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

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	

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 x No o

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 o No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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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MVC Capital, Inc.

(A Delaware Corporation)

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Part I. Consolidated Financial Information

Item 1. Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

MVC Capital, Inc.

Consolidated Balance Sheets

	January 31, 2013 (Unaudited)	October 31, 2012
ASSETS		
Assets		
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
Total assets	$ 461,465,672	$ 456,430,680
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
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
Total liabilities	71,802,094	70,414,547
Shareholders equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 23,916,982 and 23,916,982 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	425,651,660	425,651,660
Accumulated earnings	65,527,765	64,524,665

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)
Total shareholders equity		389,663,578		386,016,133
Total liabilities and shareholders equity	$	461,465,672	$	456,430,680
Net asset value per share	$	16.29	$	16.14

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
Operating Income:		
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)
Total operating income	6,385,736	3,644,141
Operating Expenses:		
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

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)
Total operating expenses		5,419,403		2,488,466
Less: Voluntary Expense Waiver by Adviser(2)		(37,500)		(37,500)
Less: Voluntary Management Fee Waiver by Adviser(3)				(58,728)
Total waivers		(37,500)		(96,228)
Net operating income before taxes		1,003,833		1,251,903
Tax Expenses:				
Current tax expense		733		549
Total tax expense		733		549
Net operating income		1,003,100		1,251,354
Net Realized and Unrealized Gain (Loss) on Investments:				
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)
Net increase (decrease) in net assets resulting from operations	$	6,876,238	$	(9,017,827)
Net increase (decrease) in net assets per share resulting from operations	$	0.29	$	(0.38)
Dividends declared per share	$	0.135	$	0.120

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(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.

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

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MVC Capital, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the Quarter Ended January 31, 2013	For the Quarter Ended January 31, 2012
Cash flows from Operating Activities:		
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
Net cash used in operating activities	(2,282,540)	(6,756,370)
Cash flows from Financing Activities:		
Distributions paid to shareholders	(3,228,793)	(2,870,038)
Net cash used in financing activities	(3,228,793)	(2,870,038)
Net change in cash and cash equivalents for the period	(5,511,333)	(9,626,408)
Cash and cash equivalents, beginning of period	$ 42,640,558	$ 35,242,460
Cash and cash equivalents, end of period	$ 37,129,225	$ 25,616,052

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:

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.

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MVC Capital, Inc.

Consolidated Statements of Changes in Net Assets

	For the Quarter Ended January 31, 2013 (Unaudited)	For the Quarter Ended January 31, 2012 (Unaudited)	For the Year Ended October 31, 2012
Operations:			
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)
Net increase (decrease) in net assets from operations	6,876,238	(9,017,827)	(21,654,676)
Shareholder Distributions:			
Distributions to shareholders from income	(3,228,793)	(1,251,354)	(11,838,907)
Distributions to shareholders from return of capital		(1,618,684)	
Net decrease in net assets from shareholder distributions	(3,228,793)	(2,870,038)	(11,838,907)
Total increase (decrease) in net assets	3,647,445	(11,887,865)	(33,493,583)
Net assets, beginning of period/year	386,016,133	419,509,716	419,509,716
Net assets, end of period/year	$ 389,663,578	$ 407,621,851	$ 386,016,133
Common shares outstanding, end of period/year	23,916,982	23,916,982	23,916,982
Undistributed net operating income	$ 7,057,502	$	$ 9,282,163

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

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MVC Capital, Inc.

Consolidated Selected Per Share Data and Ratios

	For the 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)%
Total Return - At NAV (a)	1.77% (d)	(2.18)% (d)	(5.21)%
Total Return - At Market (a)	(0.44)% (d)	(1.04)% (d)	0.44%
Ratios and Supplemental Data:			
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%

(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.

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MVC Capital, Inc.

Consolidated Schedule of Investments

January 31, 2013 (Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments- 8.89% (a), (c), (f), (g)					
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
Sub Total Non-control/Non-affiliated investments				**53,047,511**	**34,656,895**
Affiliate investments - 48.55% (a), (c), (f), (g)					

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	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	12,000,000
				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	11,713,801
		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	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
Sub Total Affiliate investments				**136,400,934**	**189,187,170**

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

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MVC Capital, Inc.

Consolidated Schedule of Investments - (Continued)

January 31, 2013 (Unaudited)

Company	Industry	Investment	Principal	Cost	Fair Value
Control Investments - 49.44% (a), (c), (f), (g)					
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
Sub Total Control Investments				**147,494,206**	**192,633,030**

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 fur 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 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.

(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.

Consolidated Schedule of Investments

October 31, 2012

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments- 8.86% (a), (c), (f), (g)					
Actelis Networks, Inc.	Technology 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

Sub Total Non-control/Non-affiliated investments				**54,629,419**	**34,197,990**
Affiliate investments - 46.21% (a), (c), (f), (g)					
Centile Holdings B.V.	Software	Common Equity Interest (d), (e)		3,174,376	3,140,000
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 7.0000% Cash, 7.0000% PIK , 06/18/2013 (b), (h)	15,623,348	15,623,348	15,623,348
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	9,956,000
				25,623,348	25,623,348
Harmony Health & Beauty, Inc.	Health & Beauty - Retail	Common Stock (147,621 shares) (d)		6,700,000	100,000
JSC Tekers Holdings	Real Estate Management	Common Stock (2,250 shares) (d), (e)		4,500	4,500
		Secured Loan 8.0000% Cash, 06/30/2014 (e), (h)	4,000,000	4,000,000	4,000,000
				4,004,500	4,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 08/30/2017 (b), (h)	11,842,742	11,829,348	11,842,742
		Convertible Preferred Stock (20,000 shares) (b)		3,274,219	3,274,219
				15,103,567	15,116,961
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,364,745	6,221,796
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	9,619,644
		Convertible Series I Preferred Stock (32,200 shares) (d), (l)		500,000	81,067,607
		Convertible Series J Preferred Stock (8,216 shares) (d)			
				10,119,644	90,687,251
Sub Total Affiliate investments				**128,521,214**	**178,396,856**

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

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MVC Capital, Inc.

Consolidated Schedule of Investments - (Continued)

October 31, 2012

Company	Industry	Investment	Principal	Cost	Fair Value
Control Investments - 49.63% (a), (c), (f), (g)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d), (e)		$ 34,736,939	$ 33,519,000
		Bridge Loan 10.0000% Cash, 12/31/2012 (e), (h)	$ 3,643,557	3,643,557	3,643,557
				38,380,496	37,162,557
MVC Private Equity Fund LP	Private Equity	Limited Partnership Interest (d), (k)		8,013,749	8,072,249
		General Partnership Interest (d), (k)		204,432	205,924
				8,218,181	8,278,173
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,636	
		Series A Convertible Preferred Stock (21,176 shares) (b)		30,000,000	31,100,000
		Guarantee - Series B Preferred (d)			(825,000)
				45,763,636	30,275,000
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d), (e)		2,300,000	1,247,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 7.0000% Cash, 7.0000% PIK , 09/30/2017 (b), (h)	11,868,017	11,842,665	11,868,017
		Common Stock (1,115 shares)		16,000,000	62,500,000
				27,842,665	74,368,017
Turf Products, LLC	Distributor - Landscaping and	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
Velocitius B.V.	Renewable Energy	Common Equity Interest (d), (e)		11,395,315	21,725,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 04/29/2013 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	5,650,000
				2,450,000	6,250,000
Sub Total Control Investments				**149,281,248**	**191,575,802**

TOTAL INVESTMENT ASSETS - 104.70% (f)	**$ 332,431,881**	**$ 404,170,648**

(a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Company negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.

(b) These securities accrue a portion of their interest/dividends in payment in kind interest/dividends which is capitalized to the investment.

(c) All of the Company s equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft fur 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 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.

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.

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			
	Level 1	**Level 2**	**Level 3**	**Total**
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
Total Investments, net	$	$	$ 416,972	$ 416,972

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

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur. During the 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
Total	$ 405,162	$ (1,923)	$ 2,007	$ 5,788	$ 9,158	$ (3,220)	$	$ 416,972

	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
Total	$ 450,558	$ 149	$	$ (10,548)	$ 8,032	$ (1,148)	$	$ 447,043

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(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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Quantitative Information about Level 3 Fair Value Measurements*

	Fair value as of 1/31/2013	Valuation technique	Unobservable input	Range Low	High	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%
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