

MVC CAPITAL, INC.  
Form 10-Q  
June 02, 2011

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended April 30, 2011 or**

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

**Commission File Number 814-00201**

**MVC Capital, Inc.**

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

287 Bowman Avenue  
2nd Floor  
Purchase, New York  
(Address of principal executive offices)

10577  
(Zip Code)

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

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

Indicate by check mark whether the registrant 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

(Do not check if a smaller reporting company)

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

There were 23,916,982 shares of the registrant's common stock, \$.01 par value, outstanding as of June 2, 2011.

MVC Capital, Inc.  
(A Delaware Corporation)  
Index

<u>Part I. Consolidated Financial Information</u>	Page
<u>Item 1. Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	
- <u>April 30, 2011 and October 31, 2010</u>	3
<u>Consolidated Statements of Operations</u>	
- <u>For the Period November 1, 2010 to April 30, 2011 and</u>	
- <u>For the Period November 1, 2009 to April 30, 2010</u>	4
<u>Consolidated Statements of Operations</u>	
- <u>For the Period February 1, 2011 to April 30, 2011 and</u>	
- <u>For the Period February 1, 2010 to April 30, 2010</u>	5
<u>Consolidated Statements of Cash Flows</u>	
- <u>For the Period November 1, 2010 to April 30, 2011 and</u>	
- <u>For the Period November 1, 2009 to April 30, 2010</u>	6
<u>Consolidated Statements of Changes in Net Assets</u>	
- <u>For the Period November 1, 2010 to April 30, 2011</u>	
- <u>For the Period November 1, 2009 to April 30, 2010 and</u>	
- <u>For the Year ended October 31, 2010</u>	7
<u>Consolidated Selected Per Share Data and Ratios</u>	
- <u>For the Period November 1, 2010 to April 30, 2011,</u>	
- <u>For the Period November 1, 2009 to April 30, 2010 and</u>	
- <u>For the Year ended October 31, 2010</u>	8
<u>Consolidated Schedule of Investments</u>	
- <u>April 30, 2011</u>	
- <u>October 31, 2010</u>	9
<u>Notes to Consolidated Financial Statements</u>	13
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	57
<u>Item 4. Controls and Procedures</u>	64
<u>Part II. Other Information</u>	65
<u>SIGNATURE</u>	67
<u>Exhibits</u>	
<u>EX-10.1</u>	
<u>EX-31</u>	
<u>EX-32</u>	

---

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

	<b>April 30, 2011 (Unaudited)</b>	<b>October 31, 2010</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 57,466,337	\$ 56,390,628
Restricted cash and cash equivalents	7,500,000	
Investments at fair value		
Non-control/Non-affiliated investments (cost \$90,886,893 and \$113,688,332)	39,798,602	56,704,561
Affiliate investments (cost \$115,459,303 and \$119,874,343)	159,946,948	167,106,213
Control investments (cost \$141,169,042 and \$142,019,459)	214,844,091	210,090,715
Total investments at fair value (cost \$347,515,238 and \$375,582,134)	414,589,641	433,901,489
Dividends, interest and fee receivables, net of reserves	6,315,392	6,374,314
Escrow receivables	1,107,369	2,063,420
Prepaid expenses	1,613,208	1,564,306
Prepaid taxes	67,100	78,463
<b>Total assets</b>	<b>\$ 488,659,047</b>	<b>\$ 500,372,620</b>
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Term loan	\$ 50,000,000	\$ 50,000,000
Provision for incentive compensation (Note 10)	20,918,373	21,990,314
Management fee payable	2,558,678	2,232,295
Other accrued expenses and liabilities	257,589	599,843
Professional fees payable	492,955	515,651
Consulting fees payable	93,581	38,054
Taxes payable	925	2,039
<b>Total liabilities</b>	<b>74,322,101</b>	<b>75,378,196</b>
 <b>Shareholders equity</b>		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 23,916,982 and 23,990,987 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	429,461,516	429,461,516
Accumulated earnings	42,037,535	40,218,844

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

Dividends paid to stockholders	(74,431,792)	(68,682,836)
Accumulated net realized (loss) gain	(12,318,515)	2,197,091
Net unrealized appreciation	67,074,403	58,319,355
Treasury stock, at cost, 4,387,466 and 4,313,461 shares held, respectively	(37,769,245)	(36,802,590)
<b>Total shareholders equity</b>	414,336,946	424,994,424
<b>Total liabilities and shareholders equity</b>	\$ 488,659,047	\$ 500,372,620
<b>Net asset value per share</b>	\$ 17.32	\$ 17.71

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

3

---

**Table of Contents**

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

	<b>For the Six Month Period November 1, 2010 to April 30, 2011</b>	<b>For the Six Month Period November 1, 2009 to April 30, 2010</b>
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 244,215	\$ 2,112,760
Affiliate investments	295,211	2,112,760
Total dividend income	539,426	2,112,760
Interest income		
Non-control/Non-affiliated investments	1,950,255	5,107,289
Affiliate investments	2,372,553	2,504,595
Control investments	1,240,647	1,730,582
Total interest income	5,563,455	9,342,466
Fee income		
Non-control/Non-affiliated investments	1,562,647	176,203
Affiliate investments	577,925	916,469
Control investments	283,533	338,218
Total fee income	2,424,105	1,430,890
Other income	541,418	248,233
<b>Total operating income</b>	<b>9,068,404</b>	<b>13,134,349</b>
<b>Operating Expenses:</b>		
Management fee	4,803,737	4,921,920
Interest and other borrowing costs	1,515,108	1,288,164
Other expenses	632,226	332,156
Legal fees	453,128	268,500
Audit fees	268,800	279,000
Consulting fees	250,501	194,200
Insurance	175,710	177,560

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

Directors fees	147,000	180,800
Administration	133,616	136,620
Printing and postage	54,280	87,396
Public relations fees	50,800	51,600
Incentive compensation (Note 10)	(1,071,941)	3,245,335
<b>Total operating expenses</b>	<b>7,412,965</b>	<b>11,163,251</b>
Less: Voluntary Expense Waiver by Adviser <sup>1</sup>	(75,000)	(50,000)
Less: Voluntary Management Fee Waiver by Adviser <sup>2</sup>	(100,635)	
<b>Total waivers</b>	<b>(175,635)</b>	<b>(50,000)</b>
<b>Net operating income before taxes</b>	<b>1,831,074</b>	<b>2,021,098</b>
<b>Tax Expenses:</b>		
Current tax expense	12,383	6,153
<b>Total tax expense</b>	<b>12,383</b>	<b>6,153</b>
<b>Net operating income</b>	<b>1,818,691</b>	<b>2,014,945</b>
<b>Net Realized and Unrealized (Loss) Gain on Investments:</b>		
Net realized (loss) gain on investments		
Non-control/Non-affiliated investments	(6,433,800)	(205,144)
Affiliate investments	(8,081,806)	13,941,230
Foreign currency		(389)
Total net realized (loss) gain on investments and foreign currency	(14,515,606)	13,735,697
Net change in unrealized appreciation on investments	8,755,048	356,587
Net realized and unrealized (loss) gain on investments and foreign currency	(5,760,558)	14,092,284
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>\$ (3,941,867)</b>	<b>\$ 16,107,229</b>

<b>Net (decrease) increase in net assets per share resulting from operations</b>	\$	(0.16)	\$	0.66
<b>Dividends declared per share</b>	\$	0.24	\$	0.24

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

- <sup>1</sup> Reflects the six month portion of the TTG Advisers' voluntary waiver of \$150,000 of expenses for fiscal 2011 that the Company would otherwise be obligated to reimburse TTG Advisers under the Advisory Agreement. Please see Note 9 Management for more information.
- <sup>2</sup> Reflects TTG Advisers' voluntary agreement that any assets of the Company invested in exchange-traded funds would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. Please see Note 9 Management for more information.



**Table of Contents**

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

	<b>For the Quarter February 1, 2011 to April 30, 2011</b>	<b>For the Quarter February 1, 2010 to April 30, 2010</b>
<b>Operating Income:</b>		
Dividend income		
Non-control/Non-affiliated investments	\$ 242,134	\$ 79,000
Affiliate investments	85,512	79,000
Total dividend income	327,646	79,000
Interest income		
Non-control/Non-affiliated investments	596,731	2,448,298
Affiliate investments	1,238,695	1,232,560
Control investments	564,415	838,675
Total interest income	2,399,841	4,519,533
Fee income		
Non-control/Non-affiliated investments	1,194,721	43,148
Affiliate investments	300,553	459,625
Control investments	141,195	118,937
Total fee income	1,636,469	621,710
Other income	180,310	116,443
<b>Total operating income</b>	<b>4,544,266</b>	<b>5,336,686</b>
<b>Operating Expenses:</b>		
Management fee	2,248,814	2,467,174
Interest, fees and other borrowing costs	745,575	647,282
Incentive compensation (Note 10)	531,480	2,225,143
Other expenses	249,718	198,067
Legal fees	208,500	138,000
Audit fees	129,000	139,500
Consulting fees	121,000	147,200

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

Insurance	87,855	87,720
Directors fees	75,000	89,700
Administration	65,349	67,490
Printing and postage	27,039	43,896
Public relations fees	25,500	25,800
<b>Total operating expenses</b>	<b>4,514,830</b>	<b>6,276,972</b>
Less: Voluntary Expense Waiver by Adviser <sup>1</sup>	(37,500)	(50,000)
<b>Total waivers</b>	<b>(37,500)</b>	<b>(50,000)</b>
<b>Net operating income (loss) before taxes</b>	<b>66,936</b>	<b>(890,286)</b>
<b>Tax Expenses:</b>		
Current tax expense	2,198	1,472
<b>Total tax expense</b>	<b>2,198</b>	<b>1,472</b>
<b>Net operating income (loss)</b>	<b>64,738</b>	<b>(891,758)</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency:</b>		
Net realized gain (loss) on investments and foreign currency		
Non-control/Non-affiliated investments	106,224	(205,078)
Affiliate investments		621,448
Foreign currency		(389)
Total net realized gain on investments and foreign currency	106,224	415,981
Net change in unrealized appreciation on investments	2,131,024	9,444,758
Net realized and unrealized gain on investments and foreign currency	2,237,248	9,860,739
<b>Net increase in net assets resulting from operations</b>	<b>\$ 2,301,986</b>	<b>\$ 8,968,981</b>
<b>Net increase in net assets per share resulting from operations</b>	<b>\$ 0.10</b>	<b>\$ 0.37</b>

<b>Dividends declared per share</b>	\$	0.12	\$	0.12
-------------------------------------	----	------	----	------

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

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

**Table of Contents**

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

	<b>For the Six Month Period April 30, 2011</b>	<b>For the Six Month Period April 30, 2010</b>
<b>Cash flows from Operating Activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ (3,941,867)	\$ 16,107,229
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:		
Realized loss (gain)	14,515,606	(13,735,697)
Net change in unrealized appreciation	(8,755,048)	(356,587)
Amortization of discounts and fees	(7,696)	(7,695)
Increase in accrued payment-in-kind dividends and interest	(1,694,366)	(3,096,268)
Allocation of flow through income	(257,472)	(150,616)
Changes in assets and liabilities:		
Dividends, interest and fees receivable	58,922	125,444
Escrows	956,051	(1,883,400)
Prepaid expenses	(48,902)	(8,083)
Prepaid taxes	11,363	4,243
Incentive compensation (Note 10)	(1,071,941)	3,245,335
Other liabilities	15,846	(289,350)
Purchases of equity investments	(26,296,492)	(6,231,700)
Purchases of debt instruments	(7,168,600)	(1,900,000)
Proceeds from equity investments	20,630,017	31,020,951
Proceeds from debt instruments	28,345,899	15,535,296
<b>Net cash provided by operating activities</b>	<b>15,291,320</b>	<b>38,379,102</b>
<b>Cash flows from Financing Activities:</b>		
Repurchase of common stock	(966,655)	
Distributions paid to shareholders	(5,748,956)	(5,831,300)
Net repayments under revolving credit facility		(12,300,000)
<b>Net cash used in financing activities</b>	<b>(6,715,611)</b>	<b>(18,131,300)</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>8,575,709</b>	<b>20,247,802</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>56,390,628</b>	<b>1,007,873</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 64,966,337</b>	<b>\$ 21,255,675</b>

During the six months ended April 30, 2011 and 2010 MVC Capital, Inc. paid \$1,437,495 and \$704,259 in interest expense, respectively.

During the six months ended April 30, 2011 and 2010 MVC Capital, Inc. paid \$1,755 and \$0 in income taxes, respectively.

**Non-cash activity:**

During the six months ended April 30, 2011 and 2010, MVC Capital, Inc. recorded payment in kind dividend and interest of \$1,694,366 and \$3,096,268, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

During the six months ended April 30, 2011 and 2010, MVC Capital, Inc. was allocated \$541,418 and \$248,233, respectively, in flow-through income from its equity investment in Octagon Credit Investors, LLC. Of these amounts, \$283,946 and \$97,617, respectively, was received in cash and the balance of \$257,472 and \$150,616, respectively, was undistributed and therefore increased the cost of the investment. The fair value of this investment was then increased by \$257,472 and \$150,616, respectively, by the Company's Valuation Committee.

On December 29, 2009, MVC Capital, Inc. sold the common and preferred shares and the warrants of Vitality Food Service, Inc. (Vitality). As part of this transaction, there was approximately \$2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. This escrow is currently carried at approximately \$927,000 on the Company's consolidated balance sheet.

Prior to the sale of Vitality on December 29, 2009, Vitality's European operations (which were not purchased by the buyer) were distributed to Vitality's shareholders on a pro-rata basis. MVC Capital, Inc. received 960 shares of Series A common stock and 334 shares of convertible Series B common stock in LHD Europe as part of this transaction.

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

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

On January 11, 2011, SHL Group Limited acquired the Company's portfolio company PreVisor. The Company received 145,674 common shares of SHL Group Limited for its investment in PreVisor. The cost basis or market value of the Company's investment remained unchanged as a result of the transaction.

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

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

Table of Contents

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

	<b>For the Six Month Period November 1, 2010 to April 30, 2011 (Unaudited)</b>	<b>For the Six Month Period November 1, 2009 to April 30, 2010 (Unaudited)</b>	<b>For the Year Ended October 31, 2010</b>
<b>Operations:</b>			
Net operating income	\$ 1,818,691	\$ 2,014,945	\$ 5,633,849
Net realized (loss) gain on investments and foreign currencies	(14,515,606)	13,735,697	32,188,410
Net change in unrealized appreciation (depreciation) on investments	8,755,048	356,587	(21,689,497)
<b>Net (decrease) increase in net assets from operations</b>	<b>(3,941,867)</b>	<b>16,107,229</b>	<b>16,132,762</b>
<b>Shareholder Distributions:</b>			
Distributions to shareholders	(5,748,956)	(5,831,300)	(11,594,909)
<b>Net decrease in net assets from shareholder distributions</b>	<b>(5,748,956)</b>	<b>(5,831,300)</b>	<b>(11,594,909)</b>
<b>Capital Share Transactions:</b>			
Repurchase of Common Stock	(966,655)		(3,999,128)
<b>Net decrease in net assets from capital share transactions</b>	<b>(966,655)</b>		<b>(3,999,128)</b>
<b>Total (decrease) increase in net assets</b>	<b>(10,657,478)</b>	<b>10,275,929</b>	<b>538,725</b>
<b>Net assets, beginning of period/year</b>	<b>424,994,424</b>	<b>424,455,699</b>	<b>424,455,699</b>
<b>Net assets, end of period/year</b>	<b>\$ 414,336,946</b>	<b>\$ 434,731,628</b>	<b>\$ 424,994,424</b>
<b>Common shares outstanding, end of period/year</b>	<b>23,916,982</b>	<b>24,297,087</b>	<b>23,990,987</b>

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

7

---

Table of Contents

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

	For the Six Month Period November 1, 2010 to April 30, 2011 (Unaudited)	For the Six Month Period November 1, 2009 to April 30, 2010 (Unaudited)	For the Year Ended October 31, 2010
Net asset value, beginning of period/year	\$ 17.71	\$ 17.47	\$ 17.47
Gain (loss) from operations:			
Net operating income	0.07	0.08	0.23
Net realized and unrealized (loss) gain on investments	(0.23)	0.58	0.43
 Total (loss) gain from investment operations	 (0.16)	 0.66	 0.66
Less distributions from:			
Income	(0.07)	(0.08)	(0.23)
Return of capital	(0.17)	(0.16)	(0.25)
 Total distributions	 (0.24)	 (0.24)	 (0.48)
Capital share transactions			
Anti-dilutive effect of share repurchase program	0.01		0.06
 Total capital share transactions	 0.01		 0.06
 Net asset value, end of period/year	 \$ 17.32	 \$ 17.89	 \$ 17.71
 Market value, end of period/year	 \$ 13.83	 \$ 14.13	 \$ 13.35
 Market discount	 (20.15)%	 (21.02)%	 (24.62)%
<b>Total Return At NAV (a)</b>	<b>(0.86)%</b>	<b>3.79%</b>	<b>4.16%</b>
<b>Total Return At Market (a)</b>	<b>5.34%</b>	<b>56.79%</b>	<b>50.86%</b>



**Ratios and Supplemental Data:**

Net assets, end of period/year (in thousands)	\$	414,339	\$	434,733	\$	424,994
Ratios to average net assets:						
Expenses excluding tax expense (benefit)		3.48%(b)		5.23%(b)		4.19%
Expenses including tax expense (benefit)		3.49%(b)		5.23%(b)		4.19%
Expenses excluding incentive compensation		4.00%(b)		3.70%(b)		3.61%
Expenses excluding incentive compensation, interest and other borrowing costs		3.27%(b)		3.10%(b)		2.95%
Net operating income before tax expense (benefit)		0.88%(b)		0.95%(b)		1.32%
Net operating income after tax expense (benefit)		0.87%(b)		0.95%(b)		1.32%
Net operating income before incentive compensation		0.36%(b)		2.48%(b)		1.90%
Net operating income before incentive compensation, interest and other borrowing costs		1.09%(b)		3.08%(b)		2.56%
Ratios to average net assets excluding waivers:						
Expenses excluding tax expense (benefit)		3.56%(b)		5.25%(b)		4.22%
Expenses including tax expense (benefit)		3.57%(b)		5.25%(b)		4.22%
Expenses excluding incentive compensation		4.08%(b)		3.72%(b)		3.64%
Expenses excluding incentive compensation, interest and other borrowing costs		3.36%(b)		3.12%(b)		2.98%
Net operating income before tax expense (benefit)		0.80%(b)		0.92%(b)		1.29%
Net operating income after tax expense (benefit)		0.79%(b)		0.92%(b)		1.29%
Net operating income before incentive compensation		0.28%(b)		2.45%(b)		1.87%
Net operating income before incentive compensation, interest and other borrowing costs		1.00%(b)		3.05%(b)		2.53%

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

(b) Annualized.

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

**Table of Contents**

**MVC Capital, Inc.**  
**Consolidated Schedule of Investments**  
**April 30, 2011 (Unaudited)**

	Industry	Investment	Principal	Cost
<b>Unaffiliated investments - 9.61% (a, c, f, g)</b>				
Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		\$ 5,000,000
	Apparel	Second Lien Loan 16.5000%, 07/18/2012 (b, h, i)	\$ 19,952,972	19,549,380
		Term Loan A 8.0000%, 07/18/2011 (h, i)	1,987,500	1,985,780
		Term Loan B 11.0000%, 07/18/2011 (h, i)	2,000,000	1,998,400
				23,533,560
	Technology Investments	Preferred Stock (602,131 shares) (d, j)		4,520,350
	Technology Investments	Preferred Stock (5,802,259 shares) (d, j)		15,000,000
LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (b, h, i)	3,311,014	3,237,950
		Warrants (d)		3,237,950
ing	Manufacturer of Packaging Material	Warrants (d)		
d	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,700
Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000
on	Medical Device Manufacturer	Series B Common Stock (281 shares) (d)		1,236,360
ome	Investment Company	Series 1 participating non-voting shares (3014 shares) (e, k)		3,013,950
	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,700
ited				
chraft	Soil Remediation	Term Loan 7.0000%, 08/31/2012 (e, h)	6,187,350	6,187,350
ed	Human Capital Management	Common Stock (145,674 shares) (d)		6,000,000
	Technology Investments	Common Stock (131,615 shares) (d, j)		10,000,000
LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	949,500	950,510

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

Inc.	Engineering Services	First Lien Seller Note 6.0000%, 12/08/2012 (h)	941,436	941,436
		Second Lien Seller Note 6.7114%, 12/08/2013 (h)	3,500,000	3,500,000
				4,441,436
	<b>Control/Non-affiliated investments</b>			<b>90,886,890</b>
	<b>Investments - 38.60% (a, c, f, g)</b>			
	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)	14,054,675	13,938,350
		Convertible Series A Preferred Stock (9 shares) (d)		44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000
				23,938,350
&	Healthcare - Retail	Common Stock (100,010 shares) (d)		6,400,000
	Financial Services	Common Stock (120,000 shares) (d)		2,000,000
	Theme Park	Senior Subordinated Debt 11.0000%, 10/26/2017 (b, h)	12,014,191	11,964,630
		Convertible Preferred Stock (20,000 shares) (b)		2,907,410
				14,872,040
	Financial Services	Limited Liability Company Interest		1,844,700
B.V.	Electrical Engineering	Common Equity Interest (d, e)		33,186,620
		Bridge Loan 3.0000%, 07/31/12 (e, h)	4,968,600	4,968,600
				38,155,220
V.	Soil Remediation	Common Equity Interest (d, e)		17,388,550
		Senior Secured Loan 10.0000%, 6/23/2012 (e, h)	1,500,000	1,500,000
				18,888,550
ic,	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	8,914,850	8,860,420
		Convertible Series I Preferred Stock (32,200 shares) (d)		500,000
		Convertible Series J Preferred Stock (8,216 shares) (d)		
				9,360,420
				<b>115,459,300</b>
	Table of Contents			19

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, 2011 (Unaudited)**

Company	Industry	Investment	Principal	Cost
<b>Investments - 51.85% (a, c, f, g)</b>				
Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		\$ 34,736,9
		Bridge Loan 10.0000%, 12/31/2011 (e, h)	\$ 3,643,557	3,643,5
				38,380,4
	Private Equity	Limited Liability Company Interest (d)		1,350,2
oration	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		15,763,6
		Series A Convertible Preferred Stock (16,736 shares)(b, h)		30,000,0
				45,763,6
	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,0
abs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/31/2013 (b, h)	10,669,750	10,598,3
		Common Stock (1,115 shares) (d)		16,000,0
				26,598,3
	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 13.0000%, 01/31/2014 (b, h)		
		Junior Revolving Note 6.0000%, 01/31/2014 (h)	8,395,261	8,395,2
		Limited Liability Company Interest (d)	1,000,000	1,000,0
		Warrants (d)		3,535,6
				12,930,9
	Renewable Energy	Common Equity Interest (d, e)		11,395,3
ng Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2013 (h)	600,000	600,0
		Common Stock (81,000 shares) (d)		1,850,0
				2,450,0

<b>Investments</b>	<b>141,169,0</b>
<b>NET ASSETS - 100.06% (f)</b>	<b>\$ 347,515,2</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.
- (b) These securities accrue a portion of their interest/dividends in payment in kind interest/dividends which is capitalized to the investment.
- (c) All of the Company's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., Octagon High Income Cayman Fund Ltd., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft für Deponien und Altlasten mbH, SIA Tekers Invest and Velocitius B.V. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.
- (d) Non-income producing assets.
- (e) The principal operations of these portfolio companies are located outside of the United States.
- (f) Percentages are based on net assets of \$414,336,946 as of April 30, 2011.
- (g) See Note 3 for further information regarding Investment Classification.
- (h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.
- (i) All or a portion of the accrued interest on these securities have been reserved against.
- (j) Legacy Investments.
- (k) Octagon High Income Cayman Fund Ltd., which seeks to maximize current income consistent with the preservation of capital through the leveraged loan market, offers monthly liquidity after the initial six months of the investment with a 15 day notice period.

- Denotes zero cost or fair value.

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

**Table of Contents**

**MVC Capital, Inc.**  
**Consolidated Schedule of Investments**  
**October 31, 2010**

Company	Industry	Investment	Principal	Cost	Fair Value
<b>Non-control/Non-affiliated investments - 13.34% (a, c, f, g)</b>					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (d, j)		\$ 5,000,003	\$
Amersham Corp.	Manufacturer of Precision - Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010 (h, i)	\$ 2,473,521	2,473,521	
		Second Lien Seller Note 17.0000%, 06/30/2013 (b, h, i)	4,066,463	4,066,463	
				6,539,984	
BP Clothing, LLC	Apparel	Second Lien Loan 16.5000%, 07/18/2012 (b, h, i)	19,554,187	19,452,605	3,917,417
		Term Loan A 8.0000%, 07/18/2011 (h)	1,987,500	1,981,798	1,727,423
		Term Loan B 11.0000%, 07/18/2011 (h, i)	2,000,000	1,994,690	1,749,486
				23,429,093	7,394,326
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (d, j)		4,520,355	
FOLIO <i>fit</i> , Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (d, j)		15,000,000	10,790,000
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (b, h, i) Warrants (d)	3,237,952	3,237,952	
				3,237,952	

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

Integrated Packaging Corporation	Manufacturer of Packaging Material	Warrants (d)			
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000	
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH	Soil Remediation	Term Loan 7.0000%, 08/31/2012 (e, h)	6,187,350	6,187,350	6,187,350
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares) (d, j)		10,000,000	
SP Industries, Inc.	Laboratory Research Equipment	First Lien Loan 7.5000%, 12/31/2012 (h)	732,054	597,890	732,054
		Second Lien Loan 15.0000%, 12/31/2013 (b, h)	26,226,421	25,959,855	26,226,421
				26,557,745	26,958,475
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,002,500	1,004,096	1,002,500
Total Safety U.S., Inc.	Engineering Services	First Lien Seller Note 6.2500%, 12/08/2012 (h)	946,352	946,352	871,910
		Second Lien Seller Note 6.7880%, 12/08/2013 (h)	3,500,000	3,500,000	3,500,000
				4,446,352	4,371,910
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>113,688,332</b>	<b>56,704,561</b>

**Affiliate investments - 39.32% (a, c, f, g)**



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

Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan			
		14.0000%, 09/18/2012 (b, h)	13,570,193	13,412,262	13,570,193
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	9,956,000
			23,412,262	23,570,193	
Harmony Pharmacy & Health Center, Inc.	Healthcare - Retail	Revolving Credit Facility 10.0000%, 12/31/2010 (b, h)	5,248,696	5,248,696	5,100,000
		Demand Note 10.0000% (h, i)	500,000	500,000	
		Demand Note 10.0000% (h, i)	800,000	800,000	
		Demand Note 10.0000% (h, i)	600,000	600,000	600,000
		Demand Note 10.0000% (h, i)	700,000	700,000	
		Demand Note 10.0000% (h, i)	3,300,000	3,300,000	
		Demand Note 10.0000% (h, i)	2,200,000	2,200,000	
		Common Stock (2,000,000 shares) (d)		750,000	
				14,098,696	5,700,000
HuaMei Capital Company, Inc.	Financial Services	Common Stock (120,000 shares) (d)		2,000,000	1,525,000
LHD Europe Holding, Inc.	Non-Alcoholic Beverages	Common Stock, Series A (960 shares) (d, e)		165,682	332,144
		Convertible Common Stock, Series B (344 shares) (d, e)		59,369	117,856
				225,051	450,000
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 10/26/2017 (b, h)	11,927,605	11,865,567	11,927,605

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

Convertible Preferred Stock (20,000 shares) (b)	2,794,514	2,794,514
	14,660,081	14,722,119

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

11

---

**Table of Contents**

**MVC Capital, Inc.**  
**Consolidated Schedule of Investments (Continued)**  
**October 31, 2010**

Company	Industry	Investment	Principal	Cost	Fair Value
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		\$ 1,587,236	\$ 4,542,141
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares) (d)		6,000,000	10,400,000
Security Holdings B.V.	Electrical Engineering	Common Equity Interest (d, e)		29,885,900	5,300,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		17,388,551	12,100,000
		Senior Secured Loan 10.0000%, 6/23/2012 (e, h)	\$ 1,500,000	1,500,000	1,500,000
				18,888,551	13,600,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	8,692,789	8,616,566	8,692,789
		Convertible Series I Preferred Stock (32,200 shares) (d)		500,000	76,127,069
		Convertible Series J Preferred Stock (8,216 shares) (d)			2,476,902
				9,116,566	87,296,760
<b>Sub Total Affiliate investments</b>				<b>119,874,343</b>	<b>167,106,213</b>
<b>Control Investments</b>					
<b>- 49.43% (a, c, f, g)</b>					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		34,736,939	44,100,000
		Bridge Loan 10.0000%, 12/31/2010 (e, h)	3,643,557	3,643,557	3,643,557
				38,380,496	47,743,557
MVC Partners, LLC				1,350,253	1,133,729

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

	Private Equity Firm	Limited Liability Company Interest (d)			
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		17,000,000	500,000
		Series A Convertible Preferred Stock (15,473 shares) (b,h)		30,000,000	46,806,540
				47,000,000	47,306,540
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	3,790,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/31/2013 (b, h)	10,299,834	10,213,333	10,299,834
		Common Stock (1,115 shares) (d)		16,000,000	60,000,000
				26,213,333	70,299,834
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	8,395,261	8,394,368	8,395,261
		Junior Revolving Note 6.0000%, 5/1/2011 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d) Warrants (d)		3,535,694	2,721,794
				12,930,062	12,117,055
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	24,900,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	2,200,000
				2,450,000	2,800,000
<b>Sub Total Control Investments</b>				<b>142,019,459</b>	<b>210,090,715</b>
<b>TOTAL INVESTMENT ASSETS - 102.09% (f)</b>				<b>\$ 375,582,134</b>	<b>\$ 433,901,489</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.
- (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 LHD Europe Holding Inc., Lockorder Limited, MVC Automotive Group B.V., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft für Deponien und Altlasten mbH, SIA Tekers Invest, and Velocitius B.V. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.
- (d) Non-income producing assets.
- (e) The principal operations of these portfolio companies are located outside of the United States.
- (f) Percentages are based on net assets of \$424,994,424 as of October 31, 2010.
- (g) See Note 3 for further information regarding Investment Classification.
- (h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.
- (i) All or a portion of the accrued interest on these securities have been reserved against.
- (j) Legacy Investments.

Denotes zero cost or fair value.

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

**Table of Contents**

MVC Capital, Inc. (the Company )  
Notes to Consolidated Financial Statements  
April 30, 2011  
(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, 2010, as filed with the U.S. Securities and Exchange Commission (the SEC) on December 21, 2010.

**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. In the consolidation, all intercompany accounts have been eliminated.

**3. Investment Classification**

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

**4. Cash and Cash Equivalents**

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

*Restricted Cash and Cash Equivalents*

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

**5. Investment Valuation Policy**

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ( ASC ) 820, *Fair Value Measurements and Disclosures*. 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

**Table of Contents**

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, 2011, we did not hold restricted or unrestricted securities of publicly traded companies for which we have a majority-owned interest.

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

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

In April 2009, the Financial Accounting Standards Board ( FASB ) issued *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which is codified in ASC 820, which provided additional guidance on how to determine the fair value of assets under ASC 820 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. ASC 820 states that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums. This new guidance was effective for periods ending after June 15, 2009. The adoption of this new guidance has not had a material effect on the financial position or results of operations of the Company.

In September 2009, the FASB issued Accounting Standards Update ( ASU ) 2009-12, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value Per Share* ( ASU 2009-12 ). ASU 2009-12 amends FASB ASC Topic 820 to provide application guidance for estimating the fair value of investments in an entity that meets the definition of an investment company for which its partners' capital or net asset value has been measured in accordance with, or in a manner consistent with the principles of FASB ASC Topic 946, *Financial Services - Investment Companies* . As a practical expedient, a reporting entity is permitted under ASU 2009-12 to estimate the fair value of an investment within the scope of this ASU using capital balance or net asset value without further adjustment as of the reporting entity's measurement date. The amended guidance does not allow for use of the practical expedient for investments within the scope of ASU 2009-12 if, as of the measurement date, it is probable that the entity will sell the investment (or a portion of the investment) for an amount that differs from the reported value of its capital balance or net assets. The amended guidance also requires additional disclosures to better enable users of the financial statements to understand the nature and risks of the reporting entity's alternative investments.

In January 2010, FASB issued Accounting Standards Update ( ASU ) 2010-06, *Improving Disclosure about Fair Value Measurements*. ASU 2010-06 provides an amendment to ASC 820-10 which requires new disclosures on transfers in and out of Levels I and II and activity in Level III fair value measurements. ASU 2010-06 also clarifies existing disclosures such as 1.) level of disaggregation and 2.) disclosure about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales,

**Table of Contents**

issuance, and settlements in the roll-forward of activity in Level III fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted this guidance, the application of which has not had a material effect on the financial position or results of operations of the Company but has resulted in additional disclosures.

**Valuation Methodology**

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

Pursuant to our Valuation Procedures, the Valuation Committee (which is currently comprised of three Independent Directors) determines fair valuation of portfolio company investments on a quarterly basis (or more frequently, if deemed appropriate under the circumstances). Any changes in valuation are recorded in the consolidated statements of operations as Net change in unrealized appreciation (depreciation) on investments. Currently, our NAV per share is calculated and published on a monthly basis. The fair values determined as of the most recent quarter end are reflected in that quarter's NAV per share and in the next two months' NAV per share calculation. (If the Valuation Committee determines to fair value an investment more frequently than quarterly, the most recently determined fair value would be reflected in the published NAV per share.)

The Company calculates our NAV per share by subtracting all liabilities from the total value of our portfolio securities and other assets and dividing the result by the total number of outstanding shares of our common stock on the date of valuation.

At April 30, 2011, approximately 85.07% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

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

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

The fair value of our portfolio securities is inherently subjective. Because of the inherent uncertainty of fair valuation of portfolio securities that do not have readily ascertainable market values, our estimate of fair value



**Table of Contents**

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.

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

The fair value measurement under ASC 820 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 Company would sell or transfer the asset with the greatest volume and level of activity for the asset. If no market for the asset exists or if the Company does not have access to the principal market, the Company will use a hypothetical market.

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

**6. Concentration of Market Risk**

Financial instruments that subject the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, debt instruments, escrow receivables, and other investments made

**Table of Contents**

pending investments in portfolio companies (other than cash equivalents). These investments collectively represented approximately 85.07% of the Company's total assets at April 30, 2011. As discussed in Note 7, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that the Company's portfolio investments 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. In addition, the Company may invest a significant portion of its 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 may make short-term investments in 90-day Treasury Bills, which are federally guaranteed securities, or other investments, including exchange-traded funds and money market accounts, pending investments in portfolio companies made pursuant to our principal strategy. 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.

**7. Portfolio Investments**

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

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

**Level 1:** Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price on the measurement date. We did not value any of our investments using Level 1 inputs as of April 30, 2011.

**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 valued one of our investments using Level 2 inputs as of April 30, 2011.

**Table of Contents**

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

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

The following fair value hierarchy table sets forth our investment portfolio by level as of April 30, 2011 and October 31, 2010 (in thousands):

	<b>April 30, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 77,619	\$ 77,619
Common Stock			91,167	91,167
Preferred Stock			143,865	143,865
Other Equity Investments		3,014	98,925	101,939
Escrow receivables			1,107	1,107
<b>Total Investments, net</b>	<b>\$</b>	<b>\$ 3,014</b>	<b>\$ 412,683</b>	<b>\$ 415,697</b>

	<b>October 31, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Senior/Subordinated Loans and credit facilities	\$	\$	\$ 111,244	\$ 111,244
Common Stock			78,865	78,865
Preferred Stock			148,995	148,995
Other Equity Investments			94,798	94,798
Escrow receivables			2,063	2,063
<b>Total Investments, net</b>	<b>\$</b>	<b>\$</b>	<b>\$ 435,965</b>	<b>\$ 435,965</b>

During the six month period ended April 30, 2011 and the year ended October 31, 2010, 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 periods ended April 30, 2011 and April 30, 2010 (in thousands):

Balances,	Reversal of Prior Period (Appreciation) Unrealized			Transfers In & Out Sales (5)	Balances, April 30, 2011
	Realized Gains	Depreciation on	Appreciation		

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

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

**Table of Contents**

	Balances, November 1,  2009	Reversal of Prior Period (Appreciation) Unrealized					Transfers In & Out of Level 3	Balances, April 30, of  2010
		Realized Gains  (Losses) (1)	Depreciation on Realization (2)	Unrealized Appreciation (Depreciation) (3)	Purchases (4)	Sales (5)		
Senior/Subordinated Loans and credit facilities	\$ 153,468	\$	\$	\$ (4,523)	\$ 4,739	\$ (15,847)	\$	\$ 137,837
Common Stock	86,159	4,834	(4,525)	11,339	223	(10,398)		87,632
Preferred Stock	164,943	2,902	(2,902)	2,551	276	(18,245)		149,525
Warrants	3,835	3,800	(3,835)			(3,800)		0
Other Equity Investments	94,250			1,900	10,582			106,732
Escrow		2,405				(522)		1,883
<b>Total</b>	<b>\$ 502,655</b>	<b>\$ 13,941</b>	<b>\$ (11,262)</b>	<b>\$ 11,267</b>	<b>\$ 15,820</b>	<b>\$ (48,812)</b>	<b>\$</b>	<b>\$ 483,609</b>

- (1) Included in net realized gain (loss) on investments in the Consolidated Statement of Operations.
- (2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities disposed of during the six months ended April 30, 2011 and April 30, 2010, respectively.
- (3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities held at April 30, 2011 and April 30, 2010, respectively.
- (4) Includes increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, premiums and closing fees and the exchange of one or more existing securities for one or more new securities.
- (5) Includes decreases in the cost basis of investments resulting from principal repayments or sales.

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

During the six month period ended April 30, 2011, the Company made one new investment, committing capital totaling \$3.0 million. The investment was made in Octagon High Income Cayman Fund Ltd. ( Octagon Fund ) (\$3.0 million).

During the six month period ended April 30, 2011, the Company made two follow-on investments in an existing portfolio company totaling \$8.3 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings B.V. ( Security Holdings ) in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan has allowed Security Holdings to secure project guarantees. In addition, during the six month period ended April 30, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. These investments were sold during the six month period ended April 30, 2011, resulting in a realized gain of approximately \$106,000.

The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

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

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

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

**Table of Contents**

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

On January 11, 2011, SHL Group Limited, which provides workplace talent assessment solutions including ability and personality tests, and psychometric assessments, acquired the Company's portfolio company PreVisor. The Company received 145,674 common shares of SHL Group Limited for its investment in PreVisor. The cost basis or market value of the Company's investment remained unchanged as a result of the transaction.

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

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

On March 31, 2011, Marine Exhibition Corporation ( Marine ) made a principal payment of \$150,000 on its senior subordinated loan. The balance of the loan as of April 30, 2011 was approximately \$12.0 million.

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

During the six month period ended April 30, 2011, Octagon Credit Investors, LLC ( Octagon ) borrowed and repaid \$1.5 million on its revolving line of credit. There was a zero balance outstanding as of April 30, 2011.

During the six month period ended April 30, 2011, Total Safety U.S., Inc. ( Total Safety ) made principal payments of approximately \$5,000 on its first lien loan. The balance of the first lien loan as of April 30, 2011 was approximately \$941,000.

During the six month period ended April 30, 2011, the Company received approximately \$53,000 in principal payments on the term loan provided to Storage Canada, LLC ( Storage Canada ). The balance of the term loan at April 30, 2011 was \$950,000.

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



**Table of Contents**

During the quarter ended April 30, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$2.0 million, MVC Automotive equity interest by \$3.0 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, SIA Tekers ( Tekers ) common stock by approximately \$600,000, Total Safety first lien loan by approximately \$74,000 and Velocitius B.V. ( Velocitius ) equity interest by \$2.6 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$714,247. In addition, during the quarter ended April 30, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$28,000. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by approximately \$1.2 million, Ohio Medical preferred stock by approximately \$164,000, HuaMei common stock by approximately \$1.0 million, SGDA Europe B.V. ( SGDA Europe ) equity interest by \$3.9 million and HH&B by \$3.8 million during the quarter ended April 30, 2011.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$9.5 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by approximately \$600,000, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$2.6 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,694,366. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions which were treated as a return of capital. Also, during the six month period ended April 30, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$257,000. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$100,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.4 million, HuaMei common stock by approximately \$1.3 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$5.7 million during the six month period ended April 30, 2011.

At April 30, 2011, the fair value of all portfolio investments, exclusive of short-term investments, was \$414.6 million with a cost basis of \$347.5 million. At April 30, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$403.8 million and \$305.2 million, respectively. At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term securities, was \$433.9 million, with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively.

**For the Fiscal Year Ended October 31, 2010**

During the fiscal year ended October 31, 2010, the Company obtained one new investment in Integrated Packaging Corporation ( IPC ) in the form of a warrant. The Company received the warrant solely for services provided to another investor in IPC and invested no capital.

During the fiscal year ended October 31, 2010, the Company made four follow-on investments in existing portfolio companies committing capital totaling \$8.3 million. On January 4, 2010, the Company loaned \$800,000 to Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10% with the accrued interest being reserved against. On March 12, 2010, the Company invested \$4.5 million and \$1.7 million in SGDA Europe and Security Holdings, respectively, in the form of additional equity interests.

**Table of Contents**

On September 23, 2010, the Company committed an additional \$1.3 million to Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10% with the accrued interest being reserved against. As of October 31, 2010, \$600,000 of the \$1.3 million demand note to Harmony Pharmacy was funded.

At October 31, 2009, the balance of the secured revolving note provided to Marine was \$900,000. Net borrowings during fiscal year 2010 were \$1.1 million resulting in a balance of \$2.0 million as of October 27, 2010. On October 27, 2010, the Company refinanced the secured revolving note and the senior subordinated loan of Marine. The revolving note balance of \$2.0 million was added to the senior subordinated loan resulting in a balance of \$11.9 million as of October 31, 2010. The interest on the senior subordinated loan remained 11% and the maturity date was extended to October 26, 2017. Prior to the refinancing of the senior subordinated loan, Marine made a principal payment of approximately \$1.3 million.

On December 29, 2009, the Company sold the common stock, preferred stock and warrants of Vitality Foodservice Holding Corp. ( Vitality ). The amount received from the sale of the 556,472 common shares was approximately \$10.0 million, for the 1 million preferred shares was approximately \$14.0 million, and for the 1 million warrants was approximately \$3.8 million. As part of this transaction, there was approximately \$2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company received its first scheduled disbursement from the Vitality escrow totaling approximately \$522,000. There were no claims against the escrow so 100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company's share of the proceeds from the working capital adjustment totaled approximately \$471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately \$993,000. The value of the escrow was increased by \$150,000 by the Valuation Committee during the fiscal year ended October 31, 2010. This escrow is currently valued at approximately \$1.9 million on the Company's consolidated balance sheet as of October 31, 2010. Total amount received from the sale as of October 31, 2010 was approximately \$30.6 million resulting in a realized gain of approximately \$13.9 million, which was treated as a long-term capital gain. Prior to the sale of Vitality on December 29, 2009, Vitality's European operations (which were not acquired by the buyer) were distributed to Vitality's shareholders on a pro-rata basis. The Company received 960 shares of Series A common stock and 334 shares of convertible Series B common stock in LHD Europe as part of this transaction. At October 31, 2010, the Series A common stock had a fair value of approximately \$332,000 and the convertible Series B common stock had a fair value of approximately \$118,000.

On March 10, 2010, the Company announced that its portfolio company, Dakota Growers Pasta Company, Inc. ( Dakota Growers ), had signed a definitive merger agreement with Viterra Inc. (TSX: VT) ( Viterra ), Canada's leading agri-business that provides premium quality ingredients to leading global food manufacturers, under which Dakota Growers would be acquired by a subsidiary of Viterra for approximately \$240 million in cash. Under the terms of the agreement, Viterra would commence a tender offer to acquire all of the outstanding shares of Dakota Growers common stock at a price of \$18.28 per share resulting in anticipated proceeds of approximately \$37.9 million. The acquisition closed shortly after completion of a tender of a majority (50.1%) of the outstanding shares of Dakota Growers common stock, the receipt of various regulatory approvals and the satisfaction of other customary closing conditions and contingencies. On May 3, 2010, the Company converted its 1,065,000 preferred shares of Dakota Growers to 1,065,000 common shares of Dakota Growers. On May 6, 2010, the Company tendered its shares in Dakota Growers for approximately \$37.9 million, resulting in a realized gain of approximately \$22.0 million. The Company no longer has an investment in Dakota Growers.

On March 16, 2010, the Company contributed its common and preferred equity interest in SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH ( SGDA ) to SGDA Europe to achieve operating efficiencies. The Company has 99.99% economic ownership in SGDA Europe. The fair value of SGDA Europe's equity interest increased by approximately \$4.2 million and the cost basis was increased by \$5.0 million as a result of this cashless transaction. There was no gain or loss to the Company from this transaction.

**Table of Contents**

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of SGDA Europe's equity interest by approximately \$4.1 million. The fair value of SGDA Europe's equity interest at October 31, 2010 was \$12.1 million.

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

During the fiscal year ended October 31, 2010, Amersham made principal payments of \$375,000, repaying its senior secured loan in full, including all accrued interest.

During the fiscal year ended October 31, 2010, SP made principal payments of approximately \$169,000, on its first lien loan. The balance of the first lien loan as of October 31, 2010, was approximately \$732,000.

During the fiscal year ended October 31, 2010, Total Safety made principal payments of approximately \$26,000 on its first lien loan. The balance of the first lien loan as of October 31, 2010 was approximately \$946,000.

During the fiscal year ended October 31, 2010, the Company received approximately \$106,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2010 was approximately \$1.0 million.

During the fiscal year ended October 31, 2010, Innovative Brands, LLC ( Innovative Brands ) made principal payments of approximately \$10.4 million on its term loan, repaying the term loan in full including all accrued interest.

During the fiscal year ended October 31, 2010, Octagon made principal payments of \$5.0 million, repaying its term loan in full, including all accrued interest.

During the fiscal year ended October 31, 2010, WBS Carbons Acquisitions Corp. ( WBS ) made principal payments of approximately \$1.8 million, repaying its bridge loan in full, including all accrued interest.

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

During the fiscal year ended October 31, 2010, Henry Company made principal payments of approximately \$1.7 million and \$2.0 million on its term loan A and term loan B, respectively, repaying the term loans in full, including all accrued interest.

On July 31, 2009, the Company sponsored U.S. Gas in its acquisition of ESPI and provided a \$10.0 million limited guarantee and cash collateral for a short-term \$4.0 million letter of credit for U.S. Gas. For sponsoring and providing this credit support, the Company has earned one-time fee income of approximately \$1.2 million and will be recognizing an additional \$1.6 million in fee income over the life of the guarantee. As of October 31, 2010, the cash collateral has been released as the letter of credit has expired and the limited guarantee is no longer a commitment of the Company.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the Company's investments in Dakota Growers common stock by approximately \$3.4 million and preferred stock by approximately \$3.6 million, Octagon equity interest by \$1.5 million, Summit common stock by \$22.0 million,

**Table of Contents**

Velocius equity interest by \$1.7 million, PreVisor, Inc. common stock by \$3.4 million, U.S. Gas preferred stock by \$17.8 million, Vestal Manufacturing Enterprises, Inc. ( Vestal ) common stock by \$600,000 and LHD Europe series A common stock by approximately \$166,000 and series B common Stock by approximately \$58,000. In addition, increases in the cost basis and fair value of the loans to GDC Acquisition, LLC ( GDC ), Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of PIK interest/dividends totaling \$5,561,308. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 million due to PIK distributions which were treated as a return of capital. Also, during the fiscal year ended October 31, 2010, 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 \$298,000. The Valuation Committee also decreased the fair value of the Company's investments in Amersham second lien notes by \$2.4 million, BP second lien loan by \$14.1 million, Ohio Medical common stock by \$8.6 million, SGDA preferred equity interest by approximately \$2.4 million, MVC Automotive equity interest by \$2.4 million, Security Holdings equity interest by approximately \$6.4 million, SGDA Europe equity interest by approximately \$4.1 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of \$6.4 million, Turf equity interest by \$500,000, GDC senior subordinated loan by approximately \$3.2 million and Vendio preferred stock by approximately \$1.9 million and common stock by \$5,500 during the fiscal year ended October 31, 2010. The net decrease in fair value of \$6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by \$7.5 million and to ascribe a fair value of \$1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Amersham loan, BP second lien loan and GDC senior subordinated loan for the accrued PIK interest totaling approximately \$732,000.

At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term investments, was \$433.9 million with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively. At October 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was \$502.8 million, with a cost basis of \$422.8 million. At October 31, 2009, the fair value and cost basis of the Legacy Investments was \$15.3 million and \$48.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$487.5 million and \$373.9 million, respectively.

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

At April 30, 2011, the Company's existing commitments to portfolio companies consisted of the following:

<b>Commitments of MVC Capital, Inc.</b>		
<b>Portfolio Company</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2011</b>
Octagon	\$7.0 million	
Turf	\$1.0 million	\$1.0 million
MVC Partners/MVCFS	\$20.1 million	
<b>Total</b>	<b>\$28.1 million</b>	<b>\$1.0 million</b>

***Off-Balance Sheet Arrangements:***

As of April 30, 2011, the Company had the following commitments to guarantee various loans and mortgages:

**Table of Contents****Off-Balance Sheet Arrangements**

<b>Guarantee</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2011</b>
MVC Automotive	\$9.6 million	
MVC Automotive	\$5.9 million	
Tekers	\$2.1 million	
MVC Automotive	\$2.1 million	
	<b>\$19.7</b>	
<b>Total</b>	<b>million</b>	

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

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

On October 12, 2006, the Company provided a \$12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Company receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On February 12, 2009, the commitment amount of the revolving credit facility was reduced to \$7.0 million. At October 31, 2010 and April 30, 2011, there was no balance outstanding on the revolving credit facility.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately \$2.1 million at April 30, 2011.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately \$9.6 million at April 30, 2011.

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 \$5.9 million at April 30, 2011) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended a \$1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed \$1.0 million from the secured junior revolving note. At October 31, 2010 and April 30, 2011, the outstanding balance of the secured junior revolving note was \$1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million Czech Republic Koruna ( CZK ) mortgage for MVC Automotive, equivalent to approximately \$2.1 million at April 30, 2011.

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, the Company committed to invest approximately \$20.1 million in a private equity fund ( PE Fund ), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the GP ). The PE Fund completed a first closing of approximately \$80 million of capital commitments.

On April 26, 2011, the Company agreed to support a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., equivalent to approximately \$7.5 million at April 30, 2011. This letter of credit is being used as collateral for a project guarantee by AB DnB NORD bankas to Security Holdings.

***Commitments of the Company***

**Table of Contents**

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million credit facility (the Credit Facility), consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility now only consists of a \$50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. As of April 30, 2011, there was \$50.0 million outstanding on the Credit Facility. The proceeds from borrowings made under the Credit Facility are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under the Credit Facility will bear interest, at the Company's option, at a floating rate equal to either (i) the LIBOR rate with a 1.25% LIBOR floor (for one, two, three or six months), plus a spread of 4.5% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 3.50% per annum. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the consolidated balance sheet include the unamortized portion of these costs. Borrowings under the Credit Facility will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

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

**9. Management**

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

Our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), approved a renewal of the Advisory Agreement at their in-person meeting held on October 26, 2010.

Under the terms of the Advisory Agreement, TTG Advisers determines, consistent with the Company's investment strategy, the composition of the Company's portfolio, the nature and timing of the changes to the Company's portfolio and the manner of implementing such changes. TTG Advisers also identifies and negotiates the structure of the Company's investments (including performing due diligence on prospective portfolio companies), closes and monitors the Company's investments, determines the securities and other assets purchased, retains or sells and oversees the administration, recordkeeping and compliance functions of the Company and/or third parties performing such functions for the Company. TTG Advisers' services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Company is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components: a base management fee and an incentive fee. The base

**Table of Contents**

management fee is calculated at 2.0% per annum of the Company's total assets excluding cash, the value of any investment in a Third-Party Vehicle covered by a Separate Agreement (as defined in the Advisory Agreement) and the value of any investment by the Company not made in portfolio companies ( Non-Eligible Assets ) but including assets purchased with borrowed funds that are not Non-Eligible Assets. The incentive fee consists of two parts: (i) one part is based on our pre-incentive fee net operating income; and (ii) the other part is based on the capital gains realized on our portfolio of securities acquired after November 1, 2003. The Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company, to the extent necessary to limit the Company's expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company's average net assets) to 3.5% in each of the 2009 and 2010 fiscal years. For more information, please see Note 10 of our consolidated financial statements, Incentive Compensation.

On October 26, 2010, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011 fiscal year. In addition, for fiscal years 2010 and 2011, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver ). TTG Advisers has also voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement.

**10. Incentive Compensation**

At October 31, 2010, the provision for estimated incentive compensation was approximately \$22.0 million. During the six month period ended April 30, 2011, this provision for incentive compensation was decreased by a net amount of approximately \$1.1 million to approximately \$20.9 million. The decrease in the provision for incentive compensation during the six month period ended April 30, 2011 reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies and the sale of the SPDR Barclays Capital High Yield Bond Fund and the iShares S&P U.S. Preferred Stock Index Fund for a realized gain of approximately \$106,000. Specifically, it reflects the Valuation Committee's determination to increase the fair values of seven of the Company's portfolio investments (Summit, SHL Group Limited, Security Holdings, Tekers, Total Safety, U.S. Gas and Velocitus) by a total of approximately \$19.8 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. The net decrease in the provision also reflects the Valuation Committee's determination to decrease the fair values of six of the Company's portfolio investments (BP, Ohio Medical, MVC Automotive, HuaMei, SGDA Europe and HH&B) by a total of \$27.0 million. During the six month period ended April 30, 2011, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

At October 31, 2009, the provision for estimated incentive compensation was approximately \$19.5 million. During the fiscal year ended October 31, 2010, this provision for incentive compensation was increased by a net amount of approximately \$2.5 million to approximately \$22.0 million. The increase in the provision for incentive compensation reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies and the sale of Vitality for a realized gain of \$13.9 million. The difference between the amount received from the sale and Vitality's carrying value at October 31, 2009 was an increase of \$3.0 million. The amount of the provision also reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Octagon, Summit, Velocitus, LHD Europe, PreVisor, U.S. Gas, Vestal and Dakota Growers) by a total of \$54.2 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 million due to PIK distributions, which were treated as a return of capital. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of ten of the Company's portfolio investments (Amersham, BP, Ohio Medical, MVC Automotive, Security Holdings, Harmony Pharmacy, GDC, SGDA Europe, Turf and SGDA) by a total of \$50.5 million and the Valuation Committee determination not to increase the fair values of the





**Table of Contents**

Harmony Pharmacy revolving credit facility, the Amersham loan, the BP second lien loan and the GDC senior subordinated loan for the accrued PIK interest totaling approximately \$656,000. For the year ended October 31, 2010, the Company was not required to make an incentive compensation payment to TTG Advisers based on the terms of the Advisory Agreement. During the fiscal year ended October 31, 2010, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

**11. Tax Matters**

During fiscal year ended October 31, 2010, the Company utilized all of the prior year's capital loss carryforwards in the amount of \$29,988,349. As of October 31, 2010, the Company had net unrealized capital gains of \$53,203,804. The Company has approximately \$31.5 million in unrealized losses associated with Legacy Investments.

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, 2011, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal for the Company and MVCFS. The 2007, 2008, 2009 and 2010 federal tax years for the Company and for MVCFS remain subject to examination by the IRS.

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

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

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

All of our shareholders who hold shares of common stock in their own name will automatically be enrolled in our dividend reinvestment plan (the Plan). All such shareholders will have any cash dividends and distributions automatically reinvested by the Plan Agent in additional shares of our common stock. Of course,

**Table of Contents**

any shareholder may elect to receive his or her dividends and distributions in cash. Currently, the Company has a policy of seeking to pay quarterly dividends to shareholders. For any of our shares that are held by banks, brokers or other entities that hold our shares as nominees for individual shareholders, the Plan Agent will administer the Plan on the basis of the number of shares certified by any nominee as being registered for shareholders that have not elected to receive dividends and distributions in cash. To receive your dividends and distributions in cash, you must notify the Plan Agent, broker or other entity that holds the shares.

**For the Quarter Ended January 31, 2011**

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

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

**For the Quarter Ended April 30, 2011**

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

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

**Share Repurchase Program**

On April 23, 2010, the Company's Board of Directors approved a share repurchase program authorizing up to \$5.0 million in share repurchases. As of April 30, 2011, there have been 380,105 shares repurchased at an average price of \$13.06, including commission, with a total cost of approximately \$5.0 million, thereby substantially completing the share repurchase program authorized by the Board of Directors. The Company's net asset value per share was increased by approximately \$0.07 as a result of the share repurchases.

The following table represents our stock repurchase program for the quarter ended April 30, 2011.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share including commission</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
<b>Feb. 1, 2011 - Feb. 28, 2011</b>			306,100	\$ 1,000,872
<b>Mar. 1, 2011 - Mar. 31, 2011</b>	74,005	\$ 13.06	380,105	\$ 34,367
<b>Apr. 1, 2011 - Apr. 30, 2011</b>			380,105	\$ 34,367
<b>Total</b>	74,005	\$ 13.06	380,105	\$ 34,367

30

**Table of Contents****13. Segment Data**

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

The following table presents book basis segment data for the six month period ended April 30, 2011:

	<b>MVC</b>	<b>MVCFS</b>	<b>Consolidated</b>
Interest and dividend income	\$ 6,102,767	\$ 114	\$ 6,102,881
Fee income	17,694	2,406,411	2,424,105
Other income	541,418		541,418
Total operating income	6,661,879	2,406,525	9,068,404
Total operating expenses	3,513,932	3,899,033	7,412,965
Less: Waivers by Adviser	(175,635)		(175,635)
Total net operating expenses	3,338,297	3,899,033	7,237,330
Net operating income (loss) before taxes	3,323,582	(1,492,508)	1,831,074
Tax expense		12,383	12,383
Net operating income (loss)	3,323,582	(1,504,891)	1,818,691
Net realized loss on investments and foreign currency	(14,515,606)		(14,515,606)
Net change in unrealized appreciation on investments	8,755,048		8,755,048
Net decrease in net assets resulting from operations	(2,436,976)	(1,504,891)	(3,941,867)

**14. Subsequent Events**

As required by ASC 855, *Subsequent Events*, the Company evaluated subsequent events through the issuance date of the consolidated financial statements.

On May 4, 2011, the Company made an additional \$500,000 investment in NWPT for 5,000 shares of Series A Convertible Preferred Stock.

On May 4, 2011 and May 6, 2011, the Company invested \$4,500 and \$4.0 million, respectively, in JSC Tekers Holdings for 2,250 shares of common stock and a secured loan with an interest rate of 8% and maturity date of June 30, 2014.

On May 26, 2011, the Company invested an additional \$150,000 in Harmony for 23,806 shares of common stock.

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

**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,

**Table of Contents**

but are not limited to, those relating to investment capital demand, pricing, market acceptance, the effect of economic conditions, litigation and the effect of regulatory proceedings, competitive forces, the results of financing and investing efforts, the ability to complete transactions and other risks identified below or in the Company's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the 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, 2010.

**SELECTED CONSOLIDATED FINANCIAL DATA:**

Financial information for the fiscal year ended October 31, 2010 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.

**Table of Contents****Selected Consolidated Financial Data**

	Six Month Period Ended April 30, <b>2011</b> (Unaudited)	Six Month Period Ended April 30, <b>2010</b> (Unaudited)	Year Ended October 31, <b>2010</b>
	(In thousands, except per share data)		
<b>Operating Data:</b>			
Interest and related portfolio income:			
Interest and dividend income	\$ 6,103	\$ 11,455	\$ 19,315
Fee income	2,424	1,431	3,696
Other income	541	248	510
Total operating income	9,068	13,134	23,521
Expenses:			
Management fee	4,804	4,922	9,330
Administrative	2,166	1,708	3,395
Interest and other borrowing costs	1,515	1,288	2,825
Incentive compensation (Note 10)	(1,072)	3,245	2,479
Total operating expenses	7,413	11,163	18,029
Total waiver by adviser	(176)	(50)	(150)
Total net operating expenses	7,237	11,113	17,879
Net operating income before taxes	1,831	2,021	5,642
Tax expense, net	12	6	8
Net operating income	1,819	2,015	5,634
Net realized and unrealized (loss) gain:			
Net realized (loss) gain on investments and foreign currency	(14,516)	13,736	32,188
Net change in unrealized appreciation (depreciation) on investments	8,755	356	(21,689)
	(5,761)	14,092	10,499

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

Net realized and unrealized (loss) gain on investments and foreign currency

Net (decrease) increase in net assets resulting from operations	\$ (3,942)	\$ 16,107	\$ 16,133
Per Share:			
Net (decrease) increase in net assets per share resulting from operations	\$ (0.16)	\$ 0.66	\$ 0.66
Dividends per share	\$ 0.24	\$ 0.24	\$ 0.48
Balance Sheet Data:			
Portfolio at value	\$ 414,590	\$ 481,726	\$ 433,901
Portfolio at cost	347,515	401,360	375,582
Total assets	488,659	511,778	500,373
Shareholders' equity	414,337	434,732	424,994
Shareholders' equity per share (net asset value)	\$ 17.32	\$ 17.89	\$ 17.71
Common shares outstanding at period end	23,917	24,297	23,991
Other Data:			
Number of Investments funded in period	5	4	5
Investments funded (\$) in period	\$ 31,251	\$ 7,032	\$ 8,332

33

**Table of Contents**

	2011			2010				2009		
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
	(In thousands, except per share data)									
<b>Quarterly Data (Unaudited):</b>										
Total operating income	4,544	4,524	5,130	5,257	5,336	7,798	6,354	7,410	5,757	6,588
Management fee	2,249	2,555	2,232	2,176	2,467	2,455	2,560	2,379	2,421	2,483
Administrative	990	1,176	777	910	938	770	879	894	865	881
Interest and other borrowing costs	745	770	770	767	647	641	642	660	736	1,090
Incentive compensation	531	(1,603)	2,504	(3,270)	2,225	1,020	6,756	(2,550)	(335)	(154)
Total waiver by adviser	(38)	(138)	(50)	(50)	(50)					
Tax expense (benefit)	2	10	2		1	5	1,377		359	(359)
Net operating income (loss) before net realized and unrealized gains	65	1,754	(1,105)	4,724	(892)	2,907	(5,860)	6,027	1,711	2,647
Net (decrease) increase in net assets resulting from operations	2,302	(6,244)	11,307	(11,281)	8,969	7,138	27,499	(6,297)	(7,809)	854
Net (decrease) increase in net assets resulting from operations per share	0.10	(0.26)	0.47	(0.47)	0.37	0.29	1.13	(0.26)	(0.32)	0.04
Net asset value per share	17.32	17.33	17.71	17.35	17.89	17.64	17.47	16.46	16.84	17.28

**OVERVIEW**

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

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

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests, and other private equity transactions. During the year ended October 31, 2010, the Company obtained one new investment and made four follow-on investments in existing portfolio companies committing a total of \$8.3 million of capital to these

investments. During the six month period ended April 30, 2011, the Company made one new investment and two follow-on investments in an existing portfolio company, committing capital totaling \$11.3 million.

Prior to the adoption of our current investment objective, the Company's investment objective had been to achieve long-term capital appreciation from venture capital investments in information technology companies. The Company's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of April 30, 2011, 2.21% of the current fair value of our assets consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential liquidity event, *i.e.*, a sale, public offering, merger or other reorganization.

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

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

We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner or managing member to a private equity or other investment vehicle(s). In fact,



**Table of Contents**

we established MVC Partners for this purpose. Furthermore, the Board of Directors has authorized the establishment and investment in a private equity fund ( PE Fund ), for which an indirect wholly-owned subsidiary of the Company serves as the general partner ( GP ) and which may raise up to \$250 million. On October 29, 2010, through MVC Partners, the Company committed to invest \$20 million in the PE Fund. The PE Fund completed a first closing of approximately \$80 million of capital commitments. The Company s Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company s ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees paid by the PE Fund 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.

As a result of the first 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 Periods Ended April 30, 2011 and 2010.* Total operating income was \$9.1 million for the six month period ended April 30, 2011 and \$13.1 million for the six month period ended April 30, 2010, a decrease of \$4.0 million.

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

Total operating income was \$9.1 million for the six month period ended April 30, 2011. The decrease in operating income over the same period last year was primarily due to the repayment of investments that provide the Company with current income, reserves against non-performing loans and a decrease in dividend income from the sale of portfolio companies. The main components of operating income were the interest earned on loans and the receipt of closing, monitoring and termination fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately \$6.1 million in interest and dividend income from investments in portfolio companies. Of the \$6.1 million recorded in interest/dividend income, approximately \$1.7 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company s debt investments yielded rates from 3% to 15% excluding those investments which interest is being reserved against. The Company received fee income and other income from portfolio companies and other entities totaling approximately \$3.0 million.

***For the Six Month Period Ended April 30, 2010***

Total operating income was \$13.1 million for the six month period ended April 30, 2010. The increase in operating income over the same period last year was primarily due to the increase in dividend income of approximately \$688,000 and other income of approximately \$258,000. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately \$11.5 million in interest and dividend income from investments in portfolio companies.

**Table of Contents**

Of the \$11.5 million recorded in interest/dividend income, approximately \$3.1 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company's debt investments yielded rates from 1.2% to 17%. The Company received fee income and other income from portfolio companies and other entities totaling approximately \$1.7 million.

**OPERATING EXPENSES**

*For the Six Month Periods Ended April 30, 2011 and 2010.* Operating expenses were \$7.2 million for the six month period ended April 30, 2011 and \$11.1 million for the six month period ended April 30, 2010, a decrease of approximately \$3.9 million.

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

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

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

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

***For the Six Month Period Ended April 30, 2010***

Operating expenses, net of the Voluntary Waiver, were \$11.1 million or 5.23% of the Company's average net assets, when annualized, for the six month period ended April 30, 2010. Significant components of

**Table of Contents**

operating expenses for the six month period ended April 30, 2010, included the management fee of \$4.9 million, incentive compensation of \$3.2 million and interest and other borrowing costs of approximately \$1.3 million.

The \$3.1 million increase in the Company's operating expenses for the six month period ended April 30, 2010 compared to the six month period ended April 30, 2009, was primarily due to the \$3.7 million increase in the estimated provision for incentive compensation expense offset by the decrease of approximately \$537,000 in interest and other borrowing costs. The Advisory Agreement extended the expense cap applicable to the Company for an additional two fiscal years (fiscal years 2009 and 2010) and increased the expense cap from 3.25% to 3.5%. For fiscal year 2009 and for the six month period ended April 30, 2010 annualized, the Company's expense ratio was 3.23% and 3.10%, respectively, (taking into account the same carve outs as those applicable to the expense cap). For the 2010 fiscal year, TTG Advisers has voluntarily agreed to waive \$150,000 of expenses to be reimbursed to it by the Company under the Advisory Agreement.

Pursuant to the terms of the Advisory Agreement, during the six month period ended April 30, 2010, the provision for incentive compensation was increased by a net amount of \$3,245,335 to \$22,756,482. The increase in the provision for incentive compensation reflects the sale of Vitality for a realized gain of \$13.9 million. The difference between the amount received from the sale and Vitality's carrying value at October 31, 2009 was an increase of \$3.0 million. The amount of the provision also reflects the Valuation Committee's determination to increase the fair values of five of the Company's portfolio investments (Octagon, Summit, Velocitus, LHD Europe and Dakota Growers) by a total of \$18.1 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$3.3 million due to PIK distributions, which were treated as a return of capital. The net increase in the provision also reflects the Valuation Committee's determination to decrease the fair values of four of the Company's portfolio investments (Amersham, BP, Ohio Medical, and SGDA) by a total of \$7.7 million and the Valuation Committee determination not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling \$374,000. As of April 30, 2010, the Company does not anticipate an incentive compensation payment being made to TTG Advisers during fiscal year 2010 based on the terms of the Advisory Agreement. During the six month period ended April 30, 2010, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 10 Incentive Compensation for more information.

**REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES**

*For the Six Month Periods Ended April 30, 2011 and 2010.* Net realized losses for the six month period ended April 30, 2011 were \$14.5 million and net realized gains for the six month period ended April 30, 2010 were \$13.7 million, a decrease of approximately \$28.2 million.

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

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

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

**Table of Contents**

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

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

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

***For the Six Month Period Ended April 30, 2010***

Net realized gains for the six month period ended April 30, 2010 were \$13.7 million. The significant component of the Company's net realized gains for the six month period ended April 30, 2010 was primarily the gain on the sale of Vitality common stock and warrants and the sale of Phoenix Coal common stock.

On December 29, 2010, the Company sold the common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately \$10.0 million, for the 1 million preferred shares was approximately \$14.0 million, and for the 1 million warrants was approximately \$3.8 million. As part of this transaction, there was approximately \$2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company received its first scheduled disbursement from the Vitality escrow totaling approximately \$522,000. There were no claims against the escrow, so 100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company's share of the proceeds from the working capital adjustment totaled approximately \$471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately \$993,000. The value of the escrow was increased by \$150,000 by the Valuation Committee during the six month period ended April 30, 2010. This escrow is currently valued at approximately \$1.9 million on the Company's balance sheet as of April 30, 2010. Total amount received from the sale as of April 30, 2010 was approximately \$30.6 million resulting in a realized gain of approximately \$13.9 million, which was treated as a long-term capital gain. This escrow is currently valued at approximately \$1.9 million on the Company's balance sheet.

During the six month period ended April 30, 2010, the Company sold the remaining 666,667 shares of Phoenix Coal common stock. The total amount received from the sale net of commission was approximately \$295,000, approximately \$68,000 above the carrying value at January 31, 2010, resulting in a realized loss of approximately \$205,000.

**UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES**

*For the Six Month Periods Ended April 30, 2011 and 2010.* The Company had a net change in unrealized appreciation on portfolio investments of approximately \$8.8 million for the six month period ended April 30, 2011 and approximately \$357,000 for the six month period ended April 30, 2010, an increase of approximately \$8.4 million.

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

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$8.8 million for the six month period ended April 30, 2011. The change in unrealized appreciation on investment transactions for the six month period ended April 30, 2011 primarily resulted from the increase in unrealized

**Table of Contents**

appreciation reclassification from unrealized to realized, caused by the sale of Harmony Pharmacy and the dissolution of Amersham of approximately \$14.9 million. The other components in the change in unrealized appreciation are the Valuation Committee's decision to increase the fair value of the Company's investments in Summit common stock by \$9.5 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by approximately \$600,000, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$2.6 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions which were treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$100,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.4 million, HuaMei common stock by approximately \$1.3 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$5.7 million during the six month period ended April 30, 2011.

***For the Six Month Period Ended April 30, 2010***

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$357,000 for the six month period ended April 30, 2010. The change in unrealized appreciation on investment transactions for the six month period ended April 30, 2010, primarily resulted from the increase in unrealized depreciation reclassification from unrealized to realized, caused by the sale of Vitality, of approximately \$11.3 million. The other components in the change in unrealized appreciation are the Valuation Committee's decision to increase the fair value of the Company's investments in Dakota Growers common stock by approximately \$3.4 million and preferred stock by approximately \$3.6 million, Octagon equity interest by \$1.5 million, Summit common stock by \$9.0 million, Velocitius equity interest by \$400,000, and LHD Europe series A common stock by approximately \$166,000 and series B common Stock by approximately \$58,000. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$3.3 million due to PIK distributions which were treated as a return of capital. The Valuation Committee also decreased the fair value of Ohio Medical common stock by \$1.3 million, SGDA preferred equity by \$2.4 million, Vendio preferred stock by approximately \$1.9 million and common stock by \$5,500, BP second lien loan by approximately \$1.6 million, and the Amersham second lien notes by \$2.4 million. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately \$374,000.

**PORTFOLIO INVESTMENTS**

*For the Six Month Period Ended April 30, 2011 and the Year Ended October 31, 2010.* The cost of the portfolio investments held by the Company at April 30, 2011 and at October 31, 2010 was \$347.5 million and \$375.6 million, respectively, a decrease of \$28.1 million. The aggregate fair value of portfolio investments at April 30, 2011 and at October 31, 2010 was \$414.6 million and \$433.9 million, respectively, a decrease of \$19.3 million. The Company held cash and cash equivalents at April 30, 2011 and at October 31, 2010 of \$65.0 million and \$56.4 million, respectively, an increase of approximately \$8.6 million.

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

During the six month period ended April 30, 2010, the Company made one new investment, committing capital totaling \$3.0 million. The investment was made in Octagon Fund (\$3.0 million).

During the six month period ended April 30, 2011, the Company made two follow-on investments in an existing portfolio company totaling \$8.3 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan has allowed Security Holdings to secure project guarantees. In addition, during the six month period ended April 30, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital

**Table of Contents**

High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. These investments were sold during the six month period ended April 30, 2011, resulting in a realized gain of approximately \$106,000. The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

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

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

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

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

On January 11, 2011, SHL Group Limited, which provides workplace talent assessment solutions including ability and personality tests, and psychometric assessments, acquired the Company's portfolio company PreVisor. The Company received 145,674 common shares of SHL Group Limited for its investment in PreVisor. The cost basis or market value of the Company's investment remained unchanged as a result of the transaction.

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

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

On March 31, 2011, Marine made a principal payment of \$150,000 on its senior subordinated loan. The balance of the loan as of April 30, 2011 was approximately \$12.0 million.

During the six month period ended April 30, 2011, Octagon borrowed and repaid \$1.5 million on its revolving line of credit. There was a zero balance outstanding as of April 30, 2011.

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

During the six month period ended April 30, 2011, Total Safety made principal payments of approximately \$5,000 on its first lien loan. The balance of the first lien loan as of April 30, 2011 was approximately \$941,000.

**Table of Contents**

During the six month period ended April 30, 2011, the Company received approximately \$53,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at April 30, 2011 was \$950,000.

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

During the quarter ended April 30, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$2.0 million, MVC Automotive equity interest by \$3.0 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by approximately \$600,000, Total Safety first lien loan by approximately \$74,000 and Velocitius equity interest by \$2.6 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$714,247. In addition, during the quarter ended April 30, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$28,000. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by approximately \$1.2 million, Ohio Medical preferred stock by approximately \$164,000, HuaMei common stock by approximately \$1.0 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$3.8 million during the quarter ended April 30, 2011.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$9.5 million, SHL Group Limited common stock by \$2.5 million, Security Holdings equity interest by approximately \$2.0 million, Tekers common stock by approximately \$600,000, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$2.6 million. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$1,694,366. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions which were treated as a return of capital. Also, during the six month period ended April 30, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$257,000. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$100,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.4 million, HuaMei common stock by approximately \$1.3 million, SGDA Europe equity interest by \$3.9 million and HH&B by \$5.7 million during the six month period ended April 30, 2011.

At April 30, 2011, the fair value of all portfolio investments, exclusive of short-term investments, was \$414.6 million with a cost basis of \$347.5 million. At April 30, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$403.8 million and \$305.2 million, respectively. At October 31, 2010, the fair value of all portfolio investments, exclusive of short-

**Table of Contents**

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

***For the Fiscal Year Ended October 31, 2010***

During the fiscal year ended October 31, 2010, the Company obtained one new investment in IPC in the form of a warrant. The Company received the warrant solely for services provided to another investor in IPC and invested no capital.

During the fiscal year ended October 31, 2010, the Company made four follow-on investments in existing portfolio companies committing capital totaling \$8.3 million. On January 4, 2010, the Company loaned \$800,000 to Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10% with the accrued interest being reserved against. On March 12, 2010, the Company invested \$4.5 million and \$1.7 million in SGDA Europe and Security Holdings, respectively, in the form of additional equity interests. On September 23, 2010, the Company committed an additional \$1.3 million to Harmony Pharmacy in the form of a demand note. The demand note has an annual interest rate of 10% with the accrued interest being reserved against. As of October 31, 2010, \$600,000 of the \$1.3 million demand note to Harmony Pharmacy was funded.

At October 31, 2009, the balance of the secured revolving note provided to Marine was \$900,000. Net borrowings during fiscal year 2010 were \$1.1 million resulting in a balance of \$2.0 million as of October 27, 2010. On October 27, 2010, the Company refinanced the secured revolving note and the senior subordinated loan of Marine. The revolving note balance of \$2.0 million was added to the senior subordinated loan resulting in a balance of \$11.9 million as of October 31, 2010. The interest on the senior subordinated loan remained 11% and the maturity date was extended to October 26, 2017. Prior to the refinancing of the senior subordinated loan, Marine made a principal payment of approximately \$1.3 million.

On December 29, 2009, the Company sold the common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately \$10.0 million, for the 1 million preferred shares was approximately \$14.0 million, and for the 1 million warrants was approximately \$3.8 million. As part of this transaction, there was approximately \$2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company received its first scheduled disbursement from the Vitality escrow totaling approximately \$522,000. There were no claims against the escrow so 100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company's share of the proceeds from the working capital adjustment totaled approximately \$471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately \$993,000. The value of the escrow was increased by \$150,000 by the Valuation Committee during the fiscal year ended October 31, 2010. This escrow is currently valued at approximately \$1.9 million on the Company's consolidated balance sheet as of October 31, 2010. Total amount received from the sale as of October 31, 2010 was approximately \$30.6 million resulting in a realized gain of approximately \$13.9 million, which was treated as a long-term capital gain. Prior to the sale of Vitality on December 29, 2009, Vitality's European operations (which were not acquired by the buyer) were distributed to Vitality's shareholders on a pro-rata basis. The Company received 960 shares of Series A common stock and 334 shares of convertible Series B common stock in LHD Europe as part of this transaction. At October 31, 2010, the Series A common stock had a fair value of approximately \$332,000 and the convertible Series B common stock had a fair value of approximately \$118,000.

On March 10, 2010, the Company announced that its portfolio company, Dakota Growers, had signed a definitive merger agreement with Viterra, Canada's leading agri-business that provides premium quality ingredients to leading global food manufacturers, under which Dakota Growers would be acquired by a subsidiary of Viterra for approximately \$240 million in cash. Under the terms of the agreement, Viterra would



**Table of Contents**

commence a tender offer to acquire all of the outstanding shares of Dakota Growers common stock at a price of \$18.28 per share resulting in anticipated proceeds of approximately \$37.9 million. The acquisition closed shortly after completion of a tender of a majority (50.1%) of the outstanding shares of Dakota Growers common stock, the receipt of various regulatory approvals and the satisfaction of other customary closing conditions and contingencies. On May 3, 2010, the Company converted its 1,065,000 preferred shares of Dakota Growers to 1,065,000 common shares of Dakota Growers. On May 6, 2010, the Company tendered its shares in Dakota Growers for approximately \$37.9 million, resulting in a realized gain of approximately \$22.0 million. The Company no longer has an investment in Dakota Growers.

On March 16, 2010, the Company contributed its common and preferred equity interest in SGDA to SGDA Europe to achieve operating efficiencies. The Company has 99.99% economic ownership in SGDA Europe. The fair value of SGDA Europe's equity interest increased by approximately \$4.2 million and the cost basis was increased by \$5.0 million as a result of this cashless transaction. There was no gain or loss to the Company from this transaction. During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of SGDA Europe's equity interest by approximately \$4.1 million. The fair value of SGDA Europe's equity interest at October 31, 2010 was \$12.1 million.

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

During the fiscal year ended October 31, 2010, Amersham made principal payments of \$375,000, repaying its senior secured loan in full, including all accrued interest.

During the fiscal year ended October 31, 2010, SP made principal payments of approximately \$169,000, on its first lien loan. The balance of the first lien loan as of October 31, 2010, was approximately \$732,000.

During the fiscal year ended October 31, 2010, Total Safety made principal payments of approximately \$26,000 on its first lien loan. The balance of the first lien loan as of October 31, 2010 was approximately \$946,000.

During the fiscal year ended October 31, 2010, the Company received approximately \$106,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2010 was approximately \$1.0 million.

During the fiscal year ended October 31, 2010, Innovative Brands made principal payments of approximately \$10.4 million on its term loan, repaying the term loan in full including all accrued interest.

During the fiscal year ended October 31, 2010, Octagon made principal payments of \$5.0 million, repaying its term loan in full, including all accrued interest.

During the fiscal year ended October 31, 2010, WBS made principal payments of approximately \$1.8 million, repaying its bridge loan in full, including all accrued interest.

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

During the fiscal year ended October 31, 2010, Henry Company made principal payments of approximately \$1.7 million and \$2.0 million on its term loan A and term loan B, respectively, repaying the term loans in full, including all accrued interest.

**Table of Contents**

On July 31, 2009, the Company sponsored U.S. Gas in its acquisition of ESPI and provided a \$10.0 million limited guarantee and cash collateral for a short-term \$4.0 million letter of credit for U.S. Gas. For sponsoring and providing this credit support, the Company has earned one-time fee income of approximately \$1.2 million and will be recognizing an additional \$1.6 million in fee income over the life of the guarantee. As of October 31, 2010, the cash collateral has been released as the letter of credit has expired and the limited guarantee is no longer a commitment of the Company.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the Company's investments in Dakota Growers common stock by approximately \$3.4 million and preferred stock by approximately \$3.6 million, Octagon equity interest by \$1.5 million, Summit common stock by \$22.0 million, Velocitus equity interest by \$1.7 million, PreVisor common stock by \$3.4 million, U.S. Gas preferred stock by \$17.8 million, Vestal common stock by \$600,000 and LHD Europe series A common stock by approximately \$166,000 and series B common stock by approximately \$58,000. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of PIK interest/dividends totaling \$5,561,308. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$6.8 million due to PIK distributions which were treated as a return of capital. Also, during the fiscal year ended October 31, 2010, 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 \$298,000. The Valuation Committee also decreased the fair value of the Company's investments in Amersham second lien notes by \$2.4 million, BP second lien loan by \$14.1 million, Ohio Medical common stock by \$8.6 million, SGDA preferred equity interest by approximately \$2.4 million, MVC Automotive equity interest by \$2.4 million, Security Holdings equity interest by approximately \$6.4 million, SGDA Europe equity interest by approximately \$4.1 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of \$6.4 million, Turf equity interest by \$500,000, GDC senior subordinated loan by approximately \$3.2 million and Vendio preferred stock by approximately \$1.9 million and common stock by \$5,500 during the fiscal year ended October 31, 2010. The net decrease of \$6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by \$7.5 million and ascribed value of \$1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Amersham loan, BP second lien loan and GDC senior subordinated loan for the accrued PIK interest totaling approximately \$732,000.

At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term investments, was \$433.9 million with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively. At October 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was \$502.8 million, with a cost basis of \$422.8 million. At October 31, 2009, the fair value and cost basis of the Legacy Investments was \$15.3 million and \$48.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$487.5 million and \$373.9 million, respectively.

**Investments**

During the six month period ended April 30, 2011, the Company had investments in:

**Actelis Networks, Inc.**

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

**Table of Contents**

At October 31, 2010 and April 30, 2011, 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.

***Amersham Corporation***

Amersham, Louisville, Colorado, manufactured precision machined components for the aviation, automotive and medical device markets.

At October 31, 2010, the Company's investment in Amersham consisted of a \$2.5 million note and a \$4.1 million note. The \$2.5 million note had an annual interest at 10% and matured on June 29, 2010. The note was not repaid at the time of maturity. The \$4.1 million note bears annual interest at 17%, which includes a 3% default interest rate. The interest rate then steps down to 13% for the period July 1, 2010 to June 30, 2012 and steps down again to 12% for the period July 1, 2012 to June 30, 2013. The note has a maturity date of June 30, 2013. The note had a principal face amount and cost basis of \$4.1 million at October 31, 2010. At October 31, 2010, the notes had a combined outstanding balance and cost of \$6.5 million and a combined fair value of \$0. The Company has reserved in full against the interest accrued on the \$2.5 million and \$4.1 million note.

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

At April 30, 2011, the Company no longer held an investment in Amersham.

***BP Clothing, LLC***

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

At October 31, 2010, the Company's investment in BP consisted of a \$19.6 million second lien loan, a \$2.0 million term loan A, and a \$2.0 million term loan B. The second lien loan bears annual interest at 16.5%. The second lien loan had a \$17.5 million principal face amount and was issued at a cost basis of \$17.5 million. The second lien loan's cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the second lien loan is July 18, 2012. The principal balance is due upon maturity. The term loan A bears annual interest at LIBOR plus 7.75% or Prime Rate plus 6.75%. The term loan B bears annual interest at LIBOR plus 10.75% or Prime Rate plus 9.75%. The interest rate option on the loan assignments is at the borrower's discretion. Both term loans mature on July 18, 2011. The combined cost basis and fair value of the investments at October 31, 2010 was \$23.4 million and \$7.4 million, respectively.

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the second lien loan by approximately \$3.9 million, the fair value of term loan A by approximately \$1.4 million, and the fair value of term loan B by approximately \$1.8 million.

At April 30, 2011, the loans had a combined outstanding balance of \$23.9 million, a cost basis of \$23.5 million and a fair value of \$280,000. The increase in the outstanding balance and cost of the term loans are due to the amortization of loan origination fees and the increase in the outstanding balance of the second lien loan is due to the capitalization of payment in kind interest. The Company's Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest for the six month period ended April 30, 2011. The Company has also reserved in full against all accrued interest starting on July 1, 2010.

***Custom Alloy Corporation***

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

At October 31, 2010, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000, 1,991 shares of convertible series B preferred stock

**Table of Contents**

at a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan, which bears annual interest at 14% and matures on September 18, 2012, had a cost of \$13.4 million and a fair value of \$13.6 million.

At April 30, 2011, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000 and the 1,991 shares of convertible series B preferred stock had a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan had an outstanding balance of \$14.1 million, a cost of \$13.9 million and a fair value of \$14.1 million. The increase in the cost basis and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

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

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

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

At October 31, 2010 and April 30, 2011, the Company's investment in DPHI consisted of 602,131 shares of Series A-1 preferred stock with a cost of \$4.5 million. This investment has been fair valued at \$0.

***Foliofn, Inc.***

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

At October 31, 2010 and April 30, 2011, the Company's investment in Foliofn consisted of 5,802,259 shares of Series C preferred stock with a cost of \$15.0 million and a fair value of \$10.8 million.

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

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

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

At October 31, 2010, the Company's investment in GDC consisted of a \$3.2 million senior subordinated loan, bearing annual interest at 17% with a maturity date of August 31, 2011. The loan had a principal amount, an outstanding balance and a cost basis of \$3.2 million and was fair valued at \$0. The warrant was fair valued at \$0.

At April 30, 2011, the loan had an outstanding balance of \$3.3 million and a cost of \$3.2 million. The loan and warrants were fair valued at \$0. The increase in the increase in the outstanding balance of the loan is due to the capitalization of payment in kind interest. The Company's Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest for the six month period ended April 30, 2011. The Company reserved in full against the interest accrued on the senior subordinated note since July 1, 2010.

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

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

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the common stock by \$5.7 million.

At April 30, 2011, the Company's investment in Harmony Health & Beauty consisted of 100,010 shares of common stock with a cost of \$6.4 million and fair value of \$700,000.

**Table of Contents*****Harmony Pharmacy & Health Center, Inc.***

Harmony Pharmacy, Purchase, New York, operated health and beauty stores primarily in airports in the United States. Harmony Pharmacy opened their first store in Newark International Airport in March of 2007 and has since opened stores in John F. Kennedy International Airport and San Francisco International Airport.

At October 31, 2010, the Company's equity investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of \$750,000 and a fair value of \$0. The revolving credit facility had an outstanding balance of \$5.2 million, a cost of \$5.2 million, and a fair value of \$5.1 million. The demand notes had an outstanding balance and cost of \$8.1 million and a fair value of \$600,000. The Company has reserved in full against the interest accrued on the revolving credit facility and the demand notes.

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

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

At April 30, 2011, the Company no longer held an investment in Harmony Pharmacy.

***HuaMei Capital Company, Inc.***

HuaMei, San Francisco, California, is a Chinese-American, cross border investment bank and advisory company.

At October 31, 2010, the Company's investment in HuaMei consisted of 120,000 shares of common stock with a cost of \$2.0 million and fair value of \$1.5 million.

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the common stock by approximately \$1.3 million.

At April 30, 2011, the Company's investment in HuaMei consisted of 120,000 shares of common stock with a cost of \$2.0 million and fair value of \$250,000.

Michael Tokarz, Chairman of the Company, serves as a director of HuaMei.

***Integrated Packaging Corporation***

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

On April 2, 2010, the Company acquired an investment in IPC in the form of a warrant. The Company received the warrant in exchange for services provided to another investor in IPC.

At October 31, 2010 and April 30, 2011, the Company's investment in IPC has zero cost basis and has been fair valued at \$0.

***iShares S&P U.S. Preferred Stock Index Fund***

iShares S&P U.S. Preferred Stock Index Fund is an exchange traded fund, which seeks results that correspond generally to the price and yield of the S&P U.S. Preferred Stock Index.

During the six month period ended April 30, 2011, the Company invested approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. The Company sold the investment during the six month period ended April 30, 2011, which resulted in a realized capital gain of approximately \$68,000. Investments in exchange traded funds were intended to provide the Company with a higher yielding investment than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in

**Table of Contents**

exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

At April 30, 2011, the Company no longer held an investment in the iShares S&P U.S. Preferred Stock Index Fund.

***LHD Europe Holding Inc.***

LHD Europe, incorporated in Delaware, processed and marketed dispensed and non-dispensed juices and frozen concentrate liquid coffee to the foodservice industry in Europe.

At October 31, 2010, the Company's investment consisted of 960 shares of convertible Series A common stock with a cost basis of approximately \$166,000 and a fair value of approximately \$332,000 and 334 shares of convertible Series B common stock with a cost basis of approximately \$59,000 and a fair value of approximately \$118,000.

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

At April 30, 2011, the Company no longer held an investment in LHD Europe.

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

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

At October 31, 2010 and April 30, 2011, the Company's investment in Lockorder consisted of 21,064 shares of common stock with a cost of \$2.0 million. The investment has been fair valued at \$0 by the Company's Valuation Committee.

***Mainstream Data, Inc.***

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

At October 31, 2010 and April 30, 2011, 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, 2010, 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 and cost basis of \$11.9 million. The senior secured loan bears annual interest at 11% and matures on October 26, 2017. The senior secured loan was fair valued at \$11.9 million. The preferred stock was fair valued at \$2.8 million. The dividend rate on the preferred stock is 12% per annum.

During the six month period ended April 30, 2011, Marine made a principal payment of \$150,000 on its senior secured loan.

At April 30, 2011, the Company's senior secured loan had an outstanding balance, a cost basis and a fair value of \$12.0 million. The preferred stock had a cost and fair value of \$2.9 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock is due to the amortization of loan origination fees and the capitalization of payment in kind interest/dividends. These increases were approved by the Company's Valuation Committee.

**Table of Contents**

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

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

At October 31, 2010, the Company's investment in MVC Automotive consisted of an equity interest with a cost of \$34.7 million and a fair value of \$44.1 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2011, had a cost and fair value of \$3.6 million. The guarantees for MVC Automotive were equivalent to approximately \$16.7 million at October 31, 2010.

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the equity interest by \$100,000.

At April 30, 2011, the Company's investment in MVC Automotive consisted of an equity interest with a cost of \$34.7 million and a fair value of \$44.0 million. The bridge loan had a cost and fair value of \$3.6 million. The mortgage guarantees for MVC Automotive were equivalent to approximately \$17.6 million at April 30, 2011. These guarantees were taken into account in the valuation of MVC Automotive.

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

***MVC Partners LLC***

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

On October 29, 2010, through MVC Partners, the Company committed to invest approximately \$20.1 million in a private equity fund ( "PE Fund" ), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the "GP" ). The PE Fund recently completed a first closing of approximately \$80 million of capital commitments.

At October 31, 2010 and April 30, 2011, the Company's equity investment in MVC Partners had a cost basis of approximately \$1.4 million and fair value of approximately \$1.1 million.

***NPWT Corporation***

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

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

At April 30, 2011, the common stock had a cost basis and fair value of approximately \$1.2 million.

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, 2010, the Company's investment in Octagon consisted of an equity investment with a cost basis of approximately \$1.6 million and a fair value of approximately \$4.5 million.

During the six month period ended April 30, 2011, Octagon borrowed and repaid \$1.5 million on its revolving line of credit. There was a zero balance as of April 30, 2011.

During the six month period ended April 30, 2011, the cost basis of the equity investment was increased by approximately \$257,000 because of an allocation of flow through income.

At April 30, 2011, the equity investment had a cost basis of approximately \$1.8 million and a fair value of \$4.8 million.

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

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

**Table of Contents**

On February 14, 2011, the Company invested \$3.0 million into the Octagon Fund.

At April 30, 2011, the investment had a cost basis and fair value of approximately \$3.0 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.

At October 31, 2010, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of \$17.0 million and \$500,000, respectively, and 15,473 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$46.8 million.

On April 29, 2011, the assets of a division of Ohio Medical were distributed to Ohio Medical shareholders on a pro-rata basis. The Company received 281 shares of common stock in NPWT as part of this transaction. As a result of this transaction, the cost basis and fair market value of Ohio Medical was decreased by approximately \$1.2 million.

During the six month period ended April 30, 2011, the fair value of the preferred stock was increased by approximately \$1.9 million due to a PIK distribution which was treated as a return of capital.

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the common stock by \$500,000 and the preferred stock by approximately \$8.3 million.

At April 30, 2011, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis of \$15.8 million and a fair value of \$0 and 16,736 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$39.1 million.

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

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

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

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

At October 31, 2010, the Company's investment in PreVisor consisted of 9 shares of common stock with a cost basis and fair value of \$6.0 million and \$10.4 million, respectively.

On January 11, 2011, SHL Group Limited acquired the Company's portfolio company PreVisor. The Company received 145,674 common shares of SHL Group Limited for its investment in PreVisor. The cost basis and market value of the Company's investment remained unchanged as a result of the transaction.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the common stock by \$2.5 million.

At April 30, 2011, the Company's investment in SHL Group Limited consisted of 145,674 shares of common stock with a cost basis and fair value of \$6.0 million and \$12.9 million, respectively.

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

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

At October 31, 2010 and April 30, 2011, the Company's investment in SafeStone Limited consisted of 21,064 shares of common stock with a cost of \$2.0 million. The investment has been fair valued at \$0 by the Company's Valuation Committee.



**Table of Contents**

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

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

At October 31, 2010, the Company's investment in Security Holdings had a cost basis of \$29.9 million and a fair value of \$5.3 million.

On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest.

On January 28, 2011, the Company invested an additional \$5.0 million in Security Holdings in the form of a bridge loan. The bridge loan has an annual interest rate of 3% and a maturity date of July 31, 2012. This bridge loan will allow Security Holdings to secure project guarantees.

On April 26, 2011, the Company agreed to support a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., equivalent to approximately \$7.5 million at April 30, 2011. This letter of credit is being used as collateral for a project guarantee by AB DnB NORD bankas to Security Holdings.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the equity interest by approximately \$2.0 million.

At April 30, 2011, the Company's investment in Security Holdings consisted of an equity interest with a cost of \$33.2 million and a fair value of \$10.6 million and a bridge loan with an outstanding balance, cost basis and fair value of approximately \$5.0 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, 2010, the Company's equity investment had a cost basis of \$17.4 million and a fair value of \$12.1 million. The senior secured loan, with an annual interest rate of 10% and a maturity date of June 23, 2012, had an outstanding balance, cost and fair value of \$1.5 million.

During the six month period ended April 30, 2011, the Valuation Committee decreased the fair value of the common equity interest by \$3.9 million.

At April 30, 2010, the Company's equity investment had a cost basis of \$17.4 million and a fair value of \$8.2 million. The senior secured loan, with an annual interest rate of 10% and a maturity date of June 23, 2012, had an outstanding balance, cost and fair value of \$1.5 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, 2010 and April 30, 2011, the Company's investment in SGDA consisted of a term loan with an outstanding balance and cost basis of \$6.2 million. The term loan bears annual interest at 7.0% and matures on August 31, 2012. The term loan was fair valued at \$6.2 million.

***SIA Tekers Invest***

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

At October 31, 2010, 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 \$3.8 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately \$2.0 million at October 31, 2010 for Tekers.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the common stock by approximately \$600,000.

At April 30, 2011, the Company's investment in Tekers consisted of 68,800 shares of common stock with a cost of \$2.3 million and a fair value of \$4.4 million. The guarantee for Tekers was equivalent to approximately \$2.1 million at April 30, 2011. This guarantee was taken into account in the valuation of Tekers.

**Table of Contents**

***Sonexis, Inc.***

Sonexis, Inc. ( Sonexis ), Tewksbury, Massachusetts, a Legacy Investment, is the developer of a new kind of conferencing solution Sonexis ConferenceManager a modular platform that is designed to support a breadth of audio and web conferencing functionality to deliver rich media conferencing.

At October 31, 2010 and April 30, 2011, the Company s investment in Sonexis consisted of 131,615 shares of common stock with a cost of \$10.0 million. The investment has been fair valued at \$0.

***SP Industries, Inc.***

SP, Warminster, Pennsylvania, is a designer, manufacturer and marketer of laboratory research and process equipment, glassware and precision glass components and configured-to-order manufacturing equipment.

At October 31, 2010, the Company s investment in SP consisted of a first lien loan and a second lien loan that had outstanding balances of \$732,000 and \$26.2 million, respectively, with a cost basis of approximately \$598,000 and \$26.0 million, respectively. The first lien loan bears annual interest at LIBOR, with a 2.5% floor, plus 5% and matures on December 28, 2012, and the second lien loan bears annual interest at 15% and matures on December 31, 2013. The first lien loan and second lien loan had fair values of \$732,000 and \$26.2 million, respectively.

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

At April 30, 2011, the Company no longer held an investment in SP.

***SPDR Barclays Capital High Yield Bond Fund***

SPDR Barclays Capital High Yield Bond Fund is an exchange traded fund which seeks investment results that correspond to the price and yield of the Barclays Capital High Yield Very Liquid Bond Index.

During the six month period ended April 30, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund. The Company sold the investment during the six month period ended April 30, 2011, which resulted in a realized capital gain of approximately \$38,000. Investments in exchange traded funds were intended to provide the Company with a higher yielding investment than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company s principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

At April 30, 2011, the Company no longer held an investment in the SPDR Barclays Capital High Yield Bond Fund.

***Storage Canada, LLC***

Storage Canada, Omaha, Nebraska, is a real estate company that owns and develops self-storage facilities throughout the U.S. and Canada.

At October 31, 2010, the Company s investment in Storage Canada consisted of a term loan with an outstanding balance, cost basis and a fair value of \$1.0 million. The borrowing bears annual interest at 8.75% and matures on March 30, 2013. The loan commitment to Storage Canada was not renewed in March 2009.

During the six month period ended April 30, 2011, the Company received approximately \$53,000 in principal payments on the term loan provided to Storage Canada.

At April 30, 2011, the Company s investment in Storage Canada had an outstanding balance of \$950,000, a cost basis of approximately \$951,000 and a fair value of \$950,000.

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

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

**Table of Contents**

At October 31, 2010, the Company's investment in Summit consisted of a second lien loan and 1,115 shares of common stock. The second lien loan bears annual interest at 14% and matures on August 31, 2013. The second lien loan had an outstanding balance of \$10.3 million with a cost of \$10.2 million. The second lien loan was fair valued at \$10.3 million. The common stock had been fair valued at \$60.0 million with a cost basis of \$16.0 million.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the common stock by \$9.5 million.

At April 30, 2011, the Company's second lien loan had an outstanding balance of \$10.7 million with a cost of \$10.6 million. The second lien loan was fair valued at \$10.7 million. The 1,115 shares of common stock were fair valued at \$69.5 million and had a cost basis of \$16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee.

Shivani Khurana, a representative of the Company, serves as a director of Summit.

***Total Safety U.S., Inc.***

Total Safety, Houston, Texas, is the leading provider of safety equipment and related services to the refining, petrochemical, and oil exploration and production industries.

At October 31, 2010, the Company's investment in Total Safety consisted of a \$946,000 first lien loan bearing annual interest at LIBOR, with a 2.0% floor, plus 4.00% and maturing on December 8, 2012 and a \$3.5 million second lien loan bearing annual interest at LIBOR plus 6.5% and maturing on December 8, 2013. The loans had a combined outstanding balance and cost basis of \$4.4 million. The loans were fair valued at \$4.4 million.

During the six month period ended April 30, 2011, Total Safety made principal payments of approximately \$5,000 on its first lien loan.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the first lien loan by approximately \$74,000.

At April 30, 2011, the loans had a combined outstanding balance, cost basis, and fair value of \$4.4 million.

***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, 2010, the Company's investment in Turf consisted of a senior subordinated loan, bearing interest at 15% per annum with a maturity date of November 30, 2010, LLC membership interest, and warrants. The senior subordinated loan had an outstanding balance, cost basis and a fair valued of \$8.4 million. The junior revolving note had an outstanding balance, cost, and fair value of \$1.0 million. The membership interest had a cost of \$3.5 million and a fair value of \$2.7 million. The warrants had a cost of \$0 and a fair value of \$0.

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

At April 30, 2011, the mezzanine loan had an outstanding balance, cost basis and a fair value of \$8.4 million. The increase in the cost basis of the loan is due to the amortization of loan origination fees. These increases were approved by the Company's Valuation Committee. The junior revolving note had an outstanding balance and fair value of \$1.0 million. The membership interest has a cost of \$3.5 million and a fair value of \$2.7 million. The warrant was fair valued at \$0.

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

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

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

**Table of Contents**

At October 31, 2010, the second lien loan had an outstanding balance of \$8.7 million with a cost of \$8.6 million and a fair value of \$8.7 million. The second lien loan bears annual interest at 14% and matures on July 26, 2012. The 32,200 shares of convertible Series I preferred stock had a fair value of \$76.1 million and a cost of \$500,000, and the convertible Series J preferred stock had a fair value of \$2.5 million and a cost of \$0.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the Series I preferred stock by approximately \$2.4 million and the Series J preferred stock by approximately \$75,000.

At April 30, 2011, the second lien loan had an outstanding balance, cost and fair value of \$8.9 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company's Valuation Committee. The convertible Series I preferred stock had a fair value of \$78.5 million and a cost of \$500,000 and the convertible Series J preferred stock had a fair value of \$2.6 million and a cost of \$0.

Puneet Sanan and Shivani Khurana, representatives of the Company, serve as Chairman and director, respectively, of U.S. Gas.

***Velocitius B.V.***

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

At October 31, 2010, the equity investment in Velocitius had a cost of \$11.4 million and a fair value of \$24.9 million.

During the six month period ended April 30, 2011, the Valuation Committee increased the fair value of the equity investment by \$2.6 million.

At April 30, 2011, the equity investment in Velocitius had a cost of \$11.4 million and a fair value of \$27.5 million.

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

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

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

At October 31, 2010, the senior subordinated promissory note, which had an annual interest of 12% and a maturity date of April 29, 2011, had an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock of Vestal that had a cost basis of \$1.9 million were fair valued at \$2.2 million.

During the six month period ended April 30, 2011, the maturity date on the senior subordinated promissory note was extended to April 29, 2013.

At April 30, 2011, the senior subordinated promissory note had an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock of Vestal that had a cost basis of \$1.9 million were fair valued at \$2.2 million.

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

**Liquidity and Capital Resources**

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

At April 30, 2011, the Company had investments in portfolio companies totaling \$414.6 million. Also, at April 30, 2011, the Company had investments in cash and cash equivalents totaling approximately \$65.0 million. Of the \$65.0 million in cash and cash equivalents, \$7.5 million was restricted cash related to the project guarantee for Security Holdings. The Company considers all money market and other cash investments

**Table of Contents**

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, 2011, the Company made one new investment, committing capital totaling \$3.0 million. The investment was made in Octagon Fund (\$3.0 million).

During the six month period ended April 30, 2011, the Company made two follow-on investments in an existing portfolio company totaling \$8.3 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan will allow Security Holdings to secure project guarantees. In addition, during the six month period ended April 30, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund. These investments were sold during the six month period ended April 30, 2011, resulting in a realized gain of approximately \$106,000. The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

**Current commitments include:*****Commitments to/for Portfolio Companies:***

At April 30, 2011, the Company's existing commitments to portfolio companies consisted of the following:

**Commitments of MVC Capital, Inc.**

<b>Portfolio Company</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2011</b>
Octagon	\$7.0 million	
Turf	\$1.0 million	\$1.0 million
	\$20.1 million	
MVC Partners/MVCFS		
	<b>\$28.1 million</b>	
<b>Total</b>		<b>\$1.0 million</b>

***Off-Balance Sheet Arrangements:***

As of April 30 2011, the Company had the following commitments to guarantee various loans and mortgages:

**Off-Balance Sheet Arrangements**

<b>Guarantee</b>	<b>Amount Committed</b>	<b>Amount Funded at April 30, 2011</b>
MVC Automotive	\$9.6 million	
MVC Automotive	\$5.9 million	
Tekers	\$2.1 million	
MVC Automotive	\$2.1 million	
	<b>\$19.7 million</b>	
<b>Total</b>		

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

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

On October 12, 2006, the Company provided a \$12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on



**Table of Contents**

December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Company receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On February 12, 2009, the commitment amount of the revolving credit facility was reduced to \$7.0 million. At October 31, 2010 and April 30, 2011, there was no balance outstanding on the revolving credit facility.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately \$2.1 million at April 30, 2011.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately \$9.6 million at April 30, 2011.

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 \$5.9 million at April 30, 2011) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended a \$1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed \$1.0 million from the secured junior revolving note. At October 31, 2010 and April 30, 2011, the outstanding balance of the secured junior revolving note was \$1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million Czech Republic Koruna ( CZK ) mortgage for MVC Automotive, equivalent to approximately \$2.1 million at April 30, 2011.

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, the Company committed to invest approximately \$20.1 million in a private equity fund ( PE Fund ), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the GP ). The PE Fund completed a first closing of approximately \$80 million of capital commitments.

On April 26, 2011, the Company agreed to support a 5.0 million Euro letter of credit from JPMorgan Chase Bank, N.A., equivalent to approximately \$7.5 million at April 30, 2011. This letter of credit is being used as collateral for a project guarantee by AB DnB NORD bankas to Security Holdings.

***Commitments of the Company***

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million credit facility (the Credit Facility ), consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility now only consists of a \$50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. As of April 30, 2011, there was \$50.0 million outstanding on the Credit Facility. The proceeds from borrowings made under the Credit Facility are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under the Credit Facility will bear interest, at the Company's option, at a floating rate

**Table of Contents**

equal to either (i) the LIBOR rate with a 1.25% LIBOR floor (for one, two, three or six months), plus a spread of 4.5% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 3.50% per annum. The Company paid a closing fee, legal and other costs associated with obtaining and renewing the Credit Facility. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the consolidated balance sheet include the unamortized portion of these costs. Borrowings under the Credit Facility will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

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

**Subsequent Events**

As required by ASC 855, *Subsequent Events*, the Company evaluated subsequent events through the issuance date of the consolidated financial statements.

On May 4, 2011, the Company made an additional \$500,000 investment in NWPT for 5,000 shares of Series A Convertible Preferred Stock.

On May 4, 2011 and May 6, 2011, the Company invested \$4,500 and \$4.0 million, respectively, in JSC Tekers Holdings for 2,250 shares of common stock and a secured loan with an interest rate of 8% and maturity date of June 30, 2014.

On May 26, 2011, the Company invested an additional \$150,000 in Harmony for 23,806 shares of common stock.

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

**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 85.07% of the Company's total assets at April 30, 2011. As discussed in Note 7 *Portfolio Investments*, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company's fair value policies and procedures. The Company's investment strategy represents a high degree of business and financial risk due to the fact that portfolio company investments are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be: (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. The Company may make short-term investments in 90-day Treasury Bills, which are federally guaranteed securities, or other investments, including exchange-traded funds, private investment funds and designated money market accounts, pending investments in portfolio companies made pursuant to our principal investment strategy.

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



**Table of Contents**

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

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

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

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

***Substantially all of our portfolio investments 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, 2011, approximately 85.07% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

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

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

**Table of Contents*****Economic recessions or downturns could impair our portfolio companies and have a material adverse impact on our business, financial condition and results of operations.***

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

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

During certain periods covered by this report, conditions in the public debt and equity markets deteriorated and pricing levels continued to decline. 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. 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 could result in further declines in the market values of the Company investments. Such declines could also lead to diminished investment opportunities for the Company, prevent the Company from successfully executing its investment strategies or require the Company to dispose of investments at a loss while such adverse market conditions prevail.

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

**Table of Contents**

*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, 2011, our two largest investments, Summit and U.S. Gas, were fair valued at 19.4% and 21.7% of our net assets, respectively. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may continue to be significantly represented among our investments. To the extent that we have large positions in the securities of a small number of portfolio companies, we are subject to an increased risk of significant loss should the performance or financial condition of these portfolio companies deteriorate. We may also be more susceptible to any single economic or regulatory occurrence as a result of holding large positions in a small number of portfolio companies.

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

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

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

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

**Table of Contents**

***Complying with the RIC requirements causes 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 security of an issuer, and compliance with the RIC requirements currently restricts us from making additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. Thus, compliance with the RIC requirements restricts our ability to take advantage of certain investment opportunities believed to be attractive, including potential follow-on investments in certain portfolio companies.

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

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

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

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

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

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

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

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

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

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

General economic conditions and trends;

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

**Table of Contents**

Departures of key personnel of TTG Advisers.

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

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

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

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

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

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

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

If we experience a shift in the ownership of our common stock (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.

**Table of Contents**

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million revolving credit facility (the Credit Facility) with Guggenheim Corporate Funding, LLC (Guggenheim) as administrative agent to the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility now only consists of a \$50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor. The Credit Facility contains covenants that we may not be able to meet. If we cannot meet these covenants, events of default would arise, which could result in payment of the applicable indebtedness being accelerated and may limit our ability to execute on our investment strategy. As of April 30, 2011, there was \$50.0 million in term debt outstanding under the Credit Facility. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable.

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

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

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

**Item 4. Controls and Procedures**

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

(b) There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended April 30, 2011, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****Part II. Other Information****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

We had no unregistered sales of equity securities for the quarter ended April 30, 2011. The following table represents our stock repurchase program for the quarter ended April 30, 2011.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share including commission</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
<b>Feb. 1, 2011 - Feb. 28, 2011</b>			306,100	\$ 1,000,872
<b>Mar. 1, 2011 - Mar. 31, 2011</b>	74,005	\$ 13.06	380,105	\$ 34,367
<b>Apr. 1, 2011 - Apr. 30, 2011</b>			380,105	\$ 34,367
<b>Total</b>	74,005	\$ 13.06	380,105	\$ 34,367

On April 23, 2010, the Company's Board of Directors approved a share repurchase program authorizing up to \$5.0 million in share repurchases. As of April 30, 2011, there have been 380,105 shares repurchased at an average price of \$13.06, including commission, with a total cost of approximately \$5.0 million, thereby substantially completing the share repurchase program authorized by our Board of Directors. The Company's net asset value per share was increased by approximately \$0.07 as a result of the share repurchases.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)****Item 5. Other Information**

None.



**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

Exhibit No.	Exhibit
10.1	Amendment No. 8 to the Credit Agreement among MVC Capital, Inc. and Guggenheim Corporate Funding, LLC, et al.
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).

**Table of Contents**

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 2, 2011

/s/ Michael Tokarz  
Michael Tokarz  
In the capacity of the officer who performs  
the  
functions of Principal Executive Officer.

MVC Capital, Inc.

Date: June 2, 2011

/s/ Peter Seidenberg  
Peter Seidenberg  
In the capacity of the officer who performs  
the  
functions of Principal Financial Officer.

67