

MVC CAPITAL, INC.  
Form 10-Q  
March 07, 2013  
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## **FORM 10-Q**

# **SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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

**For the quarterly period ended January 31, 2013 or**

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

**Commission File Number 814-00201**

## **MVC CAPITAL, INC.**

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

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

**94-3346760**  
(I.R.S. Employer  
Identification No.)

**287 Bowman Avenue**

**10577**

**2nd Floor**

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**Purchase, New York**  
(Address of principal  
executive offices)

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

There were 23,916,982 shares of the registrant's common stock, \$.01 par value, outstanding as of March 7, 2013.

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(A Delaware Corporation)

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	January 31, 2013 (Unaudited)	October 31, 2012
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 30,339,225	\$ 36,160,558
Restricted cash and cash equivalents	6,790,000	6,480,000
Investments at fair value		
Non-control/Non-affiliated investments (cost \$53,047,510 and \$54,629,419)	34,656,895	34,197,990
Affiliate investments (cost \$136,400,934 and \$128,521,214)	189,187,170	178,396,856
Control investments (cost \$147,494,206 and \$149,281,248)	192,633,030	191,575,802
Total investments at fair value (cost \$336,942,650 and \$332,431,881)	416,477,095	404,170,648
Dividends and interest receivables, net of reserves	2,811,833	4,559,703
Fee and other receivables	3,729,860	3,314,116
Escrow receivables	494,827	991,563
Prepaid expenses	822,417	753,501
Prepaid taxes	415	591
<b>Total assets</b>	<b>\$ 461,465,672</b>	<b>\$ 456,430,680</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Term loan	\$ 50,000,000	\$ 50,000,000
Provision for incentive compensation (Note 10)	16,830,099	15,655,438
Management fee payable	2,080,237	2,027,571
Management fee payable - Asset Management	1,286,063	1,054,433
Professional fees payable	612,060	767,835
Other accrued expenses and liabilities	800,964	734,501
Portfolio fees payable - Asset Management	140,467	140,293
Consulting fees payable	52,204	34,476
<b>Total liabilities</b>	<b>71,802,094</b>	<b>70,414,547</b>
<b>Shareholders' equity</b>		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 23,916,982 and 23,916,982 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	425,651,660	425,651,660
Accumulated earnings	65,527,765	64,524,665

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Dividends paid to stockholders	(95,239,568)	(92,010,775)
Accumulated net realized loss	(48,324,522)	(46,401,983)
Net unrealized appreciation	79,534,444	71,738,767
Treasury stock, at cost, 4,387,466 and 4,387,466 shares held, respectively	(37,769,245)	(37,769,245)
<b>Total shareholders equity</b>	<b>389,663,578</b>	<b>386,016,133</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 461,465,672</b>	<b>\$ 456,430,680</b>
<b>Net asset value per share</b>	<b>\$ 16.29</b>	<b>\$ 16.14</b>

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

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

	For the Quarter Ended January 31, 2013	For the Quarter Ended January 31, 2012
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 974	\$ 1,580
Affiliate investments	2,385,748	30,249
Control investments	426,300	
Total dividend income	2,813,022	31,829
Payment-in-kind dividend income		
Affiliate investments	65,484	60,497
Total payment-in-kind dividend income	65,484	60,497
Interest income		
Non-control/Non-affiliated investments	543,884	495,471
Affiliate investments	1,022,952	771,642
Control investments	581,774	609,393
Total interest income	2,148,610	1,876,506
Payment-in-kind interest income		
Non-control/Non-affiliated investments	16,012	
Affiliate investments	338,675	500,024
Control investments	213,574	198,945
Total payment-in-kind interest income	568,261	698,969
Fee income		
Non-control/Non-affiliated investments	104	15,082
Affiliate investments	236,846	293,615
Control investments	133,800	178,073
Total fee income	370,750	486,770
Fee income - Asset Management(1)		
Portfolio fees	140,613	83,417
Management Fees	308,841	517,805
Total fee income - Asset Management	449,454	601,222
Other loss	(29,845)	(111,652)
<b>Total operating income</b>	<b>6,385,736</b>	<b>3,644,141</b>
<b>Operating Expenses:</b>		
Management fee	2,080,237	2,256,419
Interest and other borrowing costs	937,043	795,124
Management fee - Asset Management(1)	231,631	388,353
Legal fees	136,000	175,020
Audit fees	158,300	144,000
Other expenses	133,553	184,203
Consulting fees	132,251	122,251

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Portfolio fees - Asset Management(1)	105,460	62,563
Directors fees	103,125	87,000
Insurance	82,770	83,613
Administration	63,872	67,356
Public relations fees	49,500	25,500
Printing and postage	31,000	34,200
Incentive compensation (Note 10)	1,174,661	(1,937,136)
<b>Total operating expenses</b>	<b>5,419,403</b>	<b>2,488,466</b>
Less: Voluntary Expense Waiver by Adviser(2)	(37,500)	(37,500)
Less: Voluntary Management Fee Waiver by Adviser(3)		(58,728)
<b>Total waivers</b>	<b>(37,500)</b>	<b>(96,228)</b>
<b>Net operating income before taxes</b>	<b>1,003,833</b>	<b>1,251,903</b>
<b>Tax Expenses:</b>		
Current tax expense	733	549
<b>Total tax expense</b>	<b>733</b>	<b>549</b>
<b>Net operating income</b>	<b>1,003,100</b>	<b>1,251,354</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments:</b>		
Net realized (loss) gain on investments		
Non-control/Non-affiliated investments	(1,922,539)	193,793
Total net realized (loss) gain on investments	(1,922,539)	193,793
Net change in unrealized appreciation (depreciation) on investments	7,795,677	(10,462,974)
Net realized and unrealized gain (loss) on investments	5,873,138	(10,269,181)
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 6,876,238</b>	<b>\$ (9,017,827)</b>
<b>Net increase (decrease) in net assets per share resulting from operations</b>	<b>\$ 0.29</b>	<b>\$ (0.38)</b>
<b>Dividends declared per share</b>	<b>\$ 0.135</b>	<b>\$ 0.120</b>

(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.

(2) Reflects the quarterly portion of the TTG Advisers' voluntary waiver of \$150,000 of expenses for the 2013 and 2012 fiscal years, that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement (the "Voluntary Waiver" ). Please see Note 9 "Management" for more information.

(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 9 "Management" for more information.

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



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

	<b>For the Quarter Ended January 31, 2013</b>	<b>For the Quarter Ended January 31, 2012</b>
<b>Cash flows from Operating Activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 6,876,238	\$ (9,017,827)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net realized loss (gain)	1,922,539	(193,793)
Net change in unrealized (appreciation) depreciation	(7,795,677)	10,462,974
Amortization of discounts and fees	(11,964)	(17,158)
Increase in accrued payment-in-kind dividends and interest	(633,745)	(759,466)
Allocation of flow through loss	29,845	111,652
Changes in assets and liabilities:		
Dividends and interest receivables, net of reserves	1,747,870	280,395
Fee and other receivables	(415,744)	(125,618)
Escrow receivables	496,736	441,926
Prepaid expenses	(68,916)	(118,467)
Prepaid taxes	176	
Incentive compensation (Note 10)	1,174,661	(1,937,136)
Other liabilities	212,886	732,004
Purchases of equity investments		(6,314,993)
Purchases of debt instruments	(8,500,000)	(1,000,000)
Proceeds from equity investments		
Proceeds from debt instruments	2,682,555	699,137
<b>Net cash used in operating activities</b>	<b>(2,282,540)</b>	<b>(6,756,370)</b>
<b>Cash flows from Financing Activities:</b>		
Distributions paid to shareholders	(3,228,793)	(2,870,038)
<b>Net cash used in financing activities</b>	<b>(3,228,793)</b>	<b>(2,870,038)</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>(5,511,333)</b>	<b>(9,626,408)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 42,640,558</b>	<b>\$ 35,242,460</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 37,129,225</b>	<b>\$ 25,616,052</b>

During the quarters ended January 31, 2013 and 2012 MVC Capital, Inc. paid \$830,555 and \$734,720 in interest expense, respectively.

During the quarters ended January 31, 2013 and 2012 MVC Capital, Inc. paid \$857 and \$1,967 in income taxes, respectively.

**Non-cash activity:**

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During the quarters ended January 31, 2013 and 2012, MVC Capital, Inc. recorded payment in-kind dividend and interest of \$633,745 and \$759,466, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

During the quarters ended January 31, 2013 and 2012, MVC Capital, Inc. was allocated (\$29,845) and (\$111,652), respectively, in flow-through losses from its equity investment in Octagon Credit Investors, LLC. Of these amounts, \$0 and \$0, respectively, was received in cash and the balance of (\$29,845) and (\$111,652), respectively, was undistributed and therefore decreased the cost of the investment. The fair value was then decreased by \$29,845 and \$111,652, respectively, by the Company's Valuation Committee.

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 life of the loan. During the quarter ended January 31, 2013 and January 31, 2012, the Company recorded \$353 and \$441, respectively of amortization.

On January 13, 2012, the Company received free warrants related to their debt investment in Biovation Holdings, Inc. The Company allocated the cost basis in the investment between the bridge loan and the warrant at the time the investment was made. The Company will amortize the discount associated with the warrant over the life of the loan.

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**

	<b>For the Quarter Ended January 31, 2013 (Unaudited)</b>	<b>For the Quarter Ended January 31, 2012 (Unaudited)</b>	<b>For the Year Ended October 31, 2012</b>
<b>Operations:</b>			
Net operating income	\$ 1,003,100	\$ 1,251,354	\$ 21,121,070
Net realized (loss) gain on investments	(1,922,539)	193,793	(20,518,433)
Net change in unrealized appreciation (depreciation) on investments	7,795,677	(10,462,974)	(22,257,313)
<b>Net increase (decrease) in net assets from operations</b>	<b>6,876,238</b>	<b>(9,017,827)</b>	<b>(21,654,676)</b>
<b>Shareholder Distributions:</b>			
Distributions to shareholders from income	(3,228,793)	(1,251,354)	(11,838,907)
Distributions to shareholders from return of capital		(1,618,684)	
<b>Net decrease in net assets from shareholder distributions</b>	<b>(3,228,793)</b>	<b>(2,870,038)</b>	<b>(11,838,907)</b>
<b>Total increase (decrease) in net assets</b>	<b>3,647,445</b>	<b>(11,887,865)</b>	<b>(33,493,583)</b>
<b>Net assets, beginning of period/year</b>	<b>386,016,133</b>	<b>419,509,716</b>	<b>419,509,716</b>
<b>Net assets, end of period/year</b>	<b>\$ 389,663,578</b>	<b>\$ 407,621,851</b>	<b>\$ 386,016,133</b>
<b>Common shares outstanding, end of period/year</b>	<b>23,916,982</b>	<b>23,916,982</b>	<b>23,916,982</b>
<b>Undistributed net operating income</b>	<b>\$ 7,057,502</b>	<b>\$</b>	<b>\$ 9,282,163</b>

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 Quarter Ended January 31, 2013 (Unaudited)	For the Quarter Ended January 31, 2012 (Unaudited)	For the Year Ended October 31, 2012
Net asset value, beginning of period/year	\$ 16.14	\$ 17.54	\$ 17.54
Gain from operations:			
Net operating income	0.04	0.05	0.88
Net realized and unrealized gain (loss) on investments	0.25	(0.43)	(1.78)
Total gain (loss) from investment operations	0.29	(0.38)	(0.90)
Less distributions from:			
Income	(0.14)	(0.05)	(0.50)
Return of capital		(0.07)	
Total distributions	(0.14)	(0.12)	(0.50)
Net asset value, end of period/year	\$ 16.29	\$ 17.04	\$ 16.14
Market value, end of period/year	\$ 12.17	\$ 12.54	\$ 12.36
Market discount	(25.29)%	(26.41)%	(23.42)%
<b>Total Return - At NAV (a)</b>	1.77% (d)	(2.18)% (d)	(5.21)%
<b>Total Return - At Market (a)</b>	(0.44)% (d)	(1.04)% (d)	0.44%
<b>Ratios and Supplemental Data:</b>			
Portfolio turnover ratio	0.63%	0.50%	3.31%
Net assets, end of period/year (in thousands)	\$ 389,665	\$ 407,622	\$ 386,016
Ratios to average net assets:			
Expenses excluding tax expense	5.53%(c)	2.28%(c)	2.17%
Expenses including tax expense	5.53%(c)	2.28%(c)	2.17%
Net operating income before tax expense	1.03%(c)	1.19%(c)	5.22%
Net operating income after tax expense	1.03%(c)	1.19%(c)	5.22%
Ratios to average net assets excluding waivers:			
Expenses excluding tax expense	5.57%(c)	2.38%(c)	2.80%
Expenses including tax expense	5.57%(c)	2.38%(c)	2.80%
Net operating income before tax expense	0.99%(c)	1.10%(c)	4.59%
Net operating income after tax expense	0.99%(c)	1.10%(c)	4.59%

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

### (b) Supplemental Ratio information

Ratios to average net assets: (b)			
Expenses excluding incentive compensation	4.32%(c)	4.13%(c)	4.21%
Expenses excluding incentive compensation, interest and other borrowing costs	3.36%(c)	3.37%(c)	3.38%
Net operating income (loss) before incentive compensation	2.24%(c)	(0.66)%(c)	3.18%
Net operating income before incentive compensation, interest and other borrowing costs	3.20%(c)	0.10%(c)	4.01%
Ratios to average net assets excluding waivers: (b)			
Expenses excluding incentive compensation	4.36%(c)	4.22%(c)	4.27%
Expenses excluding incentive compensation, interest and other borrowing costs	3.40%(c)	3.47%(c)	3.44%
Net operating income (loss) before incentive compensation	2.20%(c)	(0.74)%(c)	3.12%
Net operating income before incentive compensation, interest and other borrowing costs	3.16%(c)	0.01%(c)	3.95%

(c) Annualized.

(d) Non- Annualized.

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments****January 31, 2013 (Unaudited)**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Non-control/Non-affiliated investments- 8.89% (a), (c), (f), (g)</b>					
Actelis Networks, Inc.	Technology Investment	Preferred Stock (150,602 shares) (d), (j)		\$ 5,000,003	
Biovation Holdings, Inc.	Manufacturer of Laminate Material and Composites	Bridge Loan 6.0000% Cash, 6.0000% PIK, 02/28/2014 (b), (h)	\$ 2,000,000	1,835,000	\$ 1,835,000
		Warrants		165,000	165,000
				2,000,000	2,000,000
BPC II, LLC	Apparel	Limited Liability Company Interest (d)		180,000	
DPHI, Inc.	Technology Investment	Preferred Stock (602,131 shares) (d), (j)		4,520,355	
FOLIOfn, Inc.	Technology Investment	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)	1,060,317	1,025,699	1,033,589
		Warrants (d), (m)		33,873	33,873
				1,059,572	1,067,462
MainStream Data, Inc.	Technology Investment	Common Stock (5,786 shares) (d), (j)		3,750,000	
NPWT Corporation	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,231,638	20,274
		Series A Convertible Preferred Stock (5,000 shares) (d)			355,909
				1,231,638	376,183
Prepaid Legal Services, Inc.	Consumer Services	Tranche A Term Loan 7.5000% Cash, 01/1/2017 (h)	2,926,829	2,895,408	2,926,829
		Tranche B Term Loan 11.0000% Cash, 01/1/2017 (h)	4,000,000	3,914,114	4,000,000
				6,809,522	6,926,829
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	6,949,071	6,949,071
<b>Sub Total</b>					
<b>Non-control/Non-affiliated investments</b>				<b>53,047,511</b>	<b>34,656,895</b>
<b>Affiliate investments - 48.55% (a), (c), (f), (g)</b>					

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Centile Holdings B.V.	Software	Common Equity Interest (d), (e)	3,174,376	3,230,000
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 12.0000% Cash, 06/18/2013 (b), (h)	15,467,522	15,467,522
		Convertible Series A Preferred Stock (9 shares) (d)	44,000	47,696
		Convertible Series B Preferred Stock (1,991 shares) (d)	9,956,000	10,792,304
			25,467,522	26,307,522
Harmony Health & Beauty, Inc.	Health & Beauty - Retail	Common Stock (147,621 shares) (d)	6,700,000	
JSC Tekers Holdings	Real Estate Management	Common Stock (2,250 shares) (d), (e)	4,500	4,500
		Secured Loan 8.0000% Cash, 12/31/2014 (e), (h)	12,000,000	12,000,000
			12,004,500	12,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 08/30/2017 (b), (h)	11,713,801	11,705,813
		Convertible Preferred Stock (20,000 shares) (b)	3,339,703	3,339,703
			15,045,516	15,053,504
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest	2,334,900	6,641,951
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	1,840,000
			1,159,815	2,000,000
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d), (e)	40,186,620	26,966,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d), (e)	20,084,599	6,173,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK , 06/30/2015 (b), (h)	9,743,086	9,743,086
		Convertible Series I Preferred Stock (32,200 shares) (d), (l)	500,000	81,067,607
		Convertible Series J Preferred Stock (8,216 shares) (d)		
			10,243,086	90,810,693
<b>Sub Total Affiliate investments</b>			<b>136,400,934</b>	<b>189,187,170</b>

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

Table of Contents**MVC Capital, Inc.****Consolidated Schedule of Investments - (Continued)****January 31, 2013 (Unaudited)**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Control Investments - 49.44% (a), (c), (f), (g)</b>					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d), (e)		\$ 34,736,939	\$ 35,699,000
		Bridge Loan 10.0000% Cash, 12/31/2013 (e), (h)	\$ 1,635,244	1,635,244	1,635,244
				36,372,183	37,334,244
MVC Private Equity Fund LP	Private Equity	Limited Partnership Interest (d), (k)		8,013,749	8,083,916
		General Partnership Interest (d), (k)		204,432	206,222
				8,218,181	8,290,138
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,636	
		Series A Convertible Preferred Stock (22,023 shares) (b)		30,000,000	31,100,000
		Guarantee - Series B Preferred (d)			(1,175,000)
				45,763,636	29,925,000
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d), (e)		2,300,000	1,481,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 7.0000% Cash, 7.0000% PIK , 09/30/2017 (b), (h)	12,081,591	12,063,935	12,081,592
		Common Stock (1,115 shares)		16,000,000	62,500,000
				28,063,935	74,581,592
Turf Products, LLC	Distributor - Landscaping and	Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK , 01/31/2014 (b), (h)	8,395,262	8,395,262	8,395,262
	Irrigation Equipment	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	3,054,794
		Warrants (d)		12,930,956	12,450,056
Velocitius B.V.	Renewable Energy	Common Equity Interest (d), (e)		11,395,315	20,671,000
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	7,300,000
				2,450,000	7,900,000
<b>Sub Total Control Investments</b>				<b>147,494,206</b>	<b>192,633,030</b>



**TOTAL INVESTMENT**

**ASSETS - 106.88% (f)** **\$ 336,942,651 \$ 416,477,095**

(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 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 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 25% 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 \$389,663,578 as of January 31, 2013.

(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.

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(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, 2012**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Non-control/Non-affiliated investments- 8.86% (a), (c), (f), (g)</b>					
Actelis Networks, Inc.	Technology Investment	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 Investment	Preferred Stock (602,131 shares) (d), (j)		4,520,355	
FOLIOfn, Inc.	Technology Investment	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 Investment	Common Stock (21,064 shares) (d), (e), (j)		2,007,701	
MainStream Data, Inc.	Technology Investment	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

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<b>Sub Total Non-control/Non-affiliated investments</b>			<b>54,629,419</b>	<b>34,197,990</b>
<b>Affiliate investments - 46.21% (a), (c), (f), (g)</b>				
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
		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
			4,004,500	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
		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
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
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
		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
<b>Sub Total Affiliate investments</b>			<b>128,521,214</b>	<b>178,396,856</b>

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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**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Control Investments - 49.63% (a), (c), (f), (g)</b>					
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	Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK, 01/31/2014 (b), (h)	8,395,261	8,395,261	8,395,261
	Irrigation Equipment	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
<b>Sub Total Control Investments</b>				<b>149,281,248</b>	<b>191,575,802</b>

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### 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., Velocitius B.V. and Freshii USA, Inc. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located 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.



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MVC Capital, Inc. (the Company)

Notes to Consolidated Financial Statements

January 31, 2013

(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete consolidated financial statements. Certain amounts have been reclassified to adjust to current period presentations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2012, as filed with the U.S. Securities and Exchange Commission (the SEC) on December 27, 2012.

**2. Consolidation**

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

On October 14, 2011, the Company formed a wholly-owned subsidiary, MVC Cayman, an exempted company incorporated in the Cayman Islands, to hold certain of its investments and to make certain future investments. The results of MVCFS and MVC Cayman are consolidated into the Company and all inter-company accounts have been eliminated in consolidation.

During fiscal year ended October 31, 2012, MVC Partners, LLC (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.

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

### 3. Investment Classification

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

### 4. Cash and Cash Equivalents

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

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than three months to be cash equivalents. As of January 31, 2013, the Company had approximately \$35.2 million in cash equivalents of the total cash and cash equivalents of approximately \$37.1 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 related to a project guarantee by AB DnB NORD bankas to Security Holdings B.V. and is classified as restricted cash on the Company's consolidated balance sheet (equivalent to approximately \$6.8 million at January 31, 2013).

**5. Investment Valuation Policy**

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 January 31, 2013, 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. 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. Generally Accepted Accounting Principles (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

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reporting entity, the sensitivity of the fair value to changes in unobservable inputs, and the interrelationships between those unobservable inputs, if any. All the amendments to ASC 820 made by ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The adoption of this new guidance has not had a material effect on the financial position or results of operations of the Company and has resulted in additional disclosures. Please see Note 7 Portfolio Investments.

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*Valuation Methodology*

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

Pursuant to our Valuation Procedures, the Valuation Committee (which is 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 quarter end are not reflected in the valuations reported in this Quarterly Report.

At January 31, 2013, approximately 90.36% 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.

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

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based on the closing market quote on the valuation date minus a discount for the restriction. At January 31, 2013, we did not hold restricted or unrestricted securities of publicly traded companies for which we have a majority-owned interest.

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.

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.

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. The Company also considers other valuation methodologies such as the Option Pricing Method and liquidity preferences when valuing minority equity positions of a Portfolio Company.

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



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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.

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.

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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.

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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.

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

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, debt instruments and escrow receivables (other than cash equivalents), which collectively represented approximately 90.36% of the Company's total assets at January 31, 2013. As discussed in Note 7, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that the Company's portfolio investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. Additionally, we are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore may invest a significant portion of our assets in a relatively small number of portfolio companies, which gives rise to a risk of significant loss should the performance or financial condition of one or more portfolio companies deteriorate. At this time, the Company's investments in short-term securities are in 90-day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. The Company's cash balances, if not large enough to be invested in 90-day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts or other interest bearing accounts.

The following table shows the portfolio composition by industry grouping at fair value as a percentage of net assets as of January 31, 2013 and October 31, 2012.

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	January 31, 2013	October 31, 2012
Energy Services	23.30%	23.49%
Specialty Chemicals	19.14%	19.26%
Automotive Dealerships	9.58%	9.63%
Medical Device Manufacturer	7.78%	7.96%
Electrical Engineering	6.92%	6.22%
Manufacturer of Pipe Fittings	6.75%	6.64%
Renewable Energy	5.30%	5.63%
Theme Park	3.86%	3.92%
Soil Remediation	3.26%	3.75%
Distributor - Landscaping and Irrigation Equipment	3.20%	3.18%
Real Estate Management	3.08%	1.04%
Technology	2.77%	2.79%
Private Equity	2.13%	2.14%
Iron Foundries	2.03%	1.62%
Telecommunications	1.78%	1.80%
Consumer Services	1.78%	1.79%
Financial Services	1.70%	1.61%
Software	0.83%	0.81%
Manufacturer of Laminate Material and Composites	0.51%	0.39%
Consumer Products	0.51%	0.41%
Port Facilities	0.38%	0.32%
Food Services	0.27%	0.27%
Apparel	0.00%	0.00%
Health & Beauty - Retail	0.00%	0.03%

**7. Portfolio Investments**

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

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

- Level 1:** Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price on the measurement date. We did not value any of our investments using Level 1 inputs as of January 31, 2013.



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- **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 January 31, 2013.

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

As noted above, the interests in Investment Vehicles are included in Level 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 January 31, 2013 and October 31, 2012 (in thousands):

	January 31, 2013				Total
	Level 1	Level 2	Level 3		
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 95,928	\$	95,928
Common Stock			71,466		71,466
Preferred Stock			139,333		139,333
Warrants			199		199
Other Equity Investments			110,726		110,726
Guarantees			(1,175)		(1,175)
Escrow receivables			495		495
<b>Total Investments, net</b>	\$	\$	\$ 416,972	\$	416,972

	October 31, 2012				Total
	Level 1	Level 2	Level 3		
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
<b>Total Investments, net</b>	\$	\$	\$ 405,162	\$	405,162

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers

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in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur. During the three month period ended January 31, 2013 and the year ended October 31, 2012, there were no transfers in and out of Level 1 or 2.

The following tables sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs for the three month period ended January 31, 2013 and January 31, 2012 (in thousands):

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	Balances, November 1, 2012	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, January 31, 2013
Senior/Subordinated Loans and credit facilities	\$ 89,502	\$	\$	\$ 104	\$ 8,928	\$ (2,606)	\$	\$ 95,928
Common Stock	69,686	(2,007)	2,007	1,784		(4)		71,466
Preferred Stock	138,089	84		1,179	65	(84)		139,333
Warrants	34				165			199
Other Equity Investments	107,685			3,071		(30)		110,726
Guarantees	(825)			(350)				(1,175)
Escrow receivables	991					(496)		495
<b>Total</b>	<b>\$ 405,162</b>	<b>\$ (1,923)</b>	<b>\$ 2,007</b>	<b>\$ 5,788</b>	<b>\$ 9,158</b>	<b>\$ (3,220)</b>	<b>\$</b>	<b>\$ 416,972</b>

	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, January 31, 2012
Senior/Subordinated Loans and credit facilities	\$ 85,587	\$ 6	\$	\$ (151)	\$ 1,734	\$ (563)	\$	\$ 86,613
Common Stock	94,001			(787)				93,214
Preferred Stock	146,382			(820)	61			145,623
Warrants					34			34
Other Equity Investments	123,441			(8,790)	6,203			120,854
Escrow receivables	1,147	143				(585)		705
<b>Total</b>	<b>\$ 450,558</b>	<b>\$ 149</b>	<b>\$</b>	<b>\$ (10,548)</b>	<b>\$ 8,032</b>	<b>\$ (1,148)</b>	<b>\$</b>	<b>\$ 447,043</b>

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

(2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities disposed of during the three months ended January 31, 2013 and January 31, 2012, respectively.

(3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities held at January 31, 2013 and January 31, 2012, 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.

In accordance with ASU 2011-04, the following table summarizes information about the Company's Level 3 fair value measurements as of January 31, 2013 (in thousands):





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	Fair value as of 1/31/2013	Valuation technique	Unobservable input	Range LowHigh	Weighted average (a)			
Common Stock (c) (d)	\$71,466	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	100.0%	0.0%		
			Real Estate Appraisals	N/A	N/A	N/A		
		Income Approach	Discount Rate	14.8%	15.0%	14.8%		
			Market Approach	Revenue Multiple	2.0x	2.0x	2.0x	
		EBITDA Multiple		5.0x	9.0x	7.2x		
		Senior/Subordinated loans and credit facilities (b) (d)	\$95,928	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	31.0%	4.1%
Real Estate Appraisals	N/A				N/A	N/A		
Market Approach	EBITDA Multiple			2.8x	8.4x	6.3x		
	Market Quotes			99.0%	100.0%	99.5%		
Income Approach	Discount Rate			14.8%	23.7%	19.9%		
	Other Equity Investments (d)			\$110,726	Adjusted Net Asset Approach	Discount to Net Asset Value	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		
		Forward EBITDA Multiple	6.8x		6.8x	6.8x		
		EBITDA Multiple	6.0x		6.5x	6.1x		
		Euros per TTM MWhr	0.70		0.70	0.70		
		Euros per Expected MWhr new P50	0.70		0.70	0.70		
		Income Approach	Discount Rate		7.5%	25.5%	11.2%	
Preferred Stock (c)		\$139,333	Market Approach		Revenue Multiple	2.0x	2.9x	2.8x
					EBITDA Multiple	5.0x	9.0x	6.3x
	% of AUM			1.0%	1.0%	1.0%		
	Illiquidity Discount			30.0%	30.0%	30.0%		
Income Approach	Discount Rate	15.0%	15.0%	15.0%				
Warrants	\$199	Market Approach	EBITDA Multiple	8.4x	8.4x	8.4x		
			Income Approach	Discount Rate	16.0%	23.7%	22.4%	
		Adjusted Net Asset Approach	Discount to Net Asset Value	31.0%	31.0%	31.0%		
Guarantees	\$(1,175)	Income Approach	Discount Rate	16.0%	16.0%	16.0%		
Escrow Receivables	\$495	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	98.5%	34.8%		
Total	\$416,972							

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**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.

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 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 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

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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.

**For the Quarter Ended January 31, 2013**

During the quarter ended January 31, 2013, the Company made two follow-on investments in existing portfolio companies totaling approximately \$8.5 million. On November 26, 2012, the Company loaned an additional \$8.0 million to JSC Tekers Holdings ( 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 Biovation Holdings, Inc. ( Biovation ), increasing the loan amount to \$2.0 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis in the additional \$500,000 loan to the warrant at the time the investment was made.

On December 17, 2012, the Company received a dividend from Vestal Manufacturing Enterprises, Inc. ( Vestal ) of approximately \$426,000.

On December 17, 2012, the Company realized a loss of approximately \$2.0 million on the 21,064 common shares of Lockorder Limited, a Legacy Investment, which had a fair value of \$0.

On December 19, 2012, MVC Automotive Group B.V. ( MVC Automotive ) made a principal payment of approximately \$2.0 million on its bridge loan. As of January 31, 2013, the balance of the bridge loan was approximately \$1.6 million.

On December 31, 2012, Marine Exhibition Corporation ( Marine ) made a principal payment of \$250,000 on its senior subordinated loan. As of January 31, 2013, the balance of the loan was approximately \$11.7 million.

On December 31, 2012, the Company received a distribution from NPWT Corporation ( NPWT ) of approximately \$89,000, which was characterized as a return of capital. Of the \$89,000 distribution, approximately \$5,000 was related to the common stock and reduced the cost basis. The remaining \$84,000 was related to the preferred stock and recorded as a capital gain as the cost basis of the preferred stock had already been reduced to \$0.

On January 23, 2013, the Company received a dividend from U.S. Gas & Electric, Inc. ( U.S. Gas ) of approximately \$2.4 million.

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On January 31, 2013, Custom Alloy Corporation ( Custom Alloy ) made a principal payment of \$250,000 on its loan. As of January 31, 2013, the outstanding balance of the loan was approximately \$15.5 million.

During the quarter ended January 31, 2013, Pre-Paid Legal Services, Inc. ( Pre-Paid Legal ) made principal payments on its tranche A term loan totaling approximately \$98,000. The outstanding balance of the tranche A term loan was approximately \$2.9 million.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$4,000 and series B preferred stock by approximately \$836,000, Turf Products, LLC ( Turf ) equity interest by \$180,000, MVC Automotive equity interest by approximately \$2.2 million, Octagon Credit Investors, LLC ( Octagon ) equity interest by \$450,000, SIA Tekers Invest ( Tekers ) common stock by \$234,000, Vestal common stock by approximately \$1.7 million, Pre-Paid Legal term loan A and term loan B by a total of approximately \$117,000, RuMe Inc. ( RuMe ) preferred stock by \$423,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$12,000, Centile Holdings B.V. ( Centile ) equity interest by \$90,000 and Security Holdings B.V. ( Security Holdings )

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equity interest by \$3.0 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit Research Labs, Inc. ( Summit ), Freshii USA, Inc. ( Freshii ) and U.S. Gas, and the Marine preferred stock were due to the capitalization of payment in kind ( PIK ) interest/dividends totaling \$633,745. The Valuation Committee also decreased the fair value of the Company's investments in SGDA Europe B.V. ( SGDA Europe ) equity interest by approximately \$1.7 million, Harmony Health & Beauty, Inc. ( HH&B ) common stock by \$100,000, NPWT preferred stock by approximately \$89,000 due to the distribution received, and Velocitus B.V. ( Velocitus ) equity interest by approximately \$1.1 million. The Valuation Committee also determined to increase the liability associated with the Ohio Medical Corporation ( Ohio Medical ) guarantee by \$350,000. Also, during the quarter ended January 31, 2013, 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 \$30,000.

At January 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments, was \$416.5 million with a cost basis of \$336.9 million. At January 31, 2013, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$28.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$405.7 million and \$308.6 million, respectively. 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 \$302.1 million, respectively.

**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 USA, Inc. ( 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 Sanierungsgesellschaft für Deponien und Altlasten GmbH ( 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 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 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.

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

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

On June 27, 2012, Integrated Packaging Corporation ( IPC ) 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 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 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 Services, Inc. ( Vendio ) by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$759,466. The Valuation Committee also decreased the fair value of the Company's investments in BP 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



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\$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,

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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 Velocitus 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 Velocitus 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, Velocitus 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, Velocitus 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



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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.

**8. Commitments and Contingencies***Commitments of the Company:*

At January 31, 2013, the Company's existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed	Amount Funded at January 31, 2013
Turf	\$ 1.0 million	\$ 1.0 million
MVC Private Equity Fund LP	\$ 20.1 million	\$ 8.2 million
<b>Total</b>	<b>\$ 21.1 million</b>	<b>\$ 9.2 million</b>

*Guarantees:*

As of January 31, 2013, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed	Amount Funded at January 31, 2013
MVC Automotive	\$ 5.4 million	
Tekers	\$ 170,000	
Ohio Medical	\$ 21.7 million	
<b>Total</b>	<b>\$ 27.3 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At January 31, 2013, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$1.2 million.

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

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 125,000 euros at January 31, 2013, equivalent to approximately \$170,000.

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 \$5.4 million at January 31, 2013) 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 January 31, 2013 is approximately 5.5 million Euro (equivalent to approximately \$7.5 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 January 31, 2013, 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

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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 January 31, 2013, \$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. This guarantee requires the Company to assume this tranche of the Series B preferred stock if the Company is able to make Non-Diversified Investments. As of January 31, 2013, the amount guaranteed was approximately \$21.7 million and the guarantee obligation was fair valued at approximately \$1.2 million 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 January 31, 2013, 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, which was granted, to waive compliance with a particular covenant of the Credit Facility related to the interest and asset coverage ratios. 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 met all of its original covenant levels and was 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 was increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate is 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. See Subsequent Events for a discussion regarding the Company's repayment of the Credit Facility.

At January 31, 2013, 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

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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.

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

**9. Management**

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

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



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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

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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.

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

## 10. Incentive Compensation

At October 31, 2012, the provision for estimated incentive compensation was approximately \$15.7 million. During the quarter ended January 31, 2013, this provision for incentive compensation was increased by a net amount of approximately \$1.1 million to approximately \$16.8 million. The net increase in the provision for incentive compensation during the quarter ended January 31, 2013 reflects the Valuation Committee's determination to increase the fair values of ten of the Company's portfolio investments (Custom Alloy, MVC Automotive, Octagon, Security Holdings, SIA Tekers, Turf, Vestal, Pre-Paid Legal, RuMe, and Centile) by a total of approximately \$9.2 million. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of five of the Company's portfolio investments (Harmony, Ohio Medical, SGDA Europe, Velocitius and NPWT) by a total of approximately \$3.3 million and the \$84,000 realized gain related to NPWT. For the quarter ended January 31, 2013, 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 Automotive, Security Holdings, SGDA Europe, NPWT, Tekers, Velocitius, BPC, Centile and Ohio Medical) by a total of \$35.5 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 \$5.8 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



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incentive fee payment of approximately \$2.3 million that the Company would otherwise be obligated to pay to TTG Advisers under the Advisory Agreement.

## 11. Tax Matters

At 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. The Company had approximately \$17.5 million in unrealized losses associated with Legacy Investments as of January 31, 2013.

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 quarter ended January 31, 2013, 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, 2012 and 2013 for the Company and MVCFS remain subject to examination by the IRS.

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

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

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

Dividends and capital gain distributions, if any, are recorded on the ex-dividend date. Dividends and capital gain distributions are generally declared and paid quarterly according to the Company's policy established on July 11, 2005. An additional distribution may be paid by the Company to avoid imposition of federal income tax on any remaining undistributed net investment income and capital gains. Distributions can be made payable by the Company either in the form of a cash distribution or a stock dividend. The amount and character of income and capital

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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.

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

## For the Quarter Ended January 31, 2013

On December 17, 2012, the Company's Board of Directors declared a dividend of \$0.135 per share. The dividend was payable on January 7, 2013 to shareholders of record on December 31, 2012. The total distribution amounted to \$3,228,793.

During the quarter ended January 31, 2013, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 728 shares of our common stock at an average price of \$12.33, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

## 13. Segment Data

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

The following table presents book basis segment data for the quarter ended January 31, 2013:

	MVC	MVCFS	Consolidated
Interest and dividend income	\$ 5,595,369	\$ 8	\$ 5,595,377
Fee income		370,750	370,750
Fee income - asset management		449,454	449,454
Other income	(29,845)		(29,845)
Total operating income	5,565,524	820,212	6,385,736
Total operating expenses	3,772,352	1,647,051	5,419,403
Less: Waivers by Adviser	(37,500)		(37,500)
Total net operating expenses	3,734,852	1,647,051	5,381,903
Net operating income (loss) before taxes	1,830,672	(826,839)	1,003,833
Tax expense		733	733
Net operating income (loss)	1,830,672	(827,572)	1,003,100

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Net realized (loss) gain on investments	(1,922,539)		(1,922,539)
Net change in unrealized (depreciation) appreciation on investments	7,795,379	298	7,795,677
Net decrease in net assets resulting from operations	7,703,512	(827,274)	6,876,238

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**14. Subsequent Events**

On February 13, 2013, the Company announced the signing of a definitive agreement to sell Summit to an affiliate of One Rock Capital Partners, LLC, subject to regulatory approvals, which were received on February 25, 2013, and the satisfaction of other customary closing conditions, including an escrow. Prior to the completion of the transaction, the Company and other existing Summit shareholders will purchase Summit Custom Spray Drying ( SCSD ) from Summit. SCSD provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries. Assuming satisfaction of the closing conditions and full realization of the escrow and the sale of SCSD, the Company anticipates receiving gross proceeds from its equity investment of approximately \$63.0 million, which is the approximate fair value as of January 31, 2013. Also, as part of the sale, the \$12.1 million second lien loan to Summit will be repaid in full and the Company will then provide Summit with a \$22.0 million second lien loan.

On February 19, 2013, the Company sold \$70.0 million of senior unsecured notes, due in 2023 (the Notes ), in a public offering. The Notes will mature on January 15, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 15, 2016. The Notes will bear interest at a rate of 7.25% per year payable quarterly on January 15, April 15, July 15, and October 15, of each year, beginning April 15, 2013. The Company had also granted the underwriters a 30-day option to purchase up to an additional \$10.5 million of Notes to cover overallocments. The additional \$10.5 million in principal was purchased and the total principal amount of the Notes was \$80.5 million.

On February 26, 2013, the Company received the funds related to the Notes offering, net of expenses, and subsequently repaid the Guggenheim Credit Facility in full, including all accrued interest.

On February 27, 2013, the Company realized a loss of approximately \$4.5 million on its investment in DPHI, Inc., a Legacy Investment formerly DataPlay, Inc.

On March 4, 2013, Custom Alloy made a principal payment of \$5.0 million on its loan.

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

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as *may*, *will*, *expect*, *believe*, *anticipate*, *intend*, *could*, *estimate*, *might* and *continue*, and the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. Forward-looking statements are included in this report pursuant to the "Safe Harbor" provision of the Private Securities Litigation Reform Act of 1995. Such statements are predictions only, and the actual events or results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to adverse conditions in the U.S. and international economies, competition in the markets in which our portfolio companies operate, investment capital demand, pricing, market acceptance, any changes in the regulatory environments in which we operate, changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, competitive forces, adverse conditions in the credit markets impacting the cost, including interest rates and/or availability of financing, the results of financing and investing efforts, the ability to complete transactions, the inability to implement our business strategies and other risks identified below or in the Company's filings with the



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SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements, the Notes thereto and the other financial information included elsewhere in this report and the Company's annual report on Form 10-K for the year ended October 31, 2012.

### **SELECTED CONSOLIDATED FINANCIAL DATA:**

Financial information for the fiscal year ended October 31, 2012 is derived from the consolidated financial statements included in the Company's annual report on Form 10-K, which have been audited by Ernst & Young LLP, the Company's

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independent registered public accounting firm. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods.

**Selected Consolidated Financial Data**

	Quarter Ended January 31, 2013 (Unaudited)	Quarter Ended January 31, 2012 (Unaudited)	Year Ended October 31, 2012
(In thousands, except per share data and number of investments)			
<b>Operating Data:</b>			
Interest and related portfolio income:			
Interest and dividend income	\$ 5,595	\$ 2,668	\$ 25,205
Fee income	371	487	1,940
Fee income - asset management	450	601	2,300
Other (loss) income	(30)	(112)	442
Total operating income	6,386	3,644	29,887
Expenses:			
Management fee	2,080	2,257	8,588
Portfolio fees - asset management	106	62	968
Management fee - asset management	232	388	757
Administrative	890	923	3,573
Interest and other borrowing costs	937	795	3,367
Net Incentive compensation (Note 10)	1,175	(1,937)	(5,937)
Total operating expenses	5,420	2,488	11,316
Total waiver by adviser	(38)	(96)	(2,554)
Net operating income before taxes	1,004	1,252	21,125
Tax expense, net	1	1	4
Net operating income	1,003	1,251	21,121
Net realized and unrealized (loss) gain:			
Net realized (loss) gain on investments	(1,923)	194	(20,518)
Net change in unrealized appreciation (depreciation) on investments	7,796	(10,463)	(22,257)
Net realized and unrealized gain (loss) on investments	5,873	(10,269)	(42,775)
Net increase (decrease) in net assets resulting from operations	\$ 6,876	\$ (9,018)	\$ (21,654)
Per Share:			
Net (decrease) increase in net assets per share resulting from operations	\$ 0.29	\$ (0.38)	\$ (0.90)
Dividends per share	\$ 0.135	\$ 0.120	\$ 0.495
<b>Balance Sheet Data:</b>			

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Portfolio at value	\$	416,477	\$	449,227	\$	404,171
Portfolio at cost		336,943		365,694		332,432
Total assets		461,466		484,014		456,431
Shareholders' equity		389,664		407,622		386,016
Shareholders' equity per share (net asset value)	\$	16.29	\$	17.04	\$	16.14
Common shares outstanding at period end		23,917		23,917		23,917
Other Data:						
Number of Investments funded in period		2		5		11
Investments funded (\$) in period	\$	8,500	\$	7,315	\$	11,300

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	2013 Qtr 1	Qtr 4	2012 Qtr 3	Qtr 2	Qtr 1	Qtr 4	2011 Qtr 3	Qtr 2	Qtr 1
(In thousands, except per share data)									
<b>Quarterly Data (Unaudited):</b>									
Total operating income	6,386	6,148	3,931	16,164	3,644	3,421	3,482	4,544	4,524
Management fee	2,080	2,027	2,127	2,177	2,257	2,155	2,183	2,022	2,485
Portfolio fees - asset management	106	106	338	462	62				
Management fee - asset management	232	140	41	188	388			227	70
Administrative	890	862	971	817	923	1,105	1,049	990	1,176
Interest, fees and other borrowing costs	937	886	854	832	795	783	784	745	770
Net Incentive compensation	1,175	(1,410)	(2,415)	(175)	(1,937)	3,483	(463)	531	(1,603)
Total waiver by adviser	(38)	(38)	(37)	(2,383)	(96)	(38)	(37)	(38)	(138)
Tax expense	1	3			1	2		2	10
Net operating income (loss) before net realized and unrealized gains	1,003	3,572	2,052	14,246	1,251	(4,069)	(34)	65	1,754
Net (decrease) increase in net assets resulting from operations	6,876	(3,556)	(10,595)	1,515	(9,018)	13,282	(2,369)	2,302	(6,244)
Net (decrease) increase in net assets resulting from operations per share	0.29	(0.14)	(0.45)	0.06	(0.37)	0.56	(0.10)	0.10	(0.26)
Net asset value per share	16.29	16.14	16.42	16.99	17.04	17.54	17.1	17.32	17.33

## OVERVIEW

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

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

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests, and other private equity transactions. During the year ended October 31, 2012, the Company made two new investments and made nine follow-on investments in five existing portfolio companies committing a total of \$11.3 million of capital to these investments. During the quarter ended January 31, 2013, the Company made two follow-on investments in existing portfolio companies, committing capital totaling \$8.5 million.

Prior to the adoption of our current investment objective, the Company's investment objective had been to achieve long-term capital appreciation from venture capital investments in information technology companies. The Company's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of January 31, 2013, 2.34% of the current fair value of our assets

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consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential liquidity event, *i.e.*, a sale, public offering, merger or other reorganization.

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

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

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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 funds. 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 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.

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

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

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

**OPERATING INCOME**

*For the Quarter Ended January 31, 2013 and 2012.* Total operating income was \$6.4 million for the quarter ended January 31, 2013 and \$3.6 million for the quarter ended January 31, 2012, an increase of approximately \$2.8 million.

***For the Quarter Ended January 31, 2013***

Total operating income was \$6.4 million for the quarter ended January 31, 2013. The increase in operating income over the same period last year was primarily due to an increase in dividend and interest income offset by a decrease in fees from portfolio companies and asset management

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activities. The main components of operating income for the quarter ended January 31, 2013, was dividend income from portfolio companies and the interest earned on loans. The Company earned approximately \$5.6 million in interest and dividend income from investments in portfolio companies. Of the \$5.6 million recorded in interest/dividend income, approximately \$634,000 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%. The Company also received fee income from asset management of the PE Fund and its portfolio companies totaling approximately \$449,000 and fee income from portfolio companies of approximately \$371,000, totaling approximately \$820,000. Of the \$449,000 of fee income from asset management activities, 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.

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

Total operating income was \$3.6 million for the quarter ended January 31, 2012. 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 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 \$2.7 million in interest and dividend income from investments in portfolio companies. Of the \$2.7 million recorded in interest/dividend income, approximately \$759,000 was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 6% to 15%, excluding those investments which interest is being reserved against. The Company received fee income and had other losses from portfolio companies and other entities totaling a net amount of approximately \$976,000.

**OPERATING EXPENSES**

*For the Quarter Ended January 31, 2013 and 2012.* Operating expenses, net of Voluntary Waivers, were approximately \$5.4 million for the quarter ended January 31, 2013 and \$2.4 million for the quarter ended January 31, 2012, an increase of approximately \$3.0 million.

***For the Quarter Ended January 31, 2013***

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$5.4 million or 5.53% of the Company's average net assets, when annualized, for the quarter ended January 31, 2013. Significant components of operating expenses for the quarter ended January 31, 2013 were management fee expense related to the Company of approximately \$2.1 million, incentive compensation expense of approximately \$1.2 million and interest and other borrowing costs of approximately \$937,000.

The approximately \$3.0 million increase in the Company's net operating expenses for the quarter ended January 31, 2013 compared to the quarter ended January 31, 2012, was primarily due to the \$3.0 million increase in the estimated provision for incentive compensation expense and an approximately \$142,000 increase in interest and other borrowing costs offset by a decrease of approximately \$333,000 in management fee expense, which includes management fees related to the Company and portfolio management fees related to the PE Fund. 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 or management fees related to 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 2011 and 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 2012 and for the quarter ended January 31, 2013 annualized, the Company's expense ratio was 2.95% and 3.04%, respectively, (taking into account the same carve outs as those applicable to the expense cap).



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Pursuant to the terms of the Advisory Agreement, during quarter ended January 31, 2013, the provision for incentive compensation was increased by a net amount of approximately \$1.2 million to approximately \$16.8 million. The net increase in the provision for incentive compensation during the quarter ended January 31, 2013 reflects the Valuation Committee's determination to increase the fair values of ten of the Company's portfolio investments (Custom Alloy, MVC Automotive, Octagon, Security Holdings, SIA Tekers, Turf, Vestal, Pre-Paid Legal, RuMe, and Centile) by a total of approximately \$9.2 million. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of five of the Company's portfolio investments (Harmony, Ohio Medical, SGDA Europe, Velocitius and NPWT) by a total of approximately \$3.3 million and the \$84,000 realized gain related to NPWT. For the quarter ended January 31, 2013, there was no provision recorded for the net operating income portion of the incentive fee

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as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 10 of our consolidated financial statements Incentive Compensation for more information.

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

Operating expenses, net of the Voluntary Waivers (as defined below), were approximately \$2.4 million or 2.28% of the Company's average net assets, when annualized, for the quarter ended January 31, 2012. Significant components of operating expenses for the quarter ended January 31, 2012 were the management fee expense of \$2.7 million and interest and other borrowing costs of approximately \$795,000.

The \$400,000 decrease in the Company's operating expenses for the quarter ended January 31, 2012 compared to the quarter ended January 31, 2011, was primarily due to the \$334,000 decrease in the estimated provision for incentive compensation expense and the \$198,000 decrease in other expenses offset by an increase of approximately \$152,000 in management fee expense. For the 2010 and 2011 fiscal years, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver). On October 25, 2011, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% and the Voluntary Waiver to the 2012 fiscal year. TTG Advisers has also voluntarily agreed that any assets of the Company that are invested in exchange-traded funds and the Octagon Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. For fiscal year 2011 and for the quarter ended January 31, 2012 annualized, the Company's expense ratio was 3.18% and 3.37%, 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 quarter ended January 31, 2012, the provision for incentive compensation was decreased by a net amount of approximately \$1.9 million to approximately \$22.0 million. The net decrease in the provision for incentive compensation during the quarter ended January 31, 2012 reflects the Valuation Committee's determination to decrease the fair values of seven of the Company's portfolio investments (BP, HH&B, MVC Automotive, NPWT, Tekers, Velocitus and Ohio Medical) by a total of \$11.4 million. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of four of the Company's portfolio investments (Octagon Fund, SGDA Europe, Security Holdings, and Turf) by a total of approximately \$1.1 million. The Valuation Committee also increased the fair value of the Company's escrow receivable related to Vitality by \$130,000. During the quarter ended January 31, 2012, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 10 of our consolidated financial statements Incentive Compensation for more information.

**REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES**

*For the Quarter Ended January 31, 2013 and 2012.* Net realized losses for the quarter ended January 31, 2013 were approximately \$1.9 million and net realized gains for the quarter ended January 31, 2012 were approximately \$194,000, a decrease of approximately \$2.1 million.

***For the Quarter Ended January 31, 2013***

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Net realized losses for the quarter ended January 31, 2013 were approximately \$1.9 million. The significant components of the Company's net realized losses for the quarter ended January 31, 2013 were primarily due to the realization of Lockorder Limited and a distribution received from NPWT.

On December 17, 2012, the Company realized a loss of approximately \$2.0 million on the 21,064 common shares of Lockorder Limited, a Legacy Investment, which had a fair value of \$0.

On December 31, 2012, the Company received a distribution from NPWT of approximately \$89,000, which was characterized as a return of capital. Of the \$89,000 distribution, approximately \$5,000 was related to the common stock and reduced the cost basis. The remaining \$84,000 was related to the preferred stock and recorded as a capital gain, as the cost basis of the preferred stock had already been reduced to \$0.

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

Net realized gains for the quarter ended January 31, 2012 were approximately \$194,000. The significant components of the Company's net realized gains for the quarter ended January 31, 2012 were primarily the distributions received from the Octagon Fund and the increase in the fair values of the Vitality and Vendio escrows.

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

During the quarter ended January 31, 2012, the Valuation Committee increased the fair values of the Vitality and Vendio escrows by a combined amount of approximately \$143,000, which were recorded as realized gains.

**UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES**

*For the Quarter Ended January 31, 2013 and 2012.* The Company had a net change in unrealized appreciation on portfolio investments of approximately \$7.8 million for the quarter ended January 31, 2013 and unrealized depreciation on portfolio investments of approximately \$10.5 million for the quarter ended January 31, 2012, a net increase of approximately \$18.3 million.

***For the Quarter Ended January 31, 2013***

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$7.8 million for the quarter ended January 31, 2013. The change in unrealized appreciation for the quarter ended January 31, 2013 primarily resulted from the Valuation Committee's decision to increase the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$4,000 and series B preferred stock by approximately \$836,000, Turf equity interest by \$180,000, MVC Automotive equity interest by approximately \$2.2 million, Octagon equity interest by \$450,000, Tekers common stock by \$234,000, Vestal common stock by approximately \$1.7 million, Pre-Paid Legal term loan A and term loan B by a total of approximately \$117,000, RuMe preferred stock by \$423,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$12,000, Centile equity interest by \$90,000 and Security Holdings equity interest by \$3.0 million. The reclassification from unrealized depreciation to a realized loss caused by the dissolution of Lockorder Limited, a Legacy Investment formerly Safestone Technologies PLC, of approximately \$2.0 million was also a component in the change in unrealized appreciation. The Valuation Committee also decreased the fair value of the Company's investments in SGDA Europe equity interest by approximately \$1.7 million, HH&B common stock by \$100,000, NPWT preferred stock by approximately \$89,000 due to the distribution received, Velocitus equity interest by approximately \$1.1 million. The Valuation Committee also increased the liability associated with the Ohio Medical guarantee by \$350,000.

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

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The Company had a net change in unrealized depreciation on portfolio investments of approximately \$10.5 million for the quarter ended January 31, 2012. The change in unrealized depreciation for the quarter ended January 31, 2012 primarily resulted from the Valuation Committee's decision to decrease the fair values of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$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, Velocitus equity interest by approximately \$1.9 million and value the liability associated with the Ohio Medical guarantee at \$700,000. The Valuation Committee also increased the fair value of the Company's investments in Octagon Fund by approximately \$84,000, SGDA Europe equity interest by \$265,000, Turf equity interest by \$500,000 and Security Holdings equity interest by \$205,000.

### PORTFOLIO INVESTMENTS

*For the Quarter Ended January 31, 2013 and the Year Ended October 31, 2012.* The cost of the portfolio investments held by the Company at January 31, 2013 and at October 31, 2012 was \$336.9 million and \$332.4 million, respectively, an increase of \$4.5 million. The aggregate fair value of portfolio investments at January 31, 2013 and at October 31, 2012 was \$416.5 million and \$404.2 million, respectively, an increase of \$12.3 million. The Company held

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unrestricted cash and cash equivalents at January 31, 2013 and at October 31, 2012 of \$30.3 million and \$36.2 million, respectively, a decrease of approximately \$5.9 million.

*For the Quarter Ended January 31, 2013*

During the quarter ended January 31, 2013, the Company made two follow-on investments in existing portfolio companies totaling approximately \$8.5 million. 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 Biovation, increasing the loan amount to \$2.0 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis in the additional \$500,000 loan to the warrant at the time the investment was made.

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

On December 17, 2012, the Company realized a loss of approximately \$2.0 million on the 21,064 common shares of Lockorder Limited, a Legacy Investment, which had a fair value of \$0.

On December 19, 2012, MVC Automotive made a principal payment of approximately \$2.0 million on its bridge loan. As of January 31, 2013, the balance of the bridge loan was approximately \$1.6 million.

On December 31, 2012, Marine made a principal payment of \$250,000 on its senior subordinated loan. As of January 31, 2013, the balance of the loan was approximately \$11.7 million.

On December 31, 2012, the Company received a distribution from NPWT of approximately \$89,000, which was characterized as a return of capital. Of the \$89,000 distribution, approximately \$5,000 was related to the common stock and reduced the cost basis. The remaining \$84,000 was related to the preferred stock and recorded as a capital gain as the cost basis of the preferred stock had already been reduced to \$0.

On January 23, 2013, the Company received a dividend from U.S. Gas of approximately \$2.4 million.

On January 31, 2013, Custom Alloy made a principal payment of \$250,000 on its loan. As of January 31, 2013, the outstanding balance of the loan was approximately \$15.5 million.

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During the quarter ended January 31, 2013, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$98,000. The outstanding balance of the tranche A term loan was approximately \$2.9 million.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$4,000 and series B preferred stock by approximately \$836,000, Turf equity interest by \$180,000, MVC Automotive equity interest by approximately \$2.2 million, Octagon equity interest by \$450,000, Tekers common stock by \$234,000, Vestal common stock by approximately \$1.7 million, Pre-Paid Legal term loan A and term loan B by a total of approximately \$117,000, RuMe preferred stock by \$423,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$12,000, Centile equity interest by \$90,000 and Security Holdings equity interest by \$3.0 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, Freshii and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$633,745. The Valuation Committee also decreased the fair value of the Company's investments in SGDA Europe equity interest by approximately \$1.7 million, HH&B common stock by \$100,000, NPWT preferred stock by approximately \$89,000 due to the distribution received, and Velocitius equity interest by approximately \$1.1 million. The Valuation Committee also determined to increase the liability associated with the Ohio Medical guarantee by \$350,000. Also, during the quarter ended January 31, 2013, 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 \$30,000.

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At January 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments, was \$416.5 million with a cost basis of \$336.9 million. At January 31, 2013, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$28.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$405.7 million and \$308.6 million, respectively. 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 \$302.1 million, respectively.

***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.



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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.

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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' 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 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 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.

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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

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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.

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.

## ***Portfolio Companies***

During the quarter ended January 31, 2013, the Company had investments in:



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***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, 2012 and January 31, 2013, 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, Montgomery, Minnesota, is a manufacturer and marketer of environmentally friendly, organic and sustainable laminate materials and composites.

At October 31, 2012, the Company's investment in Biovation consisted of a bridge loan with an annual interest of 12% and a maturity date of February 28, 2014. The loan had an outstanding balance, cost basis and fair value of approximately \$1.5 million.

On December 14, 2012, the Company loaned an additional \$500,000 to Biovation, increasing the bridge loan amount to \$2.0 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis of the \$500,000 loan to the warrant at the time the investment was made.

At January 31, 2013, the Company's investment consisted of a bridge loan with an outstanding balance of \$2.0 million and a cost basis and fair value of approximately \$1.8 million. The warrant had a cost and a fair value of \$165,000.

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

***BPC II, LLC***

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

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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.

At October 31, 2012 and January 31, 2013, 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, 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.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the common equity interest by approximately \$90,000.

At January 31, 2013, the Company's investment in Centile consisted of common equity interest at a cost of \$3.2 million and a fair value of approximately \$3.2 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, 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 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 has a maturity date of June 18, 2013, had a cost basis, outstanding balance and fair value of approximately \$15.6 million.





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On November 1, 2012, the interest rate on the unsecured subordinated loan was decreased to 12%.

On January 31, 2013, Custom Alloy made a principal payment of \$250,000 on its loan.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the series A preferred stock by approximately \$4,000 and the series B preferred stock by approximately \$836,000.

At January 31, 2013, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost of \$44,000 and a fair value of approximately \$48,000 and the 1,991 shares of convertible series B preferred stock at a cost of approximately \$10.0 million and a fair value of approximately \$10.8 million. The unsecured subordinated loan had a cost basis, outstanding balance and fair value of approximately \$15.5 million. The increase in the cost basis and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

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

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

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

At October 31, 2012 and January 31, 2013, 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, 2012 and January 31, 2013, 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.

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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.

At October 31, 2012, the Company's investment in Freshii consisted of a senior secured loan, bearing annual interest of 12% and a maturity date of January 11, 2017. The loan had 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.

At January 31, 2013, the Company's investment in Freshii consisted of a senior secured loan with an outstanding balance of approximately \$1.1 million and a 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.

### ***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, 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.

During the quarter ended January 31, 2013, the Valuation Committee decreased the fair value of the common stock by \$100,000.

At January 31, 2013, 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 \$0.

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

***JSC Tekers Holdings***

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

At 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.

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 remained at 8% per annum and the maturity date was extended to December 31, 2014.

At January 31, 2013, the Company's investment in JSC Tekers consisted of a secured loan with an outstanding balance, a cost basis and a fair value of \$12.0 million and 2,250 shares of common stock with a cost basis and fair value of \$4,500.

***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, 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.

On December 17, 2012, the Company realized a loss of approximately \$2.0 million on the 21,064 common shares of Lockorder which had a fair value of \$0.

At January 31, 2013, the Company no longer held an investment in Lockorder.

***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, 2012 and January 31, 2013, 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, 2012, 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, cost basis and fair value of approximately \$11.8 million. The senior secured loan bears annual interest at 11% and matures on August 30, 2017. The preferred stock was fair valued at approximately \$3.9 million. The dividend rate on the preferred stock is 12% per annum.

On December 31, 2012, Marine made a principal payment of \$250,000 on its senior secured loan.

At January 31, 2013, the Company's senior secured loan had an outstanding balance, cost basis and fair value of approximately \$11.7 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.

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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, which bears annual interest at 10% and matures on December 31, 2013, had a cost and fair value of approximately \$3.6 million. The guarantee for MVC Automotive was equivalent to approximately \$5.2 million at October 31, 2012.

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

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the equity interest by approximately \$2.2 million.

At January 31, 2013, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.7 million and a fair value of approximately \$35.7 million. The bridge loan had a cost and fair value of approximately \$1.6 million. The mortgage guarantee for MVC Automotive was equivalent to approximately \$5.4 million at January 31, 2013. This guarantee was taken into account in the valuation of MVC Automotive.

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

***MVC 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.

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, 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. 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.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair values of the limited partnership interest and general partnership interest totaling approximately \$12,000.

At January 31, 2013, the limited partnership interest in the PE Fund had a cost of approximately \$8.0 million and a fair value of approximately \$8.1 million. The Company's general partnership interest in the PE Fund had a cost basis of approximately \$204,000 and a fair value of approximately \$206,000.

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***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, 2012, 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 \$25,000 and 5,000 shares of convertible preferred stock with a cost basis of \$0 and a fair value of \$440,000.

On December 31, 2012, the Company received a distribution from NPWT of approximately \$89,000, which was characterized as a return of capital. Of the \$89,000 distribution, approximately \$5,000 was related to the common stock and reduced the cost basis. The remaining \$84,000 was related to the preferred stock and was recorded as a capital gain as the cost basis of the preferred stock had already been reduced to \$0.

At January 31, 2013, the common stock had a cost basis of approximately \$1.2 million and a fair value of approximately \$21,000. The convertible preferred stock had a cost basis of \$0 and a fair value of approximately \$356,000.

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, 2012, the Company's investment in Octagon consisted of an equity investment with a cost basis of approximately \$2.4 million and a fair value of approximately \$6.2 million.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the equity investment by \$450,000. Further, during the quarter ended January 31, 2013, the cost basis and fair value of the equity investment was decreased by approximately \$30,000 because of an allocation of flow through losses by the Company's Valuation Committee.

At January 31, 2013, the equity investment had a cost basis of approximately \$2.3 million and a fair value of \$6.6 million.

***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, 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 \$31.1million. The guarantee obligation had a fair value of negative \$825,000.

During the quarter ended January 31, 2013, the Valuation Committee increased the liability associated with the guarantee obligation by \$350,000.

At January 31, 2013, 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 22,023 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 approximately negative \$1.2 million.

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.



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***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, 2012, the Company's investment in Pre-Paid Legal consisted of a \$3.0 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, 2012, the loans had a combined outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 million.

During the quarter ended January 31, 2013, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$98,000.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the tranche A term loan by approximately \$31,000 and the tranche B term loan by approximately \$86,000.

At January 31, 2013, the loans had a combined cost basis of approximately \$6.8 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 and the increase in valuation mentioned above.

***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, 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.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the preferred stock by approximately \$423,000.

At January 31, 2013, 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 \$1.8 million.

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

***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 NORD bankas to Security Holdings.

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 \$24.0 million.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the common equity interest by approximately \$3.0 million.

At January 31, 2013, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of approximately \$27.0 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, 2012, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of \$7.9 million.

During the quarter ended January 31, 2013, the Valuation Committee decreased the fair value of the common equity interest by approximately \$1.7 million.



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At January 31, 2013, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of approximately \$6.2 million.

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

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

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

At October 31, 2012 and January 31, 2013, 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% and matures on August 31, 2014. The term loan was fair valued at approximately \$6.5 million.

***SIA Tekers Invest***

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

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 Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately \$194,000 at October 31, 2012 for Tekers.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the common stock by \$234,000.

At January 31, 2013, 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 guarantee for Tekers had a commitment of 125,000 euros at January 31, 2013, equivalent to approximately \$170,000. This guarantee was taken into account in the valuation of Tekers.

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

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

At October 31, 2012, 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 September 30, 2017. The second lien loan had an outstanding balance of \$11.9 million with a cost of \$11.8 million. The second lien loan was fair valued at \$11.9 million. The common stock had been fair valued at \$62.5 million with a cost basis of \$16.0 million.

At January 31, 2013, the Company's second lien loan had an outstanding balance, cost and fair value of approximately \$12.1 million. 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.

See Subsequent Events for a discussion of the Company's announcement regarding a definitive agreement to sell 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, 2012, 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 January 31, 2013, 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.

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***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, 2012, 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 value 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 \$2.9 million. The warrants had a cost of \$0 and a fair value of \$0.

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the membership interest by \$180,000.

At January 31, 2013, the mezzanine loan had an outstanding balance, cost basis and a fair value of approximately \$8.4 million. The junior revolving note had an outstanding balance and fair value of \$1.0 million. The membership interest has a cost of approximately \$3.5 million and a fair value of approximately \$3.1 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, 2012, the Company's investment in U.S. Gas consisted of a second lien loan with an outstanding balance, cost and fair value of \$9.6 million. The second lien loan bears annual interest at 14% and has a maturity date of July 25, 2015. The 32,200 shares of convertible Series I preferred stock had a fair value of \$81.1 million and a cost of \$500,000, and the 8,216 shares of convertible Series J preferred stock had a cost and fair value of \$0.

On January 22, 2013, the Company received a dividend from U.S. Gas of approximately \$2.4 million. 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.

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At January 31, 2013, the second lien loan had an outstanding balance, cost basis and a fair value of approximately \$9.7 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee. The convertible Series I preferred stock had a fair value of approximately \$81.1 million and a cost of \$500,000 and the convertible Series J preferred stock had a cost and fair value of \$0.

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, 2012, the Company's investment in Velocitus consisted of an equity investment with a cost of \$11.4 million and a fair value of \$21.7 million.

During the quarter ended January 31, 2013, the Valuation Committee decreased the fair value of the equity investment by approximately \$1.1 million.

At January 31, 2013, the equity investment in Velocitus had a cost of approximately \$11.4 million and a fair value of approximately \$20.7 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, 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 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 \$5.7 million.

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

During the quarter ended January 31, 2013, the Valuation Committee increased the fair value of the common stock by approximately \$1.7 million.

At January 31, 2013, 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 \$7.3 million.

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

**Liquidity and Capital Resources**

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

At January 31, 2013, the Company had investments in portfolio companies totaling \$416.5 million. Also, at January 31, 2013, the Company had investments in unrestricted cash and cash equivalents totaling approximately \$30.3 million. The Company also had approximately \$6.8 million in restricted cash and cash equivalents related to the project guarantee for Security Holdings. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid. Pending investments in portfolio companies pursuant to our principal investment strategy, the Company may make other short-term or temporary investments, including in exchange-traded funds and private investment funds offering periodic liquidity.



During the quarter ended January 31, 2013, the Company made two follow-on investments in existing portfolio companies totaling approximately \$8.5 million. 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 Biovation, increasing the loan amount to \$2.0 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis in the additional \$500,000 loan to the warrant at the time the investment was made.

**Current commitments include:**

***Commitments of the Company:***

At January 31, 2013, the Company's existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed		Amount Funded at January 31, 2013	
Turf	\$	1.0 million	\$	1.0 million
MVC Private Equity Fund LP	\$	20.1 million	\$	8.2 million
<b>Total</b>	<b>\$</b>	<b>21.1 million</b>	<b>\$</b>	<b>9.2 million</b>

***Guarantees:***

As of January 31, 2013, the Company had the following commitments to guarantee various loans and mortgages:

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Guarantee	Amount Committed	Amount Funded at January 31, 2013
MVC Automotive	\$ 5.4 million	
Tekers	\$ 170,000	
Ohio Medical	\$ 21.7 million	
<b>Total</b>	<b>\$ 27.3 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At January 31, 2013, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$1.2 million.

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

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 125,000 euros at January 31, 2013, equivalent to approximately \$170,000.

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 \$5.4 million at January 31, 2013) 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 January 31, 2013 is approximately 5.5 million Euro (equivalent to approximately \$7.5 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 January 31, 2013, 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 January 31, 2013, \$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. This guarantee requires the Company to assume this tranche of the Series B preferred stock if the Company is able to make Non-Diversified Investments. As of January 31, 2013, the amount guaranteed was approximately \$21.7 million and the guarantee obligation was fair valued at approximately \$1.2 million by the Valuation Committee.

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*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 January 31, 2013, 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, which was granted, to waive compliance with a particular covenant of the Credit Facility related to the interest and asset coverage ratios. 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 met all of its original covenant levels and was 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 was increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate is 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. See *Subsequent Events* for a discussion regarding the Company's repayment of the Credit Facility.

At January 31, 2013, 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.

Subsequent Events

On February 13, 2013, the Company announced the signing of a definitive agreement to sell Summit to an affiliate of One Rock Capital Partners, LLC, subject to regulatory approvals, which were received on February 25, 2013, and the satisfaction of other customary closing conditions, including an escrow. Prior to the completion of the transaction, the Company and other existing Summit shareholders will purchase Summit Custom Spray Drying (SCSD) from Summit. SCSD provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries. Assuming satisfaction of the closing conditions and full realization of the escrow and the sale of SCSD, the Company anticipates receiving gross proceeds from its equity investment of approximately \$63.0 million, which is the approximate fair value as of January 31, 2013. Also, as part of the sale, the \$12.1 million second lien loan to Summit will be repaid in full and the Company will then provide Summit with a \$22.0 million second lien loan.

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On February 19, 2013, the Company sold \$70.0 million of senior unsecured notes, due in 2023 (the "Notes"), in a public offering. The Notes will mature on January 15, 2023, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 15, 2016. The Notes will bear interest at a rate of 7.25% per year payable quarterly on January 15, April 15, July 15, and October 15, of each year, beginning April 15, 2013. The Company had also granted the underwriters a 30-day option to purchase up to an additional \$10.5 million of Notes to

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cover overallocments. The additional \$10.5 million in principal was purchased and the total principal amount of the Notes was \$80.5 million.

On February 26, 2013, the Company received the funds related to the Notes offering, net of expenses, and subsequently repaid the Guggenheim Credit Facility in full including all accrued interest.

On February 27, 2013, the Company realized a loss of approximately \$4.5 million on its investment in DPHI, Inc., a Legacy Investment formerly DataPlay, Inc.

On March 4, 2013, Custom Alloy made a principal payment of \$5.0 million on its loan.

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

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

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, debt instruments, and escrow receivables which represent approximately 90.36% of the Company's total assets at January 31, 2013. As discussed in Note 7 Portfolio Investments, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that portfolio company investments are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be: (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. The Company may make short-term investments in 90-day Treasury Bills, which are federally guaranteed securities, or other investments, including exchange-traded funds, private investment funds and designated money market accounts, pending investments in portfolio companies made pursuant to our principal investment strategy.

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

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

Our investment portfolio generally consists of loans to, and investments in, private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally

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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.

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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 January 31, 2013, approximately 90.36% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

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

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

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

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

Our overall business of making private equity investments may be affected by current and future market conditions. The absence of an active mezzanine lending or private equity environment may slow the amount of private equity investment activity generally. As a result, the pace of our investment activity may slow, which could impact our ability to achieve our investment objective. In addition, significant changes in the



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capital markets could have an effect on the valuations of private companies and on the potential for liquidity events involving such companies. This could affect the amount and timing of any gains realized on our investments and thus have a material adverse impact on our financial condition.

Depending on market conditions, we could incur substantial realized losses and suffer unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. In

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addition, the global financial markets have not fully recovered from the global financial crisis and the economic factors which gave rise to the crisis. The continuation of current global market conditions, uncertainty or further deterioration, including the economic instability in Europe, could result in further declines in the market values of the Company investments. Such declines could also lead to diminished investment opportunities for the Company, prevent the Company from successfully executing its investment strategies or require the Company to dispose of investments at a loss while such adverse market conditions prevail.

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

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

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

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

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

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

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

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

- *Small and middle-market companies may have limited financial resources and may not be able to repay the loans we make to them.* Our strategy includes providing financing to companies that typically do not have capital sources readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity.
- *Small and middle-market companies typically have narrower product lines and smaller market shares than large companies.* Because our target companies are smaller businesses, they may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, smaller companies may face intense competition, including competition from companies with greater financial resources, more extensive

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development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.

- *There is generally little or no publicly available information about these privately-held companies.* There is generally little or no publicly available operating and financial information about privately-held companies. As a result, we rely on our investment professionals to perform due diligence investigations of these privately-held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations. It is difficult, if not impossible, to protect the Company from the risk of fraud, misrepresentation or poor judgement by our portfolio companies.
- *Small and middle-market companies generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, finance expansion or maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders.
- *Small and middle-market businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or middle-market company also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us.
- *Small and middle-market companies are likely to have greater exposure to economic downturns than larger companies.* We expect that our portfolio companies will have fewer resources than larger businesses and an economic downturn may thus more likely have a material adverse effect on them.
- *Small and middle-market companies may have limited operating histories.* We may make debt or equity investments in new companies that meet our investment criteria. Portfolio companies with limited operating histories are exposed to the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

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

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of portfolio companies in a limited number of industries. As of January 31, 2013, the fair values of our two largest investments, Summit Research Labs, Inc. ( Summit ) and U.S. Gas & Electric, Inc. ( U.S. Gas ), comprised 19.1% and 23.3% of our net assets, respectively. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may continue to be significantly represented among our investments. To the extent that we have large positions in the securities of a small number of portfolio companies, we are subject to an increased risk of significant loss should the performance or financial condition of these portfolio companies or their respective industries deteriorate. We may also be more susceptible to any single economic or regulatory occurrence as a result of holding

large positions in a small number of portfolio companies. See Subsequent Events for a discussion of the Company's announcement regarding a definitive agreement to sell Summit.

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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. See “Subsequent Events” for a discussion of the Company’s announcement regarding a definitive agreement to sell Summit.

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

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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.

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

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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.

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

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

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

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

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

In order to qualify as a RIC for U.S. federal income tax purposes, we must satisfy tests concerning the sources of our income, the nature and diversification of our assets and the amounts we distribute to our shareholders. We may be unable to pursue investments that would otherwise



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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

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portfolio companies. Furthermore, as a result of the foregoing restrictions, the Board has approved an amended policy for the allocation of investment opportunities, which requires TTG Advisers to give first priority to the PE Fund for all equity investments that would otherwise be Non-Diversified Investments for the Company.

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

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

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

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

- Price and volume fluctuations in the overall stock market from time to time;
- Significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- Volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity participation securities, or LEAPs, or short trading positions;
- Changes in regulatory policies or tax guidelines with respect to business development companies or RICs;
- Our adherence to applicable regulatory and tax requirements, including the current restriction on our ability to make Non-Diversified Investments;

- Actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- General economic conditions and trends;
- Loss of a major funding source, which would limit our liquidity and our ability to finance transactions; or
- Departures of key personnel of TTG Advisers.

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

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

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

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

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

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

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

At October 31, 2012, the Company had unused net realized losses of approximately \$45.1 million and net unrealized losses of \$19.5 million associated with Legacy Investments. Since the Company's realized losses were not offset by realized gains during the quarter ended January 31, 2013, the Company will be able to utilize them as capital loss carryforwards in the future. If we experience an aggregate 50% shift in the ownership of our common stock from shareholder transactions over a three year period (e.g., if a shareholder acquires 5% or more of our outstanding shares of common stock, or if a shareholder who owns 5% or more of our outstanding shares of common stock significantly increases or decreases its investment in the Company), our ability to utilize our capital loss carryforwards to offset future capital gains may be severely limited. Further, in the event that we are deemed to have failed to meet the requirements to qualify as a RIC, our ability to use our capital loss carryforwards could be adversely affected. The Regulated Investment Company Modernization Act of 2010, which was enacted on December 22, 2010, changed various technical rules governing the tax treatment of regulated investment companies, including the treatment of capital loss carryforwards. Please see Note 11 of our consolidated financial statements Tax Matters for more information.

***We may be unable to meet our covenant obligations under our Credit Facility or renew such facility, which could adversely affect our business.***

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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 January 31, 2013, 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

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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 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, which was granted, to waive compliance with a particular covenant of the Credit Facility related to the interest and asset coverage ratios. 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 relating to asset coverage that was more stringent than required in the Company's Credit Facility documents. The covenant level for an event of default remained the same. At October 31, 2012, the Company met all of its original covenant levels and was 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 and an interest rate penalty was triggered. As a result, the interest rate on the Credit Facility increased to LIBOR plus 525 basis points with a 1.25% LIBOR floor. The increased rate is 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. See "Subsequent Events" for a discussion regarding the Company's repayment of the Credit Facility.

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

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(b) There have been no changes in our internal controls over financial reporting that occurred during the quarter ended January 31, 2013, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

We had no unregistered sales of equity securities for the quarter ended January 31, 2013.

**Item 3. Defaults Upon Senior Securities**

None.

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

**Item 5. Other Information**

None.

**ITEM 6. EXHIBITS**



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(a) Exhibits

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

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

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

MVC CAPITAL, INC.

Date: March 7, 2013

/s/ Michael Tokarz  
Michael Tokarz

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

MVC CAPITAL, INC.

Date: March 7, 2013

/s/ Peter Seidenberg  
Peter Seidenberg

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