

MVC CAPITAL, INC.  
Form 10-Q  
June 06, 2014  
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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 April 30, 2014 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)

**287 Bowman Avenue**

**2nd Floor**

**Purchase, New York**

**94-3346760**

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

**10577**

(Zip Code)

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(Address of principal executive offices)

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 22,860,653 shares of the registrant's common stock, \$.01 par value, outstanding as of June 6, 2014.

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MVC Capital, Inc.

(A Delaware Corporation)

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

	April 30, 2014 (Unaudited)	October 31, 2013
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 23,124,065	\$ 74,234,560
Restricted cash and cash equivalents	6,933,500	6,792,000
Investments at fair value		
Short-term investments (cost \$0 and \$49,937,320)		49,826,893
Non-control/Non-affiliated investments (cost \$119,215,249 and \$92,139,375)	95,093,412	74,433,413
Affiliate investments (cost \$139,232,093 and \$136,499,386)	223,025,960	219,694,633
Control investments (cost \$156,453,823 and \$143,292,881)	145,006,347	146,169,917
Total investments at fair value (cost \$414,901,165 and \$421,868,962)	463,125,719	490,124,856
Receivable on sale of short-term investments	99,783,203	
Escrow receivables, net of reserves	5,936,928	6,236,928
Dividends and interest receivables, net of reserves	4,236,637	3,528,899
Deferred financing fees	3,051,835	3,265,495
Fee and other receivables	1,925,720	2,109,538
Prepaid expenses	508,708	534,904
Prepaid taxes		336
<b>Total assets</b>	<b>\$ 608,626,315</b>	<b>\$ 586,827,516</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Senior notes	\$ 114,408,750	\$ 114,408,750
Revolving credit facility	100,000,000	50,000,000
Provision for incentive compensation (Note 11)	19,645,253	23,959,109
Management fee payable	2,305,971	2,221,213
Management fee payable - Asset Management	1,069,880	606,766
Professional fees payable	820,631	742,859
Accrued expenses and liabilities	650,067	655,615
Portfolio fees payable - Asset Management	375,802	140,347

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Interest payable	374,387	371,817
Consulting fees payable	115,983	167,968
Taxes payable	541	
<b>Total liabilities</b>	<b>239,767,265</b>	<b>193,274,444</b>
<b>Shareholders equity</b>		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 22,464,814 and 22,617,688 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	420,165,045	420,165,045
Accumulated earnings	69,078,307	66,030,475
Dividends paid to stockholders	(110,623,617)	(104,537,479)
Accumulated net realized loss	(1,716,744)	(2,201,455)
Net unrealized appreciation	48,224,554	68,255,894
Treasury stock, at cost, 5,839,634 and 5,686,760 shares held, respectively	(56,551,539)	(54,442,452)
<b>Total shareholders equity</b>	<b>368,859,050</b>	<b>393,553,072</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 608,626,315</b>	<b>\$ 586,827,516</b>
<b>Net asset value per share</b>	<b>\$ 16.42</b>	<b>\$ 17.40</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 Six Month Period November 1, 2013 to April 30, 2014	For the Six Month Period November 1, 2012 to April 30, 2013
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 69,580	\$ 1,551
Affiliate investments	71,590	4,842,150
Control investments		426,300
Total dividend income	141,170	5,270,001
Payment-in-kind dividend income		
Affiliate investments	143,182	132,278
Total payment-in-kind dividend income	143,182	132,278
Interest income		
Non-control/Non-affiliated investments	2,692,651	1,079,798
Affiliate investments	2,406,842	1,940,922
Control investments	191,798	892,719
Total interest income	5,291,291	3,913,439
Payment-in-kind interest income		
Non-control/Non-affiliated investments	1,634,473	285,698
Affiliate investments	498,657	481,435
Control investments	77,264	497,131
Total payment-in-kind interest income	2,210,394	1,264,264
Fee income		
Non-control/Non-affiliated investments	300,991	400,591
Affiliate investments	460,001	473,129
Control investments	161,499	538,298
Total fee income	922,491	1,412,018
Fee income - Asset Management(1)		
Portfolio fees	595,827	278,592
Management Fees	617,485	618,128
Total fee income - Asset Management	1,213,312	896,720
Other income	553,769	160,197
<b>Total operating income</b>	<b>10,475,609</b>	<b>13,048,917</b>
<b>Operating Expenses:</b>		
Interest and other borrowing costs	4,660,899	2,354,861
Management fee	4,609,912	3,945,370
Management fee - Asset Management(1)	463,114	463,592
Portfolio fees - Asset Management(1)	446,870	208,944
Audit fees	324,100	316,400
Legal fees	290,000	276,000

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Consulting fees	259,402	268,502
Directors fees	206,250	206,250
Insurance	173,400	165,540
Administration	126,123	126,187
Other expenses	103,797	274,291
Public relations fees	102,000	97,500
Printing and postage	49,889	61,118
Net Incentive compensation (Note 11)	(4,313,856)	2,183,145
<b>Total operating expenses</b>	<b>7,501,900</b>	<b>10,947,700</b>
Less: Voluntary Expense Waiver by Adviser(2)	(75,000)	(75,000)
<b>Total waivers</b>	<b>(75,000)</b>	<b>(75,000)</b>
<b>Net operating income before taxes</b>	<b>3,048,709</b>	<b>2,176,217</b>
<b>Tax Expenses:</b>		
Current tax expense	877	1,800
<b>Total tax expense</b>	<b>877</b>	<b>1,800</b>
<b>Net operating income</b>	<b>3,047,832</b>	<b>2,174,417</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments:</b>		
Net realized (loss) gain on investments		
Short-term investments	176,515	
Non-control/Non-affiliated investments	308,196	(6,441,216)
Affiliate investments		
Control investments		49,655,826
Total net realized gain on investments	484,711	43,214,610
Net change in unrealized depreciation on investments	(20,031,340)	(30,621,385)
Net realized and unrealized (loss) gain on investments	(19,546,629)	12,593,225
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>\$ (16,498,797)</b>	<b>\$ 14,767,642</b>
<b>Net (decrease) increase in net assets per share resulting from operations</b>	<b>\$ (0.73)</b>	<b>\$ 0.62</b>
<b>Dividends declared per share</b>	<b>\$ 0.27</b>	<b>\$ 0.27</b>
<b>Weighted average number of shares outstanding (3)</b>	<b>22,574,010</b>	<b>23,844,840</b>

(1)These items are related to the management of the MVC Private Equity Fund, L.P. ( PE Fund ). Please see Note 10 Management for more information.

(2)Reflects the quarterly portion of the TTG Advisers voluntary waiver of \$150,000 of expenses for the 2014 and 2013 fiscal years, that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement (the Voluntary Waiver ). Please see Note 10 Management for more information.

(3)Please see Note 12 Dividends and Distributions to Shareholders and Share Repurchase Program for more information.

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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 February 1, 2014 to April 30, 2014	For the Quarter February 1, 2013 to April 30, 2013
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 69,390	\$ 577
Affiliate investments	36,149	2,456,402
Control investments		
<b>Total dividend income</b>	<b>105,539</b>	<b>2,456,979</b>
Payment-in-kind dividend income		
Affiliate investments	72,300	66,794
<b>Total payment-in-kind dividend income</b>	<b>72,300</b>	<b>66,794</b>
Interest income		
Non-control/Non-affiliated investments	1,389,257	563,080
Affiliate investments	1,330,673	823,884
Control investments	96,493	391,672
<b>Total interest income</b>	<b>2,816,423</b>	<b>1,778,636</b>
Payment-in-kind interest income		
Non-control/Non-affiliated investments	852,407	242,520
Affiliate investments	251,784	236,846
Control investments	37,992	202,830
<b>Total payment-in-kind interest income</b>	<b>1,142,183</b>	<b>682,196</b>
Fee income		
Non-control/Non-affiliated investments	300,487	400,487
Affiliate investments	230,001	236,283
Control investments	80,749	404,498
<b>Total fee income</b>	<b>611,237</b>	<b>1,041,268</b>
Fee income - Asset Management(1)		
Management fees	454,392	309,287
Portfolio fees	308,710	137,979
<b>Total fee income - Asset Management</b>	<b>763,102</b>	<b>447,266</b>
Other income	351,571	190,042
<b>Total operating income</b>	<b>5,862,355</b>	<b>6,663,181</b>
<b>Operating Expenses:</b>		
Interest and other borrowing costs	2,405,389	1,417,818
Management fee	2,305,970	1,865,133

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Portfolio fees - Asset Management(1)	340,794	103,484
Management fee - Asset Management(1)	231,533	231,961
Audit fees	161,700	158,100
Legal fees	152,000	140,000
Consulting fees	124,251	136,251
Directors fees	103,125	103,125
Insurance	86,700	82,770
Administration	61,448	62,315
Public relations fees	51,000	48,000
Printing and postage	24,083	30,118
Other expenses	(36,941)	140,738
Net Incentive compensation (Note 11)	(4,867,797)	1,008,484
<b>Total operating expenses</b>	<b>1,143,255</b>	<b>5,528,297</b>
Less: Voluntary Expense Waiver by Adviser (2)	(37,500)	(37,500)
<b>Total waivers</b>	<b>(37,500)</b>	<b>(37,500)</b>
<b>Net operating income before taxes</b>	<b>4,756,600</b>	<b>1,172,384</b>
<b>Tax (Benefit) Expenses:</b>		
Current tax (benefit) expense	(23)	1,067
<b>Total tax (benefit) expense</b>	<b>(23)</b>	<b>1,067</b>
<b>Net operating income</b>	<b>4,756,623</b>	<b>1,171,317</b>
<b>Net Realized and Unrealized (Loss) Gain on Investments:</b>		
Net realized gain (loss) on investments		
Short-term investments	338,448	
Non-control/Non-affiliated investments	383,402	(4,518,677)
Control investments		49,655,826
Total net realized gain on investments	721,850	45,137,149
Net unrealized depreciation on investments	(24,023,980)	(38,417,062)
Net realized gain and net change in unrealized (depreciation) appreciation on investments	(23,302,130)	6,720,087
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>\$ (18,545,507)</b>	<b>\$ 7,891,404</b>
<b>Net (decrease) increase in net assets per share resulting from operations</b>	<b>\$ (0.83)</b>	<b>\$ 0.33</b>
<b>Dividends declared per share</b>	<b>\$ 0.135</b>	<b>\$ 0.135</b>
<b>Weighted average number of shares outstanding (3)</b>	<b>22,541,251</b>	<b>23,790,734</b>

(1)These items are related to the management of the MVC Private Equity Fund, L.P. ( PE Fund ). Please see Note 10 Management for more information.

(2)Reflects the quarterly portion of the TTG Advisers voluntary waiver of \$150,000 of expenses for the 2014 and 2013 fiscal years, that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement (the Voluntary Waiver ). Please see Note 10 Management for more information.

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(3) Please see Note 12 Dividends and Distributions to Shareholders and Share Repurchase Program 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 Six Month Period November 1, 2013 April 30, 2014	For the Six Month Period November 1, 2012 April 30, 2013
<b>Cash flows from Operating Activities:</b>		
Net (decrease) increase in net assets resulting from operations	\$ (16,498,797)	\$ 14,767,642
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized gain	(484,711)	(43,214,610)
Net change in unrealized depreciation	20,031,340	30,621,385
Amortization of discounts and fees	(861,285)	(100,982)
Increase in accrued payment-in-kind dividends and interest	(2,127,458)	(1,102,967)
Amortization of deferred financing fees	213,660	56,287
Allocation of flow through (income) loss	(281,831)	(80,370)
Changes in assets and liabilities:		
Dividends, interest and fees receivable	(707,738)	1,460,383
Fee and other receivables	183,818	1,068,134
Proceeds from short term receivables	(99,783,203)	
Escrow receivables, net of reserves	300,000	(4,970,868)
Prepaid expenses	26,196	212,029
Prepaid taxes	336	343
Incentive compensation (Note 11)	(4,313,856)	2,183,145
Other liabilities	581,677	212,282
Purchases of equity investments	(12,818,418)	(5,894,411)
Purchases of debt instruments	(34,037,000)	(30,571,661)
Purchases of short term investments	(199,323,373)	
Proceeds from equity investments (1)	491,075	65,744,643
Proceeds from debt instruments	7,200,000	20,229,280
Sales/maturities of short term investments	249,435,798	
<b>Net cash (used in) provided by operating activities</b>	<b>(92,773,770)</b>	<b>50,619,684</b>
<b>Cash flows from Financing Activities:</b>		
Proceeds from senior notes		80,500,000
Net proceeds from revolving credit facility	50,000,000	
Repayments of revolving credit facility		(50,000,000)
Repurchase of common stock	(2,109,087)	(5,729,895)
Financing fees paid		(3,096,620)
Distributions paid to shareholders	(6,086,138)	(6,419,929)
<b>Net cash provided by financing activities</b>	<b>41,804,775</b>	<b>15,253,556</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>(50,968,995)</b>	<b>65,873,240</b>
<b>Unrestricted and restricted cash and cash equivalents, beginning of period</b>	<b>\$ 81,026,560</b>	<b>\$ 42,640,558</b>
<b>Unrestricted and restricted cash and cash equivalents, end of period</b>	<b>\$ 30,057,565</b>	<b>\$ 108,513,798</b>

(1) For the six month period ended April 30, 2014, proceeds from equity investments includes \$491,075 in escrow receivables, net of reserves.

During the six month period ended April 30, 2014 and 2013 MVC Capital, Inc. paid \$4,348,623 and \$2,360,378 in interest expense, respectively.

During the six month period ended April 30, 2014 and 2013 MVC Capital, Inc. paid \$300 and \$1,757 in income taxes, respectively.

**Non-cash activity:**

During the six month period ended April 30, 2014 and 2013, MVC Capital, Inc. recorded payment in-kind dividend and interest of \$2,127,458 and \$1,102,967, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

During the six month period ended April 30, 2014 and 2013, MVC Capital, Inc. was allocated \$553,769 and \$160,197, respectively, in flow-through income from its equity investment in Octagon Credit Investors, LLC. Of these amounts, \$271,938 and \$80,370, respectively, was received in cash and \$281,831 and \$80,370, respectively, was undistributed and therefore increased the cost of the investment. The fair value then increased by \$101,099 and \$80,370, respectively, by the Company's Valuation Committee.

On November 19, 2013, MVC Capital, Inc. converted the MVC Automotive Group B.V. bridge loan of approximately \$1.6 million to additional common equity interest.

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 Six Month Period November 1, 2013 to April 30, 2014 (Unaudited)	For the Six Month Period November 1, 2012 to April 30, 2013 (Unaudited)	For the Year Ended October 31, 2013
<b>Operations:</b>			
Net operating income (loss)	\$ 3,047,832	\$ 2,174,417	\$ (3,445,195)
Net realized gain on investments	484,711	43,214,610	43,664,918
Net change in unrealized depreciation on investments	(20,031,340)	(30,621,385)	(3,482,873)
<b>Net (decrease) increase in net assets from operations</b>	<b>(16,498,797)</b>	<b>14,767,642</b>	<b>36,736,850</b>
<b>Shareholder Distributions:</b>			
Distributions to shareholders from income		(6,419,929)	(5,837,868)
Distributions to shareholders from return of capital	(6,086,138)		(6,688,836)
<b>Net decrease in net assets from shareholder distributions</b>	<b>(6,086,138)</b>	<b>(6,419,929)</b>	<b>(12,526,704)</b>
<b>Capital Share Transactions:</b>			
Repurchase of common stock	(2,109,087)	(5,729,895)	(16,673,207)
<b>Net decrease in net assets from capital share transactions</b>	<b>(2,109,087)</b>	<b>(5,729,895)</b>	<b>(16,673,207)</b>
<b>Total (decrease) increase in net assets</b>	<b>(24,694,022)</b>	<b>2,617,818</b>	<b>7,536,939</b>
<b>Net assets, beginning of period/year</b>	<b>393,553,072</b>	<b>386,016,133</b>	<b>386,016,133</b>
<b>Net assets, end of period/year</b>	<b>\$ 368,859,050</b>	<b>\$ 388,633,951</b>	<b>\$ 393,553,072</b>
<b>Common shares outstanding, end of period/year</b>	<b>22,464,814</b>	<b>23,469,342</b>	<b>22,617,688</b>
<b>Undistributed net operating income</b>	<b>\$</b>	<b>\$ 5,036,651</b>	<b>\$</b>

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

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	<b>For the Six Month Period November 1, 2013 to April 30, 2014 (Unaudited)</b>		<b>For the Six Month Period November 1, 2012 to April 30, 2013 (Unaudited)</b>		<b>For the Year Ended October 31, 2013</b>
Net asset value, beginning of period/year	\$	17.40	\$	16.14	\$ 16.14
Gain from operations:					
Net operating income (loss)		0.14		0.07	(0.15)
Net realized and unrealized (loss) gain on investments		(0.87)		0.55	1.74
Total gain from investment operations		(0.73)		0.62	1.59
Less distributions from:					
Income				(0.27)	(0.25)
Return of capital		(0.27)			(0.29)
Total distributions		(0.27)		(0.27)	(0.54)
Capital share transactions					
Anti-dilutive effect of share repurchase program		0.02		0.07	0.21
Total capital share transactions		0.02		0.07	0.21
Net asset value, end of period/year	\$	16.42	\$	16.56	\$ 17.40
Market value, end of period/year	\$	13.04	\$	12.99	\$ 13.83
Market discount		(20.58)%		(21.56)%	(20.52)%
<b>Total Return - At NAV (a)</b>		(4.12)%(d)		4.30%(d)	11.30%
<b>Total Return - At Market (a)</b>		(3.83)%(d)		7.37%(d)	16.65%
<b>Ratios and Supplemental Data:</b>					
Portfolio turnover ratio		1.64%		9.44%	24.40%
Net assets, end of period/year (in thousands)	\$	368,859	\$	388,634	\$ 393,553
Ratios to average net assets:					
Expenses excluding tax expense		3.85%(c)		5.65%(c)	7.26%
Expenses including tax expense		3.85%(c)		5.65%(c)	7.26%
Net operating income (loss) before tax expense		1.58%(c)		1.13%(c)	(0.89)%

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Net operating income (loss) after tax expense	1.58%(c)	1.13%(c)	(0.89)%
Ratios to average net assets excluding waivers:			
Expenses excluding tax expense	3.89%(c)	5.69%(c)	7.30%
Expenses including tax expense	3.89%(c)	5.69%(c)	7.30%
Net operating income (loss) before tax expense	1.54%(c)	1.09%(c)	(0.93)%
Net operating income (loss) after tax expense	1.54%(c)	1.09%(c)	(0.93)%

(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	6.09%(c)	4.52%(c)	5.12%
Expenses excluding incentive compensation, interest and other borrowing costs	3.67%(c)	3.29%(c)	3.39%
Net operating (loss) income before incentive compensation	(0.66)% (c)	2.26%(c)	1.25%
Net operating income before incentive compensation, interest and other borrowing costs	1.76%(c)	3.49%(c)	2.98%
Ratios to average net assets excluding waivers: (b)			
Expenses excluding incentive compensation	6.13%(c)	4.56%(c)	5.16%
Expenses excluding incentive compensation, interest and other borrowing costs	3.71%(c)	3.33%(c)	3.43%
Net operating (loss) income before incentive compensation	(0.70)% (c)	2.22%(c)	1.21%
Net operating income before incentive compensation, interest and other borrowing costs	1.72%(c)	3.45%(c)	2.94%

(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**

**April 30, 2014 (Unaudited)**

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Non-control/Non-affiliated investments- 25.78%</b>					
<b>(a), (c), (f), (g)</b>					
Actelis Networks, Inc.	Technology Investment	Preferred Stock (150,602 shares) (d), (i)		\$ 5,000,003	
Biogenic Reagents	Renewable energy	Senior Note 12.0000% Cash, 4.0000% PIK, 07/21/2018 (b)	\$ 5,141,868	5,141,868	\$ 5,141,868
		Senior Convertible Note 12.0000% Cash, 4.0000% PIK, 07/21/2018 (b)	4,627,682	4,627,682	4,627,682
				9,769,550	9,769,550
Biovation Holdings, Inc.	Manufacturer of Laminate Material and Composites	Bridge Loan 6.0000% Cash, 6.0000% PIK, 08/31/2014 (b)	3,105,032	3,105,032	3,034,155
		Warrants (d)		288,000	363,000
				3,393,032	3,397,155
FOLIOfn, Inc.	Technology Investment	Preferred Stock (5,802,259 shares) (d), (i)		15,000,000	6,018,000
Freshii USA, Inc.	Food Services	Senior Secured Loan 6.0000% Cash, 6.0000% PIK, 01/11/2017 (b)	1,143,200	1,119,497	1,124,900
		Warrants (d), (l)		33,873	41,785
				1,153,370	1,166,685
G3K Display, Inc.	Retail Store Fixtures	Senior Lien Loan 13.0000% Cash, 4/11/2019 (h)	5,625,000	5,625,000	
		Warrants (d)		5,625,000	
Inland Environmental & Remediation LP	Environmental Services	Senior Secured Loan 12.0000% Cash, 4/17/2019	13,000,000	12,292,467	12,292,467
		Warrants (d)		713,000	713,000
				13,005,467	13,005,467
MainStream Data, Inc.	Technology Investment	Common Stock (5,786 shares) (d), (i)		3,750,000	
Morey s Seafood International, LLC	Food Services	Second Lien Loan 10.0000% Cash, 3.0000% PIK, 08/12/2018	15,108,750	15,108,750	15,108,750
NPWT Corporation	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,231,638	11,000
		Series A Convertible Preferred Stock (5,000 shares) (d)			205,000
				1,231,638	216,000
Prepaid Legal Services, Inc.	Consumer Services	2nd Lien Term Loan , 9.7500% Cash, 07/01/2020	10,000,000	9,866,634	10,100,000
SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH	Environmental Services	Term Loan 7.0000% Cash, 08/31/2014 (e)	6,547,350	6,547,350	6,547,350

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Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 7.0000% Cash, 7.0000% PIK , 10/01/2018 (b)	24,276,455	24,276,455	24,276,455
U.S. Spray Drying Holding Company	Specialty Chemicals	Class B Common Stock (784 shares)		5,488,000	5,488,000
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>119,215,249</b>	<b>95,093,412</b>
<b>Affiliate investments - 60.46%</b>					
<b>(a), (c), (f), (g)</b>					
Advantage Insurance Holdings LTD	Insurance	Preferred Stock (750,000 shares) (d), (e)		7,500,000	7,500,000
Centile Holdings B.V.	Software	Common Equity Interest (d), (e)		3,274,376	4,905,000
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 12.0000% Cash, 09/04/2016 Convertible Series A	6,500,000	6,500,000	6,500,000
		Preferred Stock (9 shares) (d)		44,000	99,704
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	22,560,296
				16,500,000	29,160,000
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	11,000,000
				12,004,500	11,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 06/30/2017 (b)	11,546,289	11,546,289	11,546,289
		Second Lien Loan 7.0000% Cash, 4.0000% PIK, 06/30/2014 (b)	1,503,500	1,503,500	1,503,500
		Convertible Preferred Stock (20,000 shares) (b)		3,687,302	3,687,302
				16,737,091	16,737,091
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,893,330	7,000,000
RuMe Inc.	Consumer Products	Common Stock (5,297,548 shares) (d)		924,475	924,475
		Senior Secured Loan 12.0000% Cash, 04/04/2014 Series B-1 Preferred Stock (4,999,076 shares) (d)	3,250,000	3,250,000	3,250,000
				999,815	1,090,000
				5,174,290	5,264,475
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d), (e)		40,186,620	36,376,000
		Bridge Loan 5.0000% Cash, 2/15/2014 (e)	4,000,000	4,000,000	4,000,000
				44,186,620	40,376,000
SGDA Europe B.V.	Environmental Services	Common Equity Interest (d), (e)		20,084,599	7,034,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK , 07/25/2015 (b)	10,377,287	10,377,287	10,377,287
		Convertible Series I Preferred Stock (32,200 shares) (d), (k)		500,000	83,667,607
		Convertible Series J Preferred Stock (8,216 shares) (d)			
				10,877,287	94,044,894

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<b>Sub Total Affiliate investments</b>	<b>139,232,093</b>	<b>223,025,960</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)****April 30, 2014 (Unaudited)**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Control Investments -</b>					
<b>39.31% (a), (c), (f), (g)</b>					
Harmony Health & Beauty, Inc.	Health & Beauty - Distributor	Common Stock (147,621 shares) (d)		\$ 6,700,000	
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d), (e)		45,662,438	\$ 34,969,000
MVC Private Equity Fund LP	Private Equity	Limited Partnership Interest (d), (j)		11,831,196	17,158,826
		General Partnership Interest (d), (j)		301,816	432,610
				12,133,012	17,591,436
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,636	
		Series A Convertible Preferred Stock (26,795 shares) (b)		30,000,000	24,600,000
		Series C Convertible Preferred Stock (8,486 shares) (b)		22,618,466	25,668,855
				68,382,102	50,268,855
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d), (e)		2,300,000	1,472,000
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 11/1/2018 (b)	\$ 3,895,262	3,895,262	3,895,262
		Limited Liability Company Interest (d)		3,535,694	3,466,794
		Guarantee			(92,000)
		Warrants (d)		7,430,956	7,270,056
Velocitius B.V.	Renewable Energy	Common Equity Interest (d), (e)		11,395,315	17,385,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 04/29/2015	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	15,450,000
				2,450,000	16,050,000
<b>Sub Total Control Investments</b>				<b>156,453,823</b>	<b>145,006,347</b>
<b>TOTAL INVESTMENT</b>					
<b>ASSETS - 125.55% (f)</b>				<b>\$ 414,901,165</b>	<b>\$ 463,125,719</b>

(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.

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- (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., MVC Private Equity Fund L.P., Advantage Insurance 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 21% of the total assets. The remaining portfolio companies are located in North America which represents approximately 55% of the total assets.
- (f) Percentages are based on net assets of \$368,859,050 as of April 30, 2014.
- (g) See Note 3 for further information regarding Investment Classification.
- (h) All or a portion of the accrued interest on these securities have been reserved for.
- (i) Legacy Investments.
- (j) MVC Private Equity Fund, LP is a private equity fund focused on control equity investments in the lower middle market. The fund currently holds four investments, three located in the United States and one in Gibraltar, the investments are in the energy, services, and industrial sectors.
- (k) Upon a liquidity event, the Company may receive additional ownership in U.S. Gas & Electric, Inc.
- (l) Includes a warrant in Freshii One LLC, an affiliate of Freshii USA, Inc.
- (m) All or a portion of these securities may serve as collateral for the BB&T Credit Facility.

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 Schedules of Investments****October 31, 2013**

<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 - 18.91%</b>					
<b>(a), (c), (f), (g)</b>					
Actelis Networks, Inc.	Technology Investment	Preferred Stock (150,602 shares) (d), (i)		\$ 5,000,003	\$
Biogenic Reagents	Renewable energy	Senior Note 12.0000% Cash, 4.0000% PIK, 07/21/2018 (b)	\$ 5,039,444	5,039,444	5,039,444
		Senior Convertible Note 12.0000% Cash, 4.0000% PIK, 07/21/2018 (b)	4,535,500	4,535,500	4,535,500
				9,574,944	9,574,944
Biovation Holdings, Inc.	Manufacturer of Laminate Material and Composites	Bridge Loan 6.0000% Cash, 6.0000% PIK, 08/31/2014 (b)	3,105,038	2,985,749	3,156,172
		Warrants (d)		288,000	201,000
				3,273,749	3,357,172
BPC II, LLC	Apparel	Limited Liability Company Interest (d)		180,000	
FOLIOfn, Inc.	Technology Investment	Preferred Stock (5,802,259 shares) (d), (i)		15,000,000	6,982,000
Freshii USA, Inc.	Food Services	Senior Secured Loan 6.0000% Cash, 6.0000% PIK, 01/11/2017 (b)	1,109,296	1,081,242	1,087,636
		Warrants (d), (l)		33,873	18,654
				1,115,115	1,106,290
MainStream Data, Inc.	Technology Investment	Common Stock (5,786 shares) (d), (i)		3,750,000	
Morey s Seafood International, LLC	Food Services	Second Lien Loan 10.0000% Cash, 08/12/2018	8,000,000	8,000,000	8,000,000
NPWT Corporation	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,231,638	14,000
		Series A Convertible Preferred Stock (5,000 shares) (d)			241,000
				1,231,638	255,000
Prepaid Legal Services, Inc.	Consumer Services	2nd Lien Term Loan 9.7500% Cash, 07/01/2020	10,000,000	9,855,919	10,000,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH	Environmental Services	Term Loan 7.0000% Cash, 08/31/2014 (e)	6,547,350	6,547,350	6,547,350
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 4.2500% Cash, 9.7500% PIK , 10/01/2018 (b)	23,122,657	23,122,657	23,122,657
U.S. Spray Drying Holding Company	Specialty Chemicals	Class B Common Stock (784 shares)		5,488,000	5,488,000
<b>Sub Total</b>				<b>92,139,375</b>	<b>74,433,413</b>
<b>Non-control/Non-affiliated investments</b>				<b>92,139,375</b>	<b>74,433,413</b>

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**Affiliate investments - 55.83%**

(a), (c), (f), (g)

Advantage Insurance Holdings LTD	Insurance	Preferred Stock (750,000 shares) (c), (d), (e)		7,500,000	7,500,000
Centile Holdings B.V.	Software	Common Equity Interest (d), (e)		3,174,376	4,777,000
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 12.0000% Cash, 09/04/2016	7,500,000	7,500,000	7,500,000
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	88,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	19,912,000
				17,500,000	27,500,000
Harmony Health & Beauty, Inc.	Health & Beauty - Distributor	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	11,000,000
				12,004,500	11,004,500
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 7.0000% Cash, 4.0000% PIK, 06/30/2017 (b)	11,415,060	11,415,060	11,415,060
		Convertible Preferred Stock (20,000 shares) (b)		3,544,119	3,544,119
				14,959,179	14,959,179
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		2,611,499	6,918,549
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	1,090,000
				1,159,815	1,250,000
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d), (e)		40,186,620	36,258,000
SGDA Europe B.V.	Environmental Services	Common Equity Interest (d), (e)		20,084,599	6,741,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 9.0000% Cash, 5.0000% PIK, 07/25/2015 (b)	10,118,798	10,118,798	10,118,798
		Convertible Series I Preferred Stock (32,200 shares) (k)		500,000	92,667,607
		Convertible Series J Preferred Stock (8,216 shares) (d)			
				10,618,798	102,786,405
<b>Sub Total Affiliate investments</b>				<b>136,499,386</b>	<b>219,694,633</b>

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



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**MVC Capital, Inc.**

**Consolidated Schedules of Investments - (Continued)**

**October 31, 2013**

<b>Company</b>	<b>Industry</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Control investments -</b>					
<b>37.14% (a), (c), (f), (g)</b>					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d), (e)		\$ 34,870,029	\$ 37,276,000
		Bridge Loan 10.0000% Cash, 12/31/2013 (e)	\$ 1,635,244	1,635,244	1,635,244
				36,505,273	38,911,244
MVC Private Equity Fund LP	Private Equity	Limited Partnership Interest (d), (j)		9,097,164	11,384,168
		General Partnership Interest (d), (j)		232,071	288,150
				9,329,235	11,672,318
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,636	
		Series A Convertible Preferred Stock (24,773 shares) (b)		30,000,000	24,600,000
		Series C Convertible Preferred Stock (7,845 shares) (b)		22,618,466	23,732,299
				68,382,102	48,332,299
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d), (e)		2,300,000	1,477,000
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 9.0000% Cash, 4.0000% PIK , 01/31/2014 (b)	8,395,262	8,395,262	8,395,262
		Junior Revolving Note 6.0000% Cash, 01/31/2014 Limited Liability Company Interest (d)	1,000,000	1,000,000	1,000,000
		Warrants (d)		3,535,694	3,466,794
				12,930,956	12,862,056
Velocitius B.V.	Renewable Energy	Common Equity Interest (d), (e)		11,395,315	19,865,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000% Cash, 04/29/2015 Common Stock (81,000 shares) (d)	600,000	600,000	600,000
				1,850,000	12,450,000
				2,450,000	13,050,000
<b>Sub Total Control investments</b>				<b>143,292,881</b>	<b>146,169,917</b>
<b>Short Term investments -</b>					
<b>12.66% (f), (g)</b>					
U.S. Treasury Bill	U.S. Government Securities	1.3750%, 09/30/2018 (m)	49,662,000	49,937,320	49,826,893
				<b>49,937,320</b>	<b>49,826,893</b>

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### Sub Total Short Term investments

### TOTAL INVESTMENT

ASSETS - 124.54% (f)	\$	421,868,962	\$	490,124,856
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(a) These securities are restricted from public sale without prior registration under the Securities Act of 1933. The Company negotiates certain aspects of the method and timing of the disposition of these investments, including registration rights and related costs.

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

(c) All of the Company's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except 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., MVC Private Equity Fund L.P., Freshii USA, Inc., and Advantage Insurance Holdings LTD. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located outside of North America which represents approximately 23% of the total assets. The remaining portfolio companies are located in North America which represents approximately 52% of the total assets.

(f) Percentages are based on net assets of \$393,553,072 as of October 31, 2013.

(g) See Note 3 for further information regarding Investment Classification.

(h) All or a portion of the accrued interest on these securities have been reserved for.

(i) Legacy Investments.

(j) MVC Private Equity Fund, L.P. is a private equity fund focused on control equity investments in the lower middle market. The fund currently holds three investments, two located in the United States and one in Gibraltar, which are in the energy, services, and industrial sectors, respectively.

(k) Upon a liquidity event, the Company may receive additional ownership in U.S. Gas & Electric, Inc.

(l) Includes a warrant in Freshii One LLC, an affiliate of Freshii USA, Inc.

(m) All or a portion of these securities may serve as collateral for the BB&T Credit Facility.

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

April 30, 2014

(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, 2013, as filed with the U.S. Securities and Exchange Commission (the SEC) on January 13, 2014.

**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 Schedules 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 April 30, 2014, the Company had approximately \$22.3 million in cash equivalents and \$7.8 million in cash totaling approximately \$30.1 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., a portfolio company investment, and is classified as restricted cash on the Company's Consolidated Balance Sheets (equivalent to approximately \$6.9 million at April 30, 2014 and approximately \$6.8 million at October 31, 2013).

**5. Recent Accounting Pronouncements**

In June 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-08, *Financial Services Investment Companies*. ASU 2013-08 provides clarifying guidance to determine if an entity qualifies as an investment company. ASU 2013-08 also requires an investment company to measure non-controlling interests in other investment companies at fair value. The following disclosures will also be required upon adoption of ASU 2013-08: (i) whether an entity is an investment company and is applying the accounting and reporting guidance for investment companies; (ii) information about changes, if any, in an entity's status as an investment company; and (iii) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The requirements of ASU 2013-08 are effective for the Company beginning in fiscal year 2015. These updates are expected to have no impact on the Company's financial condition or results of operations.

**6. Investment Valuation Policy**

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification, *Fair Value Measurement* ( ASC 820 ). In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date and majority-owned publicly traded securities and other privately held securities are valued as determined in good faith by the Valuation Committee of our Board of Directors. For legally or contractually restricted securities of companies that are publicly traded, the value is based on the closing market quote on the valuation date minus a discount for the restriction. At April 30, 2014, we did not own restricted or unrestricted securities of any publicly traded company in 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 that prioritizes information used to measure value. In determining fair value, the Valuation Committee primarily uses the level 3 inputs referenced in ASC 820.

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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.

### *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 estimated fair values. Because our

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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 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 subsequent to the fiscal quarter end are not reflected in the valuations reported in this Quarterly Report.

At April 30, 2014 and October 31, 2013, approximately 77.07% and 76.09%, respectively, 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. The liquidity event whereby the Company ultimately exits an investment is generally the sale, merger, recapitalization of a Portfolio Company or by a public offering of its securities.

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 other periodic 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 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.



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In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date and majority-owned publicly traded securities and other privately held securities are valued as determined in good faith by the Valuation Committee of the Board of Directors. For legally or contractually restricted securities of companies that are publicly traded, the value is based on the closing market quote on the valuation date minus a discount for any such restriction. At April 30, 2014 and October 31, 2013, we did not hold restricted or unrestricted securities of publicly traded companies in which we owned a majority-owned interest.

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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 in such case, a restricted discount is applied.

For equity securities of Portfolio Companies, the Valuation Committee estimates the fair value based on market and/or income approach with value then attributed to equity or equity like securities using the enterprise value waterfall ( Enterprise Value Waterfall ) valuation methodology. Under the Enterprise Value Waterfall valuation methodology, the Valuation Committee estimates the enterprise fair value of the Portfolio Company and then waterfalls the enterprise value over the Portfolio Company's securities in order of their preference relative to one another. To assess the enterprise value of the Portfolio Company, the Valuation Committee weighs some or all of the traditional market valuation methods and factors based on the individual circumstances of the Portfolio Company in order to estimate the enterprise value. The methodologies for performing assets may be based on, 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 (if available) 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 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 debt securities is generally estimated to be their cost. However, where the enterprise value is less than the

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remaining principal amount of the loan and all other debt securities, the Valuation Committee may discount the value of such securities to reflect an impairment.

For the Company's or its subsidiary's investment in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the "GP") of the PE Fund, the Valuation Committee relies on the GP's

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determination of the Fair Value of the PE Fund, which will be generally valued, as a practical expedient, utilizing the net asset valuations provided by the GP, which will be made: (i) no less frequently than quarterly as of the Company's fiscal quarter end and (ii) with respect to the valuation of PE Fund investments in Portfolio Companies, will be based on methodologies consistent with those set forth in the Company's valuation procedures. In making its determination, the GP considers and generally relies on TTG Advisers' recommendations. 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 recorded as income at the time the investment is made. Upon the prepayment of a loan or debt security, any unamortized original issue discount or market discount is recorded as a realized gain. 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 any such payment-in-kind interest/dividends, if the Portfolio Company valuation indicates that the payment-in-kind interest is not collectible. However, the Company may ascribe value to payment-in-kind interest if the health of the Portfolio Company and the underlying securities are not in question. All payment-in-kind interest that has been added to the principal balance or capitalized is subject to ratification by the Valuation Committee.

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

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ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. The Valuation Committee typically will look at the pricing of the security in which the guarantee provided support for the security and compare it to the price of a similar or hypothetical security without guarantee support. The difference in pricing will be discounted for time and risk over the period in which the guarantee is expected to remain outstanding.

**7. 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 77.07% and 76.09% of the Company's total assets at April 30, 2014 and October 31, 2013, respectively. As discussed in Note 8, 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 foreign investments (which subject the Company to additional risks such as currency risk), 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. The Company's investments in short-term securities are generally in U.S. government securities, with a maturity of greater than three months but generally less than one year or other high quality and 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 following table shows the portfolio composition by industry grouping at fair value as a percentage of net assets as of April 30, 2014 and October 31, 2013.

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	April 30, 2014	October 31, 2013
Energy Services	25.50%	26.12%
Medical Device Manufacturer	13.69%	12.35%
Electrical Engineering	10.95%	9.21%
Automotive Dealerships	9.48%	9.89%
Specialty Chemicals	8.07%	7.27%
Manufacturer of Pipe Fittings	7.91%	6.99%
Renewable Energy	7.36%	7.48%
Private Equity	4.77%	2.97%
Theme Park	4.54%	3.80%
Food Services	4.40%	2.31%
Iron Foundries	4.35%	3.32%
Environmental Services	7.21%	3.38%
Real Estate Management	2.98%	2.80%
Consumer Services	2.74%	2.54%
Insurance	2.02%	1.91%
Distributor - Landscaping and Irrigation Equipment	1.97%	3.27%
Financial Services	1.90%	1.76%
Technology	1.63%	1.77%
Consumer Products	1.43%	0.31%
Software	1.33%	1.21%
Manufacturer of Laminate Material and Composites	0.92%	0.85%
Port Facilities	0.40%	0.37%
Health & Beauty - Distributor	0.00%	0.00%
Retail Store Fixtures	0.00%	0.00%
	125.55%	111.88%

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

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

- **Level 1:** Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price on the measurement date. We did not value any of our investments using Level 1 inputs as of April 30, 2014.





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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 April 30, 2014.

- **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 6 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 April 30, 2014 and October 31, 2013 (in thousands):

	April 30, 2014				Total
	Level 1	Level 2	Level 3		
Senior/Subordinated Loans and credit facilities	\$	\$	\$	134,926	\$ 134,926
Common Stock				23,350	23,350
Preferred Stock				175,097	175,097
Warrants				1,118	1,118
Other Equity Investments				128,727	128,727
Guarantee				(92)	(92)
Escrow receivables				5,937	5,937
<b>Total Investments, net</b>	\$	\$	\$	469,063	\$ 469,063

	October 31, 2013				Total
	Level 1	Level 2	Level 3		
Senior/Subordinated Loans and credit facilities	\$	\$	\$	113,153	\$ 113,153
Common Stock				19,593	19,593
Preferred Stock				180,357	180,357
Warrants				220	220
Other Equity Investments				126,975	126,975
Escrow receivables				6,237	6,237
Short-term investments				49,827	49,827
<b>Total Investments, net</b>	\$	\$	\$	446,535	\$ 496,362

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur. During the six month period ended April 30,

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2014 and the year ended October 31, 2013, there were no transfers in and out of Level 1 or 2.

The following tables sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs for the six month period ended April 30, 2014, and April 30, 2013 (in thousands):

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	Balances, November 1, 2013	Realized Gains (Losses) (1)	Reversal of Prior Period (Appreciation) Depreciation on Realization (2)	Unrealized Appreciation (Depreciation) (3)	Purchases (4)	Sales (5)	Transfers In & Out of Level 3	Balances, April 30, 2014
Senior/Subordinated Loans and credit facilities	\$ 113,153	\$	\$	\$ (6,468)	\$ 36,851	\$ (8,610)	\$	\$ 134,926
Common Stock	19,593			2,993	764			23,350
Preferred Stock	180,357			(7,340)	2,080			175,097
Warrants	220			904	716	(722)		1,118
Other Equity Investments	126,975	(180)	180	(12,046)	13,798			128,727
Guarantees				(92)				(92)
Escrow receivables	6,237	492				(792)		5,937
<b>Total</b>	<b>\$ 446,535</b>	<b>\$ 312</b>	<b>\$ 180</b>	<b>\$ (22,049)</b>	<b>\$ 54,209</b>	<b>\$ (10,124)</b>	<b>\$</b>	<b>\$ 469,063</b>

	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, April 30, 2013
Senior/Subordinated Loans and credit facilities	\$ 89,502	\$ 2	\$ (2)	\$ (965)	\$ 31,473	\$ (20,229)	\$	\$ 99,781
Common Stock	69,686	48,281	(44,497)	3,045	5,488	(66,288)		15,715
Preferred Stock	138,089	(4,436)	4,520	(3,355)	132	(84)		134,866
Warrants	34				165			199
Other Equity Investments	107,685			9,808	517	(30)		117,980
Guarantees	(825)			825				
Escrow receivables	991	(632)			6,311	(708)		5,962
<b>Total</b>	<b>\$ 405,162</b>	<b>\$ 43,215</b>	<b>\$ (39,979)</b>	<b>\$ 9,358</b>	<b>\$ 44,086</b>	<b>\$ (87,339)</b>	<b>\$</b>	<b>\$ 374,503</b>

- (1) Included in net realized gain (loss) on investments in the Consolidated Statements of Operations.
- (2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statements of Operations related to securities disposed of during the six months ended April 30, 2014 and April 30, 2013, respectively.
- (3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statements of Operations related to securities held at April 30, 2014 and April 30, 2013, 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 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 April 30, 2014 (in thousands):

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	Fair value as of 4/30/2014	Valuation technique	Unobservable input	Range Low	High	Weighted average (a)	
<b>Common Stock (c) (d)</b>	\$ 23,350	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	14.2%	15.0%	14.2%
				Perpetual Growth Rate of Free Cash Flow	3.0%	3.0%	3.0%
		Market Approach	Revenue Multiple	2.0x	2.0x	2.0x	
			EBITDA Multiple	5.0x	9.0x	5.0x	
Forward EBITDA Multiple	5.5x		5.5x	5.5x			
<b>Senior/Subordinated loans and credit facilities (b) (d)</b>	\$ 134,926	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%	
			Real Estate Appraisals	N/A	N/A	N/A	
		Market Approach	EBITDA Multiple	5.0x	11.0x	7.6x	
			Forward EBITDA Multiple	5.0x	7.0x	5.6x	
			Market Quotes	100.0%	100.0%	100.0%	
			Discount to Forward EBITDA	10.0%	40.0%	18.3%	
			Revenue Multiple	2.0x	2.0x	2.0x	
		Income Approach	Discount Rate	14.2%	19.3%	18.1%	
			Perpetual Growth Rate of Free Cash Flow	2.0%	3.0%	2.3%	
			Required Rate of Return	12.0%	16.0%	14.2%	
<b>Other Equity Investments (d)</b>	\$ 128,727	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%	
			Real Estate Appraisals	N/A	N/A	N/A	
		Market Approach	EBIT Multiple	6.0x	6.0x	6.0x	
			Discount to notional value of CLO equity	0.0%	0.0%	0.0%	
			Revenue Multiple	2.0x	2.0x	2.0x	
			Forward EBITDA Multiple	5.0x	7.0x	6.0x	
			EBITDA Multiple	5.0x	6.0x	5.3x	
			Euros per TTM MWhr	0.70	0.70	0.70	
			Discount to Forward EBITDA	40.0%	40.0%	40.0%	
			Multiple of Book Value	1.0x	1.0x	1.0x	
			Income Approach	Discount Rate	6.0%	18.4%	14.7%
		Perpetual Growth Rate of Free Cash Flow		2.0%	3.0%	2.1%	
<b>Preferred Stock (c)</b>	\$ 175,097	Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%	0.0%	
			Market Approach	Revenue Multiple	2.0x	2.0x	2.0x
			EBITDA Multiple	6.6x	9.0x	8.4x	
			% of AUM	1.01%	1.01%	1.01%	

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			Illiquidity Discount	30.0%	30.0%	30.0%
			Multiple of Book Value	1.0x	1.0x	1.0x
			EBT Multiple	18.8x	18.8x	18.8x
			Forward EBITDA Multiple	5.0x	5.0x	5.0x
			Discount to Forward EBITDA	10.0%	10.0%	10.0%
		Income Approach	Discount Rate	15.0%	17.9%	17.8%
			Perpetual Growth Rate of Free Cash Flow	7.5%	7.5%	7.3%
<b>Warrants</b>	\$	1,118	Market Approach	EBITDA Multiple	8.0x	8.0x
			Income Approach	Discount Rate	19.3%	22.6%
				Perpetual Growth Rate of Free Cash Flow	3.0%	12.0%
				Illiquidity Discount	25.0%	25.0%
			Adjusted Net Asset Approach	Discount to Net Asset Value	0.0%	0.0%
<b>Guarantees</b>	\$	(92)	Income Approach	Discount Rate	7.3%	7.3%
			Adjusted Net Asset Approach	Discount to Net Asset Value	6.0%	6.0%
<b>Escrow Receivables</b>	\$	5,937				
<b>Total</b>	\$	<b>469,063</b>				

Notes:

(a) Calculated based on fair values.

(b) Certain investments are priced using non-binding broker or dealer quotes.

(c) Certain common and preferred stock investments are fair valued based on liquidation-out preferential rights held by the Company.

(d) Real estate appraisals are performed by independent third parties and the Company does not have reasonable access to the underlying unobservable inputs.

\* The above table excludes certain investments whose fair value is zero due to certain specific situations at the portfolio company level.

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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 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 Six Month Period Ended April 30, 2014**

During the six month period ended April 30, 2014, the Company made two new investments, committing capital totaling approximately \$21.0 million. The investments were made in G3K Displays, Inc. ( G3K ) (\$6.0 million) and Inland Environmental & Remediation LP ( Inland ) (\$15.0 million).

During the six month period ended April 30, 2014, the Company made ten follow-on investments into seven existing portfolio companies totaling approximately \$27.7 million. On November 13, 2013, the Company loaned \$4.0 million to Security Holdings B.V. ( Security Holdings ) in the form of a 5% cash bridge loan with a maturity date of February 15, 2014. On November 19, 2013, the Company increased its common equity interest in Centile Holding B.V. ( Centile ) by \$100,000. Also on November 19, 2013, the Company invested \$5.0 million into MVC Automotive Group B.V. ( MVC Automotive ) in the form of common equity interest and converted its bridge loan of approximately \$1.8 million, including accrued interest, to common equity interest. On December 23, 2013, the Company made a senior secured loan of \$3.3 million to RuMe Inc. ( RuMe ) with a cash interest rate of 12% and a maturity date of April 4, 2014. The Company also purchased warrants for shares of common stock in RuMe for a nominal amount and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made. On January 2, 2014, the Company loaned \$7.0 million to Morey's Seafood International, LLC ( Morey's ), increasing its second lien loan amount to \$15.0 million. The interest rate on the total loan was increased to 10% cash and 3% payment in kind ( PIK ). On March 5, 2014, the Company invested an additional \$4.0 million into MVC Automotive in the form of common equity interest. On March 10, 2014, the Company exercised its warrant in RuMe at a cost of approximately \$43,000 and received 4,297,549 shares of common stock. On March 5, 2014 and April 1, 2014, the Company contributed a total of approximately \$2.8 million to the PE Fund related to expenses, an additional investment in Plymouth Rock Energy, LLC and an investment in Advanced Oilfield Services, LLC. As of April 30, 2014, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited, Focus Pointe Holdings, Inc. and Advanced Oilfield Services, LLC. On April 1, 2014, the Company loaned \$1.5 million to Marine Exhibition Corporation ( Marine ) in the form of a second lien loan with an interest rate of 11%. The loan matures on June 30, 2014.

On November 1, 2013, Turf Products, LLC ( Turf ) repaid its \$1.0 million junior revolving note in full, including all accrued interest. The junior revolving note is no longer a commitment of the Company. Turf also made a \$4.5 million principal payment on its senior subordinated loan,

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resulting in an outstanding balance of approximately \$3.9 million as of April 30, 2014. The Company also guaranteed \$1.0 million of Turf's indebtedness to Berkshire Bank. The guarantee was valued at negative \$92,000 at April 30, 2014.

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On November 11, 2013, MVC Automotive Group B.V. completed a tax free reorganization into MVC Automotive Group GmbH MVC Automotive, an Austrian holding company, to increase operating efficiencies.

On December 16, 2013, the Company announced the termination of its agreement to sell U.S. Gas & Electric, Inc. ( U.S. Gas ) to United States Gas & Electric Holdings, Inc. ( US Holdings ), a company organized to acquire U.S. Gas. US Holdings was unable to satisfy the closing conditions of the original agreement (October 4, 2013) and subsequently submitted a transaction termination notice to the Company on December 10, 2013.

On January 30, 2014, BPC II, LLC completed the dissolution of its operations. The Company realized a loss of \$180,000 as a result of this dissolution.

On April 14, 2014, the Company agreed to provide G3K a \$10.0 million loan in three installments and made its first loan of \$6.0 million. The closing of the Company's G3K investment and first loan occurred following extensive due diligence, including receipt of an unqualified audit report on G3K's financial statements and a separate quality of earnings review by an accounting firm. The Company has initiated legal action in the Superior Court of New Jersey, Chancery Division, against G3K, its three shareholders and certain corporate officers for fraudulently misrepresenting G3K's financial records in order to secure financing from the Company. The Company is working diligently to uncover the full extent of what it believes to be a highly sophisticated fraud and is seeking to recover loan proceeds. All legal options available are being examined. The Company did recover \$375,000 in principal prior to April 30, 2014. The loan had an outstanding balance of approximately \$5.6 million and had a fair value of \$0 as of April 30, 2014.

During the six month period ended April 30, 2014, Marine made principal payments totaling \$100,000 on its senior subordinated loan. As of April 30, 2014, the balance of the loan was approximately \$11.5 million.

During the six month period ended April 30, 2014, Custom Alloy Corporation ( Custom Alloy ) made \$1.0 million of principal payments on its loan.

During the six month period April 30, 2014, the Company received a dividend of approximately \$67,000 from NPWT Corporation ( NPWT ).

During the quarter ended January 31, 2014, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$18,000 and series B preferred stock by approximately \$4.0 million, NPWT common stock by \$1,000 and preferred stock by \$34,000, Vestal Manufacturing Enterprise, Inc. ( Vestal ) common stock by \$3.0 million, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$2.2 million, Biovation Holdings, Inc. ( Biovation ) warrants by \$162,000, and Freshii USA, Inc. ( Freshii ) warrant by approximately \$15,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic Reagents ( Biogenic ) and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,008,665. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$949,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in SGDA Europe B.V. ( SGDA Europe ) equity interest by approximately \$57,000, Centile Holdings B.V. ( Centile ) equity interest by \$29,000, Security Holdings B.V. ( Security Holdings ) equity interest by \$304,000, Octagon Credit Investors, LLC ( Octagon ) equity interest by approximately \$1.2 million, MVC Automotive equity interest by



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approximately \$1.9 million, Velocitus B.V. ( Velocitus ) equity interest by approximately \$1.9 million, Biovation bridge loan by approximately \$102,000, Foliofn, Inc. preferred stock by approximately \$1.1 million, Turf guarantee by \$92,000 and SIA Tekers Invest ( Tekers ) common stock by \$12,000. Also, during the quarter ended January 31, 2014, 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 \$101,000.

During the quarter ended April 30, 2014, the Valuation Committee increased the fair value of the Company s investments in Foliofn, Inc. preferred stock by \$127,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$900,000, Octagon equity interest by approximately \$1.1 million, Security Holdings equity interest by \$422,000, SGDA Europe equity interest by

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approximately \$350,000, PrePaid Legal Services, Inc. ( Prepaid Legal ) loan by \$100,000, Centile equity interest by \$57,000, Freshii warrant by approximately \$8,000 and Tekers common stock by \$7,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic, Morey s and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,118,793. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$987,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company s investments in Custom Alloy series A preferred stock by approximately \$6,000 and series B preferred stock by approximately \$1.3 million, MVC Automotive equity interest by approximately \$11.2 million, G3K loan by approximately \$5.6 million, NPWT common stock by approximately \$4,000 and preferred stock by approximately \$70,000, U.S. Gas preferred stock by \$9.0 million, Velocitius equity interest by approximately \$606,000 and the Biovation bridge loan by approximately \$20,000. Also, during the quarter ended April 30, 2014, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased only the cost basis of this investment by approximately \$181,000.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the Company s investments in Custom Alloy series A preferred stock by approximately \$12,000 and series B preferred stock by approximately \$2.7 million, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$3.1 million, Security Holdings equity interest by \$118,000, SGDA Europe equity interest by approximately \$293,000, PrePaid Legal loan by \$100,000, Centile equity interest by \$28,000, Freshii warrant by approximately \$23,000, Biovation warrants by \$162,000 and Vestal common stock by \$3.0 million. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic, Morey s and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$2,127,458. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.9 million due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company s investments in Foli<sup>o</sup>fn, Inc. preferred stock by approximately \$964,000 Inc., MVC Automotive equity interest by approximately \$13.1 million, G3K loan by approximately \$5.6 million, NPWT common stock by approximately \$3,000 and preferred stock by approximately \$36,000, U.S. Gas preferred stock by \$9.0 million, Velocitius equity interest by approximately \$2.5 million, Biovation bridge loan by approximately \$122,000, Octagon equity interest by approximately \$20,000, Tekers common stock by \$5,000 and the Turf guarantee by \$92,000. Also, during the six month period ended April 30, 2014, the undistributed allocation of flow through income from the Company s equity investment in Octagon totaled approximately \$282,000. The \$282,000 increased the cost basis and \$101,000 increased the fair value of this investment

At April 30, 2014, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$463.1 million with a cost basis of \$414.9 million. At April 30, 2014, the fair value and cost basis of portfolio investments of the Legacy Investments was \$6.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was \$457.1 million and \$391.1 million, respectively. At October 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$440.3 million with a cost basis of \$372.0 million. At October 31, 2013, the fair value and cost basis of the Legacy Investments was \$7.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was \$433.3 million and \$348.2 million, respectively.

**For the Fiscal Year Ended October 31, 2013**

During the year ended October 31, 2013, the Company made six new investments, committing capital totaling approximately \$62.4 million. The investments were made in Summit Research Labs, Inc. ( Summit ) (\$22.0 million), U.S. Spray Drying Holding Company ( SCSD ) (\$5.5 million), Prepaid Legal Services, Inc. ( Prepaid Legal ) (\$9.9 million), Morey s (\$8.0 million), Biogenic (\$9.5 million) and Advantage Insurance Holdings LTD ( Advantage ) (\$7.5 million).

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During the year ended October 31, 2013, the Company made nine follow-on investments into five existing portfolio companies totaling approximately \$33.3 million. On November 26, 2012, the Company loaned an additional \$8.0 million

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to JSC Tekers Holdings ( 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. On February 15, 2013 and May 7, 2013, the Company contributed a total of approximately \$1.1 million to the PE Fund related to expenses and an additional investment in Plymouth Rock Energy, LLC. As of October 31, 2013, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On June 11, 2013, the Company invested \$22.6 million in Ohio Medical in the form of 7,477 shares of series C convertible preferred stock. This follow-on investment replaced the guarantee the Company had with Ohio Medical. The guarantee is no longer a commitment of the Company. On August 2, 2013, the Company increased its common equity interest in MVC Automotive by approximately \$133,000. During the year ended October 31, 2013, the Company loaned an additional \$1.5 million to Biovation, increasing the loan amount to approximately \$3.1 million. The Company also received warrants at no cost. The Company allocated a portion of the cost basis of the additional loan to the warrants 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 October 31, 2013, the balance of the bridge loan was approximately \$1.6 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 its 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 February 8, 2013, the Company received a \$70,000 dividend from Marine.

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 purchased SCSD from Summit. The Company invested approximately \$5.5 million for 784 shares of class B common stock. SCSD provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries. On March 29, 2013, the Company received gross equity proceeds of approximately \$66.3 million, resulting in a realized gain of approximately \$49.5 million from the transaction, a \$3.6 million premium to the last reported fair market value placed on Summit by the Company's Valuation Committee as of January 31, 2013. The \$66.3 million of proceeds included approximately \$6.3 million held in escrow, which had a fair value of approximately \$5.9 million as of October 31, 2013. The decrease in the escrow fair value of approximately \$400,000 was recorded as a realized loss. Also, as part of the sale, the \$12.1 million second lien loan to Summit was repaid in full, including all accrued interest. The Company then provided Summit with a \$22.0 million second lien loan due on October 1, 2018 with an annual interest rate of 14%.

On February 27, 2013, the Company realized a loss of approximately \$4.5 million on the 602,131 preferred shares of DPHI, Inc., a Legacy Investment formerly DataPlay, Inc., which had a fair value of \$0.

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On June 10, 2013, Teleguam Holdings, LLC ( Teleguam ) repaid its \$7.0 million second lien loan in full, including all accrued interest.

On July 1, 2013, Prepaid Legal repaid its tranches A and B term loans in full including all accrued interest. Total proceeds received were approximately \$6.8 million.

During the year ended October 31, 2013, the Company received dividend payments from U.S. Gas totaling approximately \$7.6 million.

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During the year ended October 31, 2013, Marine made principal payments totaling \$900,000 on its senior subordinated loan. As of October 31, 2013, the balance of the loan was approximately \$11.4 million.

During the year ended October 31, 2013, Custom Alloy made principal payments of approximately \$8.2 million on its loan. As of October 31, 2013, the outstanding balance of the loan was approximately \$7.5 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 loans A and B by a total of approximately \$119,000, 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 \$648,977. The Valuation Committee also decreased the fair value of the Company's investments in 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 \$84,000 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.

During the quarter ended April 30, 2013, the Valuation Committee increased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$665,000, NPWT preferred and common stock by a total of approximately \$70,000, Security Holdings equity interest by approximately \$4.0 million, SGDA Europe equity interest by approximately \$614,000, Turf equity interest by \$412,000, Vestal common stock by approximately \$1.4 million, Centile equity interest by \$505,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$1.7 million and Freshii warrant by approximately \$5,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$453,990. The Valuation Committee also decreased the fair value of the Company's investments in Ohio Medical Preferred stock by \$4.6 million, Tekers common stock by \$218,000, Velocitius equity interest by approximately \$1.2 million, JSC Tekers secured loan by \$1.0 million and the Biovation loan and warrant by a total of approximately \$50,000. The Valuation Committee also determined to remove the liability associated with the Ohio Medical guarantee, which had a fair value as of January 31, 2013 of approximately \$1.2 million. Also, during the quarter ended April 30, 2013, 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 \$110,000.

During the quarter ended July 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$22,000 and series B preferred stock by approximately \$5.0 million, Security Holdings equity interest by approximately \$1.9 million, U.S. Gas convertible series I preferred stock by \$11.6 million, Vestal common stock by \$1.0 million, Centile equity interest by \$474,000 and the Biovation bridge loan by approximately \$135,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biovation and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,198,394. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$201,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in NPWT preferred and common stock by a total of approximately \$210,000, SGDA Europe equity interest by approximately \$187,000, Velocitius equity interest by approximately \$116,000, Freshii warrant by approximately \$8,000, Biovation warrant by \$82,000 and the MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$85,000. Also, during the quarter ended July 31, 2013, 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 \$70,000.



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During the quarter ended October 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$18,000 and series B preferred stock by approximately \$4.1 million, Security Holdings equity interest by approximately \$3.4 million, Vestal common stock by \$2.7 million, Centile equity interest by \$568,000, MVC Automotive equity interest by approximately \$779,000, NPWT preferred and common stock by a total of approximately \$19,000, SGDA Europe equity interest by approximately \$141,000, Velocitius equity interest by approximately \$505,000, Tekers common stock by \$214,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$649,000, Pre-Paid Legal second lien loan by approximately \$144,000 and the Biovation bridge loan by approximately \$87,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biovation, Biogenic and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$968,538. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$900,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in the Freshii warrant by approximately \$12,000, RuMe preferred stock by \$750,000, Ohio Medical Preferred stock by \$1.9 million and Foliofn preferred stock by approximately \$3.8 million. Also, during the quarter ended October 31, 2013, 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 \$97,000.

During the year ended October 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$44,000 and series B preferred stock by approximately \$9.9 million, Octagon equity interest by \$450,000, Pre-Paid Legal term loans A and B by a total of approximately \$119,000, MVC Automotive equity interest by approximately \$3.7 million, Security Holdings equity interest by approximately \$12.2 million, Turf equity interest by \$592,000, Vestal common stock by approximately \$6.8 million, U.S. Gas convertible series I preferred stock by \$11.6 million, Pre-Paid Legal second lien loan by approximately \$144,000, Centile equity interest by approximately \$1.7 million, Biovation loan by approximately \$177,000, Tekers common stock by \$230,000 and the MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$2.2 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, Freshii, Biogenic and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$3,269,909. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.1 million due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in Ohio Medical Preferred stock by \$6.5 million, SGDA Europe equity interest by approximately \$1.2 million, NPWT preferred and common stock by a total of approximately \$205,000, Freshii warrant by approximately \$15,000, Foliofn preferred stock by approximately \$3.8 million, RuMe preferred stock by \$327,000, HH&B common stock by \$100,000, Velocitius equity interest by approximately \$1.9 million, JSC Tekers secured loan by \$1.0 million and the Biovation warrant by \$87,000. The Valuation Committee also determined to remove the liability associated with the Ohio Medical guarantee that had a net valuation change of \$825,000. Also, during the fiscal year ended October 31, 2013, 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 \$247,000.

At October 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$440.3 million with a cost basis of \$372.0 million. At October 31, 2013, the fair value and cost basis of the Legacy Investments was \$7.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$433.3 million and \$348.2 million, respectively. At October 31, 2012, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$404.2 million with a cost basis of \$332.4 million. At October 31, 2012, the fair value and cost basis 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.



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At April 30, 2014 and October 31, 2013, the Company's existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed	Amount Funded at April 30, 2014
MVC Private Equity Fund LP	\$ 20.1 million	\$ 12.1 million
Inland	\$ 15.0 million	\$ 13.0 million
<b>Total</b>	<b>\$ 35.1 million</b>	<b>\$ 25.1 million</b>

Turf	\$ 1.0 million	\$ 1.0 million
MVC Private Equity Fund LP	\$ 20.1 million	\$ 9.3 million
<b>Total</b>	<b>\$ 21.1 million</b>	<b>\$ 10.3 million</b>

*Guarantees:*

At April 30, 2014 and October 31, 2013, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed	Amount Funded at April 30, 2014
MVC Automotive	\$ 5.5 million	
Tekers		
Turf	\$ 1.0 million	
<b>Total</b>	<b>\$ 6.5 million</b>	

Guarantee	Amount Committed	Amount Funded at October 31, 2013
MVC Automotive	\$ 5.4 million	
Tekers	\$ 68,000	
<b>Total</b>	<b>\$ 5.5 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At April 30, 2014, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be negative \$92,000.

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

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On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee did not have an outstanding balance as of April 30, 2014.

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 \$5.5 million at April 30, 2014) 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 April 30, 2014 is approximately 6.8 million Euro (equivalent to approximately \$9.4 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 had an annual interest at 6.0% and was to expire on January 31, 2014. On November 1, 2013, Turf repaid its junior revolving note in full including all accrued interest. The junior revolving note is no longer a commitment of the Company. The Company also guaranteed \$1.0 million of Turf's indebtedness to Berkshire Bank which had a fair value of negative \$92,000 as of April 30, 2014.

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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 and thereafter, 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 April 30, 2014, \$12.1 million of the Company's commitment was contributed.

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

On November 30, 2011, the Company pledged its common stock and series A convertible preferred stock of Ohio Medical to collateralize a loan made to Ohio Medical by another financial institution. On June 27, 2013, the Company pledged its series C convertible preferred stock of Ohio Medical to further collateralize the same third party loan made to Ohio Medical in 2011.

On April 17, 2014, the Company loaned \$13.0 million of its \$15.0 million commitment to Inland in the form of a senior secured loan with a cash interest rate of 12% and a maturity date of April 17, 2019. The Company also received warrants for shares of common stock in Inland and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made. The remaining \$2.0 million will be funded after Inland achieves certain milestones. Please see Note 16 Subsequent Events for more information.

***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 10 of the consolidated financial statements, Management, TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company's offices continue to be located on the second floor of 287 Bowman Avenue, Purchase, New York 10577.

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million credit facility (the Credit Facility), consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility consisted of a \$50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor and had a maturity date of April 27, 2013.

On February 19, 2013, the Company sold \$70.0 million of senior unsecured notes (the Senior Notes) in a public offering. The Senior 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 Senior Notes bear interest at a rate of 7.25% per year payable quarterly on January 15, April 15, July 15, and October 15 of

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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 Senior Notes to cover overallocments. The additional \$10.5 million in principal was purchased and the total principal amount of the Senior Notes totaled \$80.5 million. The net proceeds to the Company from the sale of the Senior Notes, after offering expenses, were approximately \$77.4 million. The offering expenses incurred are amortized over the term of the Senior Notes.

On February 26, 2013, the Company received the funds related to the Senior Notes offering, net of expenses, and subsequently repaid the Credit Facility in full, including all accrued interest. The Company intends to use the excess net proceeds after the repayment of the Credit Facility for general corporate purposes, including, for example, investing in portfolio companies according to our investment objective and strategy, repurchasing shares pursuant to the share

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repurchase program adopted by our Board of Directors, funding distributions, and/or funding the activities of our subsidiaries.

On May 3, 2013, the Company sold approximately \$33.9 million of additional Senior Notes in a direct offering. The additional Senior Notes will also 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 also 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. As of April 30, 2014, the total outstanding amount of the Senior Notes was approximately \$114.4 million with a market value of approximately \$117.8 million. The market value of the Senior Notes is based on the closing price of the security as of April 30, 2014 on the New York Stock Exchange (NYSE:MVCB).

On July 31, 2013, the Company entered into a one-year, \$50 million revolving credit facility ( Credit Facility II ) with Branch Banking and Trust Company ( BB&T ). At October 31, 2013, the balance of Credit Facility II was \$50.0 million. On January 31, 2014, Credit Facility II was increased to a \$100 million revolving credit facility. During the six month period ended April 30, 2014, the Company's net borrowings on Credit Facility II were \$50.0 million, resulting in an outstanding balance of \$100 million at April 30, 2014. Credit Facility II will be used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bear interest at LIBOR plus 100 basis points. In addition, the Company is also subject to a 25 basis point commitment fee for the average amount of Credit Facility II that is unused during each fiscal quarter. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized over the life of the facility. Borrowings under Credit Facility II will be secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities.

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.

## 10. 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 29, 2013.

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.

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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

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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 various dates, TTG Advisers and the Company entered into annual agreements to extend the expense cap of 3.5% to the 2011, 2012 and 2013 fiscal years ( Expense Limitation Agreement ). The Company and the Adviser have agreed to continue the expense cap into fiscal year 2014, though they may determine to revise the present calculation methodology later in the year. 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 was excluded from the calculation of the Company's expense ratio under the Expense Limitation Agreement. In addition, for fiscal years 2010 through 2014, 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 also voluntarily agreed that any assets of the Company that are invested in exchange-traded funds or the Octagon Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to make additional investments that represent more than 5% of its total assets or more than 10% of the outstanding voting securities of the issuer ( Non-Diversified Investments ) through the PE Fund. As previously disclosed, the Company is restricted in its ability to make 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 and thereafter, 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 Schedules of Investments. The consolidation of MVC Partners has not had any material effect on the financial position or net results of operations of the Company. There are additional disclosures resulting from this consolidation.

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





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**11. Incentive Compensation**

At October 31, 2013, the provision for estimated incentive compensation was approximately \$24.0 million. During the six month period ended April 30, 2014, this provision for incentive compensation was decreased by a net amount of approximately \$4.3 million to approximately \$19.7 million. The net decrease in the provision for incentive compensation during the six month period ended April 30, 2014 reflects the Valuation Committee's determination to decrease the fair values of eight of the Company's portfolio investments (MVC Automotive, G3K, NPWT, U.S. Gas, Velocitius, Octagon, Tekers and Turf) by a total of approximately \$30.4 million. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Custom Alloy, Security Holdings, SGDA Europe, PrePaid Legal, Centile, Freshii, Biovation and Vestal) by a total of approximately \$6.3 million. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.9 million due to a PIK distribution, which was treated as a return of capital. For the six month period ended April 30, 2014, no provision was 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, 2012, the provision for estimated incentive compensation was approximately \$15.7 million. During the year ended October 31, 2013, this provision for incentive compensation was increased by a net amount of approximately \$8.3 million to approximately \$24.0 million. The net increase in the provision for incentive compensation during the year ended October 31, 2013 reflects the Valuation Committee's determination to increase the fair values of eleven of the Company's portfolio investments (Custom Alloy, Octagon, MVC Automotive, Security Holdings, Turf, Vestal, Centile, Biovation, Prepaid Legal, U.S. Gas, and SIA Tekers) by a total of approximately \$47.5 million and the difference between the amount received from the sale of Summit and Summit's carrying value at January 31, 2013, which was an increase of approximately \$3.6 million. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.1 million due to a PIK distribution, which was treated as a return of capital. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of eight of the Company's portfolio investments (Ohio Medical, SGDA Europe, NPWT, Freshii, HH&B, Velocitius, RuMe and JSC Tekers) by a total of approximately \$10.4 million and reflects the \$84,000 realized gain related to NPWT. For the year ended October 31, 2013, no provision was recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

**12. Tax Matters**

On October 31, 2013, the Company had a net capital loss carryforward of \$906,240 of which \$906,240 will expire in the year 2019. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed. The Company had approximately \$17.8 million in unrealized losses associated with Legacy Investments as of April 30, 2014.

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions deemed to meet a more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statement of operations. During the six month period ended April 30, 2014, 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 2010 through 2014 for the Company and MVCFS remain subject to examination by the IRS.

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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

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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.

**13. Dividends and Distributions to Shareholders and Share Repurchase Program**

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

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

All of our shareholders who hold shares of common stock in their own name will automatically be enrolled in our dividend reinvestment plan (the Plan ). All such shareholders will have any cash dividends and distributions automatically reinvested by Computershare Ltd. ( the Plan Agent ) in shares of our common stock. Of course, any shareholder may elect to receive his or her dividends and distributions in cash. Currently, the Company has a policy of paying 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, 2014**

On December 20, 2013, the Company's Board of Directors declared a dividend of \$0.135 per share. The dividend was paid on January 7, 2014 to shareholders of record on December 31, 2013. The total distribution amounted to \$3,053,388.

During the quarter ended January 31, 2014, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 248 shares of our common stock at an average price of \$13.52, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

**For the Quarter Ended April 30, 2014**

On April 14, 2014, the Company's Board of Directors declared a dividend of \$0.135 per share. The dividend was paid on April 30, 2014 to shareholders of record on April 24, 2014. The total distribution amounted to \$3,032,750.

During the quarter ended April 30, 2014, as part of the Company's dividend reinvestment plan for our common stockholders, the Plan Agent purchased 271 shares of our common stock at an average price of \$13.11, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

Table of Contents**SHARE REPURCHASE PROGRAM**

On April 3, 2013 the Company's Board of Directors authorized an expanded share repurchase program to opportunistically buy back shares in the market in an effort to narrow the market discount of its shares. The previously authorized \$5 million limit has been eliminated. Under the repurchase program, shares may be repurchased from time to time at prevailing market prices. The repurchase program does not obligate the Company to acquire any specific number of shares and may be discontinued at any time. The following tables represent purchases made under our stock repurchase program for the fiscal year ended October 31, 2013 and for the six month period ended April 30, 2014.

Period *	Total Number of Shares Purchased	Average Price Paid per Share including commission	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares Purchased Under the Program
<b>As of October 31, 2012</b>				
<b>For the Year Ended October 31, 2013</b>	1,299,294	\$ 12.83	1,299,294	\$ 16,673,207
<b>Total</b>	1,299,294	\$ 12.83	1,299,294	\$ 16,673,207

Period *	Total Number of Shares Purchased	Average Price Paid per Share including commission	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares Purchased Under the Program
<b>As of October 31, 2013</b>	1,299,294	\$ 12.83	1,299,294	\$ 16,673,206
<b>For the Six Month Period ended April 30, 2014</b>	152,874	\$ 13.80	1,452,168	\$ 2,109,086
<b>Total</b>	1,452,168	\$ 12.93	1,452,168	\$ 18,782,292

\*Disclosure covering repurchases made on a monthly basis is available on the Company's website at <http://www.mvccapital.com>

**14. Segment Data**

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

The following table presents book basis segment data for the six month period ended April 30, 2014:



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	MVC	MVCFS	Consolidated
Interest and dividend income	\$ 7,786,021	\$ 16	\$ 7,786,037
Fee income		922,491	922,491
Fee income - asset management		1,213,312	1,213,312
Other income	553,769		553,769
Total operating income	8,339,790	2,135,819	10,475,609
Total operating expenses	3,347,309	4,154,591	7,501,900
Less: Waivers by Adviser	(75,000)		(75,000)
Total net operating expenses	3,272,309	4,154,591	7,426,900
Net operating gain (loss) before taxes	5,067,481	(2,018,772)	3,048,709
Tax expense		877	877
Net operating gain (loss)	5,067,481	(2,019,649)	3,047,832
Net realized gain on investments	484,711		484,711
Net unrealized (depreciation) appreciation on investments	(20,106,054)	74,714	(20,031,340)
Net (decrease) in net assets resulting from operations	(14,553,862)	(1,944,935)	(16,498,797)

### 15. Significant Subsidiaries

We have determined that for the six month period ended April 30, 2014, that no portfolio companies have met the conditions of a significant subsidiary.

### 16. Subsequent Events

On May 2, 2014, the Company loaned \$1.5 million to SCSD in the form of a secured loan. The loan has an interest rate of 12% and a maturity date of May 2, 2019.

On May 7, 2014, the Company converted RuMe's \$3.3 million senior secured loan and accrued interest of approximately \$161,000 into 23,896,634 shares of series C preferred stock.

On May 9, 2014, the Company loaned an additional \$500,000 to Bioventions increasing the total amount outstanding on the bridge loan to \$3.6 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis of the loan to the warrant at the time the investment was made.

On May 14, 2014, the Company signed a share exchange agreement with Equus Total Return, Inc. ( Equus ), another publicly traded business development company, as part of a plan of reorganization adopted by the Equus Board of Directors. Under the terms of the reorganization, Equus will pursue a merger or consolidation with the Company, a subsidiary of MVC, or one or more of MVC's portfolio companies. Absent Equus merging or consolidating with/into the Company itself (whereby the Company would own a majority of Equus shares), the current intention is for Equus to (i) be restructured into a publicly-traded operating company focused on the energy and/or financial services sectors and

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(ii) seek to terminate its election as a business development company. Pursuant to the share exchange agreement, the Company has received 2,112,000 shares of Equus in exchange for 395,839 shares of MVC. The exchange was calculated based upon each company's respective net asset value per share. As part of the reorganization, the Company may acquire additional Equus shares from time to time, either through Equus direct sale of newly issued shares to the Company or through the purchase of outstanding Equus shares. The consummation of the reorganization is anticipated to occur within one year, and Equus currently intends to maintain its common stock listing on the New York Stock Exchange after that point, unless



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Equus is merged with the Company. TTG Advisers has voluntarily agreed to waive any management fees on the Company's assets invested in Equus common stock. Also, as part of the Equus plan of reorganization, on May 21, 2014 and June 3, 2014, the Company purchased 512,557 and 850,000 additional outstanding common shares of Equus, respectively, at a cost of approximately \$1.2 million and \$2.1 million, respectively.

On May 19, 2014, the Company loaned an additional \$2.0 million to Inland. The total amount outstanding of the senior secured loan is \$15.0 million.

On May 27, 2014, the Company purchased 2,893 common shares of Ohio Medical from Champlain Capital Partners at a nominal cost.

On May 30, 2014, the Company received a \$2.9 million principal payment from U.S. Gas on its second lien loan. The second lien loan interest rate was adjusted to 13% and the maturity date was extended to July 1, 2019. The Company also loaned an additional \$3.0 million to U.S. Gas. The loan has an interest rate of 14% and a maturity date of July 1, 2018.

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

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as *may*, *will*, *expect*, *believe*, *anticipate*, *intend*, *could*, *estimate*, *might* and *continue*, and the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. Forward-looking statements are included in this report pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Such statements are predictions only, and the actual events or results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to adverse conditions in the U.S. and international economies, competition in the markets in which our portfolio companies operate, investment capital demand, pricing, market acceptance, any changes in the regulatory environments in which we operate, changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, competitive forces, adverse conditions in the credit markets impacting the cost, including interest rates and/or availability of financing, the results of financing and investing efforts, the ability to complete transactions, the inability to implement our business strategies and other risks identified below or in the Company's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements, the Notes thereto and the other financial information included elsewhere in this report and the Company's annual report on Form 10-K for the year ended October 31, 2013.

**SELECTED CONSOLIDATED FINANCIAL DATA:**

Financial information for the fiscal year ended October 31, 2013 is derived from the consolidated financial statements included in the Company's annual report on Form 10-K, which have been audited by Ernst & Young LLP, the Company's independent registered public accounting firm. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods.



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	Six Month Period Ended April 30, 2014 (Unaudited)	Six Month Period Ended April 30, 2013 (Unaudited)	Year Ended October 31, 2013
(In thousands, except per share data and number of investments)			
<b>Operating Data:</b>			
Interest and related portfolio income:			
Interest and dividend income	\$ 7,786	\$ 10,580	\$ 19,622
Fee income	923	1,412	2,853
Fee income - asset management	1,213	897	1,795
Other income	554	160	493
<b>Total operating income</b>	<b>10,476</b>	<b>13,049</b>	<b>24,763</b>
Expenses:			
Management fee	4,610	3,945	8,267
Portfolio fees - asset management	447	209	418
Management fee - asset management	463	464	929
Administrative	1,635	1,792	3,712
Interest and other borrowing costs	4,661	2,355	6,724
Net Incentive compensation (Note 11)	(4,314)	2,183	8,304
<b>Total operating expenses</b>	<b>7,502</b>	<b>10,948</b>	<b>28,354</b>
Total waiver by adviser	(75)	(75)	(150)
<b>Net operating income (loss) before taxes</b>	<b>3,049</b>	<b>2,176</b>	<b>(3,441)</b>
Tax expense, net	1	2	4
<b>Net operating income (loss)</b>	<b>3,048</b>	<b>2,174</b>	<b>(3,445)</b>
Net realized and unrealized (loss) gain:			
Net realized gain on investments	485	43,215	43,665
Net change in unrealized depreciation on investments	(20,032)	(30,621)	(3,483)
<b>Net realized and unrealized (loss) gain on investments</b>	<b>(19,547)</b>	<b>12,594</b>	<b>40,182</b>
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>\$ (16,499)</b>	<b>\$ 14,768</b>	<b>\$ 36,737</b>
Per Share:			
<b>Net (decrease) increase in net assets per share resulting from operations</b>	<b>\$ (0.73)</b>	<b>\$ 0.62</b>	<b>\$ 1.59</b>
Dividends per share	\$ 0.270	\$ 0.270	\$ 0.540
<b>Balance Sheet Data:</b>			
Portfolio at value	\$ 463,126	\$ 368,540	\$ 440,298
Portfolio at cost	414,901	327,423	371,932
Total assets	608,626	491,944	586,828
Shareholders' equity	368,859	388,634	393,554
Shareholders' equity per share (net asset value)	\$ 16.42	\$ 16.56	\$ 17.40
Common shares outstanding at period end	22,465	23,469	22,618

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Other Data:

Number of Investments funded in period		12		6		15
Investments funded (\$) in period	\$	46,855	\$	36,466	\$	95,701
Repayment/sales in period		7,691		85,974		103,069
Net investment activity in period		39,164		(49,508)		(7,368)

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	2014			2013				2012		
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
<b>Quarterly Data</b>										
<b>(Unaudited):</b>										
Total operating income	5,863	4,613	4,469	7,245	6,663	6,386	6,148	3,931	16,164	3,644
Management fee	2,306	2,304	2,221	2,101	1,865	2,080	2,027	2,127	2,177	2,257
Portfolio fees - asset management	341	106	106	103	103	106	106	338	462	62
Management fee - asset management	231	232	233	232	232	232	140	41	188	388
Administrative	727	908	1,023	897	902	890	862	971	817	923
Interest, fees and other borrowing costs	2,406	2,255	2,254	2,115	1,418	937	886	854	832	795
Net Incentive compensation	(4,868)	554	2,160	3,961	1,008	1,175	(1,410)	(2,415)	(175)	(1,937)
Total waiver by adviser	(37)	(38)	(37)	(38)	(37)	(38)	(38)	(37)	(2,383)	(96)
Tax expense		1	1	1	1	1	3			1
Net operating income (loss) before net realized and unrealized gains	4,757	(1,709)	(3,492)	(2,127)	1,171	1,003	3,572	2,052	14,246	1,251
Net (decrease) increase in net assets resulting from operations	(18,546)	2,047	3,855	18,114	7,892	6,876	(3,556)	(10,595)	1,515	(9,018)
Net (decrease) increase in net assets resulting from operations per share	(0.83)	0.10	0.18	0.79	0.33	0.29	(0.14)	(0.45)	0.06	(0.37)
Net asset value per share	16.42	17.36	17.40	17.36	16.56	16.29	16.14	16.42	16.99	17.04

**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 fiscal year ended October 31, 2013, the Company made six new investments and made nine follow-on investments in five existing portfolio companies committing a total of \$95.7 million of capital to these investments. During the six month period ended April 30, 2014, the Company made two new investments and ten follow-on investments in seven existing portfolio companies, committing capital totaling \$48.7 million.

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The Company's prior investment objective was to achieve long-term capital appreciation from venture capital investments in information technology companies. The Company's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of April 30, 2014, approximately 1.0% of the current fair value of our assets consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential liquidity event, *i.e.*, a sale, public offering, merger or other reorganization.

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

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

We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner to a private equity or other investment 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

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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 limited in its ability to make 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 Schedules 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 Six Month Period Ended April 30, 2014 and 2013.* Total operating income was \$10.5 million for the six month period ended April 30, 2014 and \$13.0 million for the six month period ended April 30, 2013, a decrease of approximately \$2.5 million.

***For the Six Month Period Ended April 30, 2014***

Total operating income was \$10.5 million for the six month period ended April 30, 2014. The decrease in operating income over the same period last year was primarily due to a decrease in dividend income from portfolio companies, specifically U.S. Gas, which was partially offset by an increase in interest income from portfolio companies. The main components of operating income for the six month period ended April 30, 2014 was fee income from portfolio companies and asset management and the interest earned on loans. The Company earned approximately \$7.8 million in interest and dividend income from investments in portfolio companies. Of the \$7.8 million recorded in interest/dividend income,

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approximately \$2.4 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 5% to 16%. The Company also received fee income from asset management of the PE Fund and its portfolio companies totaling approximately \$1.2 million and fee income from the Company's portfolio companies of approximately \$922,000, totaling approximately \$2.1 million. Of the \$1.2 million 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 Six Month Period Ended April 30, 2013*

Total operating income was \$13.0 million for the six month period ended April 30, 2013. The decrease in operating income over the same period last year was primarily due to a decrease in dividend income and fee income from asset management. The main components of operating income for the six month period ended April 30, 2013, was dividend income from portfolio companies and the interest earned on loans. The Company earned approximately \$10.6 million in interest and dividend income from investments in portfolio companies. Of the \$10.6 million recorded in interest/dividend income, approximately \$1.3 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 6% to 14%. The Company also received fee income from asset management of the PE Fund and its portfolio companies totaling approximately \$897,000 and fee income from portfolio companies of approximately \$1.4 million, totaling approximately \$2.3 million. Of the \$897,000 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.

**OPERATING EXPENSES**

*For the Six Month Period Ended April 30, 2014 and 2013.* Operating expenses, net of Voluntary Waivers, were approximately \$7.4 million for the six month period ended April 30, 2014 and \$10.9 million for the six month period ended April 30, 2013, a decrease of approximately \$3.5 million.

*For the Six Month Period Ended April 30, 2014*

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$7.4 million or 3.85% of the Company's average net assets, when annualized, for the six month period ended April 30, 2014. Significant components of operating expenses for the six month period ended April 30, 2014 were management fee expense paid by the Company of approximately \$4.6 million and interest and other borrowing costs of approximately \$4.7 million.

The approximately \$3.5 million decrease in the Company's net operating expenses for the six month period ended April 30, 2014 compared to the six month period ended April 30, 2013, was primarily due to the approximately \$6.5 million decrease in the estimated provision for incentive compensation expense, which was partially offset by an increase in interest and other borrowing costs of approximately \$2.3 million and an increase in the Company's management fee expense of approximately \$665,000. The portfolio fees - asset management 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 2014 fiscal year, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver). TTG Advisers voluntarily agreed that any assets of the Company that were invested in exchange-traded funds would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. The Company and the Adviser have agreed to continue the expense cap into fiscal year 2014, though they may determine to revise the present calculation methodology later in the year. For fiscal year 2013 and the six month period ended April 30, 2014, the Company's expense ratio was 3.04% and 3.20%, respectively, (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the six month period ended April 30, 2014, the provision for incentive compensation was decreased by a net amount of approximately \$4.3 million to approximately \$19.7 million. The net decrease in the provision for incentive compensation during the six month period ended April 30, 2014 reflects the Valuation Committee's determination to decrease the fair values of eight of the Company's portfolio investments (MVC Automotive, G3K, NPWT, U.S. Gas, Velocitius, Octagon, Tekers and Turf) by a total of approximately \$30.4 million. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Custom Alloy, Security Holdings, SGDA Europe, PrePaid Legal, Centile, Freshii, Biovation and Vestal) by a total of approximately \$6.3 million. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.9 million due to a PIK

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distribution, which was treated as a return of capital. For the six month period ended April 30, 2014, no provision was 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 11 of our consolidated financial statements *Incentive Compensation* for more information.

*For the Six Month Period Ended April 30, 2013*

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$10.9 million or 5.65% of the Company's average net assets, when annualized, for the six month period ended April 30, 2013. Significant components of operating expenses for the six month period ended April 30, 2013 were management fee expense related to the Company of approximately \$3.9 million, interest and other borrowing costs of approximately \$2.4 million, and incentive compensation expense of approximately \$2.2 million.

The approximately \$6.6 million increase in the Company's net operating expenses for the six month period ended April 30, 2013 compared to the six month period ended April 30, 2012, was primarily due to the approximately \$6.6 million increase in the estimated provision for incentive compensation expense, which includes the voluntary incentive fee waiver by TTG Advisers during the six month period ended April 30, 2012, an approximately \$728,000 increase in interest and other borrowing costs offset by a decrease of approximately \$600,000 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 six month period ended April 30, 2013 annualized, the Company's expense ratio was 2.95% and 2.83%, respectively, (taking into account the same carve outs as those applicable to the expense cap).

Pursuant to the terms of the Advisory Agreement, during the six month period ended April 30, 2013, the provision for incentive compensation was increased by a net amount of approximately \$2.1 million to approximately \$17.8 million. The net increase in the provision for incentive compensation during the six month period ended April 30, 2013 reflects the Valuation Committee's determination to increase the fair values of eleven of the Company's portfolio investments (Custom Alloy, MVC Automotive, Octagon, Security Holdings, SIA Tekers, Turf, Vestal, Pre-Paid Legal, RuMe, Freshii and Centile) by a total of approximately \$16.1 million and the difference between the amount received from the sale of Summit and Summit's carrying value at January 31, 2013, which was an increase of approximately \$3.2 million. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of seven of the Company's portfolio investments (HH&B, Ohio Medical, SGDA Europe, Velocitius, JSC Tekers, Biovation and NPWT) by a total of approximately \$8.2 million and the \$84,000 realized gain related to NPWT. For the six month period ended April 30, 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. Please see Note 11 of our consolidated financial statements *Incentive Compensation* for more information.

**REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES**

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*For the Six Month Period Ended April 30, 2014 and 2013.* Net realized gains for the six month periods ended April 30, 2014 and 2013 were approximately \$485,000 and approximately \$43.2 million, respectively, a decrease of approximately \$42.7 million.

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***For the Six Month Period Ended April 30, 2014***

Net realized gains for the six month period ended April 30, 2014 were approximately \$485,000. The significant components of the Company's net realized gains for the six month period ended April 30, 2014 were primarily due to the \$446,000 realized gain from a prior year tax refund received by Summit, which was distributed to the Company, and the Company's realized gains on short-term investments.

On November 7, 2013, the Company recorded a realized gain of approximately \$25,000 associated with the SHL Group Limited escrow.

On November 11, 2013, the Company recorded a realized gain of approximately \$19,000 associated with the Vendio escrow.

On January 30, 2014, BPC II, LLC completed the dissolution of its operations. The Company realized a loss of \$180,000 as a result of this dissolution.

During the six month period ended April 30, 2014, the Company recorded realized gains of approximately \$177,000 with the sale of its short-term investments and approximately \$446,000 related to a Summit distribution.

***For the Six Month Period Ended April 30, 2013***

Net realized gains for the six month period ended April 30, 2013 were approximately \$43.2 million. The significant components of the Company's net realized gains for the six month period ended April 30, 2013 were primarily due to the realized gain on Summit and the realized losses on Lockorder Limited and DPHI, Inc.

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.

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 purchased

SCSD from Summit. The Company invested approximately \$5.5 million for 784 shares of class B common stock. SCSD provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries. On March 29, 2013, the Company received gross equity proceeds of approximately \$66.3 million, resulting in a realized gain of approximately \$49.7 million from the transaction, a \$3.8 million premium to the last reported fair market value placed on Summit by the Company's Valuation Committee as of January 31, 2013. The \$66.3 million of proceeds includes approximately \$6.3 million held in escrow, which had a fair value of approximately \$5.7 million as of April 30, 2013. The decrease in the escrow fair value of approximately \$600,000 was recorded as a realized loss.

On February 27, 2013, the Company realized a loss of approximately \$4.5 million on the 602,131 preferred shares of DPHI, Inc., a Legacy Investment formerly DataPlay, Inc., which had a fair value of \$0.

#### **UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES**

*For the Six Month Period Ended April 30, 2014 and 2013.* The Company had a net change in unrealized depreciation on portfolio investments of approximately \$20.0 million for the six month period ended April 30, 2014 and approximately \$30.6 million for the six month period ended April 30, 2013, a net decrease of approximately \$10.6 million.

#### ***For the Six Month Period Ended April 30, 2014***

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$20.0 million for the six month period ended April 30, 2014. The change in unrealized depreciation for the six month period ended April 30, 2014 primarily resulted from the Valuation Committee's decision to decrease the fair value of the Company's investments in Foliofn, Inc. preferred stock by approximately \$964,000, MVC Automotive equity interest by approximately \$13.1 million, G3K loan by approximately \$5.6 million, NPWT common stock by approximately \$3,000 and preferred stock by approximately \$36,000, U.S. Gas preferred stock by \$9.0 million, Velocitius equity interest by approximately \$2.5 million, Biovation bridge loan by approximately \$122,000, Octagon equity interest by approximately

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\$20,000, Tekers common stock by \$5,000 and the Turf guarantee by \$92,000. The Valuation Committee also increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$12,000 and series B preferred stock by approximately \$2.7 million, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$3.1 million, Security Holdings equity interest by \$118,000, SGDA Europe equity interest by approximately \$293,000, PrePaid Legal loan by \$100,000, Centile equity interest by \$28,000, Freshii warrant by approximately \$23,000, Biovation warrants by \$162,000 and Vestal common stock by \$3.0 million. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.9 million due to a PIK distribution, which was treated as a return of capital. The reclassification from unrealized depreciation to a realized loss caused by the dissolution of BPC II, LLC of \$180,000 was also a component in the change in unrealized depreciation.

***For the Six Month Period Ended April 30, 2013***

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$30.6 million for the six month period ended April 30, 2013. The change in unrealized depreciation for the six month period ended April 30, 2013, primarily resulted from the reclassification from unrealized to realized as a result of the sale of Summit of \$46.5 million and the Valuation Committee's decision to decrease the fair value of the Company's investments in Ohio Medical Preferred stock by \$4.6 million, SGDA Europe equity interest by approximately \$1.1 million, NPWT preferred and common stock by a total of approximately \$14,000, HH&B common stock by \$100,000, Velocitus equity interest by approximately \$2.2 million, JSC Tekers secured loan by \$1.0 million, Biovation loan and warrant by a total of approximately \$50,000. The Valuation Committee also determined to remove the liability associated with the Ohio Medical guarantee which had a net change of \$825,000. These changes in unrealized depreciation were partially off-set by the reclassification from unrealized depreciation to realized losses caused by Lockorder Limited and DPHI, Inc., Legacy Investments, totaling approximately \$6.5 million and 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, Octagon equity interest by \$450,000, Pre-Paid Legal term loan A and term loan B by a total of approximately \$119,000, RuMe preferred stock by \$423,000, MVC Automotive equity interest by approximately \$2.9 million, Security Holdings equity interest by approximately \$7.0 million, Turf equity interest by \$592,000, Vestal common stock by approximately \$3.2 million, Centile equity interest by \$595,000, Tekers common stock by \$16,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$1.7 million and Freshii warrant by approximately \$5,000.

**PORTFOLIO INVESTMENTS**

*For the Six Month Period Ended April 30, 2014 and the Year Ended October 31, 2013.* The cost of the portfolio investments held by the Company at April 30, 2014 and at October 31, 2013 was \$414.9 million and \$372.0 million, respectively, an increase of \$42.9 million. The aggregate fair value of portfolio investments at April 30, 2014 and at October 31, 2013 was \$463.1 million and \$440.3 million, respectively, an increase of \$22.8 million. The Company held unrestricted cash and cash equivalents at April 30, 2014 and at October 31, 2013 of \$30.1 million and \$81.0 million, respectively, a decrease of approximately \$50.9 million. The Company had a receivable from a sale of short-term investments at April 30, 2014 of approximately \$99.8 million and held short-term investments at October 31, 2013 with a cost and fair value of approximately \$49.9 million and approximately \$49.8 million, respectively.

***For the Six Month Period Ended April 30, 2014***

During the six month period ended April 30, 2014, the Company made two new investments, committing capital totaling approximately \$21.0 million. The investments were made in G3K (\$6.0 million) and Inland (\$15.0 million).

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During the six month period ended April 30, 2014, the Company made ten follow-on investments into seven existing portfolio companies totaling approximately \$27.7 million. On November 13, 2013, the Company loaned \$4.0 million to Security Holdings in the form of a 5% cash bridge loan with a maturity date of February 15, 2014. On November 19, 2013, the Company increased its common equity interest in Centile by \$100,000. Also on November 19, 2013, the Company invested \$5.0 million into MVC Automotive in the form of common equity interest and converted its bridge



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loan of approximately \$1.8 million, including accrued interest, to common equity interest. On December 23, 2013, the Company made a senior secured loan of \$3.3 million to RuMe with a cash interest rate of 12% and a maturity date of April 4, 2014. The Company also purchased warrants for shares of common stock in RuMe for a nominal amount and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made. On January 2, 2014, the Company loaned \$7.0 million to Morey's, increasing its second lien loan amount to \$15.0 million. The interest rate on the total loan was increased to 10% cash and 3% PIK. On March 5, 2014, the Company invested an additional \$4.0 million into MVC Automotive in the form of common equity interest. On March 10, 2014, the Company exercised its warrant in RuMe at a cost of approximately \$43,000 and received 4,297,549 shares of common stock. On March 5, 2014 and April 1, 2014, the Company contributed a total of approximately \$2.8 million to the PE Fund related to expenses, an additional investment in Plymouth Rock Energy, LLC and an investment in Advanced Oilfield Services, LLC. As of April 30, 2014, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited, Focus Pointe Holdings, Inc. and Advanced Oilfield Services, LLC. On April 1, 2014, the Company loaned \$1.5 million to Marine in the form of a second lien loan with an interest rate of 11%. The loan matures on June 30, 2014.

On November 1, 2013, Turf repaid its \$1.0 million junior revolving note in full, including all accrued interest. The junior revolving note is no longer a commitment of the Company. Turf also made a \$4.5 million principal payment on its senior subordinated loan, resulting in an outstanding balance of approximately \$3.9 million as of April 30, 2014. The Company also guaranteed \$1.0 million of Turf's indebtedness to Berkshire Bank. The guarantee was valued at negative \$92,000 at April 30, 2014.

On November 11, 2013, MVC Automotive Group B.V. completed a tax free reorganization into MVC Automotive Group GmbH MVC Automotive, an Austrian holding company, to increase operating efficiencies.

On December 16, 2013, the Company announced the termination of its agreement to sell U.S. Gas to United States Gas & Electric Holdings, Inc. (US Holdings), a company organized to acquire U.S. Gas. US Holdings was unable to satisfy the closing conditions of the original agreement (October 4, 2013) and subsequently submitted a transaction termination notice to the Company on December 10, 2013.

On January 30, 2014, BPC II, LLC completed the dissolution of its operations. The Company realized a loss of \$180,000 as a result of this dissolution.

On April 14, 2014, the Company agreed to provide G3K a \$10.0 million loan in three installments and made its first loan of \$6.0 million. The closing of the Company's G3K investment and first loan occurred following extensive due diligence, including receipt of an unqualified audit report on G3K's financial statements and a separate quality of earnings review by an accounting firm. The Company has initiated legal action in the Superior Court of New Jersey, Chancery Division, against G3K, its three shareholders and certain corporate officers for fraudulently misrepresenting G3K's financial records in order to secure financing from the Company. The Company is working diligently to uncover the full extent of what it believes to be a highly sophisticated fraud and is seeking to recover loan proceeds. All legal options available are being examined. The Company did recover \$375,000 in principal prior to April 30, 2014. The loan had an outstanding balance of approximately \$5.6 million and had a fair value of \$0 as of April 30, 2014.

During the six month period ended April 30, 2014, Marine made principal payments totaling \$100,000 on its senior subordinated loan. As of April 30, 2014, the balance of the loan was approximately \$11.5 million.

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During the six month period ended April 30, 2014, Custom Alloy made \$1.0 million of principal payments on its loan.

During the six month period April 30, 2014, the Company received a dividend of approximately \$67,000 from NPWT.

During the quarter ended January 31, 2014, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$18,000 and series B preferred stock by approximately \$4.0 million, NPWT common stock by \$1,000 and preferred stock by \$34,000, Vestal common stock by \$3.0 million, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund

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by a total of approximately \$2.2 million, Biovation warrants by \$162,000, and Freshii warrant by approximately \$15,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,008,665. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$949,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in SGDA Europe equity interest by approximately \$57,000, Centile equity interest by \$29,000, Security Holdings equity interest by \$304,000, Octagon equity interest by approximately \$1.2 million, MVC Automotive equity interest by approximately \$1.9 million, Velocitius equity interest by approximately \$1.9 million, Biovation bridge loan by approximately \$102,000, Foliofn, Inc. preferred stock by approximately \$1.1 million, Turf guarantee by \$92,000 and Tekers common stock by \$12,000. Also, during the quarter ended January 31, 2014, 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 \$101,000.

During the quarter ended April 30, 2014, the Valuation Committee increased the fair value of the Company's investments in Foliofn, Inc. preferred stock by \$127,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$900,000, Octagon equity interest by approximately \$1.1 million, Security Holdings equity interest by \$422,000, SGDA Europe equity interest by approximately \$350,000, PrePaid Legal loan by \$100,000, Centile equity interest by \$57,000, Freshii warrant by approximately \$8,000 and Tekers common stock by \$7,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic, Morey's and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,118,793. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$987,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$6,000 and series B preferred stock by approximately \$1.3 million, MVC Automotive equity interest by approximately \$11.2 million, G3K loan by approximately \$5.6 million, NPWT common stock by approximately \$4,000 and preferred stock by approximately \$70,000, U.S. Gas preferred stock by \$9.0 million, Velocitius equity interest by approximately \$606,000 and the Biovation bridge loan by approximately \$20,000. Also, during the quarter ended April 30, 2014, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased only the cost basis of this investment by approximately \$181,000.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$12,000 and series B preferred stock by approximately \$2.7 million, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$3.1 million, Security Holdings equity interest by \$118,000, SGDA Europe equity interest by approximately \$293,000, PrePaid Legal loan by \$100,000, Centile equity interest by \$28,000, Freshii warrant by approximately \$23,000, Biovation warrants by \$162,000 and Vestal common stock by \$3.0 million. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biogenic, Morey's and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$2,127,458. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.9 million due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in Foliofn, Inc. preferred stock by approximately \$964,000 Inc., MVC Automotive equity interest by approximately \$13.1 million, G3K loan by approximately \$5.6 million, NPWT common stock by approximately \$3,000 and preferred stock by approximately \$36,000, U.S. Gas preferred stock by \$9.0 million, Velocitius equity interest by approximately \$2.5 million, Biovation bridge loan by approximately \$122,000, Octagon equity interest by approximately \$20,000, Tekers common stock by \$5,000 and the Turf guarantee by \$92,000. Also, during the six month period ended April 30, 2014, the undistributed allocation of flow through income from the Company's equity investment in Octagon totaled approximately \$282,000. The \$282,000 increased the cost basis and \$101,000 increased the fair value of this investment.

At April 30, 2014, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$463.1 million with a cost basis of \$414.9 million. At April 30, 2014, the fair value and cost basis of portfolio investments of the Legacy Investments was \$6.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$457.1 million and \$391.1



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million, respectively. At October 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$440.3 million with a cost basis of \$372.0 million. At October 31, 2013, the fair value and cost basis of the Legacy Investments was \$7.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$433.3 million and \$348.2 million, respectively.

***For the Fiscal Year Ended October 31, 2013***

During the year ended October 31, 2013, the Company made six new investments, committing capital totaling approximately \$62.4 million. The investments were made in Summit Research Labs, Inc. ( Summit ) (\$22.0 million), U.S. Spray Drying Holding Company ( SCSD ) (\$5.5 million), Prepaid Legal Services, Inc. ( Prepaid Legal ) (\$9.9 million), Morey's (\$8.0 million), Biogenic (\$9.5 million) and Advantage Insurance Holdings LTD ( Advantage ) (\$7.5 million).

During the year ended October 31, 2013, the Company made nine follow-on investments into five existing portfolio companies totaling approximately \$33.3 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 remained at 8% per annum and the maturity date was extended to December 31, 2014. On February 15, 2013 and May 7, 2013, the Company contributed a total of approximately \$1.1 million to the PE Fund related to expenses and an additional investment in Plymouth Rock Energy, LLC. As of October 31, 2013, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On June 11, 2013, the Company invested \$22.6 million in Ohio Medical in the form of 7,477 shares of series C convertible preferred stock. This follow-on investment replaced the guarantee the Company had with Ohio Medical. The guarantee is no longer a commitment of the Company. On August 2, 2013, the Company increased its common equity interest in MVC Automotive by approximately \$133,000. During the year ended October 31, 2013, the Company loaned an additional \$1.5 million to Biovation, increasing the loan amount to approximately \$3.1 million. The Company also received warrants at no cost. The Company allocated a portion of the cost basis of the additional loan to the warrants 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 October 31, 2013, the balance of the bridge loan was approximately \$1.6 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 its 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 February 8, 2013, the Company received a \$70,000 dividend from Marine.

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 purchased SCSD from Summit. The Company invested approximately \$5.5 million for 784 shares of class B common stock. SCSD provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries. On March 29, 2013, the Company received gross equity proceeds of approximately \$66.3 million, resulting in a realized gain of approximately \$49.5 million from the transaction, a \$3.6 million premium to the last reported fair market value placed on Summit by the Company's Valuation Committee as of January 31, 2013. The \$66.3 million of proceeds included approximately \$6.3 million held in escrow, which had a fair value of approximately \$5.9 million as of October 31, 2013. The decrease in the escrow fair value of approximately

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\$400,000 was recorded as a realized loss. Also, as part of the sale, the \$12.1 million second lien loan to Summit was repaid in full, including all accrued interest. The Company then provided Summit with a \$22.0 million second lien loan due October 1, 2018 with an annual interest rate of 14%.

On February 27, 2013, the Company realized a loss of approximately \$4.5 million on the 602,131 preferred shares of DPHI, Inc., a Legacy Investment formerly DataPlay, Inc., which had a fair value of \$0.

On June 10, 2013, Teleguam repaid its \$7.0 million second lien loan in full, including all accrued interest.

On July 1, 2013, Prepaid Legal repaid its tranches A and B term loans in full including all accrued interest. Total proceeds received were approximately \$6.8 million.

During the year ended October 31, 2013, the Company received dividend payments from U.S. Gas totaling approximately \$7.6 million.

During the year ended October 31, 2013, Marine made principal payments totaling \$900,000 on its senior subordinated loan. As of October 31, 2013, the balance of the loan was approximately \$11.4 million.

During the year ended October 31, 2013, Custom Alloy made principal payments of approximately \$8.2 million on its loan. As of October 31, 2013, the outstanding balance of the loan was approximately \$7.5 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 loans A and B by a total of approximately \$119,000, 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 \$648,977. 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 \$84,000 due to the distribution received, and Velocitus 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.

During the quarter ended April 30, 2013, the Valuation Committee increased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$665,000, NPWT preferred and common stock by a total of approximately \$70,000, Security Holdings equity interest by approximately \$4.0 million, SGDA Europe equity interest by approximately \$614,000, Turf equity interest by \$412,000, Vestal

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common stock by approximately \$1.4 million, Centile equity interest by \$505,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$1.7 million and Freshii warrant by approximately \$5,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$453,990. The Valuation Committee also decreased the fair value of the Company's investments in Ohio Medical Preferred stock by \$4.6 million, Tekers common stock by \$218,000, Velocitius equity interest by approximately \$1.2 million, JSC Tekers secured loan by \$1.0 million and the Biovation loan and warrant by a total of approximately \$50,000. The Valuation Committee also determined to remove the liability associated with the Ohio Medical guarantee, which had a fair value as of January 31, 2013 of approximately \$1.2 million. Also, during the quarter ended April 30, 2013, 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 \$110,000.



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During the quarter ended July 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$22,000 and series B preferred stock by approximately \$5.0 million, Security Holdings equity interest by approximately \$1.9 million, U.S. Gas convertible series I preferred stock by \$11.6 million, Vestal common stock by \$1.0 million, Centile equity interest by \$474,000 and the Biovation bridge loan by approximately \$135,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biovation and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,198,394. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$201,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in NPWT preferred and common stock by a total of approximately \$210,000, SGDA Europe equity interest by approximately \$187,000, Velocitius equity interest by approximately \$116,000, Freshii warrant by approximately \$8,000, Biovation warrant by \$82,000 and the MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$85,000. Also, during the quarter ended July 31, 2013, 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 \$70,000.

During the quarter ended October 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$18,000 and series B preferred stock by approximately \$4.1 million, Security Holdings equity interest by approximately \$3.4 million, Vestal common stock by \$2.7 million, Centile equity interest by \$568,000, MVC Automotive equity interest by approximately \$779,000, NPWT preferred and common stock by a total of approximately \$19,000, SGDA Europe equity interest by approximately \$141,000, Velocitius equity interest by approximately \$505,000, Tekers common stock by \$214,000, MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$649,000, Pre-Paid Legal second lien loan by approximately \$144,000 and the Biovation bridge loan by approximately \$87,000. In addition, increases in the cost basis and fair value of the loans to Marine, Summit, Freshii, Biovation, Biogenic and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$968,538. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$900,000 due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in the Freshii warrant by approximately \$12,000, RuMe preferred stock by \$750,000, Ohio Medical Preferred stock by \$1.9 million and Foliofn preferred stock by approximately \$3.8 million. Also, during the quarter ended October 31, 2013, 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 \$97,000.

During the year ended October 31, 2013, the Valuation Committee increased the fair value of the Company's investments in Custom Alloy series A preferred stock by approximately \$44,000 and series B preferred stock by approximately \$9.9 million, Octagon equity interest by \$450,000, Pre-Paid Legal term loans A and B by a total of approximately \$119,000, MVC Automotive equity interest by approximately \$3.7 million, Security Holdings equity interest by approximately \$12.2 million, Turf equity interest by \$592,000, Vestal common stock by approximately \$6.8 million, U.S. Gas convertible series I preferred stock by \$11.6 million, Pre-Paid Legal second lien loan by approximately \$144,000, Centile equity interest by approximately \$1.7 million, Biovation loan by approximately \$177,000, Tekers common stock by \$230,000 and the MVC Private Equity Fund L.P. general partnership interest and limited partnership interest in the PE Fund by a total of approximately \$2.2 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, Freshii, Biogenic and U.S. Gas, and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$3,269,909. The Valuation Committee also increased the fair value of the Ohio Medical series C convertible preferred stock by approximately \$1.1 million due to a PIK distribution, which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in Ohio Medical Preferred stock by \$6.5 million, SGDA Europe equity interest by approximately \$1.2 million, NPWT preferred and common stock by a total of approximately \$205,000, Freshii warrant by approximately \$15,000, Foliofn preferred stock by approximately \$3.8 million, RuMe preferred stock by \$327,000, HH&B common stock by \$100,000, Velocitius equity interest by approximately \$1.9 million, JSC Tekers secured loan by \$1.0 million and the Biovation warrant by \$87,000. The Valuation Committee also determined to remove the liability associated with the Ohio Medical guarantee that had a net valuation change of \$825,000. Also, during the fiscal year ended October 31, 2013, the

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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 \$247,000.

At October 31, 2013, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$440.3 million with a cost basis of \$372.0 million. At October 31, 2013, the fair value and cost basis of the Legacy Investments was \$7.0 million and \$23.8 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$433.3 million and \$348.2 million, respectively. At October 31, 2012, the fair value of all portfolio investments, exclusive of short-term investments and escrow receivables, was \$404.2 million with a cost basis of \$332.4 million. At October 31, 2012, the fair value and cost basis 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.

***Portfolio Companies***

During the six month period ended April 30, 2014, the Company had investments in the following portfolio companies:

***Actelis Networks, Inc.***

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

At October 31, 2013 and April 30, 2014, 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.

***Advantage Insurance Holdings***

Advantage, Cayman Islands, is a provider of specialty insurance, reinsurance and related services to business owners and high net worth individuals.

At October 31, 2013 and April 30, 2014, the 750,000 shares of preferred stock had a cost basis and fair value of \$7.5 million.

***Biogenic Reagents***

Biogenic, Minneapolis, Minnesota, is a producer of high-performance activated carbon products made from renewable biomass.

At October 31, 2013, the Company's investment in Biogenic consisted of a senior note and a senior convertible note. The notes have an interest rate of 16% and a maturity date of July 21, 2018. The loans had a combined outstanding balance, cost basis and fair value of \$9.6 million.

At April 30, 2014, the Company's loans had a combined outstanding balance, cost basis and fair value of \$9.8 million. The increase in cost and fair value of the loans is due to the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

***Biovation Holdings Inc.***

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

At October 31, 2013, the Company's investment in Biovation consisted of a bridge loan with an annual interest of 12% and a maturity date of August 31, 2014. The loan had an outstanding balance of approximately \$3.1 million, a cost basis of approximately \$3.0 million and a fair value of approximately \$3.2 million. The warrants had a cost of \$288,000 and a fair value of \$201,000.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the loan by approximately \$122,000 and increased the value of the warrants by approximately \$162,000.

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At April 30, 2014, the Company's investment consisted of a bridge loan with an outstanding balance and cost basis of approximately \$3.1 million and a fair value of approximately \$3.0 million. The warrants had a cost of \$288,000 and a fair value of \$363,000. The increase in cost and fair value of the loan is due to the capitalization of "payment in kind" interest. The increase in the fair value was approved by the Company's Valuation Committee.

Peter Seidenberg and Jim Lynch, representatives 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.

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 reorganization.

On June 20, 2012, BP completed the bankruptcy process that 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 limited liability company interest in BPC.

At October 31, 2013, the equity investment had a cost basis of \$180,000 and a fair value of \$0.

On January 30, 2014, BPC completed the dissolution of its operations. The Company realized a loss of \$180,000 as a result of this dissolution.

At April 30, 2014, the Company no longer held an investment in BPC.

***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.

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At October 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 \$4.8 million.

On November 19, 2013, the Company increased its common equity interest in Centile by \$100,000.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the common equity interest by approximately \$28,000.

At April 30, 2014, the Company's investment in Centile consisted of common equity interest at a cost of \$3.3 million and a fair value of approximately \$4.9 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 and forgings for the natural gas pipeline, power generation, oil/gas refining and extraction, and nuclear generation markets.

At October 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 \$88,000 and 1,991 shares of convertible series B preferred stock at a cost of \$10.0 million and fair value of approximately \$19.9 million. The unsecured subordinated loan, which bears annual interest at 12% and has a maturity date of September 4, 2016, had a cost basis, outstanding balance and fair value of approximately \$7.5 million.

During the six month period ended April 30, 2014, Custom Alloy made \$1.0 million in principal payments on its loan.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the series A preferred stock by approximately \$12,000 and the series B preferred stock by approximately \$2.7 million.

At April 30, 2014, 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 \$100,000 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 \$22.6 million. The unsecured subordinated loan had a cost basis, outstanding balance and fair value of approximately \$6.5 million.

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



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***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, 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 \$7.0 million.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the preferred stock by approximately \$1.0 million.

At April 30, 2014, 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 \$6.0 million.

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

***Freshii USA, Inc.***

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

At October 31, 2013, 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 \$1.1 million. The warrant had a cost of approximately \$34,000 and a fair value of approximately \$19,000.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the warrant by approximately \$23,000.

At April 30, 2014, the Company's investment in Freshii consisted of a senior secured loan with an outstanding balance, cost basis and fair value of approximately \$1.1 million. The warrant had a cost of approximately \$34,000 and a fair value of approximately \$42,000. 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. The increase in the fair value was approved by the Company's Valuation Committee.

***G3K Displays, Inc.***

G3K, Hoboken, New Jersey, is a custom designer, manufacturer and installer of in-store environments, signage, displays and fixtures for major retailers such as Foot Locker, adidas and Luxottica.

On April 14, 2014, the Company agreed to provide G3K a \$10.0 million loan in three installments and made its first loan of \$6.0 million. The closing of the Company's G3K investment and first loan occurred following extensive due diligence, including receipt of an unqualified audit report on G3K's financial statements and a separate quality of earnings review by an accounting firm. The Company has initiated legal action in the Superior Court of New Jersey, Chancery Division, against G3K, its three shareholders and certain corporate officers for fraudulently misrepresenting G3K's financial records in order to secure financing from the Company. The Company is working diligently to uncover the full extent of what it believes to be a highly sophisticated fraud and is seeking to recover loan proceeds. All legal options available are being examined. The Company did recover \$375,000 in principal prior to April 30, 2014. The loan had an outstanding balance of approximately \$5.6 million as of April 30, 2014.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the loan by approximately \$5.6 million.

At April 30, 2014, the Company's investment in G3K consisted of a senior loan with an outstanding balance and cost basis of \$5.6 million and a fair value of \$0. The senior loan has an interest rate of 13% and a maturity date of April 11, 2019. The Company has reserved in full against all of the accrued interest starting April 14, 2014.

***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 is a distributor of health and beauty products. The Company's initial investment consisted of 100,010 shares of common stock.



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At October 31, 2013 and April 30, 2014, 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.

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

***Inland Environmental & Remediation LP***

Inland, Columbus, Texas, has developed a patented, environmentally-friendly recycling process to transform waste produced from oil field drilling sites into a road base product used in road construction.

On April 17, 2014, the Company loaned \$13.0 million of its \$15.0 million commitment to Inland in the form of a senior secured loan with a cash interest rate of 12% and a maturity date of April 17, 2019. The Company also received warrants for shares of common stock in Inland and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made.

At April 30, 2014, the Company's investment in Inland consisted of a senior secured loan with an outstanding balance of \$13.0 million and a cost basis and fair value of approximately \$12.3 million. The warrants had a cost basis and fair value of \$713,000.

***JSC Tekers Holdings***

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

At October 31, 2013 and April 30, 2014, the Company's investment in JSC Tekers consisted of a secured loan with an outstanding balance and cost basis of \$12.0 million and a fair value of \$11.0 million and 2,250 shares of common stock with a cost basis and fair value of \$4,500. The secured loan had an interest rate of 8% and a maturity date of December 31, 2014. The Company has reserved in full against all of the accrued interest starting February 1, 2013.

***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, 2013 and April 30, 2014, 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, 2013, 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 \$11.4 million. The senior secured loan bears annual interest at 11% and matures on August 30, 2017. The preferred stock was fair valued at approximately \$3.5 million. The dividend rate on the preferred stock is 12% per annum.

On April 1, 2014, the Company loaned \$1.5 million to Marine in the form of a second lien loan with an interest rate of 11%. The loan matures on June 30, 2014.

During the six month period ended April 30, 2014, Marine made principal payments totaling \$100,000 on its senior subordinated loan.

At April 30, 2014, the Company's senior secured loan and second lien loan had an outstanding balance, cost basis and fair value of approximately \$11.5 million and \$1.5 million, respectively. The preferred stock had a cost and fair value of approximately \$3.6 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. The increase in the fair value was approved by the Company's Valuation Committee.

***Morey's Seafood International LLC***

Morey's, Motley, Minnesota, is a manufacturer, marketer and distributor of fish and seafood products.

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At October 31, 2013, the Company's investment in Morey's consisted of a \$8.0 million second lien loan. The loan had an interest rate of 10% and a maturity date of August 12, 2018.

On January 2, 2014, the Company loaned \$7.0 million to Morey's, increasing the second lien loan amount to \$15.0 million. The interest rate on the total loan amount was increased to 13%.

At April 30, 2014, the loan had an outstanding balance, cost basis and fair value of \$15.1 million.

***MVC Automotive Group GmbH***

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

At October 31, 2013, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.9 million and a fair value of approximately \$37.3 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2013, had a cost and fair value of approximately \$1.6 million. The guarantee for MVC Automotive was equivalent to approximately \$5.4 million at October 31, 2013.

On November 11, 2013, MVC Automotive Group B.V. completed a tax free reorganization into MVC Automotive Group GmbH, an Austrian holding company, to increase operating efficiencies.

On November 19, 2013, the Company invested an additional \$5.0 million into MVC Automotive in the form of common equity interest and converted its bridge loan, of approximately \$1.8 million including accrued interest, to common equity interest.

On March 5, 2014, the Company invested an additional \$4.0 million into MVC Automotive in the form of common equity interest.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the equity interest by approximately \$13.1 million.

At April 30, 2014, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$45.7 million and a fair value of approximately \$35.0 million. The mortgage guarantee for MVC Automotive was equivalent to approximately \$5.5 million at April 30, 2014. 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 limited in its ability to make 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, through its wholly-owned subsidiary MVC GP

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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 and thereafter, 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, 2013, the cost basis of the limited partnership interest in the PE Fund was equal to the investments made in the PE Fund of approximately \$9.1 million and had a fair value of approximately \$11.4 million. The Company's general partnership interest in the PE Fund had a cost basis of approximately \$232,000 and fair value of approximately \$288,000.

On March 5, 2014 and April 1, 2014, the Company contributed a total of approximately \$2.8 million to the PE Fund related to expenses, an additional investment in Plymouth Rock Energy, LLC and an investment in Advanced Oilfield Services, LLC.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair values of the limited partnership and general partnership interests totaling approximately \$3.1 million.

At April 30, 2014, the limited partnership interest in the PE Fund had a cost of approximately \$11.8 million and a fair value of approximately \$17.2 million. The Company's general partnership interest in the PE Fund had a cost basis of approximately \$302,000 and a fair value of approximately \$433,000. As of April 30, 2014, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited, Focus Pointe Holdings, Inc. and Advanced Oilfield Services, LLC.

***NPWT Corporation***

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

At October 31, 2013, the Company's investment in NPWT consisted of 281 shares of common stock with a cost basis of approximately \$1.2 million and a fair value of approximately \$14,000 and 5,000 shares of convertible preferred stock with a cost basis of \$0 and a fair value of \$241,000.

During the six month period ended April 30, 2014, the Company received a dividend of approximately \$67,000 from NPWT.

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During the six month period ended April 30, 2014, the Valuation Committee decreased the fair values of the common stock and preferred stock totaling approximately \$39,000.

At April 30, 2014, the common stock had a cost basis of approximately \$1.2 million and a fair value of approximately \$11,000. The convertible preferred stock had a cost basis of \$0 and a fair value of approximately \$205,000.

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, 2013, the Company's investment in Octagon consisted of an equity investment with a cost basis of approximately \$2.6 million and a fair value of approximately \$6.9 million.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the equity investment by approximately \$20,000.

During the six month period ended April 30, 2014, the cost basis of the equity investment was increased by approximately \$282,000 because of an allocation of flow through income and the fair value was increased by approximately \$101,000 by the Company's Valuation Committee. At April 30, 2014, the equity investment had a cost basis of approximately \$2.9 million and a fair value of \$7.0 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.

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At October 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, 24,773 shares of series A convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$24.6 million and 7,845 shares of series C convertible preferred stock with a cost basis of \$22.6 million and a fair value of \$23.7 million.

During the six month period ended April 30, 2014, the fair value of the series C convertible preferred stock was increased by approximately \$1.9 million due to a PIK distribution, which was treated as a return of capital.

At April 30, 2014, 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, 26,795 shares of series A convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$24.6 million and 8,486 shares of series C convertible preferred stock with a cost basis of \$22.6 million and a fair value of \$25.7 million.

Michael Tokarz, Chairman of the Company, Peter Seidenberg and Jim O'Connor, representatives of the Company, serve as directors of Ohio Medical.

***Prepaid Legal Services, Inc.***

Prepaid 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, 2013 the Company's investment in Prepaid Legal consisted of a \$9.9 million second lien loan, which was purchased at a discount. The interest rate on the loan is the greater of LIBOR plus 8.50% with a LIBOR floor of 1.25% or the Alternate Base rate ( ABR ) plus 7.5% with an ABR floor of 2.25% per annum. The loan matures on July 1, 2020. The loan had an outstanding balance of \$10.0 million, a cost basis of approximately \$9.9 million and a fair value of approximately \$10.0 million.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the loan by \$100,000.

At April 30, 2014, the Company's investment in Prepaid Legal consisted of a \$9.9 million second lien loan, which was purchased at a discount. The interest rate on the loan is the greater of LIBOR plus 8.50% with a LIBOR floor of 1.25% or the ABR plus 7.5% with an ABR floor of 2.25% per annum. The loan matures on July 1, 2020. The loan had an outstanding balance of \$10.0 million, a cost basis of approximately \$9.9 million and a fair value of \$10.1 million. The increase in the cost of the loan is due to the amortization of the original issue discount.

***RuMe, Inc.***

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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, 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 \$1.1 million.

On December 23, 2013, the Company loaned \$3.3 million to RuMe in the form of a senior secured loan with a cash interest rate of 12% and had a maturity date of April 4, 2014. The Company also purchased warrants for shares of common stock in RuMe for a nominal amount and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made.

On March 10, 2014, the Company exercised its warrant in RuMe at a cost of approximately \$43,000 and received 4,297,549 shares of common stock.

At April 30, 2014, the Company's investment in RuMe consisted of 5,297,548 shares of common stock with a cost basis and fair value of approximately \$924,000 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 \$1.1 million. The loan had an outstanding balance, cost basis and fair value of approximately \$3.3 million. The increase in the cost and fair value of the loan is due to the amortization of the original issue discount.

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



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

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

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

At October 31, 2013, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of \$36.3 million.

On November 13, 2013, the Company loaned \$4.0 million to Security Holdings in the form of a 5% cash bridge loan and had a maturity date of February 15, 2014.

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the common equity interest by approximately \$118,000.

At April 30, 2014, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of approximately \$36.4 million and the loan had an outstanding balance, cost basis and fair value of \$4.0 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, 2013, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of \$6.7 million.

## Edgar Filing: MVC CAPITAL, INC. - Form 10-Q

During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the common equity interest by approximately \$293,000.

At April 30, 2014, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of approximately \$7.0 million.

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

### ***SGDA Sanierungsgesellschaft fur Deponien und Altasten GmbH***

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

At October 31, 2013 and April 30, 2014, the Company's investment in SGDA consisted of a term loan with an outstanding balance, cost basis and fair value of approximately \$6.5 million. The term loan bears annual interest at 7.0% and matures on August 31, 2014.

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

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

At October 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 Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately \$68,000 at October 31, 2013 for Tekers.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the common stock by approximately \$5,000.

At April 30, 2014, 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. There was no balance on the guarantee for Tekers at April 30, 2014. 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.



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At October 31, 2013, the Company's investment in Summit consisted of a second lien loan that had an outstanding balance, cost basis and fair value of approximately \$23.1 million. The second lien loan bears annual interest at 14% and matures on October 1, 2018.

At April 30, 2014, the Company's second lien loan had an outstanding balance, cost basis and a fair value of approximately \$24.3 million. The increase in cost and fair value of the loan is due to the capitalization of payment in kind interest. The increase in the fair value was approved by the Company's Valuation Committee.

***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, 2013, 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 has a cost and fair value of approximately \$3.5 million. The warrants had a cost of \$0 and a fair value of \$0.

On November 1, 2013, Turf repaid its \$1.0 million junior revolving note in full including all accrued interest. The junior revolving note is no longer a commitment of the Company. Turf also made a \$4.5 million principal payment on its senior subordinated loan. The interest rate on the loan was decreased to 11% per annum with a new maturity date of November 1, 2018. The Company also guaranteed \$1.0 million of Turf's indebtedness to Berkshire Bank.

At April 30, 2014, the senior subordinated loan had an outstanding balance, cost basis and a fair value of approximately \$3.9 million. The membership interest has a cost and fair value of approximately \$3.5 million. The warrants had a cost and fair value of \$0 and the guarantee was fair valued at negative \$92,000.

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, 2013, the Company's investment in U.S. Gas consisted of a second lien loan with an outstanding balance, cost and fair value of \$10.1 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 \$92.7 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 December 16, 2013, the Company announced the termination of its agreement to sell U.S. Gas to US Holdings, a company organized to acquire U.S. Gas. US Holdings was unable to satisfy the closing conditions of the original agreement (October 4, 2013) and subsequently submitted a transaction termination notice to the Company on December 10, 2013.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the preferred stock by approximately \$9.0 million.

At April 30, 2014, the second lien loan had an outstanding balance, cost basis and a fair value of approximately \$10.4 million. The increases in the outstanding balance, cost and fair value of the loan are due to the capitalization of payment in kind interest. The increase in the fair value was approved by the Company's Valuation Committee. The convertible Series I preferred stock had a fair value of approximately \$83.7 million and a cost of \$500,000 and the convertible Series J preferred stock had a cost and fair value of \$0.

Puneet Sanan and Peter Seidenberg, representatives of the Company, serve as Chairman and director, respectively, of U.S. Gas and Warren Holtsberg, a director of the Company, also serves as a director of U.S. Gas.

***U.S. Spray Drying Holding Company***

SCSD, Huguenot, New York, provides custom spray drying products to the food, pharmaceutical, nutraceutical, flavor and fragrance industries.

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At October 31, 2013 and April 30, 2014, the Company's investment in SCSD consisted of 784 shares of class B common stock with a cost and fair value of approximately \$5.5 million.

Puneet Sanan and Shivani Khurana, representatives of the Company, serve as directors of SCSD.

***Velocitius B.V.***

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

At October 31, 2013, the Company's investment in Velocitius consisted of an equity investment with a cost of \$11.4 million and a fair value of \$19.9 million.

During the six month period ended April 30, 2014, the Valuation Committee decreased the fair value of the equity investment by approximately \$2.5 million.

At April 30, 2014, the equity investment in Velocitius had a cost of approximately \$11.4 million and a fair value of approximately \$17.4 million.

Peter Seidenberg, a representative of the Company, serves as a director of Velocitius.

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

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

At October 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 annual interest of 12%, a maturity date of April 29, 2015 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 \$12.5 million.

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During the six month period ended April 30, 2014, the Valuation Committee increased the fair value of the common stock by approximately \$3.0 million.

At April 30, 2014, 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 \$15.5 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 public offering of securities, 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, proceeds generated from our portfolio investments and/or proceeds from public and private offerings of securities to finance pursuit of our investment objective.

At April 30, 2014, the Company had investments in portfolio companies totaling \$463.1 million. Also, at April 30, 2014, the Company had investments in unrestricted cash and cash equivalents totaling approximately \$23.1 million. The Company also had approximately \$6.9 million in restricted cash and cash equivalents related to the project guarantee for Security Holdings. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid. Pending investments in portfolio companies pursuant to our principal investment strategy, the Company may make other short-term or temporary investments, including in exchange-traded funds and private investment funds offering periodic liquidity.

During the six month period ended April 30, 2014, the Company made two new investments, committing capital totaling approximately \$21.0 million. The investments were made in G3K (\$6.0 million) and Inland (\$15.0 million).

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During the six month period ended April 30, 2014, the Company made ten follow-on investments into seven existing portfolio companies totaling approximately \$27.7 million. On November 13, 2013, the Company loaned \$4.0 million to Security Holdings in the form of a 5% cash bridge loan with a maturity date of February 15, 2014. On November 19, 2013, the Company increased its common equity interest in Centile by \$100,000. Also on November 19, 2013, the Company invested \$5.0 million into MVC Automotive in the form of common equity interest and converted its bridge loan of approximately \$1.8 million, including accrued interest, to common equity interest. On December 23, 2013, the Company made a senior secured loan of \$3.3 million to RuMe with a cash interest rate of 12% and a maturity date of April 4, 2014. The Company also purchased warrants for shares of common stock in RuMe for a nominal amount and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made. On January 2, 2014, the Company loaned \$7.0 million to Morey s, increasing its second lien loan amount to \$15.0 million. The interest rate on the total loan was increased to 10% cash and 3% PIK. On March 5, 2014, the Company invested an additional \$4.0 million into MVC Automotive in the form of common equity interest. On March 10, 2014, the Company exercised its warrant in RuMe at a cost of approximately \$43,000 and received 4,297,549 shares of common stock. On March 5, 2014 and April 1, 2014, the Company contributed a total of approximately \$2.8 million to the PE Fund related to expenses, an additional investment in Plymouth Rock Energy and an investment in Advanced Oilfield Services, LLC. As of April 30, 2014, the PE Fund had invested in Plymouth Rock Energy, LLC, Gibdock Limited, Focus Pointe Holdings, Inc. and Advanced Oilfield Services, LLC. On April 1, 2014, the Company loaned \$1.5 million to Marine in the form of a second lien loan with an interest rate of 11%. The loan matures on June 30, 2014.

### **Current commitments include:**

### *Commitments of the Company:*

At April 30, 2014 and October 31, 2013, the Company s existing commitments to portfolio companies consisted of the following:

Portfolio Company	Amount Committed		Amount Funded at April 30, 2014	
MVC Private Equity Fund LP	\$	20.1 million	\$	12.1 million
Inland	\$	15.0 million	\$	13.0 million
<b>Total</b>	<b>\$</b>	<b>35.1 million</b>	<b>\$</b>	<b>25.1 million</b>

Portfolio Company	Amount Committed		Amount Funded at October 31, 2013	
Turf	\$	1.0 million	\$	1.0 million
MVC Private Equity Fund LP	\$	20.1 million	\$	9.3 million
<b>Total</b>	<b>\$</b>	<b>21.1 million</b>	<b>\$</b>	<b>10.3 million</b>

### *Guarantees:*

At April 30, 2014 and October 31, 2013, the Company had the following commitments to guarantee various loans and mortgages:

Guarantee	Amount Committed		Amount Funded at April 30, 2014	
MVC Automotive	\$	5.5 million		
Tekers				



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Turf	\$	1.0 million
<b>Total</b>	<b>\$</b>	<b>6.5 million</b>

	<b>Guarantee</b>	<b>Amount Committed</b>	<b>Amount Funded at October 31, 2013</b>
MVC Automotive	\$	5.4 million	
Tekers	\$	68,000	
<b>Total</b>	<b>\$</b>	<b>5.5 million</b>	

ASC 460, *Guarantees*, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, *Contingencies*. At April 30, 2014, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be negative \$92,000.

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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 did not have an outstanding balance as of April 30, 2014.

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 \$5.5 million at April 30, 2014) 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 April 30, 2014 is approximately 6.8 million Euro (equivalent to approximately \$9.4 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 had an annual interest at 6.0% and was to expire on January 31, 2014. On November 1, 2013, Turf repaid its junior revolving note in full including all accrued interest. The junior revolving note is no longer a commitment of the Company. The Company also guaranteed \$1.0 million of Turf's indebtedness to Berkshire Bank which had a fair value of negative \$92,000 as of April 30, 2014.

On March 31, 2010, the Company pledged its Series I and Series J preferred stock of U.S. Gas to 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 and thereafter, 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 April 30, 2014, \$12.1 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, the Company pledged its common stock and series A convertible preferred stock of Ohio Medical to collateralize a loan made to Ohio Medical by another financial institution. On June 27, 2013, the Company pledged its series C convertible preferred stock of Ohio Medical to further collateralize the same third party loan made to Ohio Medical in 2011.

On April 17, 2014, the Company loaned \$13.0 million of its \$15.0 million commitment to Inland in the form of a senior secured loan with a cash interest rate of 12% and a maturity date of April 17, 2019. The Company also received warrants for shares of common stock in Inland and allocated a portion of the cost basis of the loan to the warrants at the time the investment was made. The remaining \$2.0 million will be funded

after Inland achieves certain milestones. Please see Note 16 Subsequent Events for more information.

*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 10 of the consolidated financial statements, Management, TTG Advisers is responsible for providing office space to the Company and for the costs associated with providing such office space. The Company's offices continue to be located on the second floor of 287 Bowman Avenue, Purchase, New York 10577.

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On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million Credit Facility, consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility consisted of a \$50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor and had a maturity date of April 27, 2013.

On February 19, 2013, the Company sold \$70.0 million of senior unsecured notes (the Senior Notes) in a public offering. The Senior 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 Senior Notes 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 Senior Notes to cover overallocments. The additional \$10.5 million in principal was purchased and the total principal amount of the Senior Notes totaled \$80.5 million. The net proceeds to the Company from the sale of the Senior Notes, after offering expenses, were approximately \$77.4 million. The offering expenses incurred are amortized over the term of the Senior Notes.

On February 26, 2013, the Company received the funds related to the Senior Notes offering, net of expenses, and subsequently repaid the Credit Facility in full, including all accrued interest. The Company intends to use the excess net proceeds after the repayment of the Credit Facility for general corporate purposes, including, for example, investing in portfolio companies according to our investment objective and strategy, repurchasing shares pursuant to the share repurchase program adopted by our Board of Directors, funding distributions, and/or funding the activities of our subsidiaries.

On May 3, 2013, the Company sold approximately \$33.9 million of additional Senior Notes in a direct offering. The additional Senior Notes will also 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 also 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. As of April 30, 2014, the total outstanding amount of the Senior Notes was approximately \$114.4 million with a market value of approximately \$117.8 million. The market value of the Senior Notes is based on the closing price of the security as of April 30, 2014 on the New York Stock Exchange (NYSE:MVCB).

On July 31, 2013, the Company entered into a one-year, \$50 million Credit Facility II with BB&T. At October 31, 2013, the balance of Credit Facility II was \$50.0 million. On January 31, 2014, Credit Facility II was increased to a \$100 million revolving credit facility. During the six month period ended April 30, 2014, the Company's net borrowings on Credit Facility II were \$50.0 million, resulting in an outstanding balance of \$100 million at April 30, 2014. Credit Facility II will be used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bear interest at LIBOR plus 100 basis points. In addition, the Company is also subject to a 25 basis point commitment fee for the average amount of Credit Facility II that is unused during each fiscal quarter. The Company paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized over the life of the facility. Borrowings under Credit Facility II will be secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities.

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

Subsequent Events

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On May 2, 2014, the Company loaned \$1.5 million to SCSD in the form of a secured loan. The loan has an interest rate of 12% and a maturity date of May 2, 2019.

On May 7, 2014, the Company converted RuMe s \$3.3 million senior secured loan and accrued interest of approximately \$161,000 into 23,896,634 shares of series C preferred stock.

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On May 9, 2014, the Company loaned an additional \$500,000 to Bioventions increasing the total amount outstanding on the bridge loan to \$3.6 million. The Company also received a warrant at no cost. The Company allocated a portion of the cost basis of the loan to the warrant at the time the investment was made.

On May 14, 2014, the Company signed a share exchange agreement with Equus another publicly traded business development company, as part of a plan of reorganization adopted by the Equus Board of Directors. Under the terms of the reorganization, Equus will pursue a merger or consolidation with the Company, a subsidiary of MVC, or one or more of MVC's portfolio companies. Absent Equus merging or consolidating with/into the Company itself (whereby the Company would own a majority of Equus shares), the current intention is for Equus to (i) be restructured into a publicly-traded operating company focused on the energy and/or financial services sectors and (ii) seek to terminate its election as a business development company. Pursuant to the share exchange agreement, the Company has received 2,112,000 shares of Equus in exchange for 395,839 shares of MVC. The exchange was calculated based upon each company's respective net asset value per share. As part of the reorganization, the Company may acquire additional Equus shares from time to time, either through Equus' direct sale of newly issued shares to the Company or through the purchase of outstanding Equus shares. The consummation of the reorganization is anticipated to occur within one year, and Equus currently intends to maintain its common stock listing on the New York Stock Exchange after that point, unless Equus is merged with the Company. TTG Advisers has voluntarily agreed to waive any management fees on the Company's assets invested in Equus common stock. Also, as part of the Equus plan of reorganization, on May 21, 2014 and June 3, 2014, the Company purchased 512,557 and 850,000 additional outstanding common shares of Equus, respectively, at a cost of approximately \$1.2 million and \$2.1 million, respectively.

On May 19, 2014, the Company loaned an additional \$2.0 million to Inland. The total amount outstanding of the senior secured loan is \$15.0 million.

On May 27, 2014, the Company purchased 2,893 common shares of Ohio Medical from Champlain Capital Partners at a nominal cost.

On May 30, 2014, the Company received a \$2.9 million principal payment from U.S. Gas on its second lien loan. The second lien loan interest rate was adjusted to 13% and the maturity date was extended to July 1, 2019. The Company also loaned an additional \$3.0 million to U.S. Gas. The loan has an interest rate of 14% and a maturity date of July 1, 2018.

**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 77.07% of the Company's total assets at April 30, 2014. As discussed in Note 8 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

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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

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Company may make short-term investments in 90-day Treasury Bills or longer-term treasury notes, which are federally guaranteed securities, or other investments, including exchange-traded funds, private investment funds and designated money market accounts, pending investments in portfolio companies made pursuant to our principal investment strategy.

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

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

Our investment portfolio generally consists of loans to, and investments in, private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally very little publicly available information about the companies in which we invest, and we rely significantly on the due diligence of the members of the investment team to obtain information in connection with our investment decisions. It is thus difficult, if not impossible, to protect the Company from the risk of fraud, misrepresentation or poor judgment by these companies.

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

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

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

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

At April 30, 2014, approximately 77.07% of our total assets represented portfolio investments and escrow receivables recorded at fair value.



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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

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

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

***Our borrowers may default on their payments, which could adversely affect 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.

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

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

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

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

- *Small and middle-market companies may have limited financial resources and may not be able to repay the loans we make to them.* Our strategy includes providing financing to companies that typically do not have capital sources readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity.
- *Small and middle-market companies typically have narrower product lines and smaller market shares than large companies.* Because our target companies are smaller businesses, they may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, smaller companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.
- *There is generally little or no publicly available information about these privately-held companies.* There is generally little or no publicly available operating and financial information about privately-held companies. As a result, we rely on our investment professionals to perform due diligence investigations of these privately-held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations. It is difficult, if not impossible, to protect the Company from the risk of fraud, misrepresentation or poor judgment by our portfolio companies. Accordingly, the Company's performance (including the valuation of its investments) is subject to the ongoing risk that the portfolio companies or their employees, agents, or service providers, may commit fraud adversely affecting the value of our investments.
- *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.

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- *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 April 30, 2014, the fair value of our largest investment, U.S. Gas, comprised 25.5% of our net assets. 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.

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

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

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

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

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natural gas pipelines and other storage and transportation facilities owned and operated by third parties to deliver natural gas to wholesale markets and to provide retail energy services to customers. If transportation or storage of natural gas is disrupted, including for reasons of force majeure, the ability of U.S. Gas to sell and deliver its services may be hindered. As a result, it may be responsible for damages incurred by its customers, such as the additional cost of acquiring alternative supply at then-current market rates. Additionally, U.S. Gas depends on transmission facilities owned and operated by unaffiliated power companies to deliver the power it sells at wholesale. If transmission is disrupted, or transmission capacity is inadequate, U.S. Gas may not be able to deliver its wholesale power.

U.S. Gas is subject to substantial regulation by federal, state and local regulatory authorities. It is required to comply with numerous laws and regulations and to obtain numerous authorizations, permits, approvals and certificates from

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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 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 limits us from making additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. Thus, compliance with the RIC requirements may hinder our ability to take advantage of investment opportunities believed to be attractive, including potential follow-on investments in certain of our portfolio companies. Furthermore, as a result of the foregoing restrictions, the Board has approved an amended policy for the allocation of investment opportunities, which requires TTG Advisers to give first priority to the PE Fund for all equity investments that would otherwise be Non-Diversified Investments for the Company.



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

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock or warrants at a price below the then-current net asset value per share of our common

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

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

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

- Price and volume fluctuations in the overall stock market from time to time;
  
- Significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
  
- Volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity participation securities, or LEAPs, or short trading positions;
  
- Changes in regulatory policies or tax guidelines with respect to business development companies or RICs;
  
- Our adherence to applicable regulatory and tax requirements, including the current restriction on our ability to make Non-Diversified Investments;
  
- Actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
  
- General economic conditions and trends;
  
- Loss of a major funding source, which would limit our liquidity and our ability to finance transactions; or

- Departures of key personnel of TTG Advisers.

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

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

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

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

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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, 2013, the Company had unused net realized losses of approximately \$906,240 and net unrealized losses of \$17.9 million associated with Legacy Investments. Since the Company's realized losses were not entirely offset by realized gains during the six month period ended April 30, 2014, 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 12 of our consolidated financial statements Tax Matters for more information.

***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.

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

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

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on our earnings, our financial condition, maintenance of our RIC status and such other factors as our board of directors may deem relevant from time to time. We cannot assure you of our ability to make distributions to our shareholders.

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

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

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

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

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

We have borrowed from and may continue to borrow from, and issue senior debt securities to, banks, insurance companies and other private and public lenders. Lenders of these senior securities have fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the NAV attributable to our common stock to increase more sharply than it would had we not used leverage. Conversely, if the value of our consolidated assets decreases, leveraging would cause the NAV to decline more sharply than it otherwise would have had we not used leverage.

Similarly, any increase in our consolidated income in excess of consolidated interest expense on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

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As of April 30, 2014, we had \$100 million in borrowings under our short-term credit facility, Credit Facility II (as defined above). Further, we have approximately \$114.4 million in aggregate principal amount of Senior Notes (as defined above) outstanding.

Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our management's and our Board of Director's assessments of market and other factors at the time of any proposed borrowing. The Senior Notes and Credit Facility II impose certain financial and operating covenants that may restrict a portion of our business activities, including limitations that could hinder our ability to obtain additional financings. A failure to add new or replacement debt facilities or issue additional debt securities or other evidences of indebtedness could have an adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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



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

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

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

(b) There have been no changes in our internal controls over financial reporting that occurred during the six month period ended April 30, 2014, 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**

None.

**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 April 30, 2014.

**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

<b>Exhibit No.</b>	<b>Exhibit</b>
10(A)	Second Amendment to Credit Agreement between MVC Capital Inc. and Branch Banking and Trust Company.
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: June 6, 2014

/s/ Michael Tokarz  
Michael Tokarz

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

MVC CAPITAL, INC.

Date: June 6, 2014

/s/ Scott Schuenke  
Scott Schuenke

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