

MVC CAPITAL, INC.  
Form N-2  
November 07, 2012

As filed with the Securities and Exchange Commission on November 7, 2012

Registration No. 333-

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form N-2  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

[ ] PRE-EFFECTIVE AMENDMENT NO.

[ ] POST-EFFECTIVE AMENDMENT NO.

MVC CAPITAL, INC.  
(Exact Name of Registrant as Specified in Charter)

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287 Bowman Avenue  
2nd Floor  
Purchase, NY 10577  
(Address of Principal Executive Offices)

Registrant's telephone number, including Area Code: (914) 701-0310

Michael T. Tokarz, Chairman  
MVC Capital, Inc.  
287 Bowman Avenue  
2nd Floor  
Purchase, NY 10577  
(Name and Address of Agent for Service)

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Copies of information to:

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New York, NY 10022  
(212) 756-2000

Approximate date of proposed public offering: From time to time after the effective date of this Registration Statement.

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If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

If appropriate, check the following box:

This [post-effective amendment] designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

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## CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.01 par value per share(2)				
Preferred Stock(2)				
Warrants(3)				
Debt Securities(4)				
Total			\$250,000,000(5)	\$34,100(1)

(1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.

(2) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time.

(3) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.

(4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$250,000,000.

(5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$250,000,000.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS

\$250,000,000

Common Stock  
Preferred Stock  
Warrants  
Debt Securities

MVC Capital, Inc. is a closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). Our investment objective is to seek to maximize total return from capital appreciation and/or income. We seek to achieve our investment objective primarily by providing debt and equity financing to small and middle-market companies that are, for the most part, privately owned. No assurances can be given that we will achieve our objective.

We are managed by The Tokarz Group Advisers LLC, a registered investment adviser.

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$250,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, which we refer to, collectively, as the "securities." The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

Our common stock is traded on the New York Stock Exchange under the symbol "MVC."

This prospectus, and the accompanying prospectus supplement, if any, sets forth information about us that a prospective investor should know before investing. It includes the information required to be included in a prospectus and statement of additional information. Please read it before you invest and keep it for future reference. You may request a free copy of this prospectus, and the accompanying prospectus supplement, if any, annual and quarterly reports, and other information about us, and make shareholder inquiries by calling (914) 510-9400, by writing to us or from our website at [www.mvccapital.com](http://www.mvccapital.com). Additional information about us has been filed with the Securities and Exchange Commission and is available on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

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Investing in our securities involves a high degree of risk. Before buying any securities, you should read the discussion of the material risks of investing in our securities, including the risk of leverage, in "Risk Factors" beginning on page 12 of this prospectus.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a

criminal offense.

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This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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, 2012

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You should rely only on the information contained in this prospectus and the accompanying prospectus supplement, if any. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and the accompanying prospectus supplement, if any. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers and sales are permitted. The information contained in or incorporated by reference in this prospectus and the accompanying prospectus supplement, if any, is accurate only as of the date of this prospectus or such prospectus supplement; however, the prospectus and such supplement will be updated to reflect any material changes. Our business, financial condition, results of operations and prospects may have changed since then.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, up to an aggregate of \$250,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more

supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading "Where You Can Find Additional Information" and the section under the heading "Risk Factors" before you make an investment decision.



## PROSPECTUS SUMMARY

The following summary highlights some of the information in this prospectus. It is not complete and may not contain all the information that you may want to consider. We encourage you to read this entire document and the documents to which we have referred.

In this prospectus and any accompanying prospectus supplement, unless otherwise indicated, "MVC Capital," "we," "us," "our" or the "Company" refer to MVC Capital, Inc. and its subsidiary, MVC Financial Services, Inc. ("MVCFS"), and "TTG Advisers" or the "Adviser" refers to The Tokarz Group Advisers LLC. Unless the context dictates otherwise, "we" also refers to TTG Advisers acting on behalf of MVC Capital.

## THE COMPANY

MVC Capital 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. MVC Capital provides debt and equity investment capital to fund growth, acquisitions and recapitalizations of small and middle-market companies in a variety of industries primarily located in the United States. Our investments can take the form of common and preferred stock and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "MVC."

Although the Company has been in operation since 2000, the year 2003 marked a new beginning for the Company - Mr. Tokarz and his management team assumed portfolio management responsibilities for the Company in November 2003. Prior to that, the Company had experienced significant valuation declines from investments made by the former management team. After only three quarters of operations under the new management team, the Company posted a profitable third quarter for fiscal year 2004, reversing a trend of 12 consecutive quarters of net investment losses and earned a profit for the entire fiscal year.

The Company has continued its growth. As of July 31, 2012, the Company's net assets were approximately \$392.8 million compared with net assets of approximately \$137 million at October 31, 2003 (immediately prior to Mr. Tokarz assuming portfolio management responsibilities for the Company), an approximately \$255.8 million or 187% cumulative increase.

## ABOUT MVC CAPITAL

The Company is managed by TTG Advisers, the Company's investment adviser, which is headed by Michael Tokarz, who has over 35 years of lending and investment experience. TTG Advisers has a dedicated originations and transaction development investment team with significant experience in private equity, leveraged finance, investment banking, distressed debt transactions and business operations. The members of the investment team have invested in and managed businesses during both recessionary and expansionary periods, through interest rate cycles and a variety of financial market conditions. TTG Advisers has 12 full-time investment professionals and two part-time investment professionals. TTG Advisers also uses the services of other investment professionals with whom it has developed long-term relationships, on an as-needed basis. In addition, TTG Advisers employs seven other full-time professionals and two part-time professionals who manage the operations of the Company and provide investment support functions both directly and indirectly to our portfolio companies. As TTG Advisers grows, it expects to hire, train, supervise and manage new employees at various levels, many of whom would be expected to provide services to the Company.

Fiscal year 2011 represented another year where we navigated through a challenging environment and prudently deployed capital into new and existing portfolio companies. During the fiscal year, the Company made six new investments in Octagon High Income Cayman Fund Ltd. ("Octagon Fund"), JSC Tekers Holdings ("JSC Tekers"),

Teleguam Holdings, LLC (“Teleguam”), Pre-Paid Legal Services, Inc. (“Pre-Paid Legal”), RuMe, Inc. (“RuMe”) and Centile Holdings B.V. (“Centile”) and made seven follow-on investments in four existing portfolio companies: Harmony Health & Beauty, Inc. (“HH&B”), SGDA Europe B.V. (“SGDA Europe”), NPWT Corporation (“NPWT”) and Security Holdings B.V. (“Security Holdings”). The total capital committed in fiscal year 2011 was \$43.2 million compared to \$8.3 million and \$6.3 million in fiscal years 2010 and 2009, respectively.

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Year to do date fiscal 2012 through July 31, 2012 was another period where capital was prudently deployed. During the nine month period ended July 31, 2012, the Company made two new investments, committing capital totaling \$2.5 million. The investments were made in Freshii USA, Inc. ("Freshii") (\$1.0 million) and Biovation Holdings, Inc. ("Biovation") (\$1.5 million). During the nine month period ended July 31, 2012, the Company made seven follow-on investments in three existing portfolio companies totaling approximately \$8.3 million. The Company through MVC Partners, LLC ("MVC Partners") Limited Partnership interest and MVCFS' General Partnership interest contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of July 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

Over the past eight years, through October 31, 2011, significant returns have been generated for shareholders. When the current management team began managing the Company in fiscal 2004, total assets after the tender offer were \$108.3 million. Since then and through October 31, 2011, the Company paid over \$74 million in distributions, generated \$216.4 million of changes in unrealized appreciation in the portfolio (net of unrealized depreciation) and extracted approximately \$58.4 million of cash from the legacy portfolio, which was valued at approximately \$24.1 million when the current team assumed control. The current management team has also earned approximately \$13.0 million in realized gains (net of realized losses) thus far on the portfolio (through October 31, 2011) and have repurchased approximately \$37.0 million of stock below NAV, including the shares purchased during the 2004 tender offer.

Most recently, the Company declared a 13.5 cent per share dividend for the fourth fiscal quarter of 2012, a 12.5% increase over the prior quarter's distribution. This distribution represents the thirtieth consecutive quarterly dividend paid by the Company since implementing a dividend policy in July 2005. During fiscal 2012, two of the Company's largest investments, U.S. Gas & Electric, Inc. and Summit Research Labs, Inc. paid distributions to the Company, totaling \$16 million. As of October 31, 2012, the Company has distributed over \$85 million to shareholders.

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

We are currently working on an active pipeline of potential new investment opportunities with a view to move the composition of our portfolio to a more yielding portfolio, over time. We expect that our loan and equity investments will generally range between \$3 million and \$25 million each, although we may occasionally invest smaller or greater amounts of capital depending upon the particular investment. While the Company does not adhere to a specific equity and debt asset allocation mix, no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses, determined as of the close of each quarter. Our portfolio company investments are typically illiquid and are made through privately negotiated transactions. We generally target companies with annual revenues of between \$10.0 million and \$150.0 million and annual EBITDA (earnings before net interest expense, income tax expense, depreciation and amortization) of between \$3.0 million and \$25.0 million. We generally seek to invest in companies with a history of strong, predictable, positive EBITDA. Due to our asset growth and composition, compliance with the RIC (as defined below) requirements currently restricts our ability to make 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"). See "Risk Factors" on page 12 for more information.

We may continue to seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner to a private equity or other investment fund(s). On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments. The Company through MVC Partners, LLC (“MVC Partners”) Limited Partnership interest and MVCFS’ General Partnership interest has contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of July 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc.

Our portfolio company investments currently consist of common and preferred stock, other forms of equity interest and warrants or rights to acquire equity interests, senior and subordinated loans, and convertible securities in addition to our interest in the PE Fund. At July 31, 2012, the value of all investments in portfolio companies was approximately \$425.5 million and our gross assets were approximately \$464.8 million.

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

Our Board of Directors (the "Board") has the authority to change any of the strategies described in this prospectus without seeking the approval of our shareholders. However, the 1940 Act prohibits us from altering or changing our investment objective, strategies or policies such that we cease to be a business development company and prohibits us from voluntarily withdrawing our election to be regulated as a business development company, without the approval of the holders of a "majority," as defined in the 1940 Act, of our outstanding voting securities.

#### COMPETITIVE ADVANTAGES

We believe that the following capabilities provide us with a competitive advantage over various other capital providers to small- and middle-market companies:

**Our Team's Experience and Expertise.** The investment team of TTG Advisers is headed by Michael Tokarz, who has over 35 years of lending and investment experience, 17 of which were with Kohlberg Kravis Roberts & Co., and Warren Holtsberg who has extensive investment experience, including as Corporate Vice President of Equity Investments and as Founder and Head of Motorola Ventures where he spent 13 years, including eight years actively managing the corporate venture group.

TTG Advisers has a dedicated originations and investment team comprised of 12 investment professionals with over 15 years average experience in private equity, leveraged finance, investment banking, distressed debt transactions and business operations. The members of the investment team have experience managing investments and businesses during both recessionary and expansionary periods, through interest rate cycles and a variety of financial market conditions. TTG Advisers also retains the services of other investment and industry professionals with whom it has developed long-term relationships, on an as-needed basis. In addition, TTG Advisers employs seven other professionals who manage our operations and provide investment support functions both directly and indirectly to our portfolio companies.

**Proprietary Deal Flow.** We have relationships with various private equity firms, investment banks, business brokers, commercial banks, accounting firms, law firms, hedge funds, other investment firms, industry professionals and management teams of several companies, all of which provide us with access to a variety of investment opportunities. Because of these relationships, we often have the first or exclusive opportunity to provide investment capital and thus may be able to avoid competitive situations. As of July 31, 2012, over 90% of our portfolio was comprised of investments where we were either the lead or sole investor.

**Creative and Extensive Transaction Structuring.** We are flexible in the types of securities in which we invest and their structures, and can invest across a company's capital structure. We believe that the investment team's creativity and flexibility in structuring investments, coupled with our ability to invest in companies across various industries, gives us the ability to identify investment opportunities and provides us with the opportunity to be a "one-stop" capital

provider to small- and mid-sized companies.

Efficient/Collaborative Organizational Structure. In contrast to traditional private equity and mezzanine funds, which typically have a limited life, the perpetual nature of our corporate structure provides us with a permanent capital base and ensures that we are not exposed to the investor withdrawals and fund liquidations those other funds may encounter. We believe this greater flexibility with respect to our investment horizon affords us greater investment opportunities and is also attractive to our investors and potential investee companies, as our structure enables us to be a long-term partner for our portfolio companies.

**Counsel to Portfolio Companies.** We provide valuable support to our portfolio companies in different ways including: offering advice to senior management on strategies for realizing their objectives, advising or participating on their boards of directors, offering ideas to help increase sales, offering advice on improving margins and operating more efficiently, helping to augment the management team, capital structure assistance and providing access to external resources (e.g., financial, legal, accounting, or technology).

**Existing Investment Platform:** As of July 31, 2012, we had approximately \$464.8 million in gross assets under management. During the 2011 fiscal year, the Company made six new investments and seven follow-on investments pursuant to its strategy of maximizing capital appreciation and/or income. In fiscal 2012, through July 31, 2012, the Company made two new investments and seven follow-on investments. We believe that our current investment platform provides us with the ability to, among other things, identify investment opportunities and conduct marketing activities and extensive due diligence for potential investments.

**Oversight:** The public nature of the Company allows for oversight not normally found in a typical private investment firm. This oversight is provided by the SEC, the NYSE, the Company's Board and, most importantly, the Company's shareholders. The Company, through its periodic filings with the SEC, provides transparency into its investment portfolio and operations thus allowing shareholders access to information about the Company on a regular basis.

**Diverse Industry Knowledge:** We provide financing to companies in a variety of industries. We generally look at companies with secure market niches and a history of predictable or dependable cash flows in which members of the investment team have prior investment experience. We believe that the ability to invest in portfolio companies in various industries has the potential to give our portfolio greater diversity.

**Disciplined and Opportunistic Investment Philosophy:** Our investment philosophy and method of portfolio construction involves an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. While the composition of our portfolio may change based on our opportunistic investment philosophy, we continue to seek to provide long-term debt and equity investment capital to small and middle-market companies that we believe will provide us strong returns on our investments while taking into consideration the overall risk profile of the specific investment.

**Tax Status and Capital Loss Carry Forwards:** The Company has elected to be taxed as a "regulated investment company" ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). It is the policy of the Company to continue to meet the requirements for RIC status. As a RIC, the Company is not subject to federal income tax to the extent that it distributes all of its investment company taxable income and net realized capital gains for its taxable year (see "Federal Income Tax Matters"). This allows us to attract different kinds of investors than other publicly held corporations. The Company is also exempt from excise tax if it distributes at least (1) 98% of its ordinary income during each calendar year, (2) 98.2% of its capital gains realized in the period from November 1 of the prior year through October 31 of the current year, and (3) all such ordinary income and capital gains for previous years that were not distributed during those years. At October 31, 2011, the Company had a net capital loss carry forward of approximately \$26.3 million, all of which will expire in the year 2019. To the extent future capital gains are offset by capital loss carry forwards, such gains need not be distributed. The Company had approximately \$19.5 million in unrealized losses associated with Legacy Investments as of July 31, 2012.

## OPERATING AND REGULATORY STRUCTURE

Our tax status generally allows us to "pass-through" our income to our shareholders as dividends without the imposition of corporate level taxation, if certain requirements are met. See "Federal Income Tax Matters."

As a business development company, we are required to meet certain regulatory tests, the most significant relating to our investments and borrowings. We are required to have at least 70% of the value of our total assets invested in "eligible portfolio companies" or cash or cash equivalents. Generally, U.S.-based, privately held or thinly-traded public companies are deemed "eligible portfolio companies" under the 1940 Act. A business development company must also maintain a coverage ratio of assets to borrowings of at least 200%. See "Certain Government Regulations."



As a business development company, we must make available significant managerial assistance to our portfolio companies. We provide support for our portfolio companies in several different ways including: offering advice to senior management on strategies for realizing their objectives, advising or participating on their boards of directors, offering ideas to help increase sales, reviewing monthly/quarterly financial statements, offering advice on improving margins and saving costs, helping to augment the management team, providing capital structure expertise and providing access to external resources (e.g., financial, legal, accounting, or technology). We may receive fees for these services.

#### PLAN OF DISTRIBUTION

We may offer, from time to time, up to \$250,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, on terms to be determined at the time of the offering.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such securities. See "Plan of Distribution."

#### USE OF PROCEEDS

We intend to use the net proceeds from the sale of our securities for general corporate purposes, including, for example, investing in portfolio companies in accordance with our investment objective and strategy, repaying debt, funding our subsidiaries' activities, allocating capital to an SBIC vehicle, and/or repurchasing our shares pursuant to the share repurchase program adopted by the Board on April 23, 2010 and expanded on July 19, 2011. Pending such uses, we will hold the net proceeds from the sale of our securities in cash or invest all or a portion of such net proceeds in short term, liquid investments. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

#### DETERMINATION OF COMPANY'S NET ASSET VALUE

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

Pursuant to our Valuation Procedures, the Valuation Committee (which is comprised of three Independent Directors) determines fair values of portfolio company investments on a quarterly basis (or more frequently, if deemed appropriate under the circumstances). Any changes in valuation are recorded in the consolidated statements of operations as "Net change in unrealized appreciation (depreciation) on investments." Currently, our NAV per share is calculated and published on a quarterly basis. The Company calculates our NAV per share by subtracting all liabilities

from the total value of our portfolio securities and other assets and dividing the result by the total number of outstanding shares of our common stock on the date of valuation.

At July 31, 2012, approximately 91.72% 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, third-party real estate and asset appraisals if appropriate and available, discounted cash flow analysis, if appropriate, as well as other factors. The Company generally requires, where practicable, portfolio companies to provide annual audited and more regular unaudited financial statements, and/or annual projections for the upcoming fiscal year.

The fair value of our portfolio securities is inherently subjective. Because of the inherent uncertainty of fair valuation of portfolio securities and escrow receivables that do not have readily ascertainable market values, our estimate of fair value may significantly differ from the fair value that would have been used had a ready market existed for the securities. Such values also do not reflect brokers' fees or other selling costs, which might become payable on disposition of such investments.

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification, Fair Value Measurements and Disclosures ("ASC 820"). In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date and majority-owned publicly traded securities and other privately held securities are valued as determined in good faith by the Valuation Committee of our Board of Directors. For legally or contractually restricted securities of companies that are publicly traded, the value is based on the closing market quote on the valuation date minus a discount for the restriction. At July 31, 2012, we did not hold restricted or unrestricted securities of publicly traded companies for which we have a majority-owned interest.

ASC 820 provides a framework for measuring the fair value of assets and liabilities and provides guidance regarding a fair value hierarchy which prioritizes information used to measure value. In determining fair value, the Valuation Committee primarily uses the level 3 inputs referenced in ASC 820. See "Determination of Company's Net Asset Value — Valuation Methodology" on page 71.

## DISTRIBUTIONS

Currently, the Company has a policy of seeking to pay quarterly dividends to shareholders. Our quarterly dividends, if any, will be determined by our Board. Most recently, on October 15, 2012 our Board declared a regular quarterly dividend of \$0.135 per share, which was paid on October 31, 2012 to shareholders of record on October 25, 2012.

We intend to continue to qualify for treatment as a RIC under Subchapter M of the Code. In order to permit us to deduct from our taxable income dividends we distribute to our shareholders, in addition to meeting other

requirements, we must distribute for each taxable year at least 90% of (i) our investment company taxable income (consisting generally of net investment income from interest and dividends and net realized short term capital gains) and (ii) our net tax-exempt interest, if any. See "Federal Income Tax Matters" on page 88.

## DIVIDEND REINVESTMENT PLAN

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

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

## CORPORATE INFORMATION

Our principal executive office is located at 287 Bowman Avenue, 2nd Floor, Purchase, New York 10577 and our telephone number is (914) 510-9400.

Our Internet website address is <http://www.mvccapital.com>. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be part of this prospectus unless otherwise indicated.

## RISK FACTORS

An investment in MVC Capital involves certain significant risks relating to our business and investment objective. We have identified below a summary of these risks. For a more complete description of the risk factors impacting an investment in our securities, we urge you to read the "Risk Factors" section. There can be no assurance that we will achieve our investment objective and an investment in the Company should not constitute a complete investment program for an investor.

### Business Risks

- We depend on key personnel of TTG Advisers, especially Mr. Tokarz, in seeking to achieve our investment objective.
- Our returns may be substantially lower than the average returns historically realized by the private equity industry as a whole.
- Substantially all of our portfolio investments and escrow receivables are recorded at "fair value" and, as a result, there is a degree of uncertainty regarding the carrying values of our portfolio investments.
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Economic recessions or downturns, including the current economic instability in Europe and the United States, could impair our portfolio companies and have a material adverse impact on our business, financial condition and results of operations.

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

- Our ability to use our capital loss carry forwards may be subject to limitations.
- Loss of pass-through tax treatment would substantially reduce net assets and income available for dividends.
- Our ability to grow depends on our ability to raise capital.
- Complying with the RIC requirements may cause us to forego otherwise attractive opportunities.
- Regulations governing our operation as a business development company affect our ability to, and the way in which we, raise additional capital.
- Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.
- Changes in the law or regulations that govern business development companies and RICs, including changes in tax law or regulations, may significantly impact our business.
- Results may fluctuate and may not be indicative of future performance.
- Our common stock price can be volatile.
- We are subject to market discount risk.
- We have not established a minimum dividend payment level and we cannot assure you of our ability to make distributions to our shareholders in the future.
- We have borrowed and may continue to borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.
- Changes in interest rates may affect our cost of capital and net operating income and our ability to obtain additional financing.
- We may be unable to meet our covenant obligations under our credit facility, which could adversely affect our business.
- A small portion of our existing investment portfolio was not selected by the investment team of TTG Advisers.
- Under the Advisory Agreement, TTG Advisers is entitled to compensation based on our portfolio's performance. This arrangement may result in riskier or more speculative investments in an effort to maximize incentive compensation.
- There are potential conflicts of interest that could impact our investment returns.
- Our relationship with any investment vehicle we or TTG Advisers manage could give rise to conflicts of interest with respect to the allocation of investment opportunities between us on the one hand and the other vehicles on the other hand.
- 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.

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

Investment Risks

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

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- Our investments in portfolio companies are generally illiquid.
- Our investments in small and middle-market privately-held companies are extremely risky and the Company could lose its entire investment.
- Our borrowers may default on their payments, which may have an effect on our financial performance.
- Our investments in mezzanine and other debt securities may involve significant risks.
- 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.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.
- We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.
- Our portfolio companies may incur obligations that rank equally with, or senior to, our investments in such companies. As a result, the holders of such obligations may be entitled to payments of principal or interest prior to us, preventing us from obtaining the full value of our investment in the event of an insolvency, liquidation, dissolution, reorganization, acquisition, merger or bankruptcy of the relevant portfolio company.
- Investments in foreign debt or equity may involve significant risks in addition to the risks inherent in U.S. investments.

#### Offering Risks

- Our common stock price can be volatile.
- Investing in our securities may involve a high degree of risk.
- We may allocate the net proceeds from this offering in ways with which you may not agree.
- Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.
- Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which could dilute our existing shareholders and be senior to our common stock for the purposes of distributions, may harm the value of our common stock.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission (the "SEC") a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act of 1933, as amended (the "Securities Act"). The registration statement contains additional information about us and the common stock being offered by this prospectus. You may inspect the registration statement and the exhibits without charge at the SEC at 100 F Street, NE, Washington, DC 20549. You may obtain copies from the SEC at prescribed rates.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can inspect our SEC filings, without charge, at the public reference facilities of the SEC at 100 F Street, NE, Washington, DC 20549. The SEC also maintains a web site at <http://www.sec.gov> that contains our SEC filings. You can also obtain copies of these materials from the public reference section of the SEC at 100 F Street, NE, Washington, DC 20549, at prescribed rates. Please call the SEC at 1-202-551-8090 for further information on the public reference room. Copies may also be obtained, after paying a duplicating fee, by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by written request to Public Reference Section, Washington, DC 20549-0102. You can also inspect reports and other information we file at the offices of the NYSE, and you are able to inspect those at 20 Broad Street, New York, NY 10005.

## FEES AND EXPENSES

This table describes the various costs and expenses that an investor in our common stock will bear directly or indirectly.

Shareholder Transaction Expenses (as a percentage of the offering price)		
Sales load	%	(1)
Offering expenses borne by us	%	(2)
Total shareholder transaction expenses	%	(3)
Estimated Annual Expenses (as a percentage of consolidated net assets attributable to common stock) (4)		
Management fees	2.14	%(5)
Incentive fees payable under Advisory Agreement (20% of net realized capital gains (on investments made after November 1, 2003) and 20% of pre-incentive fee net operating income)	4.17	%(5)
Other expenses	1.37	%(6)
Interest payments on borrowed funds	0.81	%(7)
Total annual expenses	8.50	%(8)
Less fee waiver	(0.62)	%(8)
Net annual expenses after fee waiver	7.87	%

## Example

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we assumed we would have no leverage and that our operating expenses would remain at the levels set forth in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following cumulative expenses on a \$1,000 investment, assuming a 5.0% annual return	\$78	\$226	\$366	\$683

Although the example assumes (as required by the SEC) a 5.0% annual return, our performance will vary and may result in a return of greater or less than 5.0%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in the dividend reinvestment plan may receive shares of common stock that we issue at net asset value or are purchased by the administrator of the dividend reinvestment plan, at the market price in effect at the time, which may be at or below net asset value. See "Dividend Reinvestment Plan."

The example should not be considered a representation of future expenses, and the actual expenses may be greater or less than those shown.

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(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3)

The related prospectus supplement will disclose the offering price and the total shareholder transaction expenses as a percentage of the offering price.

(4) "Consolidated net assets attributable to common stock" equals net assets (i.e., total consolidated assets less total consolidated liabilities) at July 31, 2012.

- (5) Pursuant to our Amended and Restated Investment Advisory and Management Agreement (the "Advisory Agreement"), the Company pays TTG Advisers a management fee and an incentive fee. The management fee is calculated at an annual rate of 2% of our total assets (excluding cash and the value of any investment by the Company not made in a portfolio company ("Non-Eligible Assets") but including assets purchased with borrowed funds that are not Non-Eligible Assets). The incentive fee payable to TTG Advisers is based on our performance, may not be paid unless we achieve certain goals and remains unpaid until certain realization events occur. The incentive fee percentage reflects the reserve for incentive compensation as of July 31, 2012. For a more complete description of the management and incentive fees, see "Advisory Agreement" on page 81 below.
- (6) "Other expenses" are based on actual expenses incurred for the nine month period ended July 31, 2012 and estimated expenses for the remainder of the fiscal year.
- (7) The estimate is based on borrowings outstanding as of July 31, 2012 and our assumption is that our borrowings and interest costs after an offering will remain similar to the amounts outstanding as of that date. We had outstanding borrowings of \$50 million at July 31, 2012. See "Risk Factors—Business Risks—We have borrowed and may continue to borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (8) TTG Advisers agreed to an expense cap for the fiscal years 2011 and 2012 pursuant to which it will absorb or reimburse operating expenses of the Company (promptly following the completion of such year), 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) for such year to 3.5%. TTG Advisers has also voluntarily agreed to extend the expense cap of 3.5% through the fiscal year 2013. In addition, for the 2010 through 2012 fiscal years, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement. TTG Advisers has also voluntarily agreed that any assets of the Company that were invested in exchange-traded funds and the Octagon High Income Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. The expense cap and voluntary waivers are described further in "Advisory Agreement" on page 81 below.

#### SELECTED CONSOLIDATED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and Notes thereto included in this prospectus. Financial information for the fiscal years ended October 31, 2011, 2010, 2009, 2008 and 2007 are derived from the consolidated financial statements, which have been audited by the Company's current independent registered public accounting firm. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 26 for more information.

## Selected Consolidated Financial Data

	Nine Month Period Ended July 31, 2012		Year Ended October 31,				
	2011	2011	2011	2010	2009	2008	2007
	(Unaudited)						
	(In thousands, except per share data)						
Operating Data:							
Interest and related portfolio income:							
Interest and dividend income	\$ 20,065	\$ 8,596	\$ 11,450	\$ 19,315	\$ 21,755	\$ 26,047	\$ 22,826
Fee income	1,445	2,321	2,784	3,696	4,099	3,613	3,750
Fee income - asset management	1,973	595	396	-	-	-	-
Other income	256	1,039	1,341	510	255	367	374
Total operating income	23,739	12,551	15,971	23,521	26,109	30,027	26,950
Expenses:							
Management fee	7,178	6,987	9,142	9,330	9,843	8,989	7,034
Portfolio fees - asset management	862	-	-	-	-	-	-
Administrative	2,711	3,215	4,320	3,395	3,519	3,620	2,559
Interest and other borrowing costs	2,481	2,299	3,082	2,825	3,128	4,464	4,859
Incentive compensation	(4,527 )	(1,535 )	1,948	2,479	3,717	10,822	10,813
Total operating expenses	8,705	10,966	18,492	18,029	20,207	27,895	25,265
Expense Waiver by Adviser	(2,516 )	(213 )	(251 )	(150 )			
Total net operating expenses	6,189	10,753	18,241	17,879	20,207	27,895	25,265
Net operating (loss) income before taxes	17,550	1,798	(2,270 )	5,642	5,902	2,132	1,685
Tax expense (benefit), net	1	13	14	8	1,377	(936 )	(375 )
Net operating (loss) income	17,549	1,785	(2,284 )	5,634	4,525	3,068	2,060
Net realized and unrealized gain							

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(loss):

Net realized (loss) gain on investments and foreign currency	(25,129 )	(14,443 )	(26,422 )	32,188	(25,082 )	1,418	66,944
Net change in unrealized appreciation (depreciation) on investments	(10,518 )	6,347	35,677	(21,689 )	34,804	59,465	(3,302 )
Net realized and unrealized (loss) gain on investments and foreign currency	(35,647 )	(8,096 )	9,255	10,499	9,722	60,883	63,642
Net (decrease) increase in net assets resulting from operations	\$ (18,098 )	\$ (6,311 )	\$ 6,971	\$ 16,133	\$ 14,247	\$ 63,951	\$ 65,702

Per Share:

Net increase in net assets per share resulting from operations	\$ (0.76 )	\$ (0.26 )	\$ 0.30	\$ 0.66	\$ 0.59	\$ 2.63	\$ 2.92
Dividends per share	\$ 0.36	\$ 0.36	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.54
Balance Sheet Data:							
Portfolio at value	\$ 425,461	\$ 428,536	\$ 452,215	\$ 433,901	\$ 502,803	\$ 490,804	\$ 379,168
Portfolio at cost	341,983	363,869	358,219	375,582	422,794	445,600	393,428
Total assets	464,820	483,312	497,107	500,373	510,846	510,711	470,491
Shareholders' equity	392,801	409,098	419,510	424,994	424,456	421,871	369,097
Shareholders' equity per share (net asset value)	\$ 16.42	\$ 17.10	\$ 17.54	\$ 17.71	\$ 17.47	\$ 17.36	\$ 15.21
Common shares outstanding at period end	23,917	23,917	23,917	23,991	24,297	24,297	24,265
Other Data:							
Number of Investments funded in period	9	9	13	5	6	15	26
Investments funded (\$) in period	\$ 10,767	\$ 32,084	\$ 43,235	\$ 8,332	\$ 6,293	\$ 126,300	\$ 167,134

	2012			2011				2010			
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Quarterly Data (Unaudited):											
Total operating	3,931	16,164	3,644	3,421	3,482	4,544	4,524	5,130	5,257	5,336	7,798

(In thousands, except per share data)

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income											
Management fee	2,168	2,365	2,645	2,155	2,183	2,249	2,555	2,232	2,176	2,467	2,455
Portfolio fees - asset management	338	462	62	-	-	-	-	-	-	-	-
Administrative	971	817	923	1,105	1,049	990	1,176	777	910	938	770
Interest, fees and other borrowing costs	854	832	795	783	784	745	770	770	767	647	641
Net Incentive compensation	(2,415 )	(175 )	(1,937)	3,483	(463 )	531	(1,603)	2,504	(3,270 )	2,225	1,020
Total waiver by adviser	(37 )	(2,383 )	(96 )	(38 )	(37 )	(38 )	(138 )	(50 )	(50 )	(50 )	-
Tax expense	-	-	1	2	-	2	10	2	-	1	5
Net operating income (loss) before net realized and unrealized gains	2,052	14,246	1,251	(4,069 )	(34 )	65	1,754	(1,105 )	4,724	(892 )	2,907
Net (decrease) increase in net assets resulting from operations	(10,595 )	1,515	(9,018)	13,282	(2,369)	2,302	(6,244)	11,307	(11,281)	8,969	7,138
Net (decrease) increase in net assets resulting from operations per share	(0.45 )	0.06	(0.37 )	0.56	(0.10 )	0.10	(0.26 )	0.47	(0.47 )	0.37	0.29
Net asset value per share	16.42	16.99	17.04	17.54	17.10	17.32	17.33	17.71	17.35	17.89	17.64

## RISK FACTORS

Investing in MVC Capital involves a number of significant risks relating to our business and investment objective. As a result, there can be no assurance that we will achieve our investment objective. In addition to the other information contained in this prospectus, you should consider carefully the following information before making an investment in our common stock. The Company's risk factors include those directly related to the Company's business, its investments, and potential offerings.



## BUSINESS RISKS

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

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

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

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

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

- The lower return we are likely to realize on short-term liquid investments during the period in which we are identifying potential investments, and
- The periodic disclosure required of business development companies, which could result in the Company being less attractive as an investor to certain potential portfolio companies.

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

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

At July 31, 2012, approximately 91.72% of our total assets represented portfolio investments and escrow receivables recorded at fair value.

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

would have been used had a ready market existed for the investments, and the differences could be material.

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

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

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

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

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

We may not realize gains from our equity investments.

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

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

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

Our ability to use our capital loss carry forwards and certain other losses may be subject to limitations.

At October 31, 2011, the Company had a net capital loss carry forward of approximately \$26.3 million, all of which will expire in the year 2019. The Company had approximately \$19.5 million in unrealized losses associated with Legacy Investments as of July 31, 2012. To the extent future capital gains are offset by capital loss carry forwards, such gains need not be distributed. If we experience an aggregate 50% shift in the ownership of our common stock from shareholder transactions over a three year period (e.g., if a shareholder acquires 5% or more of our outstanding shares of common stock, or if a shareholder who owns 5% or more of our outstanding shares of common stock significantly increases or decreases its investment in the Company), our ability to utilize our capital loss carry forwards and losses from Legacy Investments 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 carry forwards could be adversely affected.

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

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

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

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

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

In order to qualify as a RIC for U.S. federal income tax purposes, we must satisfy tests concerning the sources of our income, the nature and diversification of our assets and the amounts we distribute to our shareholders. We may be unable to pursue investments that would otherwise be advantageous to us in order to satisfy the source of income or asset diversification requirements for qualification as a RIC. In particular, to qualify as a RIC, at least 50% of our assets must be in the form of cash and cash items, Government securities, securities of other RICs, and other securities that represent not more than 5% of our total assets and not more than 10% of the outstanding voting securities of the issuer. We have from time to time held a significant portion of our assets in the form of securities that exceed 5% of our total assets or more than 10% of the outstanding voting securities of an issuer, and compliance with the RIC

requirements currently restricts us from making additional investments that represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. Thus, compliance with the RIC requirements may hinder our ability to take advantage of investment opportunities believed to be attractive, including potential follow-on investments in certain of our portfolio companies. Furthermore, as a result of the foregoing restrictions, the Board has approved an amended policy for the allocation of investment opportunities, which requires TTG Advisers to give first priority to the PE Fund for all equity investments that would represent more than 5% of our total assets or more than 10% of the outstanding voting securities of the issuer. For a further discussion of this allocation policy, please see "MVC Capital – Our Investment Strategy – Allocation of Investment Opportunities" below.

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 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, 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.

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

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

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

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

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

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

Our common stock price can be volatile.

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

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



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

We are subject to market discount risk.

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

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

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

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

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

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

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

At July 31, 2012, we had \$50.0 million in term debt on the revolving credit facility outstanding under the Credit Facility (defined below). We may incur additional debt in the future. If our portfolio of investments fails to produce adequate returns, we may be unable to make interest or principal payments on our indebtedness when they are due. The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing, at the weighted annualized average interest rate of 6.63% for the nine-month period ended July 31, 2012 and assuming hypothetical annual returns on our portfolio of minus 20 to plus 20 percent. As shown in the table, leverage generally increases the return to stockholders when the portfolio return is positive and decreases the return to stockholders when the portfolio return is negative. Actual returns to stockholders may be greater or less than those appearing in the table.

#### Assumed Return on Our Portfolio

Assumed Return on Portfolio (net of expenses) (1)	-20%	-10%	-5%	0%	5%	10%	20%
Corresponding Return to Common Stockholders (2)	-24.5%	-12.6%	-6.7%	-0.8%	5.1%	11.1%	22.9%

- (1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.
- (2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the "Corresponding Return to Common Stockholders."

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

Because we have borrowed and may continue to borrow money to make investments, our net investment income before net realized and unrealized gains or losses, or net investment income, may be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates would not have a material adverse effect on our net investment income. In periods of declining interest rates, we may have difficulty investing our borrowed capital into investments that offer an appropriate return. In periods of sharply rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use a combination of long-term and short-term borrowings and equity capital to finance our investing activities. We may utilize our short-term credit facility as a means to bridge to long-term financing. Our long-term fixed-rate investments are financed primarily with equity and

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.

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million revolving credit facility (the "Credit Facility") with Guggenheim Corporate Funding, LLC ("Guggenheim") as administrative agent to the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility consists of a \$50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor. As of July 31, 2012, there was \$50.0 million in term debt outstanding under the Credit Facility. The Credit Facility contains covenants that we may not be able to meet. If we cannot meet these covenants, events of default would arise, which could result in payment of the applicable indebtedness being accelerated and may limit our ability to execute on our investment strategy. As such, from time to time, due to investment activity, changing cash positions and the need to execute against certain corporate strategies, the Company has obtained Guggenheim's consent to waive compliance with certain covenants contained in the Credit Facility and may require such consents in the future and there can be no assurance that such future consents will be granted. The Credit Facility will expire on April 27, 2013, at which time the outstanding amount under the Credit Facility will be due and payable. Although not currently expected, in the event we are unable to renew such facility (or enter into a similar facility), our business could be adversely affected by, among other things, being forced to sell a portion of our investments quickly and prematurely to meet outstanding financing obligations and/or support working capital requirements at what may be disadvantageous prices.

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

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

As of July 31, 2012, 2.32% of the Company's assets were represented by Legacy Investments. These investments were made pursuant to the Company's prior investment objective of seeking long-term capital appreciation from venture capital investments in information technology companies.

Generally, a cash return may not be received on these investments until a "liquidity event," i.e., a sale, public offering or merger, occurs. Until then, these Legacy Investments remain in the Company's portfolio. The Company is managing them to seek to realize maximum returns.

Under the Advisory Agreement, TTG Advisers is entitled to compensation based on our portfolio's performance. This arrangement may result in riskier or more speculative investments in an effort to maximize incentive compensation.

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

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

Our officers and directors, and members of the TTG Advisers investment team, may serve other entities, including the PE Fund and others that operate in the same or similar lines of business as we do. Accordingly, they may have obligations to those entities, the fulfillment of which might not be in the best interests of us or our shareholders. It is possible that new investment opportunities that meet our investment objective may come to the attention of one of the

management team members or our officers or directors in his or her role as an officer or director of another entity or as an investment professional associated with that entity, and, if so, such opportunity might not be offered, or otherwise made available, to us.

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

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

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

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

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.

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

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

## INVESTMENT RISKS

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



Investing in private companies involves a high degree of risk.

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

Our investments in portfolio companies are generally illiquid.

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

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

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

- Small and middle-market companies may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to companies that typically do not have capital sources readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity.
- Small and middle-market companies typically have narrower product lines and smaller market shares than large companies. Because our target companies are smaller businesses, they may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, smaller companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.
- There is generally little or no publicly available information about these privately-held companies. There is generally little or no publicly available operating and financial information about privately-held companies. As a result, we rely on our investment professionals to perform due diligence investigations of these privately-held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations. It is difficult, if not impossible, to protect the Company from the risk of fraud, misrepresentation or poor judgment by our portfolio companies.
- Small and middle-market companies generally have less predictable operating results. We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, finance expansion or maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business

cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders.

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

- Small and middle-market companies are likely to have greater exposure to economic downturns than larger companies. We expect that our portfolio companies will have fewer resources than larger businesses and an economic downturn may thus more likely have a material adverse effect on them.
- Small and middle-market companies may have limited operating histories. We may make debt or equity investments in new companies that meet our investment criteria. Portfolio companies with limited operating histories are exposed to the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

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

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

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

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

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

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of portfolio companies in a limited number of industries. As of July 31, 2012, the fair values of our two largest investments, Summit Research Labs, Inc. ("Summit") and U.S. Gas & Electric, Inc. ("U.S. Gas"), comprised 18.9% and 23.1% of our net assets, respectively. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may continue to be significantly represented among our investments. To the extent that we have large positions in the securities of a small number of portfolio companies, we are subject to an increased risk of significant loss should the performance or financial condition of these portfolio companies or their respective industries deteriorate. We may also be more susceptible to any single economic or regulatory occurrence as a result of holding large positions in a small number of portfolio companies.

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

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

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

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

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

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

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

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

## OFFERING RISKS

Offering risks are risks that are associated with an offering of our securities.

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;
- 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; or
  - departures of key personnel of TTG Advisers.

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

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

We may allocate the net proceeds from this offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of an offering of our securities and may use the net proceeds from the offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which could dilute our existing shareholders and be senior to our common stock for the purposes of distributions, may harm the value of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of equity or debt securities, including medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon the liquidation of our Company, holders of our debt securities and shares of preferred stock and lenders with

respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us may dilute the holdings of our existing shareholders or reduce the value of our common stock, or both. Any preferred stock we may issue would have a preference on distributions that could limit our ability to make distributions to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.



## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Information contained in this prospectus may contain "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate" or "continue" or the negative thereof or other variations or similar words or phrases. The matters described in "Risk Factors" and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be incorrect. Important assumptions include our ability to originate new investments, maintain certain margins and levels of profitability, access the capital markets for equity and debt capital, the ability to meet regulatory requirements and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described in "Risk Factors" and elsewhere in this prospectus and any exhibits of the registration statement of which this prospectus is a part. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. The forward-looking statements contained in this prospectus and any accompanying prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

## USE OF PROCEEDS

We intend to use the net proceeds from the sale of our securities for general corporate purposes, including, for example, investing in portfolio companies in accordance with our investment objective and strategy, repaying debt, funding our subsidiaries' activities, including an SBIC vehicle, and/or repurchasing our shares pursuant to the most recent share repurchase program adopted by the Board on July 19, 2011. Pending such uses, we will hold the net proceeds from the sale of our securities in cash or invest all or a portion of such net proceeds in short term, liquid investments. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NYSE under the symbol "MVC." The following table lists the high and low closing sales prices for our common stock, and the closing sales price as a percentage of net asset value. On November 5, 2012, the last reported sale price on the NYSE for our common stock was \$12.24 and on July 31, 2012, the Company's net asset value per share was \$16.42. To view the Company's latest net asset value per share, visit the Company's Internet website address at <http://www.mvccapital.com>.

	NAV	Closing Sale Price High	Closing Sale Price Low	Premium/(Discount) of High Sales Price to NAV	Premium/(Discount) of Low Sales Price to NAV	Declared Dividends
Fiscal Year ending October 31, 2009						
First Quarter	17.28	12.59	9.15	-27.14%	-47.05%	0.12
Second Quarter	16.84	10.86	6.38	-35.51%	-62.11%	0.12
	16.46	9.41	7.79	-42.83%	-52.67%	0.12

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Third Quarter						
Fourth Quarter	17.47	9.69	8.67	-44.53%	-50.37%	0.12
	Fiscal Year ending October 31, 2010					
First Quarter	17.64	12.27	9.22	-30.44%	-47.73%	0.12
Second Quarter	17.89	14.71	10.98	-17.78%	-38.62%	0.12
Third Quarter	17.35	14.80	12.55	-14.70%	-27.67%	0.12
Fourth Quarter	17.71	13.44	12.32	-24.11%	-30.43%	0.12

	NAV	Closing Sale Price High	Closing Sale Price Low	Premium/(Discount) of High Sales Price to NAV	Premium/(Discount) of Low Sales Price to NAV	Declared Dividends
Fiscal Year ending October 31, 2011						
First Quarter	17.33	15.12	13.07	-12.75%	-24.58%	0.12
Second Quarter	17.32	14.74	12.96	-14.90%	-25.17%	0.12
Third Quarter	17.10	13.70	12.51	-19.88%	-26.84%	0.12
Fourth Quarter	17.54	13.14	10.23	-25.09%	-41.68%	0.12
Fiscal Year ending October 31, 2012						
First Quarter	17.04	12.98	11.01	-23.83%	-35.39%	0.12
Second Quarter	16.99	13.30	12.28	-21.72%	-27.72%	0.12
Third Quarter	16.42	13.13	12.33	-20.04%	-24.91%	0.12

At times, our common stock price per share has traded at a discount to our net asset value per share. We cannot predict whether our shares of common stock will trade at a premium or discount to net asset value in the future.

Currently, the Company has a policy of seeking to pay quarterly dividends to shareholders. Our quarterly dividends, if any, will be determined by our Board. Most recently, on October 15, 2012, our Board declared a regular quarterly dividend of \$0.135 per share, which was paid on October 31, 2012 to shareholders of record on October 25, 2012.

We maintain a dividend reinvestment plan for our registered shareholders. As a result, if our Board declares a dividend or distribution, certain shareholders can have any cash dividends and distributions automatically reinvested in additional shares of our common stock. See "Dividend Reinvestment Plan."

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 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 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, 2011, the Company made six new investments and made seven follow-on investments in existing portfolio companies committing a total of \$43.2 million of capital to these investments. During the nine month period ended July 31, 2012, the Company made two new investments and seven

follow-on investments in three existing portfolio companies, committing capital totaling \$10.8 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 July 31, 2012, 2.32% of the current fair value of our assets consisted of Legacy Investments. We are, however, seeking to manage these Legacy Investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential "liquidity event," i.e. , a sale, public offering, merger or other reorganization.

Our portfolio investments are made pursuant to our objective and strategy. We are concentrating our investment efforts on small and middle-market companies that, in our view, provide opportunities to maximize total return from capital appreciation and/or income. Under our investment approach, we are permitted to invest, without limit, in any one portfolio company, subject to any diversification limits required in order for us to continue to qualify as a RIC under Subchapter M of the Code. Due to 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 to a private equity or other investment fund(s). In fact, during fiscal year 2006, we established MVC Partners for this purpose. Furthermore, the Board of Directors authorized the establishment of the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP. On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees and other fees paid by the PE Fund and its portfolio companies and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors' authorization and direction, TTG Advisers is entitled to receive the balance of the fees and any carried interest generated by the PE Fund and its portfolio companies. Given this separate arrangement with the GP and the PE Fund, under the terms of the Company's Advisory Agreement with TTG Advisers, TTG Advisers is not entitled to receive from the Company a management fee or an incentive fee on assets of the Company that are invested in the PE Fund.

As a result of the closing of the PE Fund, consistent with the Board-approved policy concerning the allocation of investment opportunities, the PE Fund will receive a priority allocation of all private equity investments that are Non-Diversified Investments (i.e., would represent more than 5% of our total assets or more than 10% of the outstanding voting securities of an issuer during the PE Fund's investment period). For a further discussion of this allocation policy, please see "MVC Capital – Our Investment Strategy – Allocation of Investment Opportunities" below.

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

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 Nine Month Period Ended July 31, 2012 and 2011. Total operating income was \$23.7 million for the nine month period ended July 31, 2012 and \$12.6 million for the nine month period ended July 31, 2011, an increase of approximately \$11.1 million.

For the Nine Month Period Ended July 31, 2012

Total operating income was \$23.7 million for the nine month period ended July 31, 2012. The increase in operating income over the same period last year was primarily due to an increase in dividend income offset by a decrease in fees from portfolio companies and other income. The main components of operating income for the nine month period ended July 31, 2012, was dividend income from portfolio companies and the interest earned on loans. The Company

earned approximately \$20.1 million in interest and dividend income from investments in portfolio companies, of which \$12.0 million was a non-recurring dividend. Of the \$20.1 million recorded in interest/dividend income, approximately \$2.3 million was “payment in kind” interest/dividends. The “payment in kind” interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company’s debt investments yielded rates from 6% to 14%, excluding those investments which interest is being reserved against. The Company also received fee income from asset management of the PE Fund and its portfolio companies totaling approximately \$2.0 million and fee income from portfolio companies of approximately \$1.4 million, totaling approximately \$3.4 million. Of the \$2.0 million of fee income from asset management, 75% of the income is obligated to be paid to TTG Advisers. However, under the PE Fund’s agreements, a significant portion of the portfolio fees that are paid by the PE Fund’s portfolio companies to the GP and TTG Advisers is subject to recoupment by the PE Fund in the form of an offset to future management fees paid by the PE Fund.

For the Nine Month Period Ended July 31, 2011

Total operating income was \$12.6 million for the nine month period ended July 31, 2011. The decrease in operating income over the same period last year was primarily due to the repayment of investments that provided the Company with current income, reserves against non-performing loans and a decrease in dividend income from the sale of portfolio companies. The main components of operating income were the interest earned on loans and the receipt of closing, monitoring and termination fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately \$8.6 million in interest and dividend income from investments in portfolio companies. Of the \$8.6 million recorded in interest/dividend income, approximately \$2.4 million was “payment in kind” interest/dividends. The “payment in kind” interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company’s debt investments yielded rates from 3% to 15%, excluding those investments which interest is being reserved against. The Company received fee income and other income from portfolio companies and other entities totaling approximately \$4.0 million.

#### OPERATING EXPENSES

For the Nine Month Period Ended July 31, 2012 and 2011. Operating expenses, net of Voluntary Waivers, were approximately \$6.2 million for the nine month period ended July 31, 2012 and \$10.8 million for the nine month period ended July 31, 2011, a decrease of approximately \$4.6 million.

For the Nine Month Period Ended July 31, 2012

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$6.2 million or 2.01% of the Company’s average net assets, when annualized, for the nine month period ended July 31, 2012. Significant components of operating expenses for the nine month period ended July 31, 2012 were management fee expense of totaling approximately \$7.2 million, which includes management fees related to the Company and the PE Fund, and interest and other borrowing costs of approximately \$2.5 million.

The \$4.6 million decrease in the Company’s net operating expenses for the nine month period ended July 31, 2012 compared to the nine month period ended July 31, 2011, was primarily due to the \$3.0 million decrease in the estimated provision for incentive compensation expense and the \$2.3 million voluntary waiver of the income incentive fee payment, which were offset by the addition of approximately \$862,000 in portfolio fees – asset management expense. The portfolio fees are payable to TTG Advisers for monitoring and other customary fees received by the GP from portfolio companies of the PE Fund. To the extent the GP or TTG Advisers receives advisory, monitoring organization or other customary fees from any portfolio company of the PE Fund, 25% of such fees shall be paid to or retained by the GP and 75% of such fees shall be paid to or retained by TTG Advisers. For the 2010 and 2011 fiscal years, TTG Advisers voluntarily agreed to waive \$150,000 of expenses that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the “Voluntary Waiver”). On October 25, 2011, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% and the Voluntary Waiver to the 2012 fiscal year. TTG Advisers had also voluntarily agreed that any assets of the Company that were invested in exchange-traded funds and the Octagon Fund would not be taken into account in the calculation of the base management fee due to TTG Advisers under the Advisory Agreement. For fiscal year 2011 and for the nine month period ended July 31, 2012 annualized, the Company’s expense ratio was 3.18% and 2.968%, 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 nine month period ended July 31, 2012, the provision for incentive compensation was decreased by a net amount of approximately \$6.8 million to approximately \$17.1 million. The net decrease in the provision for incentive compensation during the nine month period ended July 31, 2012 reflects the Valuation Committee's determination to decrease the fair values of eleven of the Company's portfolio investments (BP, HH&B, MVC Automotive, Security Holdings, SGDA Europe, NPWT, Tekers, Velocitius, BPC, Turf and Ohio Medical) by a total of \$25.8 million and the dividend distribution of \$12.0 million received from Summit. The net decrease in the provision also reflects the Valuation Committee's determination to increase the fair values of three of the Company's portfolio investments (Octagon Fund, Vestal and RuMe) by a total of approximately \$3.0 million. The Valuation Committee also increased the fair value of the Company's escrow receivable related to Vitality by \$130,000. For the nine month period ended July 31, 2012, a provision of approximately \$2.3 million was recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income exceeded the hurdle rate for the quarter ended April 30, 2012. TTG Advisers has voluntarily agreed to waive the income-related incentive fee payment of approximately \$2.3 million that the Company would otherwise be obligated to pay to TTG Advisers under the Advisory Agreement. Please see Note 10 of our consolidated financial statements "Incentive Compensation" for more information.

#### For the Nine Month Period Ended July 31, 2011

Operating expenses, net of the Voluntary Waivers (as described below), were approximately \$10.8 million or 3.44% of the Company's average net assets, when annualized, for the nine month period ended July 31, 2011. Significant components of operating expenses for the nine month period ended July 31, 2011 were management fee expense of \$7.0 million and interest and other borrowing costs of approximately \$2.3 million.

The \$800,000 decrease in the Company's operating expenses for the nine month period ended July 31, 2011 compared to the nine month period ended July 31, 2010, was primarily due to the \$1.5 million decrease in the estimated provision for incentive compensation expense offset by increases in interest and other borrowings costs, legal and other expenses totaling approximately \$850,000. 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 nine month period ended July 31, 2011 annualized, the Company's expense ratio was 2.95% and 3.19%, 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 nine month period ended July 31, 2011, the provision for incentive compensation was decreased by a net amount of approximately \$1.5 million to \$20.5 million. The decrease in the provision for incentive compensation reflects the Valuation Committee's determination to increase the fair values of eight of the Company's portfolio investments (Summit, SHL Group Limited, Security Holdings, Tekers, Total Safety, U.S. Gas, Octagon Fund and Velocitius) by a total of approximately \$20.8 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 seven of the Company's portfolio investments (BP, Ohio Medical, MVC Automotive, HuaMei, SGDA Europe, Vestal and HH&B) by a total of \$30.6 million. During the nine month period ended July 31, 2011, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 10 of our consolidated financial statements "Incentive Compensation" for more information.



REALIZED GAINS AND LOSSES ON PORTFOLIO SECURITIES

For the Nine Month Period Ended July 31, 2012 and 2011. Net realized losses for the nine month period ended July 31, 2012 were approximately \$25.1 million and net realized losses for the nine month period ended July 31, 2011 were approximately \$14.4 million, an increase of approximately \$10.7 million.

For the Nine Month Period Ended July 31, 2012

Net realized losses for the nine month period ended July 31, 2012 were approximately \$25.1 million. The significant components of the Company's net realized losses for the nine month period ended July 31, 2012 were primarily due to the reorganization of BP and the sale of Safestone.

On December 12, 2011, BP filed for Chapter 11 protection in New York with agreement to turn ownership over to secured lenders under a bankruptcy reorganization plan. On June 20, 2012, BP completed the bankruptcy process which resulted in a realized loss of approximately \$23.4 million on the Company's second lien loan, term loan A and term loan B.

On March 23, 2012, the Company sold its shares in the Octagon Fund for approximately \$3.0 million resulting in a realized gain of approximately \$18,000. Also during the nine month period ended July 31, 2012, the Company received distributions from Octagon Fund of approximately \$45,000, which were treated as realized gains.

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

During the nine month period ended July 31, 2012, MVC Partners and MVCFS' General Partnership interest received distributions totaling approximately \$41,000 from the PE Fund which were treated as realized gains.

During the nine month period ended July 31, 2012, the Valuation Committee determined to increase the fair values of the Vitality and Vendio escrows by a combined amount of approximately \$143,000, which were recorded as realized gains.

For the Nine Month Period Ended July 31, 2011

Net realized losses for the nine month period ended July 31, 2011 were \$14.4 million. The significant components of the Company's net realized losses for the nine month period ended July 31, 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 Amersham. 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.

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 nine month period ended July 31, 2011, the Company sold its shares in the SPDR Barclays Capital High Yield Bond Fund and the iShares S&P U.S. Preferred Stock Index Fund, which resulted in a realized gain of approximately \$106,000.

## UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES

For the Nine Month Period Ended July 31, 2012 and 2011. The Company had a net change in unrealized depreciation on portfolio investments of approximately \$10.5 million for the nine month period ended July 31, 2012 and unrealized appreciation on portfolio investments of approximately \$6.3 million for the nine month period ended July 31, 2011, a net decrease of approximately \$16.8 million.

For the Nine Month Period Ended July 31, 2012

The Company had a net change in unrealized depreciation on portfolio investments of approximately \$10.5 million for the nine month period ended July 31, 2012. The change in unrealized depreciation for the nine month period ended July 31, 2012 primarily resulted from the \$12.0 million cash dividend received from Summit and the Valuation Committee's decision to decrease the fair values of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$750,000, MVC Automotive equity interest by approximately \$8.6 million, SGDA Europe equity interest by approximately \$2.8 million, Security Holdings equity interest by approximately \$6.2 million, Turf equity interest by \$118,000, BPC equity interest by \$180,000, MVC Partners equity interest by approximately \$1.0 million, MVCFS' General Partnership interest in the PE Fund by approximately \$11,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$417,000, Velocitius equity interest by approximately \$5.8 million and value the liability associated with the Ohio Medical guarantee at \$700,000. These changes in unrealized depreciation were partially off-set by the reclassifications from unrealized depreciation to realized losses caused by the reorganization of BP and the sale of Safestone of approximately \$25.4 million and the Valuation Committee decision to increase the fair values of the Company's investments in Octagon Fund by approximately \$227,000, RuMe preferred stock by approximately \$417,000 and Vestal common stock by approximately \$2.4 million.

For the Nine Month Period Ended July 31, 2011

The Company had a net change in unrealized appreciation on portfolio investments of approximately \$6.3 million for the nine month period ended July 31, 2011. The change in unrealized appreciation on investment transactions for the nine month period ended July 31, 2011 primarily resulted from the increase in unrealized 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 \$3.5 million, Security Holdings equity interest by approximately \$4.5 million, Tekers common stock by approximately \$410,000, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million, Octagon Fund by \$25,000 and Velocitius equity interest by \$300,000. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions which were treated as a return of capital. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$2.4 million, 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 \$1.5 million, SGDA Europe equity interest by \$4.3 million, Vestal common stock by \$670,000 and HH&B by \$5.7 million during the nine month period ended July 31, 2011.

## PORTFOLIO INVESTMENTS

For the Nine Month Period Ended July 31, 2012 and the Year Ended October 31, 2011. The cost of the portfolio investments held by the Company at July 31, 2012 and at October 31, 2011 was \$342.0 million and \$358.2 million, respectively, a decrease of \$16.2 million. The aggregate fair value of portfolio investments at July 31, 2012 and at

October 31, 2011 was \$425.5 million and \$452.2 million, respectively, a decrease of \$26.7 million. The Company held unrestricted cash and cash equivalents at July 31, 2012 and at October 31, 2011 of \$24.9 million and \$28.3 million, respectively, a decrease of approximately \$3.4 million.

For the Nine Month Period Ended July 31, 2012

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

During the nine month period ended July 31, 2012, the Company made seven follow-on investments in three existing portfolio companies totaling approximately \$8.3 million. The Company through MVC Partners Limited Partnership interest and MVCFS' General Partnership interest contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of July 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

On November 30, 2011, as part of the Ohio Medical debt refinancing, the Company agreed to guarantee a series B preferred stock tranche of equity. As of July 31, 2012, the amount guaranteed was approximately \$20.5 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

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

On December 28, 2011, the Company received its third scheduled disbursement from the Vitality escrow of approximately \$585,000. The escrow was fair valued at approximately \$472,000 as of July 31, 2012.

On March 7, 2012, the Board of Directors of Summit approved a recapitalization and declared a \$15.0 million dividend, of which \$12.0 million was paid to the Company resulting in a reduction in the fair value of the common stock by \$12.0 million.

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

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

On July 2, 2012, The Corporate Executive Board (NYSE:EXBD), acquired SHL Group Limited for \$660 million in cash. Upon closing of the transaction, the Company anticipates receiving net proceeds of approximately \$15.3 million, its approximate fair market value as of July 31, 2012, which would result in a realized gain of approximately \$9.3 million. See "Subsequent Events" below.

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

During the nine month period ended July 31, 2012, Marine made principal payments totaling \$450,000 on its senior subordinated loan. As of July 31, 2012, the balance of the loan was approximately \$11.9 million.

During the nine month period ended July 31, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$732,000. The outstanding balance of the tranche A term loan was approximately \$3.3 million.

During the quarter ended January 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$84,000, SGDA Europe equity interest by \$265,000, Turf equity

interest by \$500,000 and Security Holdings equity interest by \$205,000. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$759,466. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$500,000, MVC Automotive equity interest by approximately \$7.5 million, MVC Partners equity interest by approximately \$326,000, MVCFS' General Partnership interest in the PE Fund by approximately \$8,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$280,000, Velocitius equity interest by approximately \$1.9 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the quarter ended January 31, 2012, the undistributed allocation of flow through losses from the Company's equity investment in Octagon decreased the cost basis and fair value of this investment by approximately \$112,000.

During the quarter ended April 30, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by \$1.2 million, MVC Automotive equity interest by \$106,000, Security Holdings equity interest by \$101,000, SGDA Europe equity interest by \$33,000, Tekers common stock by \$4,000 and Octagon Fund by approximately \$143,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, U.S. Gas, Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$775,585. The Valuation Committee also decreased the fair value of the Company's investments in HH&B common stock by \$100,000, MVC Partners equity interest by approximately \$113,000, MVCFS' General Partnership interest in the PE Fund by approximately \$3,000, and Velocitius equity interest by approximately \$2.1 million. Also, during the quarter ended April 30, 2012, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$94,000.

During the quarter ended July 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Vestal common stock by approximately \$1.2 million and RuMe preferred stock by approximately \$417,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit, U.S. Gas, Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$759,887. The Valuation Committee also decreased the fair value of the Company's investments in BPC equity interest by \$180,000, HH&B common stock by \$150,000, MVC Automotive equity interest by approximately \$1.1 million, MVC Partners equity interest by approximately \$565,000, Security Holdings equity interest by approximately \$6.5 million, SGDA Europe equity interest by approximately \$3.1 million, Tekers common stock by \$141,000, Turf equity interest by \$618,000 and Velocitius equity interest by approximately \$1.9 million. Also, during the quarter ended July 31, 2012, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$107,000.

During the nine month period ended July 31, 2012, the Valuation Committee increased the fair value of the Company's investments in Octagon Fund by approximately \$227,000, RuMe preferred stock by approximately \$417,000 and Vestal common stock by approximately \$2.4 million. The Valuation Committee also increased the fair values of the Company's escrow receivables related to Vitality by \$130,000 and Vendio by approximately \$13,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, Marine, Summit U.S. Gas, and Freshii and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$2,294,938. The Valuation Committee also decreased the fair value of the Company's investments in BP term loan A by \$100,000, HH&B common stock by \$750,000, MVC Automotive equity interest by approximately \$8.6 million, SGDA Europe equity interest by approximately \$2.8 million, Security Holdings equity interest by approximately \$6.2 million, Turf equity interest by \$118,000, BPC equity interest by \$180,000, MVC Partners equity interest by approximately \$1.0 million, MVCFS' General Partnership interest in the PE Fund by approximately \$11,000, NPWT common and preferred stock by approximately \$6,000 and \$120,000, respectively, Tekers common stock by \$417,000 and Velocitius equity interest by approximately \$5.8 million. The Valuation Committee also determined to value the liability associated with the Ohio Medical guarantee at \$700,000. Also, during the nine month period ended July 31, 2012, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$89,000.

At July 31, 2012, the fair value of all portfolio investments, exclusive of short-term investments, was \$425.5 million with a cost basis of \$342.0 million. At July 31, 2012, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$30.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$414.7 million and \$311.7 million, respectively. At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term securities, was \$452.2 million, with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively.





For the Fiscal Year Ended October 31, 2011

During the fiscal year ended October 31, 2011, the Company made six new investments, committing capital totaling approximately \$26.1 million. The investments were made in Octagon Fund (\$3.0 million), JSC Tekers (\$4.0 million), Teleguam (\$7.0 million), Pre-Paid Legal (\$8.0 million), RuMe (\$1.2 million) and Centile (\$3.0 million).

During the fiscal year ended October 31, 2011, the Company made seven follow-on investments in four existing portfolio companies totaling approximately \$17.1 million. On January 27, 2011, the Company invested \$3.3 million in Security Holdings in the form of an additional equity interest. On January 28, 2011, the Company loaned an additional \$5.0 million to Security Holdings in the form of a bridge loan with an annual interest rate of 3%. This bridge loan allowed Security Holdings to secure project guarantees. On May 4, 2011, the Company invested \$500,000 in NPWT to acquire 5,000 shares of convertible preferred stock. On May 26, 2011 and September 14, 2011, the Company invested an additional \$150,000 on each date into HH&B to acquire an additional 47,612 shares of common stock. On September 6, 2011, the Company invested \$7.0 million in Security Holdings in the form of an additional equity interest. On October 17, 2011, the Company invested \$1.0 million in SGDA Europe in the form of additional equity interest. In addition, during the fiscal year ended October 31, 2011, the Company invested approximately \$10.0 million in the SPDR Barclays Capital High Yield Bond Fund and approximately \$10.0 million in the iShares S&P U.S. Preferred Stock Index Fund.

These investments were sold during the fiscal year ended October 31, 2011, resulting in a realized gain of approximately \$106,000. The investments in these exchange traded funds were intended to provide the Company with higher yielding investments than cash and cash equivalents while awaiting deployment into portfolio companies pursuant to the Company's principal investment strategy. TTG Advisers had voluntarily agreed that any assets of the Company that are invested in exchange-traded funds would not be subject to the base management fee due to TTG Advisers under the Advisory Agreement.

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

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

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

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

On January 11, 2011, SHL Group Limited, which provides workplace talent assessment solutions, including ability and personality tests, and psychometric assessments, acquired the Company's portfolio company PreVisor. The Company received 1,518,762 common shares of SHL Group Limited for its investment in PreVisor. The cost basis and market value of the Company's investment remained unchanged at the time as a result of the transaction.

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

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

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

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

On August 1, 2011, as part of a restructuring of the Company's investment in HuaMei, the Company sold its shares to HuaMei, resulting in a realized loss of \$2.0 million.

On August 31, 2011, Sonexis, a Legacy Investment, completed the dissolution of its operations and the sale of its assets. The Company realized a loss of \$10.0 million as a result of this dissolution.

On October 3, 2011, Storage Canada, LLC ("Storage Canada") repaid its term loan in full including all accrued interest.

On October 17, 2011, the Company converted SGDA Europe's \$1.5 million senior secured loan and all accrued interest to additional common equity interest.

On October 28, 2011, Total Safety repaid its first and second lien loans in full including all accrued interest.

On October 31, 2011, the Company received a distribution from NPWT of \$500,000, which was treated as a return of capital and returned all cash invested into NPWT to the Company.

During the fiscal year ended October 31, 2011, Marine Exhibition Corporation ("Marine") made principal payments totaling \$450,000 on its senior subordinated loan. The balance of the loan as of October 31, 2011 was approximately \$12.0 million.

During the fiscal year ended October 31, 2011, Octagon borrowed and repaid \$1.5 million on its revolving line of credit. Octagon cancelled the revolving line of credit effective June 30, 2011. As of October 31, 2011, the revolving credit facility was no longer a commitment of the Company.

During the fiscal year ended October 31, 2011, the Valuation Committee increased the fair value of the Company's investments in Summit common stock by \$14.5 million, SHL Group Limited common stock by \$4.9 million, Security Holdings equity interest by approximately \$17.6 million, Total Safety first lien loan by approximately \$74,000, U.S. Gas preferred stock by \$2.5 million and Velocitius equity interest by \$200,000. In addition, increases in the cost basis and fair value of the loans to Custom Alloy, SP, Marine, Summit and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling \$3,174,721. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately \$1.9 million due to PIK distributions, which were treated as a return of capital. Also, during the fiscal year ended October 31, 2011, the undistributed allocation of flow through income from the Company's equity investment in Octagon increased the cost basis and fair value of this investment by approximately \$589,000. The Valuation Committee also decreased the fair value of the Company's investments in MVC Automotive equity interest by approximately \$1.7 million, Tekers common stock by approximately \$2.3 million, Octagon Fund by \$209,000, BP second lien loan by \$3.9 million and term loan A and B by a combined \$3.2 million, Ohio Medical common stock by \$500,000 and preferred stock by approximately \$8.0 million, NPWT common and preferred stock by a net amount of \$200,000, HuaMei common stock by approximately \$1.5 million, SGDA Europe equity interest by approximately \$4.3 million, Vestal common stock by \$745,000 and HH&B by \$5.7 million during the fiscal year ended October 31, 2011.

At October 31, 2011, the fair value of all portfolio investments, exclusive of short-term investments, was \$452.2 million with a cost basis of \$358.2 million. At October 31, 2011, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$32.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$441.4 million and \$325.9 million, respectively. At October 31, 2010, the fair value of all portfolio investments, exclusive of short-term securities, was \$433.9 million, with a cost basis of \$375.6 million. At October 31, 2010, the fair value and cost basis of portfolio investments of the Legacy Investments was \$10.8 million and \$42.3 million, respectively, and the fair value and cost basis of portfolio investments made by the Company's current management team was \$423.1 million and \$333.3 million, respectively.

## Portfolio Companies

During the nine month period ended July 31, 2012, 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.

At October 31, 2011 and July 31, 2012, the Company’s investment in Actelis consisted of 150,602 shares of Series C preferred stock at a cost of \$5.0 million. The investment has been fair valued at \$0.

### Biovation Holdings Inc.

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

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

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

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

### BP Clothing, LLC

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

At October 31, 2011, the Company’s investment in BP consisted of a \$20.4 million second lien loan, a \$2.0 million term loan A, and a \$2.0 million term loan B. The second lien loan bears annual interest at 16.5%. The second lien loan had a \$17.5 million principal face amount and was issued at a cost basis of \$17.5 million. The second lien loan’s cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the second lien loan is July 18, 2012. The principal balance is due upon maturity. The term loan A bears annual interest at LIBOR plus 7.75% or Prime Rate plus 6.75%. The term loan B bears annual interest at LIBOR plus 10.75% or Prime Rate plus 9.75%. The interest rate option on the loan assignments is at the borrower’s discretion. Both term loans matured on July 18, 2011. The combined cost basis and fair value of the investments at October 31, 2011 was \$23.6 million and \$280,000, respectively.

On December 12, 2011, BP filed for Chapter 11 protection in New York with agreement to turn ownership over to secured lenders under a bankruptcy reorganization plan. Secured lenders, including the Company, agreed to support a Chapter 11.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the term loan A by \$100,000.

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

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

#### BPC II, LLC

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

On December 12, 2011, BP filed for Chapter 11 protection in New York with agreement to turn ownership over to secured lenders under a bankruptcy reorganization plan. Secured lenders, including the Company, agreed to support a Chapter 11.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the limited liability company interest in BPC by \$180,000.

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

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

#### Centile Holding B.V.

Centile, Sophia-Antipolis, France, is a leading European innovator of unified communications, network platforms, hosted solutions, applications and tools that help mobile, fixed and web-based communications service providers serve the needs of enterprise end users.

At October 31, 2011 and July 31, 2012, the Company's investment in Centile consisted of common equity interest at a cost and fair value of approximately \$3.0 million.

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

#### Custom Alloy Corporation

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

At October 31, 2011, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000 and 1,991 shares of convertible series B preferred stock at a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan, which bears annual interest at 14% and was to mature on September 18, 2012, had a cost of \$14.5 million and a fair value of \$14.6 million.

At July 31, 2012, the Company's investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of \$44,000 and the 1,991 shares of convertible series B preferred stock had a cost and fair value of approximately \$10.0 million. The unsecured subordinated loan had a cost basis, outstanding balance and a fair value of approximately \$15.3 million. The Company extended the maturity date of the loan to June 18, 2013. The increase in the cost basis and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Company's Valuation Committee.

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



DPHI, Inc. (formerly DataPlay, Inc.)

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

At October 31, 2011 and July 31, 2012, the Company’s investment in DPHI consisted of 602,131 shares of Series A-1 preferred stock with a cost of \$4.5 million. This investment has been fair valued at \$0.

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Foliofn, Inc.

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

At October 31, 2011 and July 31, 2012, the Company's investment in Folio fn consisted of 5,802,259 shares of Series C preferred stock with a cost of \$15.0 million and a fair value of \$10.8 million.

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

Freshii USA, Inc.

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

On January 13, 2012, the Company invested \$1.0 million in Freshii in the form of a senior secured loan with an annual interest rate of 12% and a maturity date of January 13, 2016, and received a warrant at no cost to the Company. The Company allocated a portion of the cost basis in the senior secured loan to the warrant at the time the investment was made.

At July 31, 2012, the Company's investment in Freshii consisted of a senior secured loan with an outstanding balance, cost basis and fair value of approximately \$1.0 million. The warrant had a cost and fair value of approximately \$34,000. The increase in cost and fair value of the loan is due to the amortization of loan origination fees, the capitalization of "payment in kind" interest and the discount associated with the warrant. These increases were approved by the Company's Valuation Committee.

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

GDC is the holding company of JDC Lighting, LLC ("JDC"). GDC, New York, New York, which was a distributor of commercial lighting and electrical products. The Company believes that GDC is no longer doing business due to alleged accounting discrepancies, which has resulted in an investigation by U.S. Department of Justice.

At October 31, 2011 and July 31, 2012, the Company's investment in GDC consisted of a \$3.3 million senior subordinated loan, bearing annual interest at 17% and matured on August 31, 2011. The loan had an outstanding balance of approximately \$3.3 million, a cost basis of approximately \$3.2 million and was fair valued at \$0. The warrant was fair valued at \$0. The Company has reserved in full against the interest accrued on the senior subordinated loan 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. HH&B now operates the health and beauty stores previously owned by Harmony Pharmacy in John F. Kennedy International Airport and San Francisco International Airport. The Company's initial investment consisted of 100,010 shares of common stock.

At October 31, 2011, the Company's investment in HH&B consisted of 147,621 shares of common stock with a cost of \$6.7 million and fair value of \$1.0 million.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the common stock by \$750,000.

At July 31, 2012, the Company's investment in HH&B consisted of 147,621 shares of common stock with a cost of \$6.7 million and fair value of \$250,000.

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

#### Integrated Packaging Corporation

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

At October 31, 2011, the Company's investment in IPC consisted of a warrant which was received in exchange for services provided to another investor in IPC. The warrant had a zero cost basis and has been fair valued at \$0.

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

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

#### JSC Tekers Holdings

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

At October 31, 2011 and July 31, 2012, the Company's investment in JSC Tekers consisted of a secured loan with an outstanding balance, a cost basis and a fair value of \$4.0 million and 2,250 shares of common stock with a cost basis and fair value of \$4,500. The secured loan has an interest rate of 8% and a maturity date of June 30, 2014.

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

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

At October 31, 2011 and July 31, 2012, the Company's investment in Lockorder consisted of 21,064 shares of common stock with a cost of \$2.0 million. The investment has been fair valued at \$0 by the Company's Valuation Committee.

#### Mainstream Data, Inc.

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

At October 31, 2011 and July 31, 2012, the Company's investment in Mainstream consisted of 5,786 shares of common stock with a cost of \$3.75 million. The investment has been fair valued at \$0.

#### Marine Exhibition Corporation

Marine, Miami, Florida, owns and operates the Miami Seaquarium. The Miami Seaquarium is a family-oriented entertainment park.

At October 31, 2011, the Company's investment in Marine consisted of a senior secured loan and 20,000 shares of preferred stock. The senior secured loan had an outstanding balance of approximately \$12.0 million and a cost basis of approximately \$11.9 million. The senior secured loan bears annual interest at 11% and matures on October 26, 2017. The senior secured loan was fair valued at approximately \$12.0 million. The preferred stock was fair valued at approximately \$3.0 million. The dividend rate on the preferred stock is 12% per annum.

During the nine month period ended July 31, 2012, Marine made principal payments totaling \$450,000 on its senior secured loan.

At July 31, 2012, the Company's senior secured loan had an outstanding balance, cost basis and a fair value of approximately \$11.9 million. The preferred stock had a cost and fair value of approximately \$3.2 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest/dividends. These increases were approved by the Company's Valuation Committee.

#### MVC Automotive Group B.V.

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

At October 31, 2011, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.7 million and a fair value of approximately \$42.5 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2012, had a cost and fair value of approximately \$3.6 million. The guarantees for MVC Automotive were equivalent to approximately \$13.7 million at October 31, 2011.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the equity interest by approximately \$8.6 million.

At July 31, 2012, the Company's investment in MVC Automotive consisted of an equity interest with a cost of approximately \$34.7 million and a fair value of approximately \$33.9 million. The bridge loan had a cost and fair value of approximately \$3.6 million. The mortgage guarantee for MVC Automotive was equivalent to approximately \$4.9 million at July 31, 2012. This guarantee was taken into account in the valuation of MVC Automotive.

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

#### MVC Partners LLC

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

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP. Of the \$20.1 million total commitment, the Company, via MVC Partners, has committed \$19.6 million to the PE Fund as its anchor limited partner. See MVC Private Equity Fund, L.P. for more information on the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments.

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

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

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the equity interest by approximately \$1.0 million.

At July 31, 2012, the Company's equity investment in MVC Partners had a cost basis of approximately \$9.4 million and fair value of approximately \$8.1 million.

#### MVC Private Equity Fund, L.P.

MVC Private Equity Fund, L.P., Purchase, New York, is a private equity fund focused on control equity investments in the lower middle market. MVC GP II, an indirect wholly-owned subsidiary of the Company, serves as the GP to the

PE Fund. MVC GP II is wholly-owned by MVCFS, a subsidiary of the Company. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to participate in Non-Diversified Investments made by the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees and other fees paid by the PE Fund and its portfolio companies and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors' authorization and direction, TTG Advisers is entitled to the remaining 75% of the management and other fees generated by the PE Fund and its portfolio companies and any carried interest generated by the PE Fund. A significant portion of the portfolio fees that are paid by the PE Fund's portfolio companies to the GP and TTG Advisers is subject to recoupment by the PE Fund in the form of an offset to future management fees paid by the PE Fund. Given this separate arrangement with the GP and the PE Fund, under the terms of the Company's Advisory Agreement with TTG Advisers, TTG Advisers is not entitled to receive from the Company a management fee or an incentive fee on assets of the Company that are invested in the PE Fund.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. Of the \$20.1 million total commitment, MVCFS, via its wholly-owned subsidiary MVC GP II, has committed \$500,000 to the PE Fund as its general partner. See MVC Partners for more information on the other portion of the Company's commitment to the PE Fund. The PE Fund has closed on approximately \$104 million of capital commitments.

During the nine month period ended July 31, 2012, the Company, via MVCFS, made three investments in MVC PE Fund totaling approximately \$204,000 in the form of a general partnership interest.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the general partnership interest in the PE Fund by approximately \$11,000.

At July 31, 2012, the Company's equity investment in the PE Fund had a cost basis of approximately \$204,000 and fair value of approximately \$193,000.

#### NPWT Corporation

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

During October of 2011 NPWT completed the sale of all of its assets to Invacare Corporation ("Invacare"). NPWT received an upfront payment as well as a limited five year royalty based on the sales of eligible product lines. On October 31, 2011, the Company received a distribution from NPWT of \$500,000, which was treated as a return of capital and returned all cash invested into NPWT to the Company. This distribution was paid from the upfront payment mentioned previously.

At October 31, 2011, the Company's investment in NPWT consisted of 281 shares of common with a cost basis of approximately \$1.2 million and a fair value of approximately \$56,000 and 5,000 shares of convertible preferred stock with a cost basis of \$0 and a fair value of \$1.0 million.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the common stock by approximately \$6,000 and the preferred stock by approximately \$120,000.

At July 31, 2012, the common stock had a cost basis of approximately \$1.2 million and a fair value of \$50,000. The convertible preferred stock had a cost basis of \$0 and a fair value of \$880,000.

Scott Schuenke, an officer of the Company, serves as a director of NPWT.

#### Octagon Credit Investors, LLC

Octagon, is a New York-based asset management company that manages leveraged loans and high yield bonds through collateralized debt obligations ("CDO") funds.

At October 31, 2011, the Company's investment in Octagon consisted of an equity investment with a cost basis of approximately \$2.2 million and a fair value of approximately \$5.3 million.

During the nine month period ended July 31, 2012, the cost basis and fair value of the equity investment was increased by approximately \$89,000 because of an allocation of flow through income by the Company's Valuation Committee.





At July 31, 2012, the equity investment had a cost basis of approximately \$2.3 million and a fair value of \$5.4 million.

Octagon High Income Cayman Fund Ltd.

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

At October 31, 2011, the Company's investment in Octagon Fund consisted of 3,014 shares of series 1 participating non-voting shares with a cost basis of approximately \$3.0 million and a fair value of approximately \$2.8 million.

During the nine month period ended July 31, 2012, the Valuation Committee increased the fair value of the investment by approximately \$227,000.

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

At July 31, 2012, the Company no longer held an investment in Octagon Fund.

Ohio Medical Corporation

Ohio Medical, Gurnee, Illinois, is a manufacturer and supplier of suction and oxygen therapy products, medical gas equipment, and input devices.

At October 31, 2011, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of approximately \$15.8 million and \$0, respectively, and 18,102 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$39.5 million.

On November 30, 2011, as part of Ohio Medical's refinancing of their debt, the Company agreed to guarantee a series B preferred stock tranche of equity, with a 12% coupon for the first 18 months it is outstanding. After that initial period, the rate increases by 400bps to 16% for the next 6 months and increases by 50 bps (.5%) each 6 month period thereafter. As of July 31, 2012, the amount guaranteed was approximately \$20.5 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

At July 31, 2012, the Company's investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis of approximately \$15.8 million and a fair value of \$0 and 20,362 shares of convertible preferred stock with a cost basis of \$30.0 million and a fair value of \$39.5 million. The guarantee obligation had a fair value of negative \$700,000.

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

Pre-Paid Legal Services, Inc.

Pre-Paid Legal, Ada, Oklahoma, is the leading marketer of legal counsel and identity theft solutions to families and small businesses in the U.S. and Canada.

At October 31, 2011, the Company's investment in Pre-Paid Legal consisted of a \$4.0 million tranche A term loan and a \$4.0 million tranche B term loan, both purchased at a discount. The tranche A term loan bears annual interest at LIBOR, with a 1.5% floor, plus 6% and matures on January 1, 2017 and the tranche B term loan bears annual interest at LIBOR, with a 1.5% floor, plus 9.5% and matures on January 1, 2017. At October 31, 2011, the loans had a combined outstanding balance of \$8.0 million and a cost basis and fair value of approximately \$7.8 million.

During the nine month period ended July 31, 2012, Pre-Paid Legal made principal payments on its tranche A term loan totaling approximately \$732,000.

At July 31, 2012, the loans had a combined outstanding balance of \$7.3 million and a cost basis and fair value of approximately \$7.1 million. The increases in the costs of the term loans are due to the amortization of the original issue discount.

RuMe, Inc.

RuMe, Denver, Colorado, produces functional, affordable and responsible products for the environmentally and socially-conscious consumer reducing dependence on single-use products.

At October 31, 2011, the Company's investment in RuMe consisted of 999,999 shares of common stock with a cost basis and fair value of approximately \$160,000 and 4,999,076 shares of series B-1 preferred stock with a cost basis and fair value of approximately \$1.0 million.

During the nine month period ended July 31, 2012, the Valuation Committee increased the fair value of the preferred stock by approximately \$417,000.

At July 31, 2012, the Company's investment in RuMe consisted of 999,999 shares of common stock with a cost basis and fair value of approximately \$160,000 and 4,999,076 shares of series B-1 preferred stock with a cost basis of approximately \$1.0 million and a fair value of approximately \$1.4 million.

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

SafeStone Technologies Limited (formerly Safestone Technologies PLC)

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

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

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

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

Security Holdings, B.V.

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

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

At October 31, 2011, the Company's common equity interest in Security Holdings had a cost basis of approximately \$40.2 million and a fair value of \$33.2 million.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the common equity interest by \$6.2 million.

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

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

SGDA Europe B.V.

SGDA Europe is an Amsterdam-based holding company that pursues environmental and remediation opportunities in Romania.

At October 31, 2011, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of \$10.5 million.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the common equity interest by approximately \$2.8 million.

At July 31, 2012, the Company's equity investment had a cost basis of approximately \$20.1 million and a fair value of approximately \$7.7 million.

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

SGDA Sanierungsgesellschaft für Deponien und Altlasten GmbH

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

At October 31, 2011 and July 31, 2012, the Company's investment in SGDA consisted of a term loan with an outstanding balance and cost basis of approximately \$6.2 million. The term loan bears annual interest at 7.0% and matures on August 31, 2012. The term loan was fair valued at approximately \$6.2 million.

SHL Group Limited (formerly PreVisor, Inc.)

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

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

At October 31, 2011, the Company's investment in SHL Group Limited consisted of 1,518,762 shares of common stock with a cost basis and fair value of \$6.0 million and \$15.3 million, respectively.

On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

On July 2, 2012, The Corporate Executive Board (NYSE:EXBD), acquired SHL Group Limited for \$660 million in cash. Upon closing of the transaction, the Company anticipates receiving net proceeds of approximately \$15.3 million, its approximate fair market value as of July 31, 2012. See "Subsequent Events" below.

At July 31, 2012, the Company's investment in SHL Group Limited consisted of 1,528,330 shares of common stock with a cost basis of approximately \$6.0 million and a fair value of approximately \$15.3 million.

SIA Tekers Invest

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

At October 31, 2011, the Company's investment in Tekers consisted of 68,800 shares of common stock with a cost of \$2.3 million and a fair value of approximately \$1.5 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately \$348,000 at October 31, 2011 for Tekers.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the common stock by \$417,000.

At July 31, 2012, the Company's investment in Tekers consisted of 68,800 shares of common stock with a cost of \$2.3 million and a fair value of approximately \$1.1 million. The guarantee for Tekers had a commitment of 175,000 euros at July 31, 2012, equivalent to approximately \$215,000. This guarantee was taken into account in the valuation of Tekers.

#### Summit Research Labs, Inc.

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

At October 31, 2011, the Company's investment in Summit consisted of a second lien loan and 1,115 shares of common stock. The second lien loan bears annual interest at 14% and matures on August 31, 2013. The second lien loan had an outstanding balance of \$11.1 million with a cost of \$11.0 million. The second lien loan was fair valued at \$11.1 million. The common stock had been fair valued at \$74.5 million with a cost basis of \$16.0 million.

On March 7, 2012, the Board of Directors of Summit approved a recapitalization and declared a \$15.0 million dividend, of which \$12.0 million was paid to the Company resulting in a reduction in the fair value of the common stock by \$12.0 million.

At July 31, 2012, the Company's second lien loan had an outstanding balance of approximately \$11.7 million with a cost of approximately \$11.6 million. The second lien loan was fair valued at approximately \$11.7 million. The 1,115 shares of common stock were fair valued at \$62.5 million and had a cost basis of \$16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Company's Valuation Committee.

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

#### Teleguam Holdings LLC

Teleguam, Guam, is a rural local exchange carrier providing broadband services, and local, long-distance and wireless phone services on the island of Guam.

At October 31, 2011, the Company's investment in Teleguam consisted of a \$7.0 million second lien loan, which was purchased at a discount, with an annual interest of LIBOR plus 8%, with a 1.75% LIBOR floor, and a maturity date of June 9, 2017. The loan had an outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 million.

At July 31, 2012, the loan had an outstanding balance of \$7.0 million and a cost basis and fair value of approximately \$6.9 million. The increase in the cost and fair value of the second lien loan is due to the amortization of the original issue discount.

#### Turf Products, LLC

Turf, Enfield, Connecticut, is a wholesale distributor of golf course and commercial turf maintenance equipment, golf course irrigation systems and consumer outdoor power equipment.



At October 31, 2011, the Company's investment in Turf consisted of a senior subordinated loan, bearing interest at 13% per annum with a maturity date of January 31, 2014, a junior revolving note, bearing interest at 6% per annum with a maturity date of January 31, 2014, LLC membership interest, and warrants. The senior subordinated loan had an outstanding balance, cost basis and a fair valued of \$8.4 million. The junior revolving note had an outstanding balance, cost, and fair value of \$1.0 million. The membership interest had a cost of \$3.5 million and a fair value of \$2.7 million. The warrants had a cost of \$0 and a fair value of \$0.

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the membership interest by \$118,000.

At July 31, 2012, the mezzanine loan had an outstanding balance, cost basis and a fair value of approximately \$8.4 million. The junior revolving note had an outstanding balance and fair value of \$1.0 million. The membership interest has a cost of approximately \$3.5 million and a fair value of approximately \$2.6 million. The warrants had a cost of \$0 and a fair value of \$0.

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

U.S. Gas & Electric, Inc.

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

At October 31, 2011, the Company’s investment in U.S. Gas consisted of a second lien loan with an outstanding balance, cost and fair value of \$9.1 million. The second lien loan bears annual interest at 14% and was to mature on July 26, 2012. The 32,200 shares of convertible Series I preferred stock had a fair value of \$78.5 million and a cost of \$500,000, and the convertible Series J preferred stock had a fair value of \$2.6 million and a cost of \$0.

At July 31, 2012, the second lien loan had an outstanding balance, cost basis and a fair value of approximately \$9.5 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of “payment in kind” interest. These increases were approved by the Company’s Valuation Committee. The maturity date for the second lien loan was extended to June 30, 2015. The convertible Series I preferred stock had a fair value of \$81.1 million and a cost of \$500,000 and the convertible Series J preferred stock had a cost and fair value of \$0. The value of the Series J preferred shares was transferred to the Series I preferred shares as a result of share buybacks, cancellations of certain other shareholders shares and U.S. Gas exceeding performance targets.

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

Velocitius B.V.

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

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

During the nine month period ended July 31, 2012, the Valuation Committee decreased the fair value of the equity investment by approximately \$5.8 million.

At July 31, 2012, the equity investment in Velocitius had a cost of \$11.4 million and a fair value of \$19.3 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, 2011, the Company's investment in Vestal consisted of a senior subordinated promissory note and 81,000 shares of common stock. The senior subordinated note had an annual interest of 12%, a maturity date of April 29, 2013 and an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock had a cost basis of \$1.9 million and a fair value of \$1.5 million.

During the nine month period ended July 31, 2012, the Valuation Committee increased the fair value of the common stock by approximately \$2.4 million.

At July 31, 2012, the Company's investment in Vestal consisted of a senior subordinated promissory note and 81,000 shares of common stock. The senior subordinated note had an outstanding balance, cost, and fair value of \$600,000. The 81,000 shares of common stock had a cost basis of approximately \$1.9 million and a fair value of \$3.9 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 July 31, 2012, the Company had investments in portfolio companies totaling \$425.5 million. Also, at July 31, 2012, the Company had investments in unrestricted cash and cash equivalents totaling approximately \$24.9 million. The Company also had approximately \$6.2 million in restricted cash and cash equivalents related to the project guarantee for Security Holdings. The Company considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid. Pending investments in portfolio companies pursuant to our principal investment strategy, the Company may make other short-term or temporary investments, including in exchange-traded funds and private investment funds offering periodic liquidity.

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

During the nine month period ended July 31, 2012, the Company made seven follow-on investments in three existing portfolio companies totaling approximately \$8.3 million. The Company through MVC Partners Limited Partnership interest and MVCFS' General Partnership interest contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of July 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

Current commitments include:

Commitments of the Company:

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

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

Guarantees:

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

Guarantee	Amount Committed	Amount Funded at July 31, 2012
MVC Automotive	\$ 4.9 million	—
Tekers	\$ 215,000	—
Ohio Medical	\$ 20.5 million	—
Total	\$ 25.6 million	—

ASC 460, Guarantees, requires the Company to estimate the fair value of the guarantee obligation at its inception and requires the Company to assess whether a probable loss contingency exists in accordance with the requirements of ASC 450, Contingencies. At July 31, 2012, the Valuation Committee estimated the fair values of the guarantee obligations noted above to be \$700,000.

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

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

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers. The guarantee had a commitment of approximately 175,000 euros at July 31, 2012, equivalent to approximately \$215,000.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive. The guarantee had a commitment of approximately 5.9 million euros at October 31, 2011, equivalent to approximately \$8.2 million. On July 31, 2012, the mortgage that was guaranteed was repaid by MVC Automotive, resulting in the release of the guarantee. As of July 31, 2012, the guarantee was no longer a commitment of the Company.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately \$4.9 million at July 31, 2012) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive. The Company has consistently reported the amount of the guarantee as 4.0 million Euro. The Company and MVC Automotive continue to view this amount as the full amount of our commitment. Erste Bank, the bank extending the mortgage to MVC Automotive, believes, based on a different methodology, that the balance of the guarantee as of July 31, 2012 is approximately 6.9 million Euro (equivalent to approximately \$8.4 million). The Company and MVC Automotive are working to resolve this discrepancy.

On July 31, 2008, the Company extended a \$1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on January 31, 2014. On July 31, 2008, Turf borrowed \$1.0 million from the secured junior revolving note. At October 31, 2011 and July 31, 2012, the outstanding balance of the secured junior revolving note was \$1.0 million.

On March 31, 2010, the Company pledged its Series I and Series J preferred stock of U.S. Gas to Macquarie Energy as collateral for Macquarie Energy's trade supply credit facility to U.S. Gas.

On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as GP. The PE Fund closed on approximately \$104 million of capital commitments. As of July 31, 2012, \$8.2 million of the Company's commitment was contributed.

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

On November 30, 2011, as part of Ohio Medical's refinancing of their debt, the Company agreed to guarantee a series B preferred stock tranche of equity, with a 12% coupon for the first 18 months it is outstanding. After that initial period, the rate increases by 400bps to 16% for the next 6 months and increases by 50 bps (.5%) each 6 month period thereafter. As of July 31, 2012, the amount guaranteed was approximately \$20.5 million and the guarantee obligation was fair valued at \$700,000 by the Valuation Committee.

Commitments of the Company

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, \$100 million Credit Facility, consisting of \$50.0 million in term debt and \$50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. On April 13, 2010, the Company renewed the Credit Facility for three years. The Credit Facility 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 July 31, 2012, 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 are being amortized evenly over the life of the facility. The prepaid expenses on the consolidated balance sheet include the unamortized portion of these costs. Borrowings under the Credit Facility are secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

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

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

#### Subsequent Events

On August 9, 2012, the Company sold its common shares of SHL Group Limited and received gross proceeds of approximately \$15.3 million, resulting in a realized gain of approximately \$9.3 million. The \$15.3 million in proceeds includes all transaction expenses and approximately \$225,000 which will be held in escrow.

On October 15, 2012, the Company received a \$2.4 million dividend from one of its portfolio companies, U.S. Gas & Electric, Inc.

On October 15, 2012, the Company declared a dividend of 13.5 cents per share, or approximately \$3.2 million to be distributed to shareholders for the fourth quarter of 2012. The dividend was paid on October 31, 2012 to shareholders of record on October 25, 2012 and represents a 12.5% increase over the prior quarterly dividend.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has procedures in place for the review, approval and monitoring of transactions involving the Company and certain persons related to the Company. For example, the Company has a Code of Ethics that generally prohibits, among others, any officer or director of the Company from engaging in any transaction where there is a conflict between such individual's personal interest and the interests of the Company. As a business development company, the



1940 Act also imposes regulatory restrictions on the Company's ability to engage in certain related party transactions. However, the Company is permitted to co-invest in certain portfolio companies with its affiliates to the extent consistent with applicable law or regulation and, if necessary, subject to specified conditions set forth in an exemptive order obtained from the SEC. Since the Company's current management team joined the Company in 2003, no transactions have been effected pursuant to the exemptive order. As a matter of policy, our Board has required that any related-party transaction (as defined in Item 404 of Regulation S-K) must be subject to the advance consideration and approval of the Independent Directors, in accordance with applicable procedures set forth in Section 57(f) of the 1940 Act.

The principal equity owner of the Adviser is Mr. Tokarz, our Chairman. Our senior officers and Mr. Holtsberg have other financial interests in the Adviser ( i.e. based on the Adviser's performance). In addition, our officers and the officers and employees of the Adviser may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by the Adviser or our affiliates. These related businesses currently include a private equity fund ("PE Fund"), the establishment of which was authorized by our Board. As previously disclosed in our 10-K Reports for the last two fiscal years, an indirect wholly-owned subsidiary of the Company serves as the general partner and the Adviser serves as the portfolio manager of the PE Fund, and both entities receives a portion of the carried interest and management fees generated from the PE Fund. The Adviser intends to allocate investment opportunities in a fair and equitable manner. Our Board has approved a specific policy regarding the allocation of investment opportunities, which is set forth in this prospectus. For a further discussion of this allocation policy, please see "MVC Capital – Our Investment Strategy – Allocation of Investment Opportunities" below.

### SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended October 31 since the Company commenced operations, unless otherwise noted. The report of the Company's current independent registered public accounting firm on the senior securities table as of October 31, 2011, is attached as an exhibit to the Registration Statement of which this prospectus is a part. The "—" indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year Lines of Credit	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
2000	\$ —	\$ —	\$ —	N/A
2001	\$ —	\$ —	\$ —	N/A
2002	\$ —	\$ —	\$ —	N/A
2003	\$ —	\$ —	\$ —	N/A
2004	\$ 10,025,000	\$ 11,531.18	\$ —	N/A
2005	\$ —	\$ —	\$ —	N/A
2006	\$ 100,000,000	\$ 3,369.93	\$ —	N/A
2007	\$ 80,000,000	\$ 5,613.71	\$ —	N/A
2008	\$ 69,000,000	\$ 7,114.07	\$ —	N/A
2009	\$ 62,300,000	\$ 7,813.09	\$ —	N/A
2010	\$ 50,000,000	\$ 9,499.89	\$ —	N/A
2011	\$ 50,000,000	\$ 9,382.14	\$ —	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

- (4) Not applicable, as senior securities are not registered for public trading.

#### THE COMPANY

MVC Capital 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. MVC Capital provides debt and equity investment capital to fund growth, acquisitions and recapitalizations of small and middle-market companies in a variety of industries primarily located in the United States. Our investments can take the form of common and preferred stock and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "MVC."

Although the Company has been in operation since 2000, the year 2003 marked a new beginning for the Company - Mr. Tokarz and his management team assumed portfolio management responsibilities for the Company in November 2003. Prior to that, the Company had experienced significant valuation declines from investments made by the former management team. After only three quarters of operations under the new management team, the Company posted a profitable third quarter for fiscal year 2004, reversing a trend of 12 consecutive quarters of net investment losses and earned a profit for the entire fiscal year.

The Company has continued its growth. As of July 31, 2012, the Company's net assets were approximately \$392.8 million compared with net assets of approximately \$137 million at October 31, 2003 (immediately prior to Mr. Tokarz assuming portfolio management responsibilities for the Company), an approximately \$255.8 million or 187% cumulative increase.

#### ABOUT MVC CAPITAL

The Company is managed by TTG Advisers, the Company's investment adviser, which is headed by Michael Tokarz, who has over 35 years of lending and investment experience. TTG Advisers has a dedicated originations and transaction development investment team with significant experience in private equity, leveraged finance, investment banking, distressed debt transactions and business operations. The members of the investment team have invested in and managed businesses during both recessionary and expansionary periods, through interest rate cycles and a variety of financial market conditions. TTG Advisers has 12 full-time investment professionals and two part-time investment professionals. TTG Advisers also uses the services of other investment professionals with whom it has developed long-term relationships, on an as-needed basis. In addition, TTG Advisers employs seven other full-time professionals and two part-time professionals who manage the operations of the Company and provide investment support functions both directly and indirectly to our portfolio companies. As TTG Advisers grows, it expects to hire, train, supervise and manage new employees at various levels, many of whom would be expected to provide services to the Company.

Fiscal year 2011 represented another year where we navigated through a challenging environment and prudently deployed capital into new and existing portfolio companies. During the fiscal year, the Company made six new investments in Octagon High Income Cayman Fund Ltd. ("Octagon Fund"), JSC Tekers Holdings ("JSC Tekers"), Teleguam Holdings, LLC ("Teleguam"), Pre-Paid Legal Services, Inc. ("Pre-Paid Legal"), RuMe, Inc. ("RuMe") and Centile Holdings B.V. ("Centile") and made seven follow-on investments in four existing portfolio companies: Harmony Health & Beauty, Inc. ("HH&B"), SGDA Europe B.V. ("SGDA Europe"), NPWT Corporation ("NPWT") and Security Holdings B.V. ("Security Holdings"). The total capital committed in fiscal year 2011 was \$43.2 million compared to \$8.3 million and \$6.3 million in fiscal years 2010 and 2009, respectively.

Year to date fiscal 2012 through July 31, 2012 was another period where capital was prudently deployed. During the nine month period ended July 31, 2012, the Company made two new investments, committing capital totaling \$2.5 million. The investments were made in Freshii USA, Inc. ("Freshii") (\$1.0 million) and Biovation Holdings, Inc. ("Biovation") (\$1.5 million). During the nine month period ended July 31, 2012, the Company made seven follow-on investments in three existing portfolio companies totaling approximately \$8.3 million. The Company through MVC Partners, LLC ("MVC Partners") Limited Partnership interest and MVCFS' General Partnership interest contributed approximately \$8.2 million of its \$20.1 million capital commitment to the PE Fund, which as of July 31, 2012, has invested in Plymouth Rock Energy, LLC, Gibdock Limited and Focus Pointe Holdings, Inc. On February 1, 2012, the Company made an equity investment in SHL Group Limited of approximately \$48,000 for an additional 9,568 shares of common stock.

Over the past eight years, through October 31, 2011, significant returns have been generated for shareholders. When the current management team began managing the Company in fiscal 2004, total assets after the tender offer were

\$108.3 million. Since then and through October 31, 2011, the Company paid over \$74 million in distributions, generated \$216.4 million of changes in unrealized appreciation in the portfolio (net of unrealized depreciation) and extracted approximately \$58.4 million of cash from the legacy portfolio, which was valued at approximately \$24.1 million when the current team assumed control. The current management team has also earned approximately \$13.0 million in realized gains (net of realized losses) thus far on the portfolio (through October 31, 2011) and have repurchased approximately \$37.0 million of stock below NAV, including the shares purchased during the 2004 tender offer.

Most recently, the Company declared a 13.5 cent per share dividend for the fourth fiscal quarter of 2012, a 12.5% increase over the prior quarter's distribution. This distribution represents the thirtieth consecutive quarterly dividend paid by the Company since implementing a dividend policy in July 2005. During fiscal 2012, two of the Company's largest investments, U.S. Gas & Electric, Inc. and Summit Research Labs, Inc. paid distributions to the Company, totaling \$16 million. As of October 31, 2012, the Company has distributed over \$85 million to shareholders.

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

We are currently working on an active pipeline of potential new investment opportunities with a view to move the composition of our portfolio to a more yielding portfolio, over time. We expect that our loan and equity investments will generally range between \$3 million and \$25 million each, although we may occasionally invest smaller or greater amounts of capital depending upon the particular investment. While the Company does not adhere to a specific equity and debt asset allocation mix, no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses, determined as of the close of each quarter. Our portfolio company investments are typically illiquid and are made through privately negotiated transactions. We generally target companies with annual revenues of between \$10.0 million and \$150.0 million and annual EBITDA (earnings before net interest expense, income tax expense, depreciation and amortization) of between \$3.0 million and \$25.0 million. We generally seek to invest in companies with a history of strong, predictable, positive EBITDA. Due to our asset growth and composition, compliance with the RIC (as defined below) requirements currently restricts our ability to make 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"). See "Risk Factors" on page 12 for more information.

We may continue to seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner to a private equity or other investment fund(s). In fact, during fiscal year 2006, we established MVC Partners for this purpose. Furthermore, the Board of Directors authorized the establishment of a private equity fund (the "PE Fund"), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the "GP"). On October 29, 2010, through MVC Partners and MVCFS, the Company committed to invest approximately \$20.1 million in the PE Fund. The PE Fund closed on approximately \$104 million of capital commitments. The Company's Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company's ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments.

Our portfolio company investments currently consist of common and preferred stock, other forms of equity interest and warrants or rights to acquire equity interests, senior and subordinated loans, and convertible securities in addition to our interest in the PE fund. At July 31, 2012, the value of all investments in portfolio companies was approximately \$425.5 million and our gross assets were approximately \$464.8 million.

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

On July 16, 2004, the Company formed a wholly-owned subsidiary, MVCFS. MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Company and the Company's portfolio companies. The Company does not hold MVCFS for investment purposes. The results of MVCFS are consolidated into the Company and all inter-company accounts have been eliminated in consolidation.