respective dates of the transactions. The resulting gains and losses from such currency translation are included in the Consolidated Statement of Operations. The Company does not isolate the portion of the results of operations resulting from the changes in foreign exchange rates on investments from the fluctuation arising from changes in fair values of securities held. Such fluctuations are included with the Net Realized and Unrealized Gain (Loss) on Investments and foreign currency in the Consolidated Statement of Operations.

Cash Equivalents For the purpose of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, the Company considers all money market and all highly liquid temporary cash investments purchased with an original maturity of less than three months to be cash equivalents. As of October 31, 2012, the Company had approximately \$26.8 million in cash equivalents of the total cash and cash equivalents of approximately \$42.6 million.

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. 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 (equivalent to approximately \$6.5 million at October 31, 2012).

Restricted Securities The Company may invest in privately placed restricted securities. These securities may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and a prompt sale at an acceptable price may be difficult.

Reclassifications Certain amounts from prior years have been reclassified to conform to the current year presentation.

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

Income Taxes It is the policy of the Company to meet the requirements for qualification as a regulated investment company (RIC) under Subchapter M of the Code. The Company is not subject to income tax to the extent that it distributes all of its investment company taxable income and net realized gains for its taxable year. The Company is also exempt from excise tax if it distributes most of its ordinary income and/or capital gains during each calendar year.

Our consolidated operating subsidiary, MVCFS, is subject to federal and state income tax. We use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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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 fiscal year ended October 31, 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 fiscal years 2009, 2010, 2011 and 2012 for the Company and the fiscal years 2009, 2010, 2011 and 2012 for MVCFS remain subject to examination by the IRS.

4. 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 23, 2012.

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.

On October 25, 2010, October 26, 2011 and October 23, 2012, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011, 2012 and 2013 fiscal years, respectively (Expense Limitation Agreement). The amount of any payments made by the GP of the PE Fund to TTG Advisers pursuant

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to the Portfolio Management Agreement between the GP and TTG Advisers respecting the PE Fund is excluded from the calculation of the Company's expense ratio under the Expense Limitation Agreement. In addition, for fiscal years 2010 through 2013, 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 generated by the PE Fund and its portfolio companies and a portion of any carried interest generated by the PE Fund. 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners' limited partnership interest in the PE Fund is a substantial portion of MVC Partners' operations. Previously, MVC Partners was presented as a Portfolio Company on the Consolidated Schedule of Investments. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company. There are additional disclosures resulting from this consolidation.

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.

5. Incentive Compensation

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

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and 20% of the amount of our pre-incentive fee net operating income, if any, that exceeds 2.1875% of net assets in any fiscal quarter. Under the Advisory Agreement, the accrual of the provision for incentive compensation for net realized capital gains is consistent with the accrual that was required under the employment agreement with Mr. Tokarz.

At October 31, 2009, the provision for estimated incentive compensation was approximately \$19.5 million. During the fiscal year ended October 31, 2010, this provision for incentive compensation was increased by a net amount of approximately \$2.5 million to \$22.0 million. The increase in the provision for incentive compensation reflects both increases and decreases by the Valuation Committee in the fair values of certain Portfolio Companies and the sale of Vitality for a realized gain of \$13.9 million. The difference between the amount received from the sale and Vitality's carrying value at October 31, 2009 was an increase of \$3.0 million. The amount of the provision also reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Octagon, Summit, Velocitius, LHD Europe, PreVisor, U.S. Gas, Vestal and Dakota Growers) by a total of \$54.2 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 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 ten of the Company's portfolio investments (Amersham, BP, Ohio Medical, MVC Automotive, Security Holdings, Harmony Pharmacy, GDC, SGDA Europe, Turf and SGDA) by a total of \$50.5 million and the Valuation Committee determination not to increase the fair values of the Harmony Pharmacy revolving credit facility, the Amersham loan, the BP second lien loan and the GDC senior subordinated loan for the accrued PIK interest totaling approximately \$656,000. As of October 31, 2010, the Company does not anticipate an incentive compensation payment being made to TTG Advisers for fiscal year 2010 because 20% of cumulative aggregate net realized capital gains was less than the aggregate unrealized depreciation (on our portfolio securities acquired after November 1, 2003) based on the terms of the Advisory Agreement. During the fiscal year ended October 31, 2010, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

At October 31, 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.

At October 31, 2011, the provision for estimated incentive compensation was approximately \$23.9 million. During the fiscal year ended October 31, 2012, this provision for incentive compensation was decreased by a net amount of approximately \$8.2 million to approximately \$15.7 million. The decrease in the provision for incentive compensation during the fiscal year ended October 31, 2012 reflects both increases and decreases by the Valuation Committee in the fair values of certain Portfolio Companies. Specifically, it reflects the Valuation Committee's determination to decrease the fair values of eleven portfolio investments (BP, HH&B, MVC

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Automotive, Security Holdings, SGDA Europe, NPWT, Tekers, Velocitius, BPC, Centile and Ohio Medical) by a total of \$35.4 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 portfolio investments (Octagon Fund, Vestal, Octagon, Turf and RuMe) by a total of approximately \$5.7 million. The Valuation Committee also increased the fair value of the Company's escrow receivable related to Vitality by \$130,000. For the year ended October 31, 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.

6. Dividends and Distributions to Shareholders

As a RIC, the Company is required to distribute to its shareholders, in a timely manner, at least 90% of its investment company taxable income and tax-exempt income each year. If the Company distributes, in a calendar year, at least 98% of its income and 98.2% of its capital gains 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 the Plan Agent in additional 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, shareholders must notify the Plan Agent, broker or other entity that holds the shares.

For the Fiscal Year Ended October 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 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.

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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 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.

On July 13, 2012, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on July 31, 2012 to shareholders of record on July 24, 2012. The total distribution amounted to \$2,870,038.

During the quarter ended July 31, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 671 shares of common stock at an average price of \$12.55, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 15, 2012, the Company's Board of Directors declared a dividend of \$0.135 per share. The dividend was payable on October 31, 2012 to shareholders of record on October 25, 2012 and represents a 12.5% increase over the prior dividend. The total distribution amounted to \$3,228,793.

During the quarter ended October 31, 2012, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 766 shares of common stock at an average price of \$12.29, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Fiscal Year Ended October 31, 2011

On December 17, 2010, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on January 7, 2011 to shareholders of record on December 31, 2010. The total distribution amounted to \$2,878,918.

During the quarter ended January 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,211 shares of common stock at an average price of \$14.86, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On April 15, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on April 29, 2011 to shareholders of record on April 25, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended April 30, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,252 shares of common stock at an average price of \$13.70, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On July 15, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on July 29, 2011 to shareholders of record on July 25, 2011. The total distribution amounted to \$2,870,038.

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During the quarter ended July 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,693 shares of common stock at an average price of \$12.56, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 14, 2011, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on October 31, 2011 to shareholders of record on October 24, 2011. The total distribution amounted to \$2,870,038.

During the quarter ended October 31, 2011, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,492 shares of common stock at an average price of \$12.82, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Fiscal Year Ended October 31, 2010

On December 18, 2009, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on January 8, 2010 to shareholders of record on December 31, 2009. The total distribution amounted to \$2,915,650.

During the quarter ended January 31, 2010, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,890 shares of common stock at an average price of \$12.27, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On April 16, 2010, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on April 30, 2010 to shareholders of record on April 27, 2010. The total distribution amounted to \$2,915,650.

During the quarter ended April 30, 2010, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,315 shares of common stock at an average price of \$14.75, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On July 16, 2010, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on July 30, 2010 to shareholders of record on July 27, 2010. The total distribution amounted to \$2,884,691.

During the quarter ended July 31, 2010, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,377 shares of common stock at an average price of \$12.93, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 15, 2010, the Company's Board of Directors declared a dividend of \$0.12 per share. The dividend was payable on October 29, 2010 to shareholders of record on October 25, 2010. The total distribution amounted to \$2,878,918.

During the quarter ended October 31, 2010, as part of the Company's dividend reinvestment plan for our common stockholders, the Company purchased 1,337 shares of common stock at an average price of \$13.43, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

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7. Transactions with Other Parties

The Company has procedures in place for the review, approval and monitoring of transactions involving the Company and certain persons related to the Company. For example, the Company has a code of ethics that generally prohibits, among others, any officer or director of the Company from engaging in any transaction where there is a conflict between such individual's personal interest and the interests of the Company. As a business development company, the 1940 Act also imposes regulatory restrictions on the Company's ability to engage in certain related-party transactions. However, the Company is permitted to co-invest in certain Portfolio Companies with its affiliates to the extent consistent with applicable law or regulation and, if necessary, subject to specified conditions set forth in an exemptive order obtained from the SEC. During the past four fiscal years, no transactions were effected pursuant to the exemptive order. As a matter of policy, our Board of Directors has required that any related-party transaction (as defined in Item 404 of Regulation S-K) must be subject to the advance consideration and approval of the Independent Directors, in accordance with applicable procedures set forth in Section 57(f) of the 1940 Act.

The principal equity owner of TTG Advisers is Mr. Tokarz, our Chairman. Our senior officers and Mr. Holtsberg, a Director of the Company, have other financial interests in TTG Advisers (i.e., based on TTG Advisers' performance). In addition, our officers and the officers and employees of TTG Advisers may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by TTG Advisers or our affiliates. However, TTG Advisers intends to allocate investment opportunities in a fair and equitable manner. Our Board of Directors has approved a specific policy in this regard which is set forth in this Form 10-K.

8. Concentration of Market and Credit 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 represented approximately 88.77% of the Company's total assets at October 31, 2012. As discussed in Note 9, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. 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 in a limited number of industries. At this time, the Company's investments in short-term securities are in 90-day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Company's cash balances, if not large enough to be invested in 90-day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts or other interest bearing accounts.

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The following table shows the portfolio composition by industry grouping at fair value as a percentage of net assets as of October 31, 2012 and October 31, 2011.

Industry	2012	2011
Energy Services	23.49%	21.50%
Specialty Chemical	19.26%	20.39%
Automotive Dealerships	9.63%	10.99%
Medical Devices Manufacturer	7.96%	9.67%
Manufacturer of Pipe Fittings	6.64%	5.85%
Electrical Engineering	6.22%	7.91%
Renewable Energy	5.63%	5.98%
Theme Park	3.92%	3.57%
Soil Remediation	3.75%	3.98%
Distributor Landscaping and Irrigation Equipment	3.18%	2.89%
Technology	2.79%	2.57%
Private Equity	2.14%	0.27%
Telecommunications	1.80%	1.65%
Consumer Services	1.79%	1.87%
Iron Foundries	1.62%	0.49%
Financial Services	1.61%	1.27%
Real Estate Management	1.04%	0.95%
Software	0.81%	0.72%
Consumer Products	0.41%	0.28%
Manufacturer of Laminate Material	0.39%	
Port Facilities	0.32%	0.36%
Food Services	0.27%	
Health & Beauty Retail	0.03%	0.23%
Investment Company		0.67%
Talent Management Assessment		3.65%
Apparel		0.07%
	104.70%	107.79%

The Company is 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 October 31, 2012 and October 31, 2011, the fair values of our two largest investments, Summit and U.S. Gas, comprised 19.26% and 23.49% and 20.39% and 21.50% 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.

9. 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

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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 October 31, 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 October 31, 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 3 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.

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

	October 31, 2012			
	Level 1	Level 2	Level 3	Total
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 89,502	\$ 89,502
Common Stock			69,686	69,686
Preferred Stock			138,089	138,089
Warrants			34	34
Other Equity Investments			107,685	107,685
Guarantees			(825)	(825)
Escrow receivables			991	991
Total Investments, net	\$	\$	\$ 405,162	\$ 405,162

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	October 31, 2011			
	Level 1	Level 2	Level 3	Total
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		2,805	123,441	126,246
Escrow receivables			1,147	1,147
Total Investments, net	\$	\$ 2,805	\$ 450,558	\$ 453,363

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 fiscal years ended October 31, 2012 and 2011 (in thousands):

	Balances, November 1, 2011	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, October 31, 2012
Senior/ Subordinated Loans and credit facilities	\$ 85,587	\$ (26,650)	\$ 26,525	\$ (111)	\$ 5,924	\$ (1,773)	\$	\$ 89,502
Common Stock	94,001	7,235	(7,293)	(9,014)	48	(15,291)	\$	69,686
Preferred Stock	146,382			(8,543)	250			138,089
Warrants					34			34
Other Equity Investments	123,441	(1,309)	1,350	(24,557)	8,760			107,685
Guarantees				(825)				(825)
Escrow receivables	1,147	143			286	(585)		991
Total	\$ 450,558	\$ (20,581)	\$ 20,582	\$ (43,050)	\$ 15,302	\$ (17,649)	\$	\$ 405,162

	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, October 31, 2011
Senior/ Subordinated Loans and credit facilities	\$ 111,244	\$ (14,189)	\$ 14,215	\$ (7,689)	\$ 27,233	\$ (45,227)	\$	\$ 85,587
Common Stock	78,865	(12,433)	12,433	7,485	8,101	(450)		94,001
Preferred Stock	148,995			(2,608)	1,731	(1,736)		146,382
Warrants								
Other Equity Investments	94,798			12,055	16,790	(202)		123,441
Escrow receivables	2,063	40				(956)		1,147
Total	\$ 435,965	\$ (26,582)	\$ 26,648	\$ 9,243	\$ 53,855	\$ (48,571)	\$	\$ 450,558

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

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- (2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities disposed of during the fiscal years ended October 31, 2012 and October 31, 2011, respectively.

- (3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities held at October 31, 2012 and October 31, 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.

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In accordance with ASU 2011-04, the following table summarizes information about the Company's Level 3 fair value measurements as of October 31, 2012 (Fair Value is disclosed in thousands):

Quantitative Information about Level 3 Fair Value Measurements*

	Fair value as of	Valuation technique	Unobservable input	Range		Weighted average (a)	
				Low	High		
Common Stock (c) (d)	\$ 69,686	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	50.0%	3.7%	
			Real Estate Appraisals	N/A	N/A	N/A	
			Income Approach	Discount Rate	14.5%	15.0%	14.5%
			Market Approach	Revenue Multiple	2.0x	2.0x	2.0x
			EBITDA Multiple	5.0x	9.0x	7.3x	
Senior/Subordinated loans and credit facilities (b) (d)	\$ 89,502	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	10.3%	2.8%	
			Real Estate Appraisals	N/A	N/A	N/A	
			Market Approach	EBITDA Multiple	2.8x	8.8x	6.1x
				Market Quotes	97.0%	98.5%	97.7%
		Income Approach	Discount Rate	14.5%	20.9%	18.1%	
Other Equity Investments (d)	\$ 107,685	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%	
			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	20.0%	20.0%	20.0%
				Revenue Multiple	2.0x	2.0x	2.0x
				EBITDA Multiple	5.0x	8.5x	6.3x
				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	11.9%	27.3%
Preferred Stock (c)	\$ 138,089	Market approach	Revenue Multiple	2.0x	2.9x	2.8x	
			EBITDA Multiple	6.0x	9.0x	6.8x	
			% of AUM	1.0%	1.0%	1.0%	
			Illiquidity Discount	20.0%	20.0%	20.0%	
		Income Approach	Discount Rate	15.0%	15.0%	15.0%	
Warrants	\$ 34	Market approach	EBITDA Multiple	8.8x	8.8x	8.8x	
			Income Approach	Discount Rate	16.0%	16.0%	16.0%
Guarantees	\$ (825)	Income Approach	Discount Rate	16.0%	16.0%	16.0%	
Escrow Receivables	\$ 991	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	50.0%	26.7%	
Total	\$ 405,162						

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.

ASC 820, which requires entities to change the wording used to describe the requirements in 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.

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

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rate, risk premium or 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

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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. During the fiscal year ended October 31, 2012, a valuation technique was changed related to one portfolio company in which the Company holds securities within the senior/subordinated loans and credit facilities and other equity investments categories. Specifically, the Company used a different technique within the market approach as compared to a prior period based on the results of a sales process completed by a subsidiary of that portfolio company.

For the Fiscal Year Ended October 31, 2012

During the fiscal year ended October 31, 2012, the Company made two new investments, committing capital totaling \$2.5 million. The investments were made in Freshii (\$1.0 million) and Biovation (\$1.5 million).

During the fiscal year ended October 31, 2012, the Company made nine follow-on investments in five existing Portfolio Companies totaling approximately \$8.8 million. The Company, through MVC Partners Limited Partnership interest and MVCFS General Partnership interest, contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of October 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. 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 September 17, 2012, the Company loaned SGDA \$360,000, increasing the term loan to approximately \$6.5 million at October 31, 2012 and extended the maturity date to August 31, 2014. On October 3, 2012, the Company increased its common equity interest in Centile by approximately \$173,000, which was fair valued at \$3.1 million as of October 31, 2012.

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 October 31, 2012, the amount guaranteed was approximately \$21.1 million and the guarantee obligation was fair valued at \$825,000 by the Valuation Committee.

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. On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the Company's second lien loan, term loan A and term loan B. As a result of the bankruptcy process, the Company received a limited liability company interest in BPC.

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 October 31, 2012.

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 \$12.0 million reduction in the fair value of the common stock.

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.

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On June 27, 2012, IPC completed the liquidation process filed under Chapter 7. There was no realized gain or loss as a result of the liquidation.

On July 10, 2012, the Company sold its 21,064 common shares of Safestone Limited, a Legacy Investment, which had a fair value of \$0. The amount received from the sale was approximately \$50,000 and resulted in a realized loss of approximately \$2.0 million.

On August 9, 2012, the Company sold its common shares of SHL Group Limited and received gross proceeds of approximately \$15.3 million, resulting in a realized gain of approximately \$9.2 million. The \$15.3 million in proceeds includes all transaction expenses and approximately \$225,000 held in escrow, which had a fair value of \$135,000 as of October 31, 2012.

On October 12, 2012, the Company received a dividend from U.S. Gas of approximately \$2.4 million. U.S. Gas board approved an initial dividend to its shareholders, with future distributions projected to be paid quarterly. The Company anticipates receiving dividends from U.S. Gas for as long as it maintains its equity investment in U.S. Gas, and its cash flows can support the dividend. Each quarterly dividend must be approved by U.S. Gas's board of directors and be permissible under its gas and electric supply credit agreement.

During the fiscal year ended October 31, 2012, Marine Exhibition Corporation (Marine) made principal payments totaling \$600,000 on its senior subordinated loan. As of October 31, 2012, the balance of the loan was approximately \$11.8 million.

During the fiscal year ended October 31, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$976,000. The outstanding balance of the tranche A term loan was approximately \$3.0 million.

During the fiscal year October 31, 2012, the Company realized a loss on its investment in MVC Partners of approximately \$1.4 million. Please see Note 2 above for more information.

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

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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 quarter ended July 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by approximately \$1.2 million and RuMe preferred stock by approximately \$417,000. 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 \$759,887. The Valuation Committee also decreased the fair value of the Company's investments in BPC equity interest by \$180,000, HH&B common stock by \$150,000, MVC Automotive equity interest by approximately \$1.1 million, MVC Partners equity interest by approximately \$565,000, Security Holdings equity interest by approximately \$6.5 million, SGDA Europe equity interest by approximately \$3.1 million, Tekers common stock by \$141,000, Turf equity interest by \$618,000 and Velocitius equity interest by approximately \$1.9 million. Also, during the quarter ended July 31, 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 \$107,000.

During the quarter ended October 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by approximately \$1.8 million, Octagon equity interest by \$700,000, Velocitius equity interest by approximately \$2.5 million, Turf equity interest by \$271,000, SGDA Europe equity interest by \$239,000, Tekers common stock by \$139,000 and MVCFS General Partnership interest in the PE Fund 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, Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$836,104. The Valuation Committee also decreased the fair value of the Company's investments in HH&B common stock by \$150,000, MVC Automotive equity interest by \$362,000, MVC Partners equity interest by approximately \$71,000, Security Holdings equity interest by approximately \$3.0 million, Ohio Medical preferred stock and guarantee by \$8.4 million and \$125,000, respectively, NPWT common and preferred stock by approximately \$25,000 and \$440,000, respectively, and Centile equity interest by approximately \$34,000. Also, during the quarter ended October 31, 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 \$99,000.

During the fiscal year ended October 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, RuMe preferred stock by approximately \$417,000, Turf equity interest by approximately \$153,000, MVCFS General Partnership interest in the PE Fund by approximately \$1,000, Octagon equity interest by \$700,000 and Vestal common stock by approximately \$4.2 million. 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 \$3,131,042. 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 \$900,000, MVC Automotive equity interest by approximately \$8.9 million, SGDA Europe equity interest by approximately \$2.6 million, Security Holdings equity interest by approximately \$9.2 million, BPC equity interest by \$180,000, MVC Partners equity interest by approximately \$1.1 million, NPWT common and preferred stock by approximately \$31,000 and \$560,000, respectively, Tekers common stock by \$278,000, Velocitius equity interest by approximately \$3.4 million, Ohio Medical preferred stock by \$8.4 million, Centile equity interest by approximately \$34,000 and valued the liability associated with the Ohio Medical guarantee at \$825,000. Also, during the fiscal year ended October 31, 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 \$188,000.

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At October 31, 2012, the fair value of all portfolio investments, exclusive of short-term investments, was \$404.2 million with a cost basis of \$332.4 million. At October 31, 2012, the fair value and cost basis of portfolio investments of the Legacy Investments were \$10.8 million and \$30.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team were \$393.4 million and \$303.5 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 (\$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

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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 sales of its assets. The Company realized a loss of \$10.0 million as a result of this dissolution.

On October 3, 2011, 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 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

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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 Velocitius 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

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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 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.

10. Commitments and Contingencies**Commitments to/for Portfolio Companies:**

At October 31, 2012, the Company's existing commitments to Portfolio Companies consisted of the following:

Portfolio Company	Amount Committed	Amount Funded at October 31, 2012
Turf	\$ 1.0 million	\$ 1.0 million
MVC Partners/MVCFS	\$ 20.1 million	\$ 8.2 million
Total	\$ 21.1 million	\$ 9.2 million

Guarantees

As of October 31, 2012, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed	Amount Funded at October 31, 2012
MVC Automotive	\$ 5.2 million	
Tekers	\$ 194,000	
Ohio Medical	\$ 21.1 million	
Total	\$ 26.5 million	

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 October 31, 2012, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$825,000.

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.

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On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 150,000 euros at October 31, 2012, equivalent to approximately \$194,000.

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 July 31, 2012, the mortgage that was guaranteed was repaid by MVC Automotive, resulting in the release of the guarantee. As of October 31, 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 \$5.2 million at October 31, 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 continue 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 October 31, 2012 is approximately 6.3 million Euro (equivalent to approximately \$8.2 million).

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 October 31, 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. During the fiscal year ended October 31, 2012, MVC Partners was consolidated with the operations of the Company as MVC Partners limited partnership interest in the PE Fund is a substantial portion of MVC Partners operations. As of October 31, 2012, \$8.2 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 NORD bankas 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 October 31, 2012, the amount guaranteed was approximately \$21.1 million and the guarantee obligation was fair valued at \$825,000 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.

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On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million 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 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 October 31, 2012, there was \$50.0 million in term debt outstanding under the Credit Facility and approximately \$9,000 of interest payable. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. During the year ended October 31, 2012, the Company requested Guggenheim's consent to waive compliance with a particular covenant of the Credit Facility. In order to obtain this waiver, the Company agreed to increase the interest rate on the Credit Facility if the Company did not meet a newly established covenant level that was more stringent than required in the Company's Credit Facility documents. The covenant level for an event of default remained the same. As of October 31, 2012, the Company has met all of its original covenant levels and is not in default, but was unable to meet the increased covenant level required by Guggenheim as part of the waiver obtained earlier in the year. As a result, the interest rate on the Credit Facility has increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate will be effective until the Company demonstrates that it has passed the higher covenant level. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs are being 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 are 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.

At October 31, 2012, the carrying amount of our Credit Facility approximates the fair value, using Level 3 inputs under the fair value hierarchy, of our Credit Facility, which was \$50.0 million. The fair value of our debt obligation is determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of our Credit Facility is estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any.

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.

A summary of our contractual payment obligations as of October 31, 2012 is as follows:

	Total	Payments Due by Period			After 5 years
		Less than 1 year	1-3 years	4-5 years	
Credit Facility I	\$ 50,000,000	\$50,000,000	N/A	N/A	N/A
Total Debt	\$ 50,000,000	\$50,000,000	N/A	N/A	N/A

11. Certain Issuances of Equity Securities by the Issuer and 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. The following table represents our stock repurchase program for the fiscal year ended October 31, 2011.

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Period	Total Number of Shares Purchased	Average Price Paid per Share including commission	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
As of October 30, 2011	306,100	\$ 13.06	306,100	\$ 1,000,872
April 1, 2011 - April 30, 2011	74,005	\$ 13.06	74,005	\$ 34,217
Total	380,105	\$ 13.06	380,105	\$ 34,217

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 during the year ended October 31, 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 its Credit Facility.

We had no unregistered sales of equity securities for the fiscal year ended October 31, 2012.

12. Tax Matters

Return of Capital Statement of Position (ROCSOP) Adjustment: During the year ended October 31, 2012, the Company recorded a reclassification for permanent book to tax differences. These differences were primarily due to book/tax treatment of partnership income. These differences resulted in a net decrease in accumulated losses of \$2,904,589, an increase in accumulated net realized loss of \$128,110, and a decrease in additional paid-in capital of \$2,776,479. This reclassification had no effect on net assets.

Distributions to Shareholders: The table presented below includes MVC Capital, Inc. only. The Company's wholly-owned subsidiary MVCFS has not been included. As of October 31, 2012, the components of accumulated earnings/ (deficit) on a tax basis were as follows:

Tax Basis Accumulated Earnings (Deficit)

Accumulated capital and other losses	\$ (45,108,864)
Undistributed Net investment Income	
Undistributed Long-Term Capital Gain	
Gross unrealized appreciation	147,616,889
Gross unrealized depreciation	(77,417,977)
Net unrealized appreciation	\$ 70,198,912
Total tax basis accumulated earnings	\$ 25,090,048
Tax cost of investments	\$ 333,767,304
Current year distributions to shareholders on a tax basis	
Ordinary income	\$ 11,152,071
Return of Capital	\$ 686,835
Prior year distributions to shareholders on a tax basis	
Ordinary income	\$ 8,257,244
Long Term Capital Gain	\$ 2,200,450
Return of Capital	\$ 1,031,338

On October 31, 2012, the Company had a net capital loss carryforward of \$45,108,864 of which \$26,318,783 will expire in the year 2019 and \$18,790,081 has no expiration. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed.

Table of ContentsQualified Dividend Income Percentage

The Company designated 100% of dividends declared and paid during the year ending October 31, 2012 from net operating income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003.

Corporate Dividends Received Deduction Percentage

Corporate shareholders may be eligible for the dividends received deduction for certain ordinary income distributions paid by the Company. The Company designated 100% of dividends declared and paid during the year ending October 31, 2012 from net operating income as qualifying for the dividends received deduction. The deduction is a pass through of dividends paid by domestic corporations (i.e. only equities) subject to taxation.

13. Income Taxes

The Company's wholly-owned subsidiary MVCFS is subject to federal and state income tax. For the fiscal year ended October 31, 2012, the Company recorded a tax provision of \$3,997. For the fiscal year ended October 31, 2011, the Company recorded a tax provision of \$13,557. For the fiscal year ended October 31, 2010, the Company recorded a tax benefit of \$8,476. The provision for income taxes was comprised of the following:

	October 31, 2012	Fiscal Year ended October 31, 2011	October 31, 2010
Current tax (benefit) expense:			
Federal	\$	\$ 11,363	\$
State	3,997	2,194	8,476
Total current tax (benefit) expense	3,997	13,557	8,476
Deferred tax expense (benefit):			
Federal			
State			
Total deferred tax expense (benefit)			
Total tax (benefit) provision	\$ 3,997	\$ 13,557	\$ 8,476

The following table summarizes the significant differences between the U.S. federal statutory tax rate and the Company's effective tax rate for financial statement purposes for the fiscal years ended October 31, 2012, 2011 and 2010:

	October 31, 2012	Fiscal Year Ended October 31, 2011	October 31, 2010
Federal income tax benefit at statutory rate	(\$ 1,328,162)	(\$1,503,159)	(\$ 940,558)
State income taxes, net of federal benefit	(213,286)	(244,827)	(152,979)
Other		11,363	5,593
Net change to valuation allowance	1,545,445	1,750,180	1,096,420
	\$ 3,997	\$ 13,557	\$ 8,476

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The Company generated a net operating loss of approximately \$3.7 million in the current year for federal and New York state purposes. The net operating loss will be carried forward to offset federal taxable income in future years. As of October 31, 2012, the Company has the following NOL available to be carried forward:

NOL Federal	NOL New York State	Fiscal Year of NOL	Expiration
\$	\$29,673	October 31, 2007	October 31, 2027
\$1,411,365	\$2,284,298	October 31, 2008	October 31, 2028
\$2,585,262	\$2,780,861	October 31, 2009	October 31, 2029
\$3,969,891	\$3,968,135	October 31, 2010	October 31, 2030
\$5,286,401	\$5,284,207	October 31, 2011	October 31, 2031
\$3,660,070	\$3,656,073	October 31, 2012	October 31, 2032

Due to the uncertainty surrounding the ultimate utilization of these net operating losses, the Company has recorded a 100% valuation allowance against the current year federal deferred benefit of approximately \$1,329,000 as well as against prior years federal deferred tax asset of approximately \$4,599,000. Additionally, a 100% valuation allowance has been recorded for current year state and local deferred benefit of approximately \$216,000 and against prior years state and local deferred tax asset of approximately \$826,000

Deferred income tax balances for MVCFS reflect the impact of temporary difference between the carrying amount of assets and liabilities and their tax bases and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. The components of our deferred tax assets and liabilities for MVCFS as of October 31, 2012, October 31, 2011 and October 31, 2010 were as follows:

	October 31, 2012	October 31, 2011	October 31, 2010
Deferred tax assets:			
Deferred revenues	\$ 165,003	\$ 99,118	\$ 362,391
Net operating loss	6,763,864	5,317,308	3,229,077
Others	41,962	8,895	85,102
Total deferred tax assets	\$ 6,970,829	\$ 5,425,321	\$ 3,676,570
Valuation allowance on Deferred revenues and Net operating loss	(\$ 6,970,829)	(\$ 5,425,321)	(\$ 3,676,570)
Net deferred tax assets	\$	\$	\$
Deferred tax liabilities:			
Deferred tax liabilities			
Total deferred tax liabilities	\$	\$	\$
Net deferred taxes	\$	\$	\$

14. Segment Data

The Company's reportable segments are its investing operations as a business development company, MVC Capital, which includes MVC Cayman and MVCFS.

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The following table presents book basis segment data for the fiscal year ended October 31, 2012:

	MVC	MVCFS	Consolidated
Interest and dividend income	\$ 25,205,231	\$ 93	\$ 25,205,324
Fee income		1,939,913	1,939,913
Fee income asset management		2,299,737	2,299,737
Other income	442,138		442,138
Total operating income	25,647,369	4,239,743	29,887,112
Total operating expenses	3,126,647	8,189,315	11,315,962
Less: Waivers by Adviser	(2,513,218)	(40,699)	(2,553,917)
Total net operating expenses	613,429	8,148,616	8,762,045
Net operating income (loss) before taxes	25,033,940	(3,908,873)	21,125,067
Tax expense		3,997	3,997
Net operating income (loss)	25,033,940	(3,912,870)	21,121,070
Net realized (loss) gain on investments	(20,519,455)	1,022	(20,518,433)
Net change in unrealized (depreciation) appreciation on investments	(22,258,805)	1,492	(22,257,313)
Net decrease in net assets resulting from operations	(17,744,320)	(3,910,356)	(21,654,676)

In all periods prior to July 16, 2004, all business was conducted through MVC Capital, Inc.

15. Subsequent Events

On November 26, 2012, the Company loaned an additional \$8.0 million to JSC Tekers, increasing the secured loan amount to \$12.0 million. The interest rate remains at 8% per annum and the maturity date was extended to December 31, 2014.

On December 14, 2012, the Company loaned an additional \$500,000 to Bioventions, increasing the loan amount to \$2.0 million.

On December 17, 2012, the Company declared a dividend of \$0.135 per share, or a total of approximately \$3.2 million. The dividend is payable on January 7, 2013 to shareholders of record on December 31, 2012.

On December 17, 2012, the Company received a dividend from Vestal of approximately \$426,000 dividend from Vestal.

On December 19, 2012, MVC Automotive made a principal payment of approximately \$2.0 million on its bridge loan.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MVC Capital, Inc.

We have audited the accompanying consolidated balance sheets of MVC Capital, Inc. (the Company), including the consolidated schedules of investments, as of October 31, 2012 and 2011, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years in the period ended October 31, 2012, and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2012. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements, the selected per share data and ratios and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, selected per share data and ratios and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2012, by correspondence with the custodians and management of the underlying investments. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the consolidated financial position of MVC Capital, Inc. as of October 31, 2012 and 2011, and the consolidated results of its operations, its cash flows and its changes in net assets for each of the three years in the period ended October 31, 2012 and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2012 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MVC Capital, Inc.'s internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 26, 2012 expressed an unqualified opinion thereon.

New York, New York

December 26, 2012

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company recognizes management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Company. Within the 90 days prior to the filing date of this annual report on Form 10-K, the Company carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of management, including 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). Based upon that evaluation, the CEO and the CFO have concluded that our disclosure controls and procedures are adequate and effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our disclosure controls and procedures or in other factors that could significantly affect our disclosure controls and procedures subsequent to the date we carried out the evaluation discussed above.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our CEO and CFO, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under the framework in Internal Control - Integrated Framework, management concluded that the Company's internal control over financial reporting was effective as of October 31, 2012. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of October 31, 2012, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of MVC Capital, Inc.

We have audited MVC Capital Inc. 's internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MVC Capital, Inc. 's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Controls and Procedures. Our responsibility is to express an opinion on the company 's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company 's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company 's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company 's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MVC Capital, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MVC Capital, Inc., including the consolidated schedules of investments, as of October 31, 2012 and 2011, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years in the period ended October 31, 2012, and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2012, and our report dated December 26, 2012 expressed an unqualified opinion thereon.

New York, New York

December 26, 2012

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There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information with respect to directors and executive officers of the Registrant to be contained in the Company's proxy statement to be filed with the SEC, in connection with the Company's annual meeting of shareholders to be held in 2013 (the 2013 Proxy Statement), which information is incorporated herein by reference.

The Company has adopted a code of ethics that applies to the Company's chief executive officer and chief financial officer/chief accounting officer, a copy of which is posted on our website <http://www.mvccapital.com>.

Our CEO and CFO certify the accuracy of the financial statements contained in our periodic reports, and so certified in this Form 10-K through the filing of Section 302 certifications as exhibits to this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Reference is made to the information with respect to executive compensation to be contained in the 2013 Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Reference is made to the information with respect to security ownership of certain beneficial owners and management to be contained in the 2013 Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information in response to this Item is incorporated by reference to the relevant section of the 2013 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Reference is made to the information with respect to principal accounting fees and services to be contained in the 2013 Proxy Statement, which information is incorporated herein by reference.

Table of Contents**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES**

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(a)(1) Financial Statements	
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<u>Consolidated Schedule of Investments</u> <u>October 31, 2012</u>	79-80
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<u>Consolidated Statement of Operations</u> <u>For the Year Ended October 31, 2012,</u> <u>the Year Ended October 31, 2011 and</u> <u>the Year Ended October 31, 2010</u>	84-85
<u>Consolidated Statement of Cash Flows</u> <u>For the Year Ended October 31, 2012,</u> <u>the Year Ended October 31, 2011 and</u> <u>the Year Ended October 31, 2010</u>	86
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<u>Notes to Consolidated Financial Statements</u>	90-120
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(a)(2) <u>The following financial statement schedules are filed here with:</u> <u>Schedule 12-14 of Investments in and Advances to Affiliates</u>	128

In addition, there may be additional information not provided in a schedule because (i) such information is not required or (ii) the information required has been presented in the aforementioned financial statements.

(a)(3) The following exhibits are filed herewith or incorporated by reference as set forth below:

Exhibit Number	Description
3.1	Certificate of Incorporation. <i>(Incorporated by reference to Exhibit 99.a filed with the Registrant's initial Registration Statement on Form N-2 (File No. 333-92287) filed on December 8, 1999)</i>
3.2	Certificate of Amendment of Certificate of Incorporation. <i>(Incorporated by reference to Exhibit 99.a.2 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)</i>
3.3	Fifth Amended and Restated Bylaws. <i>(Incorporated by reference to Exhibit 99.b. filed with Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-125953) filed on August 29, 2005)</i>

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Exhibit Number	Description
4.1	Form of Share Certificate. (Incorporated by reference to Exhibit 99.d.1 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)
10.1	Dividend Reinvestment Plan, as amended. (Incorporated by reference to Exhibit 99.e filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)
10.2	Amended and Restated Investment Advisory and Management Agreement between the Registrant and The Tokarz Group Advisers LLC. <i>(Incorporated by reference to Exhibit 10.1 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)</i>
10.3	Form of Custody Agreement between Registrant and U.S. Bank National Association. (Incorporated by reference to Exhibit 99.j.1 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)
10.4	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. (Incorporated by reference to Exhibit 99.j.2 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)
10.5	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. <i>(Incorporated by reference to Exhibit 10.4 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)</i>
10.6	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. <i>(Incorporated by reference to Exhibit 10.3 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 11, 2012)</i>
10.7	Form of Transfer Agency Letter Agreement with Registrant and EquiServe Trust Company, N.A. (Incorporated by reference to Exhibit 99.k.2 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)
10.8	Form of Fee and Service Schedule Amendment to Transfer Agency Agreement with Registrant and Computershare Trust Company, N.A. <i>(Incorporated by reference to Exhibit 10.1 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on September 8, 2009)</i>
10.9	Form of Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. (Incorporated by reference to Exhibit 99.k.6 filed with the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)
10.10	Form of Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. (Incorporated by reference to Exhibit 99.k.7 filed with Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)
10.11	Form of First Amendment to Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. <i>(Incorporated by reference to Exhibit 10.2 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)</i>
10.12	Form of Second Amendment to Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. <i>(Incorporated by reference to Exhibit 10.2 with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 11, 2012)</i>
10.13	Form of First Amendment to Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. <i>(Incorporated by reference to Exhibit 10.3 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)</i>

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Exhibit Number	Description
10.14	Form of Second Amendment to Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. <i>(Incorporated by reference to Exhibit 10.2 with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 11, 2012)</i>
10.15	Form of Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al. <i>(Incorporated by reference to Exhibit 10 filed with Registrant's Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 9, 2006)</i>
10.16	Form of Amendment to Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al. <i>(Incorporated by reference to Exhibit 10 filed with Registrant's Annual Report on Form 10-K (File No. 814-00201) filed on December 29, 2008)</i>
10.17	Form of Amendment to Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al., <i>(Incorporated by reference to Exhibit 10 filed with Registrant's Annual Report on Form 10-K (File No. 814-00201) filed on December 21, 2010)</i> .
10.18	Form of Custody Agreement between Registrant and JP Morgan Chase Bank, N.A., <i>(Incorporated by reference to Exhibit 10 filed with Registrant's Annual Report on Form 10-K (File No. 814-00201) filed on December 21, 2010)</i> .
14	Joint Code of Ethics of the Registrant and The Tokarz Group LLC. <i>(Incorporated by reference to Exhibit 99r filed with the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 29, 2006)</i>
31*	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32*	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

* Filed herewith
(b) Exhibits

Exhibit No.	Exhibit
31	Certifications pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
(c)	Financial Statement Schedules

Table of Contents**Schedule 12-14****MVC Capital, Inc. and Subsidiaries****Schedule of Investments in and Advances to Affiliates**

Portfolio Company	Investment (1)	Amount of Interest or Dividends Credited to Income (5)	Other (2)	October 31, 2011 Fair Value	Gross Additions (3)	Gross Reductions (4)	October 31, 2012 Fair Value
Companies More than 25% owned							
MVC Automotive Group	Common Stock			42,450,000		(8,931,000)	33,519,000
(Automotive Dealership)	Bridge Loan	364,356		3,643,557			3,643,557
MVC Partners, LLC	Common Equity Interest			1,133,729	8,013,749	(1,075,229)	8,072,249
(Private Equity Firm)							
MVC Private Equity Fund LP	General Partnership Interest				205,924		205,924
(Private Equity Firm)	Bridge Loan	8,350					
Ohio Medical Corporation	Common Stock						
(Medical Device Manufacturer)	Preferred Stock			39,500,000		(8,400,000)	31,100,000
	Guarantee					(825,000)	(825,000)
SIA Tekers Invest	Common Stock			1,525,000		(278,000)	1,247,000
(Port Facilities)							
Summit Research Labs, Inc.	Loan	1,635,659		11,055,089	812,928		11,868,017
(Specialty Chemical)	Preferred Stock	12,000,000		74,500,000		(12,000,000)	62,500,000
Turf Products, LLC	Loan	1,154,538		8,395,261			8,395,261
(Distributor Landscaping & Irrigation Equipment)	LLC Interest			2,721,794	153,000		2,874,794
	Revolver			1,000,000			1,000,000
	Warrant						
Velocitius B.V.	Common Equity Interest			25,100,000		(3,375,000)	21,725,000
(Renewable Energy)							
Vestal Manufacturing Enterprises, Inc.	Loan	73,200		600,000			600,000
(Iron Foundries)	Common Stock			1,455,000	4,195,000		5,650,000
Total companies more than 25% owned		\$ 15,236,103					\$ 191,575,802
Companies More than 5% owned, but less than 25%							
Centile Holding B.V.	Common Stock			3,001,376	173,000	(34,376)	3,140,000
(Software)							
Custom Alloy Corporation	Loan	2,141,055		14,559,236	1,064,112		15,623,348
(Manufacturer of Tubular Goods for the Energy Industry)	Preferred Stock			44,000			44,000
	Preferred Stock			9,956,000			9,956,000
Harmony Health & Beauty, Inc.	Common Stock			1,000,000		(900,000)	100,000
(Healthcare Retail)							
JSC Tekers Holdings	Common Stock			4,500			4,500
(Automotive Dealerships)	Loan	325,333		4,000,000			4,000,000
Marine Exhibition Corporation	Loan	1,331,430		11,958,188	484,554	(600,000)	11,842,742
(Theme Park)	Preferred Stock*	374,020		3,024,872	249,347		3,274,219
Octagon Credit Investors, LLC	LLC Interest			5,333,657	888,139		6,221,796
(Financial Services)							
RuMe Inc.	Common Stock			160,000			160,000
(Consumer Products)	Preferred Stock			999,815	417,185		1,417,000
Security Holdings, B.V.	Common Equity Interest			33,200,000		(9,189,000)	24,011,000
(Technology Services)							
SGDA Europe B.V.	Common Equity Interest			10,500,000		(2,585,000)	7,915,000
(Soil Remediation)							
U.S. Gas & Electric, Inc.	Loan	1,337,963		9,143,848	475,796		9,619,644
(Energy Services)	Preferred Stock	2,356,560		78,515,749			78,515,749
	Preferred Stock			2,551,858			2,551,858

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Total companies more than 5% owned, but less than 25%	\$ 7,866,361	\$ 178,396,856
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The accompanying notes are an integral part of these consolidated financial statements.

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This schedule should be read in conjunction with the Company's consolidated statements as of and for the year ended October 31, 2012, including the consolidated schedule of investments.

- (1) Common stock, preferred stock, warrants, options and equity interests are generally non-income producing and restricted. The principal amount for loans and debt securities and the number of shares of common and preferred stock are shown in the consolidated schedule of investments as of October 31, 2012.
 - (2) Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.
 - (3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.
 - (4) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.
 - (5) Represents the total amount of interest or dividends credited to income for a portion of the year an investment was included in the companies more than 25% owned.
- * All or a portion of the dividend income on this investment was or will be paid in the form of additional securities or by increasing the liquidation preference. Dividends paid-in-kind are also included in the Gross Additions for the investment, as applicable.

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

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date	Signature	Title
Date: December 27, 2012	/s/ Michael Tokarz (Michael Tokarz)	Chairman (Principal Executive Officer) and Director
Date: December 27, 2012	/s/ Peter Seidenberg (Peter Seidenberg)	Chief Financial Officer
Date: December 27, 2012	/s/ Emilio Dominianni (Emilio Dominianni)	Director
Date: December 27, 2012	/s/ Gerald Hellerman (Gerald Hellerman)	Director
Date: December 27, 2012	/s/ Phillip F. Goldstein (Phillip F. Goldstein)	Director
Date: December 27, 2012	/s/ Warren Holtsberg (Warren Holtsberg)	Director
Date: December 27, 2012	/s/ Robert C. Knapp (Robert C. Knapp)	Director
Date: December 27, 2012	/s/ William E. Taylor (William E. Taylor)	Director