MVC CAPITAL, INC.
Form 10-K
December 21, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 814-00201
MVC Capital, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE	**94-3346760**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
287 Bowman Avenue, Purchase, New York	**10577**
(Address of principal executive offices)	

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None

(Title of each class)

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

o Large accelerated filer	þ Accelerated filer	o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

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

Approximate aggregate market value of common stock held by non-affiliates of the registrant as of the last business day of the Company s most recently completed fiscal second quarter: $252,646,259 computed on the basis of $14.13 per share, closing price of the common stock on the New York Stock Exchange (the NYSE) on April 30, 2010. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

There were 23,990,987 shares of the registrant s common stock, $.01 par value, outstanding as of December 21, 2010.

DOCUMENT INCORPORATED BY REFERENCE:

Proxy Statement for the Company s Annual Meeting of Shareholders 2011, incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

MVC Capital, Inc.

(A Delaware Corporation)

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Part I

Factors That May Affect Future Results

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the federal securities laws that involve substantial uncertainties and risks. The Company s future results may differ materially from its historical results and actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors. These factors are described in the Risk Factors section below. Readers should pay particular attention to the considerations described in the section of this report entitled Management s Discussion and Analysis of Financial Condition and Results of Operations. Readers should also carefully review the risk factors described in the other documents the Company files, or has filed, from time to time with the United States Securities and Exchange Commission (the SEC).

In this Annual Report on Form 10-K, unless otherwise indicated, MVC Capital, we, us, our or the Compan refer to MVC Capital, Inc. and its wholly-owned subsidiary, MVC Financial Services, Inc. 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.

Item 1. ***Business***

General

MVC Capital, Inc. is an externally managed, non-diversified 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). MVC Capital provides equity and debt 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. Effective November 1, 2006, the Company has been externally managed by The Tokarz Group Advisers LLC (TTG Advisers) pursuant to an Amended and Restated Investment Advisory and Management Agreement (the Advisory Agreement). Our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), last approved the renewal of the Advisory Agreement at their in-person meeting held on October 26, 2010.

Under the Company s current management team, which joined the Company in November 2003, the Company reversed a trend of 12 consecutive quarters of net operating losses and posted its first profitable quarter in the third quarter of fiscal year 2004, and earned a profit of approximately $18,000 for fiscal year 2004. The Company has continued to be profitable since fiscal year 2004, posting annual net operating income before taxes of $5.7 million, $3.9 million, $1.7 million, $2.1 million, $5.9 million and $5.6 million in each of fiscal years 2005 through 2010, respectively. Similarly, the change in net assets resulting from operations increased $26.3 million, $47.3 million, $65.7 million, $64.0 million, $14.2 million and $16.1 million for each of fiscal years 2005 through 2010, respectively.

Fiscal year 2010 represented another year where we navigated through a challenging environment and prudently deployed capital into existing opportunities. The Company obtained one new investment in Integrated Packaging Corporation (IPC) and made four follow-on investments in three existing portfolio companies in fiscal year 2010, committing capital totaling $8.3 million compared to $6.3 million and $126.3 million in fiscal years 2009 and 2008, respectively. The fiscal year 2010 follow-on investments included: Harmony Pharmacy & Health Center, Inc.

(Harmony Pharmacy), SGDA Europe B.V. (SGDA Europe), and Security Holdings B.V. (Security Holdings).

The fiscal year 2009 follow-on investments included: MVC Partners LLC (MVC Partners), Harmony Pharmacy, SGDA Europe, and Amersham Corporation (Amersham).

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The fiscal year 2008 new investments included: SP Industries, Inc. (SP), SGDA Europe, TerraMark, L.P. (TerraMark), and Security Holdings. The fiscal year 2008 follow-on investments included: MVC Partners, Harmony Pharmacy, Ohio Medical Corporation (Ohio Medical), Summit Research Labs, Inc. (Summit), Auto MOTOL BENI (BENI), SGDA Europe, SP, Turf Products, LLC (Turf) and U.S. Gas & Electric, Inc. (U.S. Gas).

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. Our equity and loan investments will generally range between $3.0 million and $25.0 million each, though 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 as of the close of each quarter. Our portfolio company investments are typically illiquid and are made through privately negotiated transactions. We generally seek to invest in companies with a history of strong, predictable, positive EBITDA (net income before net interest expense, income tax expense, depreciation and amortization).

Our portfolio company investments currently consist of common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, and convertible securities. At October 31, 2010, the value of all investments in portfolio companies was approximately $433.9 million and our gross assets were approximately $500.4 million compared to the value of investments in portfolio companies of approximately $502.8 million and gross assets of approximately $510.8 million at October 31, 2009.

We expect that our investments in senior loans and subordinated debt will generally have stated terms of three to ten years. However, there are no constraints 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). In addition, we may invest without limit in debt of any rating, including debt that has not been rated by any nationally recognized statistical rating organization.

On July 16, 2004, the Company formed a wholly-owned subsidiary, MVC Financial Services, Inc. (MVCFS). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Company 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.

Our Board of Directors has the authority to change any of the strategies described in this report 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, nor can we voluntarily withdraw 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.

Substantially all amounts not invested in securities of portfolio companies are invested in short-term, highly liquid money market investments or held in cash in an interest bearing account. As of October 31, 2010, the Company s investments in short-term securities, cash and cash equivalents were valued at $56.4 million.

Corporate History And Offices

The Company was organized on December 2, 1999. Prior to July 2004, our name was meVC Draper Fisher Jurvetson Fund I, Inc. On March 31, 2000, the Company raised $330.0 million in an initial public offering whereupon it commenced operations as a closed-end investment company. On December 4, 2002, the Company announced it had commenced doing business under the name MVC Capital.

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We are a Delaware corporation and a non-diversified closed-end management investment company that has elected to be regulated as a business development company under the 1940 Act. On July 16, 2004, the Company formed MVCFS.

In September 2003, upon the recommendation of the Board of Directors, shareholders voted to adopt a new investment objective for the Company.

Although the Company has been in operation since 2000, the year 2003 marked a new beginning for the Company. In February 2003, shareholders elected an entirely new board of directors. (All but one of the independent members of the current Board of Directors were first elected at the February 2003 Annual Meeting of the shareholders.) The Board of Directors developed a new long-term strategy for the Company. In September 2003, upon the recommendation of the Board of Directors, shareholders voted to adopt a new investment objective for the Company of seeking to maximize total return from capital appreciation and/or income. The Company s prior objective had been limited to seeking long-term capital appreciation from venture capital investments in the information technology industries. Consistent with our broader objective, we adopted a more flexible investment strategy of providing equity and debt financing to small and middle-market companies in a variety of industries. With the recommendation of the Board of Directors, shareholders also voted to appoint Michael Tokarz as Chairman and Portfolio Manager to lead the implementation of our new objective and strategy and to stabilize the existing portfolio. Prior to the arrival of Mr. Tokarz and his new management team in November 2003, the Company had experienced significant valuation declines from investments made by the former management team.

Mr. Tokarz and his team managed the Company under an internal structure through October 31, 2006. On September 7, 2006, the shareholders of the Company approved the Advisory Agreement (with over 92% of the votes cast on the agreement voting in its favor) that provided for the Company to be externally managed by TTG Advisers. The agreement took effect on November 1, 2006. TTG Advisers is a registered investment adviser that is controlled by Mr. Tokarz. All of the individuals (including the Company s investment professionals) that had been previously employed by the Company as of the fiscal year ended October 31, 2006 became employees of TTG Advisers. The Company s investment strategy and selection process has remained the same under the externalized management structure. Our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), last approved a renewal of the Advisory Agreement at their in-person meeting held on October 26, 2010.

Our principal executive office is located at 287 Bowman Avenue, Purchase, New York 10577 and our telephone number is (914) 701-0310. Our website is http://www.mvccapital.com. Copies of the Company s annual regulatory filings on Form 10-K, quarterly regulatory filings on Form 10-Q, Form 8-K, other regulatory filings, code of ethics, audit committee charter, compensation committee charter, nominating and corporate governance committee charter, corporate governance guidelines, and privacy policy may be obtained from our website, free of charge.

Our Investment Strategy

On November 6, 2003, Mr. Tokarz assumed his current positions as Chairman and Portfolio Manager. We seek 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 common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. During the fiscal year ended October 31, 2010, the Company obtained one new investment and made four follow-on investments, committing a total of $8.3 million of capital to these investments.

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 October 31, 2010, 2.16% of our assets consisted of investments made by the Company s former management team pursuant to the prior investment objective (the Legacy Investments). We are, however, managing these Legacy Investments to try and realize maximum returns. At October 31, 2010, the fair value of portfolio investments of the Legacy Investments was $10.8 million. 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 have the authority to invest, without limit, in any one portfolio company, subject to any diversification limits that may be required in order for us to continue to qualify as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). Due to our asset growth and composition, 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 negotiated equity and/or long-term debt investment capital. Our financing is generally used to fund growth, buyouts, acquisitions, recapitalizations, note purchases and/or bridge financings. We are typically the lead investor in such transactions but may also provide equity and debt financing to companies led by private equity firms or others. We generally invest in private companies, though, from time to time, we may invest in small 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 had 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) and which may raise up to $250 million. On October 29, 2010, through MVC Partners, the Company committed to invest $20 million in the PE Fund. The PE Fund recently completed a first closing of approximately $80 million of capital commitments. The Company s Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company s ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees paid by the PE Fund and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors authorization and direction, TTG Advisers is entitled to receive the balance of the fees and any carried interest generated by the PE Fund.

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

As of October 31, 2010, October 31, 2009 and October 31, 2008, the fair value of the invested portion (excluding cash and short-term securities) of our net assets as a percentage consisted of the following:

	Fair Value as a Percentage of Our Net Assets		
	As of October 31,	**As of October 31,**	**As of October 31,**

Type of Investment	**2010**	**2009**	**2008**
Senior/Subordinated Loans and credit facilities	26.17%	36.16%	39.75%
Common Stock	18.56%	20.33%	22.59%
Warrants	0.00%	0.90%	0.89%
Preferred Stock	35.06%	38.86%	29.60%
Other Equity Investments	22.30%	22.21%	23.51%

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Substantially all amounts not invested in securities of portfolio companies are invested in short-term, highly liquid money market investments or held in cash in an interest bearing account. As of October 31, 2010, these investments were valued at approximately $56.4 million or 13.27% of net assets.

The current portfolio has investments in a variety of industries, including energy, medical devices, automotive dealerships, consumer products, specialty chemicals, food and food service, value-added distribution, industrial manufacturing, financial services, and information technology in a variety of geographical areas, including the United States, Europe and Asia.

Market. We have developed and maintain relationships with intermediaries, including investment banks, industry executives, financial services companies and private mezzanine and equity sponsors, through which we source investment opportunities. Through these relationships, we have been able to strengthen our position as an investor. For the transactions in which we may provide debt capital, an equity sponsor can provide a source of additional equity capital if a portfolio company requires additional financing.

Investment Criteria. Prospective investments are evaluated by the investment team based upon criteria that may be modified from time to time. The criteria currently being used by management in determining whether to make an investment in a prospective portfolio company include, but are not limited to, management s view of:

Opportunity to revitalize and redirect a company s resources and strategy;

Stable free cash flow of the business;

Businesses with secure market niches and predictable profit margins;

The presence or availability of highly qualified management teams;

The line of products or services offered and their market potential;

The presence of a sustainable competitive advantage; and

Favorable industry and competitive dynamics.

Due diligence includes a thorough review and analysis of the business plan and operations of a potential portfolio company. We generally perform financial and operational due diligence, study the industry and competitive landscape, and meet with current and former employees, customers, suppliers and/or competitors. In addition, as applicable, we engage attorneys, independent accountants and other consultants to assist with legal, environmental, tax, accounting and marketing due diligence.

Investment Sourcing. Mr. Tokarz and the other investment professionals have established an extensive network of investment referral relationships. Our network of relationships with investors, lenders and intermediaries includes:

Private mezzanine and equity investors;

Investment banks;

Industry executives;

Business brokers;

Merger and acquisition advisors;

Financial services companies; and

Banks, law firms and accountants.

Allocation of Investment Opportunities. In allocating investment opportunities, TTG Advisers adheres to the following policy, which was approved by the Board of Directors: TTG Advisers will give the Company priority with respect to all investment opportunities in (i) mezzanine and debt securities and (ii) equity or other non-debt investments that are (a) expected to be equal to or less than the lesser of 10% of the Company s net assets or $25.0 million, and (b) issued by U.S. companies with less than $150.0 million in revenues during the prior twelve months. However, as a result of the PE Fund s close, the PE Fund will now receive a priority allocation of all equity

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investments that would otherwise be Non-Diversified Investments for the Company, which will terminate on the later of: (i) the deployment of 80% of the committed capital of the PE Fund or (ii) two years from the first closing date of the PE Fund.

Investment Structure. Portfolio company investments typically will be negotiated directly with the prospective portfolio company or its affiliates. The investment professionals will structure the terms of a proposed investment, including the purchase price, the type of security to be purchased or financing to be provided and the future involvement of the Company and affiliates in the portfolio company s business (including potential representation on its Board of Directors). The investment professionals will seek to structure the terms of the investment as to provide for the capital needs of the portfolio company and at the same time seek to maximize the Company s total return.

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management and, in certain cases, other capital providers, such as senior, junior and/or equity capital providers, to structure an investment. We negotiate on how our investment is expected to relate relative to the other capital in the portfolio company s capital structure.

We make preferred and common equity investments in companies as a part of our investing activities, particularly when we see a unique opportunity to profit from the growth of a company and the potential to enhance our returns. At times, we may invest in companies that are undergoing new strategic initiatives or a restructuring but have several of the above attributes and a management team that we believe has the potential to successfully execute their plans. Preferred equity investments may be structured with a dividend yield, which may provide us with a current return, if earned and received by the Company.

Our senior, subordinated and mezzanine debt investments are tailored to the facts and circumstances of the deal. The specific structure is negotiated over a period of several weeks and is designed to seek to protect our rights and manage our risk in the transaction. We may structure the debt instrument to require restrictive affirmative and negative covenants, default penalties, lien protection, equity calls, take control provisions and board observation. 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).

Our mezzanine debt investments are typically structured as subordinated loans (with or without warrants) that carry a fixed rate of interest. The loans may have interest-only payments in the early years and payments of both principal and interest in the later years, with maturities of three to ten years, although debt maturities and principal amortization schedules vary.

Our mezzanine debt investments may include equity features, such as warrants or options to buy a minority interest in a portfolio company. Any warrants or other rights we receive with our debt securities generally require only a nominal cost to exercise, and thus, as the portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide minority rights provisions and event-driven puts. We may seek to achieve additional investment return from the appreciation and sale of our warrants.

Under certain circumstances, the Company or PE Fund may acquire more than 50% of the common stock of a company in a control buyout transaction. In addition to our common equity investment, we may also provide additional capital to the controlled portfolio company in the form of senior loans, subordinated debt or preferred stock.

We fund new investments using cash, the reinvestment of accrued interest and dividends in debt and equity securities, or the current reinvestment of interest and dividend income through the receipt of a debt or equity security (payment-in-kind income). From time to time, we may also opt to reinvest accrued interest receivable in a new debt or equity security, in lieu of receiving such interest in cash and funding a subsequent investment. We may also acquire investments through the issuance of common or preferred stock, debt, or warrants representing rights to purchase shares of our common or preferred stock. The issuance of our stock as consideration may provide us with the benefit of raising equity without having to access the public capital markets in an underwritten offering, including the added benefit of the elimination of any commissions payable to underwriters.

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Providing Management Assistance. As a business development company, we are required to make significant managerial assistance available to the companies in our investment portfolio. In addition to the interest and dividends received from our investments, we often generate additional fee income for the structuring, diligence, transaction, administration and management services and financial guarantees we provide to our portfolio companies through the Company or our wholly-owned subsidiary, MVCFS. In some cases, officers, directors and employees of the Company or the Adviser may serve as members of the Board of Directors of portfolio companies. The Company may provide guidance and management assistance to portfolio companies with respect to such matters as budgets, profit goals, business and financing strategies, management additions or replacements and plans for liquidity events for portfolio company investors such as a merger or initial public offering.

Portfolio Company Monitoring. We monitor our portfolio companies closely to determine whether or not they continue to be attractive candidates for further investment. Specifically, we monitor their ongoing performance and operations and provide guidance and assistance where appropriate. We would decline additional investments in portfolio companies that, in TTG Advisers view, do not continue to show promise. However, we may make follow-on investments in portfolio companies that we believe may perform well in the future.

TTG Advisers follows established procedures for monitoring equity and loan investments. The investment professionals have developed a multi-dimensional flexible rating system for all of the Company s portfolio investments. The rating grids are updated regularly and reviewed by the Portfolio Manager, together with the investment team. Additionally, the Company s Valuation Committee (the Valuation Committee) meets at least quarterly, to review a written valuation memorandum for each portfolio company and to discuss business updates. Furthermore, the Company s Chief Compliance Officer administers the Company s compliance policies and procedures, specifically as they relate to the Company s investments in portfolio companies.

We exit our investments generally when a liquidity event takes place, such as the sale, recapitalization or initial public offering of a portfolio company. Our equity holdings, including shares underlying warrants, after the exercise of such warrants, typically include registration rights which would allow us to sell the securities if the portfolio company completes a public offering.

Investment Approval Procedures. Generally, prior to approving any new investment, we follow the process outlined below. We usually conduct one to four months of due diligence and structuring before an investment is considered for approval. However, depending on the type of investment being contemplated, this process may be longer or shorter.

The typical key steps in our investment approval process are:

- Initial investment screening by deal person or investment team;
- Investment professionals present an investment proposal containing key terms and understandings (verbal and written) to the entire investment team;
- Our Chief Compliance Officer reviews the proposed investment for compliance with the 1940 Act, the Code and all other relevant rules and regulations;
- Investment professionals are provided with authorization to commence due diligence;
- Any investment professional can call a meeting, as deemed necessary, to: (i) review the due diligence reports; (ii) review the investment structure and terms; (iii) or to obtain any other information deemed relevant;

Once all due diligence is completed, the proposed investment is rated using a rating system, which tests several factors including, but not limited to, cash flow, EBITDA growth, management and business stability. We use this rating system as the base line for tracking the investment in the future;

Our Chief Compliance Officer confirms that the proposed investment will not cause us to violate the 1940 Act, the Code or any other applicable rule or regulation;

Mr. Tokarz approves the transaction; and

The investment is funded.

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Employees

Upon the effectiveness of the Advisory Agreement on November 1, 2006, the Company no longer has any direct employees. TTG Advisers employs 19 individuals, including investment and portfolio management professionals, operations professionals and administrative staff.

Operating Expenses

During the fiscal year ended October 31, 2010, the Company bore the costs relating to the Company s operations, including fees and expenses of the Independent Directors; fees of unaffiliated transfer agents, registrars and disbursing agents; legal and accounting expenses; costs of printing and mailing proxy materials and reports to shareholders; NYSE fees; custodian fees and other extraordinary or nonrecurring expenses and other expenses properly payable by the Company. It should be noted that the Advisory Agreement provided for an expense cap pursuant to which TTG Advisers would absorb or reimburse operating expenses of the Company to the extent necessary to limit the Company s expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company s average net assets) to 3.25% in each of the 2007 and 2008 fiscal years and 3.5% in each of the 2009 and 2010 fiscal years. For fiscal year 2010, the Company s expense ratio was 2.95% (taking into account the same exclusions as those applicable to the expense cap). On the same basis, for fiscal years 2009 and 2008, the expense ratios were 3.23% and 3.17%, respectively. 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 agreements to extend the expense cap of 3.5% and the Voluntary Waiver to the 2011 fiscal year.

Under the externalized structure, all investment professionals of TTG Advisers and its staff, when and to the extent engaged in providing services required to be provided by TTG Advisers under the Advisory Agreement and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by TTG Advisers and not by the Company, except that costs or expenses relating to the following items are borne by the Company: (i) the cost and expenses of any independent valuation firm; (ii) expenses incurred by TTG Advisers payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Company and in monitoring the Company s investments and performing due diligence on its prospective portfolio companies, provided, however, the retention by TTG Advisers of any third party to perform such services shall require the advance approval of the board (which approval shall not be unreasonably withheld) if the fees for such services are expected to exceed $30,000; once the third party is approved, any expenditure to such third party will not require additional approval from the board; (iii) interest payable on debt and other direct borrowing costs, if any, incurred to finance the Company s investments or to maintain its tax status; (iv) offerings of the Company s common stock and other securities; (v) investment advisory and management fees; (vi) fees and payments due under any administration agreement between the Company and its administrator; (vii) transfer agent and custodial fees; (viii) federal and state registration fees; (ix) all costs of registration and listing the Company s shares on any securities exchange; (x) federal, state and local taxes; (xi) independent directors fees and expenses; (xii) costs of preparing and filing reports or other documents required by governmental bodies (including the SEC); (xiii) costs of any reports, proxy statements or other notices to stockholders, including printing and mailing costs; (xiv) the cost of the Company s fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; (xv) direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, independent auditors and outside legal costs; (xvi) the costs and expenses associated with the establishment of a special purpose vehicle; (xvii) the allocable portion of the cost (excluding office space) of the Company s Chief Financial Officer, Chief Compliance Officer and Secretary in an amount not to exceed $200,000, per year, in the aggregate; (xviii) subject to a cap of $200,000 in any fiscal year of the Company, fifty percent of the unreimbursed travel and other related (e.g., meals) out-of-pocket expenses (subject to item (ii) above) incurred by TTG Advisers in sourcing investments for the Company; *provided that*, if the investment is sourced for multiple clients of TTG Advisers, then the Company shall only reimburse fifty percent of its allocable pro rata portion of such expenses; and (xix) all other expenses incurred by the Company in connection with administering the Company s business (including travel and other out-of-pocket expenses (subject to item (ii) above) incurred in providing significant managerial assistance to a portfolio company).

Valuation of Portfolio Securities

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 the fair value determined by the Valuation Committee. 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, which were adopted by the Board of Directors and are consistent with ASC 820. As permitted by the SEC, the Board of Directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the Board of Directors supervision and pursuant to our Valuation Procedures. Our Board of Directors may also hire independent consultants to review our Valuation Procedures or to conduct an independent valuation of one or more of our portfolio investments.

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

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

At October 31, 2010, approximately 86.72% of our total assets represented portfolio investments recorded at fair value (Fair Value Investments).

Under most circumstances, at the time of acquisition, 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.

Valuation Methodology

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 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 comparables of companies when available, comparable private transactions when available, precedent transactions in the market when available, as well as other factors. The Company generally requires, where practicable, portfolio companies to provide annual audited and more regular unaudited financial statements, and/or annual projections for the upcoming fiscal year.

The fair value of our portfolio securities is inherently subjective. Because of the inherent uncertainty of fair valuation of portfolio securities that do not have readily ascertainable market values, our determination of fair value may significantly differ from the fair value that would have been used had a ready market existed for the securities.

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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 (ASC) 820, *Fair Value Measurements and Disclosures*. 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 October 31, 2010, 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. ASC 820 also provides guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value.

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

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

In January 2010, FASB issued Accounting Standards Update (ASU) 2010-06, Improving Disclosure about Fair Value Measurements. ASU 2010-06 provides an amendment to ASC 820-10, which requires new disclosures on transfers in and out of Levels I and II and activity in Level III fair value measurements. ASU 2010-06 also clarifies existing disclosures such as 1.) level of disaggregation and 2.) disclosure about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuance, and settlements in the roll-forward of activity in Level III fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted this guidance, the application of which has not had a material effect on the financial position or results of operations of the Company but has resulted in additional disclosures.

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

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

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

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

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

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

The Valuation Committee determines fair value of loan and debt securities of Control Companies based on the estimate of the enterprise value of the portfolio company. To the extent the enterprise value exceeds the remaining principal amount of the loan and all other debt securities of the company, the fair value of such securities is generally estimated to be their cost. However, where the enterprise value is less than the remaining principal amount of the loan and all other debt securities, the Valuation Committee may discount the value of such securities to reflect an impairment. When the Company receives nominal cost warrants or free equity securities (nominal cost equity) with a debt security, the Company typically allocates its cost basis in the investment between debt securities and nominal cost equity at the time of origination.

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

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

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

Custodian

US Bank National Association is the primary custodian (the Primary Custodian) of the Company s portfolio securities. The principal business office of the Primary Custodian is 1555 North River Center Drive, Suite 302, Milwaukee, WI 53212.

JP Morgan Chase Bank, N.A. (JP Morgan) also serves as a custodian of the Company s securities and other assets. The principal business office of JP Morgan is 270 Park Avenue, New York, NY 10017.

Transfer Agent and Plan Agent

The Company employs Computershare Ltd. (the Plan Agent) as its transfer agent to record transfers of the shares, maintain proxy records, process distributions and to act as agent for each participant in the Company s dividend reinvestment plan. The principal business office of the Plan Agent is 250 Royall Street, Canton, Massachusetts 02021.

Certain Government Regulations

We operate in a highly regulated environment. The following discussion generally summarizes certain government regulations.

Business Development Company. A business development company is defined and subject to the regulations of the 1940 Act. A business development company must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A business development company may use capital provided by public shareholders and from other sources to invest in long-term, private investments in businesses.

As a business development company, we may not acquire any asset other than qualifying assets unless, at the time we make the acquisition, the value of our qualifying assets represents at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

(c) satisfies any of the following:

- does not have any class of securities with respect to which a broker or dealer may extend margin credit;

is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or

is a small and solvent company having total assets of not more than $4.0 million and capital and surplus of not less than $2.0 million.

The SEC recently adopted Rules 2a-46 and 55a-1 under the 1940 Act, which together expand the foregoing definition of eligible portfolio company.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt maturing in one year or less from the time of investment.

To include certain securities described above as qualifying assets for the purpose of the 70% test, a business development company must make available to the issuer of those securities significant managerial assistance such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company, or making loans to a portfolio company. We offer to provide managerial assistance to each of our portfolio companies.

As a business development company, the Company is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage ratio of at least 200% immediately after each such issuance. See Risk Factors. The Company may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors and, in some cases, prior approval by the SEC. On July 11, 2000, the SEC granted us an exemptive order permitting us to make co-investments with certain of our affiliates in portfolio companies, subject to certain conditions. Under the exemptive order, the Company is permitted to co-invest in certain portfolio companies with its affiliates, subject to specified conditions. Under the terms of the exemptive order, portfolio companies purchased by the Company and its affiliates are required to be approved by the Independent Directors and are required to satisfy certain other conditions established by the SEC.

As with other companies subject to the regulations of the 1940 Act, a business development company must adhere to certain other substantive ongoing regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the business development company. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to the company or our shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

We and TTG Advisers maintain a code of ethics that establishes procedures for personal investment and restricts certain transactions by our personnel. The code of ethics generally does not permit investment by our employees in securities that may be purchased or held by us. You may read and copy the code of ethics at the SEC s Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference

Room by calling the SEC at (202) 942-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC Internet site at http://www.sec.gov. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC s Public Reference Section, 100 F Street, NE, Washington, D.C. 20549. The code of ethics is also posted on our website at http://www.mvccapital.com.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company unless authorized by vote of a majority of the outstanding voting securities, as defined in the 1940 Act, of our shares. A majority of the outstanding voting securities of a company is defined by the 1940 Act as the lesser of: (i) 67% or more of such company s shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

We are periodically examined by the SEC for compliance with the 1940 Act.

Item 1A. *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.

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 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.

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At October 31, 2010, approximately 86.72% of our total assets represented portfolio investments 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 could impair our portfolio companies and have a material adverse impact on our business, financial condition and results of operations.

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

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

During certain periods covered by this report, conditions in the public debt and equity markets deteriorated and pricing levels continued to decline. As a result, depending on market conditions, we could incur substantial realized losses and suffer unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. In addition, the global financial markets have not fully recovered from the global financial crisis and the economic factors which gave rise to the crisis. The continuation of current global market conditions, uncertainty or further deterioration could result in further declines in the market values of the Company investments. Such declines could also lead to diminished investment opportunities for the Company, prevent the Company from successfully executing its investment strategies or require the Company to dispose of investments at a loss while 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 certain 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 may be subject to limitations.

If we experience a shift in the ownership of our common stock (e.g., if a shareholder who 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 to offset future capital gains may be severely limited. In this regard, we may seek to address this matter by implementing restrictions on the ownership of our common stock which, if implemented, would generally prevent investors from acquiring 5% or more of the outstanding shares of our common stock. 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 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 98% of our income, 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 or borrow from financial institutions. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. If we fail to obtain capital to fund our investments, it could limit both our ability to grow our business and our profitability. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on TTG Advisers and our board of directors assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to maintain our current facilities or obtain other lines of credit at all or on terms acceptable to us.

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

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

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

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.

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

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

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 significant discount to NAV, which discount may fluctuate over time. In addition, in the current market environment, the shares of many business development companies are trading at a significant discount to their NAV.

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 report. In addition, the asset coverage test applicable to us as a business development company can limit our ability to make distributions. Any distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status and such other factors as our board of directors may deem relevant from time to time. We cannot assure you of our ability to make distributions to our shareholders.

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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 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.

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

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

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

On April 27, 2006, the Company and MVCFS, as co-borrowers, entered into a four-year, $100 million revolving credit facility (Credit Facility I) with Guggenheim Corporate Funding, LLC (Guggenheim) as administrative agent to the lenders. On April 13, 2010, the Company renewed Credit Facility I with Guggenheim for three years. Credit

Facility I now only consists of a $50.0 million term loan with an interest rate of LIBOR plus 450 basis points with a 1.25% LIBOR floor. Credit Facility I contains covenants that we may not be able to meet. If we cannot meet these covenants, events of default would arise, which could result in payment of the applicable indebtedness being accelerated and may limit our ability to execute on our investment strategy. As of October 31, 2010, there was $50.0 million in term debt outstanding under Credit Facility I. Credit Facility I will expire on April 27, 2013, at which time the outstanding amount under Credit Facility I will be due and payable.

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

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

As of October 31, 2010, 2.16% 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 objectives 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 Our Investment Strategy Allocation of Investment Opportunities above.

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 are likely to have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the 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 objectives 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) 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 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.

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.

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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Effective November 1, 2006, under the terms of the Advisory Agreement, 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, NY 10577.

Item 3. LEGAL PROCEEDINGS

We are not currently subject to any material pending legal proceedings.

Item 4. (REMOVED AND RESERVED)

Part II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s shares of common stock began to trade on the NYSE on June 26, 2000, under the symbol MVC. The Company had approximately 11,973 shareholders on November 29, 2010.

The following table reflects, for the periods indicated, the high and low closing prices per share of the Company s common stock on the NYSE, by quarter.

Quarter Ended	High	Low
FISCAL YEAR 2010		
10/31/10	$ 13.44	$ 12.32
07/31/10	$ 14.80	$ 12.55
04/30/10	$ 14.71	$ 10.98
01/31/10	$ 12.27	$ 9.22
FISCAL YEAR 2009		
10/31/09	$ 9.69	$ 8.67
07/31/09	$ 9.41	$ 7.79
04/30/09	$ 10.86	$ 6.38
01/31/09	$ 12.59	$ 9.15

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Performance Graph

This graph compares the return on our common stock with that of the Standard & Poor s 500 Stock Index and the Russell 2000 Financial Index for the fiscal years 2006 through 2010. The graph assumes that, on October 31, 2005, a person invested $10,000 in each of our common stock, the S&P 500 Stock Index, and the Russell 2000 Financial Index. The graph measures total shareholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are reinvested in additional shares of our common stock. Past performance is no guarantee of future results.

Shareholder Return Performance Graph
Five-Year Cumulative Total Return[1]
(Through October 31, 2010)

Dividends and Distributions to Shareholders

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

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

[1] Total Return includes reinvestment of dividends through October 31, 2010. Past performance is no guarantee of future results.

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capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. generally accepted accounting principles. These differences are due primarily to differing treatments of income and gain on various investment securities held by the Company, differing treatments of expenses paid by the Company, timing differences and differing characterizations of distributions made by the Company. Key examples of the primary differences in expenses paid are the accounting treatment of MVCFS (which is consolidated for GAAP purposes, but not income tax purposes) and the variation in treatment of incentive compensation expense. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications and may affect the allocation between net operating income, net realized gain (loss) and paid-in capital.

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

The Plan Agent serves as agent for the shareholders in administering the Plan. When 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 NAV per share on that date, we will issue new shares at the NAV. If the NAV exceeds the market price of our common stock, the Plan Agent will purchase in the open market such number of shares of our common stock as is necessary to complete the distribution.

The Plan Agent will maintain all shareholder accounts in the Plan and furnish written confirmation of all transactions. Shares of our common stock in the Plan will be held in the name of the Plan Agent or its nominee and such shareholder will be considered the beneficial owner of such shares for all purposes.

There is no charge to shareholders for participating in the Plan or for the reinvestment of dividends and distributions. We will not incur brokerage fees with respect to newly issued shares issued in connection with the Plan. Shareholders will, however, be charged a pro rata share of any brokerage fee charged for open market purchases in connection with the Plan.

We may terminate the Plan upon providing written notice to each shareholder participating in the Plan at least 60 days prior to the effective date of such termination. We may also materially amend the Plan at any time upon providing written notice to shareholders participating in the Plan at least 30 days prior to such amendment (except when necessary or appropriate to comply with applicable law or rules and policies of the SEC or other regulatory authority). You may withdraw from the Plan upon providing notice to the Plan Agent. You may obtain additional information about the Plan from the Plan Agent. Below is a description of our dividends declared during fiscal years 2009 and 2010:

For the Quarter Ended January 31, 2009

On December 19, 2008, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on January 9, 2009 to shareholders of record on December 31, 2008. The total distribution amounted to $2,915,650, including reinvested distributions.

During the quarter ended January 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 4,833 shares of our common stock at an average price of $11.00, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

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For the Quarter Ended April 30, 2009

On April 13, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2009 to shareholders of record on April 23, 2009. The total distribution amounted to $2,915,650, including reinvested distributions.

During the quarter ended April 30, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 2,705 shares of our common stock at an average price of $8.74, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended July 31, 2009

On July 14, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on July 31, 2009 to shareholders of record on July 24, 2009. The total distribution amounted to $2,915,651, including reinvested distributions.

During the quarter ended July 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 6,395 shares of our common stock at an average price of $9.49, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended October 31, 2009

On October 13, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on October 30, 2009 to shareholders of record on October 23, 2009. The total distribution amounted to $2,915,651, including reinvested distributions.

During the quarter ended October 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 6,806 shares of our common stock at an average price of $9.34, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended January 31, 2010

On December 18, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on January 8, 2010 to shareholders of record on December 31, 2009. The total distribution amounted to $2,915,650.

During the quarter ended January 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,890 shares of our common stock at an average price of $12.27, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended April 30, 2010

On April 16, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2010 to shareholders of record on April 27, 2010. The total distribution amounted to $2,915,650.

During the quarter ended April 30, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,315 shares of our common stock at an average price of $14.75, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended July 31, 2010

On July 16, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on July 30, 2010 to shareholders of record on July 27, 2010. The total distribution amounted to $2,884,691.

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During the quarter ended July 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,377 shares of our common stock at an average price of $12.93, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Quarter Ended October 31, 2010

On October 15, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on October 29, 2010 to shareholders of record on October 25, 2010. The total distribution amounted to $2,878,918.

During the quarter ended October 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,337 shares of our common stock at an average price of $13.43, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

The Company designated 17% or a maximum amount of $2,020,197 of dividends declared and paid during the fiscal year ending October 31, 2010 from net operating income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003.

Corporate shareholders may be eligible for a dividend received deduction for certain ordinary income distributions paid by the Company. The Company designated 17% or a maximum amount of $2,020,197 of dividends declared and paid during the fiscal year ending October 31, 2010 from net operating income as qualifying for the dividends received deduction. The information necessary to prepare and complete shareholder s tax returns for the 2010 calendar year will be reported separately on form 1099-DIV, if applicable, in January 2011.

The Company reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Company, and shareholders will be able to claim their proportionate share of the federal income taxes paid by the Company on such gains as a credit against their own federal income tax liabilities. Shareholders will also be entitled to increase the adjusted tax basis of their company shares by the difference between their undistributed capital gains and their tax credit.

Purchases of Common Stock

In fiscal 2010, as a part of the Plan, we directed the Plan Agent to purchase a total of 5,919 shares of our common stock for an aggregate amount of approximately $78,000 in the open market in order to satisfy the reinvestment portion of our dividends. The following chart outlines repurchases of our common stock during fiscal 2010.

Quarter Ended	Total Number of Shares Purchased	Average Price Paid Per Share Including Commission
10/31/10	1,337	$ 13.43
07/31/10	1,377	$ 12.93
04/30/10	1,315	$ 14.75
01/31/10	1,890	$ 12.27

Share Repurchase Program

On April 23, 2010, the Company s Board of Directors approved a share repurchase program authorizing up to $5.0 million in share repurchases. The share repurchase program has no time limit and does not obligate the Company to acquire any specific number of shares and may be discontinued at any time. Under the share repurchase program, shares may be repurchased from time to time at prevailing market prices during the Company s open trading periods. As of October 31, 2010, there have been 306,100 shares repurchased at an average price of $13.06, including commission, with a total cost of approximately $4.0 million. The Company s net asset value per share was increased by approximately $0.06 as a result of the share repurchases.

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The following table represents our stock repurchase program for the fiscal year ended October 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share Including Commission	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
May 1, 2010 May 31, 2010				$ 5,000,000
June 1, 2010 June 30, 2010	175,000	$ 13.09	175,000	$ 2,708,461
July 1, 2010 July 31, 2010	83,000	$ 13.03	83,000	$ 1,627,035
Aug. 1, 2010 Aug. 31, 2010				$ 1,627,035
Sept. 1, 2010 Sept. 30, 2010				$ 1,627,035
Oct. 1, 2010 Oct. 31, 2010	48,100	$ 13.02	48,100	$ 1,000,872
Total	306,100	$ 13.06	306,100	$ 1,000,872

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

Financial information for the fiscal years ended October 31, 2010, 2009, 2008, 2007 and 2006 are derived from the consolidated financial statements, which have been audited by Ernst & Young LLP, 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 for more information.

Selected Consolidated Financial Data

	Year Ended October 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Operating Data:					
Interest and related portfolio income:					
Interest and dividend income	$ 19,315	$ 21,755	$ 26,047	$ 22,826	$ 13,909
Fee income	3,696	4,099	3,613	3,750	3,828
Other income	510	255	367	374	771
Total operating income	23,521	26,109	30,027	26,950	18,508
Expenses:					
Management fee	9,330	9,843	8,989	7,034	
Administrative	3,395	3,519	3,620	2,559	3,420
Interest and other borrowing costs	2,825	3,128	4,464	4,859	1,594
Incentive compensation (Note 5)	2,479	3,717	10,822	10,813	6,055
Employee compensation and benefits					3,499
Total operating expenses	18,029	20,207	27,895	25,265	14,568
Expense Waiver by Adviser	(150)				
Total net operating expenses	17,879	20,207	27,895	25,265	14,568
Net operating income before taxes	5,642	5,902	2,132	1,685	3,940
Tax expense (benefit), net	8	1,377	(936)	(375)	159
Net operating income	5,634	4,525	3,068	2,060	3,781
Net realized and unrealized gain (loss):					
Net realized gain (loss) on investments and foreign currency	32,188	(25,082)	1,418	66,944	5,221
Net change in unrealized appreciation (depreciation) on investments	(21,689)	34,804	59,465	(3,302)	38,334
Net realized and unrealized gain on investments and foreign currency	10,499	9,722	60,883	63,642	43,555

Net increase in net assets resulting from operations	$ 16,133	$ 14,247	$ 63,951	$ 65,702	$ 47,336
Per Share:					
Net increase in net assets per share resulting from operations	$ 0.66	$ 0.59	$ 2.63	$ 2.92	$ 2.48
Dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.54	$ 0.48
Balance Sheet Data:					
Portfolio at value	$ 433,901	$ 502,803	$ 490,804	$ 379,168	$ 275,892
Portfolio at cost	375,582	422,794	445,600	393,428	286,851
Total assets	500,373	510,846	510,711	470,491	347,047
Shareholders equity	424,994	424,456	421,871	369,097	236,993
Shareholders equity per share (net asset value)	$ 17.71	$ 17.47	$ 17.36	$ 15.21	$ 12.41
Common shares outstanding at period end	23,991	24,297	24,297	24,265	19,094
Other Data:					
Number of Investments funded in period	5	6	15	26	24
Investments funded($) in period	$ 8,332	$ 6,293	$ 126,300	$ 167,134	$ 166,300

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	2010				2009				2008		
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
	(In thousands, except per share data)										
income	5,130	5,257	5,336	7,798	6,354	7,410	5,757	6,588	6,246	6,804	8,0
e	2,232	2,176	2,467	2,455	2,560	2,379	2,421	2,483	2,510	2,276	2,1
	777	910	938	770	879	894	865	881	1,299	887	7
d other	770	767	647	641	642	660	736	1,090	1,190	1,022	1,0
ensation	2,504	(3,270)	2,225	1,020	6,756	(2,550)	(335)	(154)	1,496	3,929	3,7
r by	(50)	(50)	(50)								
nefit)	2		1	5	1,377		359	(359)	(830)	58	(1
come realized ains	(1,105)	4,724	(892)	2,907	(5,860)	6,027	1,711	2,647	581	(1,368)	5
et rom	11,307	(11,281)	8,969	7,138	27,499	(6,297)	(7,809)	854	7,357	18,623	17,1
et rom hare	0.47	(0.47)	0.37	0.29	1.13	(0.26)	(0.32)	0.04	0.30	0.77	0.
er share	17.71	17.35	17.89	17.64	17.47	16.46	16.84	17.28	17.36	17.18	16.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as may, will, expect, believe, anticipate, intend, could, estimate, might and continue, and the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. Forward-looking statements are included in this report pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Such statements are predictions only, and the actual events or results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to investment capital demand, pricing, market acceptance, the effect of economic conditions, litigation and the effect of regulatory proceedings, competitive forces, the results of financing and investing efforts, the ability to complete transactions and other risks identified below or in the Company s filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements, the notes thereto and the other financial information included elsewhere in this report.

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 management team are seeking to implement our investment objective (i.e., to maximize total return from capital appreciation and/or income) through making a broad range of private investments in a variety of industries.

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests and other private equity transactions. During the fiscal year ended October 31, 2009, the Company made six additional investments in existing portfolio companies committing a total of $6.3 million of capital to these investments. During the fiscal year ended October 31, 2010, the Company obtained one new investment and made four additional investments in existing portfolio companies committing a total of $8.3 million of capital to these investments.

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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 October 31, 2010, 2.16% 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 our asset growth and composition, compliance with the RIC requirements currently restricts our ability to make 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 has authorized the establishment of a PE Fund, for which an indirect wholly-owned subsidiary of the Company serves as the GP and which may raise up to $250 million. On October 29, 2010, through MVC Partners, the Company committed to invest $20 million in the PE Fund. The PE Fund recently completed a first closing of approximately $80 million of capital commitments. The Company s Board of Directors authorized the establishment of, and investment in, the PE Fund for a variety of reasons, including the Company s ability to make Non-Diversified Investments through the PE Fund. As previously disclosed, the Company is currently restricted from making Non-Diversified Investments. For services provided to the PE Fund, the GP and MVC Partners are together entitled to receive 25% of all management fees paid by the PE Fund and up to 30% of the carried interest generated by the PE Fund. Further, at the direction of the Board of Directors, the GP retained TTG Advisers to serve as the portfolio manager of the PE Fund. In exchange for providing those services, and pursuant to the Board of Directors authorization and direction, TTG Advisers is entitled to receive the balance of the fees and any carried interest generated by the PE Fund.

As a result of the first closing of the PE Fund, consistent with the Board-approved policy concerning the allocation of investment opportunities, the PE Fund will receive a priority allocation of all private equity investments that would otherwise be Non-Diversified Investments for the Company during the PE Fund s investment period. For a further discussion of this allocation policy, please see Our Investment Strategy Allocation of Investment Opportunities above.

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.

Operating Income

For the Fiscal Years Ended October 31, 2010, 2009 and 2008. Total operating income was $23.5 million for the fiscal year ended October 31, 2010 and $26.1 million for the fiscal year ended October 31, 2009, a decrease of $2.6 million. Fiscal year 2009 operating income decreased by $3.9 million compared to fiscal year 2008 operating income of $30.0 million.

For the Fiscal Year Ended October 31, 2010

Total operating income was $23.5 million for the fiscal year ended October 31, 2010. The decrease of $2.6 million 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 fee income because of fewer new investments closed. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $19.3 million in interest and dividend income from investments in portfolio companies. Of the $19.3 million recorded in interest/dividend income, approximately $5.6 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Company s debt investments yielded rates from 1.3% to 17% excluding those investments in which accrued interest is being reserved against. The Company received fee income and other income from portfolio companies and other entities totaling approximately $4.2 million.

For the Fiscal Year Ended October 31, 2009

Total operating income was $26.1 million for the fiscal year ended October 31, 2009. The decrease in operating income over the same period last year was primarily due to a decrease in interest income. This decrease was the result of the repayment of yielding investments that provide the Company with interest income, a decrease in the LIBOR rate which impacts our variable rate loans, and reserves against non-performing loans. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $21.8 million in interest and dividend income from investments in portfolio companies. Of the $21.8 million recorded in interest/dividend income, approximately $6.4 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 1.25% to 17%. Also, the Company earned approximately $14,400 in interest income on its cash equivalents and short-term investments. The Company received fee income and other income from portfolio companies and other entities totaling approximately $4.3 million.

For the Fiscal Year Ended October 31, 2008

Total operating income was $30.0 million for the fiscal year ended October 31, 2008. The increase in operating income over the same period last year was primarily due to the increase in dividend income received from portfolio companies. The main components of investment income were the interest earned on loans and dividend income from portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Company and MVCFS. The Company earned approximately $25.1 million in interest and dividend income from investments in portfolio companies. Of the $25.1 million recorded in interest/dividend income, approximately $5.5 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 17%. Also, the Company earned approximately $996,000 in interest income on its cash equivalents and short-term investments. The Company received fee income and other income from portfolio companies and other entities totaling approximately $3.6 million and $367,000, respectively.

Operating Expenses

For the Fiscal Years Ended October 31, 2010, 2009 and 2008. Operating expenses were $18.0 million for the fiscal year ended October 31, 2010, and $20.2 million for the fiscal year ended 2009, a decrease of $2.2 million. Fiscal year 2009 operating expenses decreased by $7.7 million compared to fiscal year 2008 operating expenses of $27.9 million.

For the Fiscal Year Ended October 31, 2010

Operating expenses, net of the Voluntary Waiver, were $17.9 million or 4.19% of the Company s average net assets for the fiscal year ended October 31, 2010. Significant components of operating expenses for the fiscal year ended October 31, 2010, included the management fee of $9.3 million, interest and other borrowing costs of approximately $2.8 million and incentive compensation expense of approximately $2.5 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $2.2 million decrease in the Company s operating expenses for the fiscal year ended October 31, 2010 compared to the fiscal year ended October 31, 2009, was primarily due to the $1.2 million decrease in the estimated provision for incentive compensation expense, an approximately $500,000 decrease in management fee expense and an approximately $300,000 decrease in interest and other borrowing costs. The Advisory Agreement extended the expense cap applicable to the Company for an additional two fiscal years (fiscal years 2009 and 2010) and increased the expense cap from 3.25% to 3.5%. For fiscal year 2009 and fiscal year 2010, the Company s expense ratio was 3.23% and 2.95%, respectively, (taking into account the same carve outs as those applicable to the expense cap). 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.

Pursuant to the terms of the Advisory Agreement, during the fiscal year ended October 31, 2010, the provision for incentive compensation was increased by a net amount of $2.5 million to $22.0 million. The increase in the provision for incentive compensation reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies and the sale of Vitality for a realized gain of $13.9 million. The difference between the amount received from the sale and Vitality s carrying value at October 31, 2009 was an increase of $3.0 million. The amount of the provision also reflects the Valuation Committee s determination to increase the fair values of eight of the Company s portfolio investments (Octagon Credit Investors, LLC (Octagon), Summit, Velocitius B.V. (Velocitius), LHD Europe Holding, Inc. (LHD Europe), PreVisor, Inc. (PreVisor), U.S. Gas, Vestal Manufacturing Enterprises, Inc. (Vestal) and Dakota Growers Pasta Company, Inc. (Dakota Growers)) by a total of $54.2 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $6.8 million due to PIK distributions, which were treated as a return of capital. The net increase in the provision also reflects the Valuation Committee s determination to decrease the fair values of ten of the Company s portfolio investments (Amersham, BP Clothing, LLC (BP), Ohio Medical, MVC Automotive Group B.V. (MVC Automotive), Security Holdings, Harmony Pharmacy, GDC Acquisition, LLC (GDC), SGDA Europe, Turf and SGDA Sanierungsgesellschaft fur Deponien und Altasten GmbH (SGDA)) by a total of $50.5 million and the Valuation Committee determination not to increase the fair values of the Amersham loan, the BP second lien loan and the GDC senior subordinated loan for the accrued PIK interest totaling approximately $732,000. As of October 31, 2010, the Company does not anticipate an incentive compensation payment being made to TTG Advisers for fiscal year 2010 based on the terms of the Advisory Agreement. During the fiscal year ended October 31, 2010, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate. Please see Note 5 of the consolidated financial statements, Incentive Compensation for more information.

For the Fiscal Year Ended October 31, 2009

Operating expenses were $20.2 million or 4.88% of the Company s average net assets for the fiscal year ended October 31, 2009. Significant components of operating expenses for the fiscal year ended October 31, 2009, included the management fee of $9.8 million, estimated provision for incentive compensation expense of approximately $3.7 million, and interest expense and other borrowing costs of $3.1 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $7.7 million decrease in the Company s operating expenses for the fiscal year ended October 31, 2009, compared to the fiscal year ended October 31, 2008, was primarily due to the $7.1 million decrease in the estimated provision for incentive compensation expense and the $1.3 million decrease in interest and other borrowing costs which were offset by an increase of approximately $854,000 in the management fee expense. The Advisory Agreement extended the expense cap applicable to the Company for an additional two fiscal years (fiscal years 2009 and 2010) and increased the expense cap from 3.25% to 3.5%. For fiscal year 2008 and fiscal year 2009, the Company s expense ratio was 3.17% and 3.23%, respectively, (taking into account the same exclusions as those applicable to the expense cap).

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Pursuant to the terms of the Advisory Agreement, during the fiscal year ended October 31, 2009, the estimated provision for incentive compensation on the balance sheet was increased by a net amount of approximately $3.7 million to $19.5 million. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of eight of the Company s portfolio investments: U.S. Gas, SIA Tekers Invest (Tekers), Vestal, Vitality, Summit, MVC Automotive, Dakota Growers and Velocitius by a total of $79.0 million. The provision also reflects the Valuation Committee s determination to increase the fair value of the Ohio Medical preferred stock by approximately $5.8 million due to a PIK distribution, which was treated as a return of capital. The Company also received a return of capital distribution from Turf of approximately $286,000. The amount of the change in the provision for incentive compensation during the fiscal year ended October 31, 2009 also reflects the Valuation Committee s determination to decrease the fair values of 12 of the Company s portfolio investments: Ohio Medical, Timberland Machines & Irrigation, Inc. (Timberland), Custom Alloy Corporation (Custom Alloy), PreVisor, Amersham, Turf, Harmony Pharmacy, BP, MVC Partners, SGDA, Security Holdings, and HuaMei Capital Company, Inc. (HuaMei) by a total of $68.9 million. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling approximately $1.0 million. During the fiscal year ended October 31, 2009, 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 5 Incentive Compensation of our consolidated financial statements for more information.

For the Fiscal Year Ended October 31, 2008

Operating expenses were $27.9 million or 7.00% of the Company s average net assets for the fiscal year ended October 31, 2008. Significant components of operating expenses for the fiscal year ended October 31, 2008 included the estimated provision for incentive compensation expense of approximately $10.8 million, the management fee of $9.0 million, and interest expense and other borrowing costs of $4.5 million. The estimated provision for incentive compensation expense is a non-cash, not yet payable, provisional expense relating to the Advisory Agreement.

The $2.6 million increase in the Company s operating expenses for the fiscal year ended October 31, 2008, compared to the fiscal year ended October 31, 2007, was primarily due to the $1.9 million increase in the management fee expense due to the growth in our portfolio from $379.2 million to $490.8 million, the increase in legal fees of approximately $470,000 due to strategic initiatives, and the increase of other expenses of approximately $292,000 due to professional and transaction costs. It should be noted, in this regard, that the Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company to the extent necessary to limit the Company s expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company s average net assets) to 3.25% in each of the 2007 and 2008 fiscal years. For fiscal year 2008, the expense ratio was 3.18% (taking into account the same exclusions as those applicable to the expense cap).

In February 2008, the Company renewed its Directors & Officers/Professional Liability Insurance policies at an annual premium expense of approximately $387,000, which is amortized over the twelve month life of the policy. The prior policy premium was $381,000.

During the fiscal year ended October 31, 2008, the estimated provision for incentive compensation on the balance sheet was decreased by a net amount of $2,081,201 to $15,794,295. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of nine of the Company s portfolio investments: U.S. Gas, Vitality, Summit, Tekers, SGDA, Custom Alloy, MVC Automotive, PreVisor and Velocitius by a total of $64.8 million. The provision also reflects the Valuation Committee s determination to increase the fair value of the Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution which was treated as a return of capital. The net decrease in the provision for incentive compensation during the fiscal year ended October 31, 2008 was a result of the incentive compensation payment to TTG Advisers of $12.9 million due to the sale of Baltic Motors Corporation (Baltic Motors) and SIA BM Auto (BM Auto) (20% of the realized gain from the sale, less unrealized depreciation on the portfolio). Pursuant to the Advisory Agreement, incentive compensation payments will be made only upon the occurrence of a realization event (such as the sale of shares of Baltic Motors and BM Auto). Without this reserve for incentive compensation, operating expenses would have been approximately $17.1 million or 4.30% of average net assets when annualized as compared to 7.00%, which is reported on the Consolidated Per Share Data and Ratios, for the fiscal year ended October 31, 2008. The net decrease also reflects the Valuation Committee s determination to decrease the fair values of nine of the Company s portfolio investments (Timberland, Octagon, Amersham, Henry Company, Total Safety U.S., Inc. (Total Safety), Vendio Services, Inc (Vendio), BP, MVC Partners and Vestal) by a total of $12.7 million. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK totaling $308,000. During the fiscal year ended October 31, 2008, 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 5 Incentive Compensation of our consolidated financial statements for more information.

Realized Gains and Losses on Portfolio Securities

For the Fiscal Years Ended October 31, 2010, 2009 and 2008. Net realized gains for the fiscal year ended October 31, 2010 were $32.2 million and net realized losses for the fiscal year ended October 31, 2009 were $25.1 million. Net realized gains for the fiscal year ended October 31, 2008 were $1.4 million.

For the Fiscal Year Ended October 31, 2010

Net realized gains for the fiscal year ended October 31, 2010 were $32.2 million. The significant components of the Company s net realized gains for the fiscal year ended October 31, 2010 were primarily due to the gains on the sale of Vitality common and preferred stock and warrants and the sale of Dakota Growers common and preferred stock which were offset by the losses on the sale of Vendio common and preferred stock and Phoenix Coal common stock.

On December 29, 2009, the Company sold its common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately $10.0 million, for the 1 million preferred shares was approximately $14.0 million, and for the 1 million warrants was approximately $3.8 million. As part of this transaction, there was approximately $2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company received its first scheduled disbursement from the Vitality escrow totaling approximately $522,000. There were no claims against the escrow, so 100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company s share of the proceeds from the working capital adjustment totaled approximately $471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately $993,000. The value of the escrow was increased by $150,000 by the Valuation Committee during the fiscal year ended October 31, 2010. This escrow is currently valued at approximately $1.9 million on the Company s consolidated balance sheet as of October 31, 2010. The total amount received from the sale as of October 31, 2010 was approximately $30.6 million resulting in a realized gain of approximately $13.9 million, which was treated as a long-term capital gain.

On March 10, 2010, the Company announced that its portfolio company, Dakota Growers had signed a definitive merger agreement with Viterra Inc. (TSX: VT) (Viterra), Canada s leading agri-business that provides premium quality ingredients to leading global food manufacturers, under which Dakota Growers would be acquired by a subsidiary of Viterra for approximately $240 million in cash. Under the terms of the agreement, Viterra would commence a tender offer to acquire all of the outstanding shares of Dakota Growers common stock at a price of $18.28 per share resulting in anticipated proceeds of approximately $37.9 million. The acquisition closed shortly after completion of a tender of a majority (50.1%) of the outstanding shares of Dakota Growers common stock, the receipt of various regulatory approvals and the satisfaction of other customary closing conditions and contingencies. On May 3, 2010, the

Company converted its 1,065,000 preferred shares of Dakota Growers to 1,065,000 common shares of Dakota Growers. On May 6, 2010, the Company tendered its shares in Dakota Growers for approximately $37.9 million, resulting in a realized gain of approximately $22.0 million.

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

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

For the Fiscal Year Ended October 31, 2009

Net realized losses for the fiscal year ended October 31, 2009 were $25.1 million. The significant components of the Company s net realized losses for the fiscal year ended October 31, 2009 were primarily the loss on the liquidation of Timberland common stock, senior subordinated loan, and junior revolving line of credit and the loss on the liquidation of Endymion Systems, Inc. common stock.

The Company realized losses on Timberland of approximately $18.1 million and Endymion Systems, Inc., a Legacy Investment, of $7.0 million. The Company received no proceeds from these companies and they have been removed from the Company s portfolio. The Valuation Committee previously decreased the fair value of the Company s investment in these companies to zero and as a result, the realized losses were offset by reductions in unrealized losses.

For the Fiscal Year Ended October 31, 2008

Net realized gains for the fiscal year ended October 31, 2008 were $1.4 million. The significant components of the Company s net realized gains for the fiscal year ended October 31, 2008 were primarily the gain on the sale of Genevac common stock and the gain on the sale of Phoenix Coal common stock. On January 2, 2008, Genevac repaid its senior subordinated loan in full including all accrued interest. The total amount received was $11.9 million. The Company, at this time, sold 140 shares of Genevac common stock for $1.7 million, resulting in a capital gain of $595,000. On July 23, 2008, the Company sold 500,000 shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $512,000, resulting in a realized gain of approximately $262,000. On July 29, 2008, the Company sold 500,000 more shares of Phoenix Coal. The total amount received from the sale net of commission was approximately $484,000, resulting in a realized gain of approximately $234,000. The Company also received a distribution related to the sale of Baltic of approximately $283,000.

The Company also realized a gain on foreign currency of approximately $54,000.

Unrealized Appreciation and Depreciation on Portfolio Securities

For the Fiscal Years Ended October 31, 2010, 2009 and 2008. The Company had a net change in unrealized depreciation on portfolio investments of $21.7 million for the fiscal year ended October 31, 2010 and a net change in unrealized appreciation of $34.8 million for the fiscal year ended October 31, 2009, a decrease of $56.5 million. The Company had a net change in unrealized appreciation on portfolio investments of $59.5 million for the fiscal year ended October 31, 2008.

For the Fiscal Year Ended October 31, 2010

The Company had a net change in unrealized depreciation on portfolio investments of approximately $21.7 million for the fiscal year ended October 31, 2010. The change in unrealized depreciation on investment transactions for the fiscal year ended October 31, 2010 primarily resulted from the increase in unrealized depreciation due to the reclassification from unrealized to realized, caused by the sale of Vitality, Dakota Growers, and Vendio, of approximately $29.2 million. The other components in the change in unrealized depreciation are the Valuation Committee s decision to increase the fair value of the Company s investments in Dakota Growers common stock by approximately $3.4 million and preferred stock by approximately $3.6 million, Octagon equity

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

For the Fiscal Year Ended October 31, 2009

The Company had a net change in unrealized appreciation on portfolio investments of $34.8 million for the fiscal year ended October 31, 2009. The change in unrealized appreciation on investment transactions for the fiscal year ended October 31, 2009 primarily resulted from the Valuation Committee s decision to increase the fair value of the Company s investments in U.S. Gas preferred stock by $55.2 million, SGDA preferred equity interest by $500,000, Tekers common stock by $615,000, Velocitius equity interest by $2.2 million, Vestal common stock by $650,000, MVC Automotive Group equity interest by $5.0 million, Summit common stock by $5.0 million, Vitality common stock and warrants by $260,300 and $100,000, respectively, and Dakota Growers common stock by approximately $4.9 million and preferred stock by approximately $5.1 million and the Ohio Medical preferred stock by approximately $5.8 million due to a PIK distribution which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company s investments in Ohio Medical common stock by $8.1 million, Vendio preferred stock by approximately $2.1 million and common stock by $5,000, Foliofn preferred stock by $2.8 million, PreVisor common stock by $3.1 million, Custom Alloy preferred stock by $22.5 million, Amersham second lien notes by $3.1 million, Turf equity interest by $2.6 million, Harmony Pharmacy common stock by $750,000, MVC Partners equity interest by $16,000, SGDA common stock by $560,000, Security Holdings common equity interest by $18.2 million, HuaMei common stock by $475,000, Timberland senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million, and BP term loan B by approximately $219,000, term loan A by approximately $255,000 and second lien loan by approximately $1.3 million, during the fiscal year ended October 31, 2009. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK interest totaling approximately $1.0 million. Also during the fiscal year ended October 31, 2009, the Company received a return of capital distribution from Turf of approximately $286,000. The net increase of $10.3 million in the fair values of the Company s investments determined by the Valuation Committee including the decrease in the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for accrued PIK was increased by the unrealized appreciation reclassification from unrealized to realized caused by the liquidation of Timberland and the sale of Endymion of $25.1 million. These were the primary components for the unrealized appreciation of $34.8 million for the fiscal year ended October 31, 2009.

For the Fiscal Year Ended October 31, 2008

The Company had a net change in unrealized appreciation on portfolio investments of $59.5 million for the fiscal year ended October 31, 2008. The change in unrealized appreciation on investment transactions for the fiscal year ended October 31, 2008 primarily resulted from the Valuation Committee s decision to increase the fair value of the Company s investments in U.S. Gas preferred stock by $5.2 million, SGDA preferred equity interest by

$500,000, Foliofn, Inc. (Foliofn) preferred stock by $6.0 million, Tekers common stock by $575,000, Custom Alloy preferred stock by $22.5 million, Velocitius equity interest by $9.6 million, MVC Automotive equity interest by $6.1 million, PreVisor common stock by $1.1 million, Summit common stock by $16.0 million, Vitality common stock and warrants by approximately $3.4 million and Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution which was treated as a return of capital. The Valuation Committee also decreased the fair value of the Company s investments in Vendio preferred stock by $2.9 million and common stock by $1,000, Vestal common stock by $2.8 million, Octagon s membership interest by $1.2 million, Amersham second lien notes by approximately $427,000, Henry Company term loan A by approximately $59,000, Total Safety first lien loan by approximately $74,000, BP term loan B by approximately $27,000, MVC Partners equity interest by $200,000 and Timberland s common stock by $3.4 million and its junior revolving line of credit by $4.0 million. Other key components of the net change in unrealized appreciation were the $295,000 unrealized depreciation from the change in the fair value of Phoenix Coal common stock from fiscal year ended October 31, 2007 to fiscal year ended October 31, 2008 for the shares held at October 31, 2008 and the combined $308,000 unrealized depreciation on the Harmony Pharmacy revolving credit facility and Amersham loan.

Portfolio Investments

For the Fiscal Years Ended October 31, 2010 and 2009. The cost of the portfolio investments held by the Company at October 31, 2010 and 2009 was $375.6 million and $422.8 million, respectively, representing a decrease of $47.2 million. The primary reasons for the decrease in the cost of the portfolio investments are the realizations on Vitality and Dakota Growers, repayment of debt investments, as well as other factors. The aggregate fair value of portfolio investments at October 31, 2010 and at October 31, 2009 was $433.9 million and $502.8 million, respectively, representing a decrease of $68.9 million. The cost and aggregate market value of cash and cash equivalents held by the Company at October 31, 2010 and 2009 was $56.4 million and $1.0 million, respectively, representing an increase of approximately $55.4 million.

For the Fiscal Year Ended October 31, 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the quarter ended January 31, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $2.4 million and preferred stock by approximately $2.6 million, Octagon equity interest by $1.0 million, Summit common stock by $2.0 million, Velocitius equity interest by $1.0 million, and LHD Europe series A common stock by approximately $166,000 and series B common Stock by approximately $58,000. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,752,454. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.6 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended January 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $89,000. The Valuation Committee also decreased the fair value of the Company s investments in Amersham second lien notes by $2.4 million, BP second lien loan by $1.6 million, Ohio Medical common stock by $1.3 million, SGDA preferred equity interest by approximately $2.4 million, and Vendio preferred stock by approximately $746,000 and common stock by $3,600 during the quarter ended January 31, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $186,000.

During the quarter ended April 30, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $1.0 million and preferred stock by approximately $1.0 million, Octagon equity interest by $500,000 and Summit common stock by $7.0 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,343,814. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.7 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended April 30, 2010, the undistributed allocation of flow through income from the Company s equity investment in

Octagon increased the cost basis and fair value of this investment by approximately $62,000. The Valuation Committee also decreased the fair value of the Company s investments in Velocitius equity interest by $600,000 and Vendio preferred stock by approximately $1.1 million and common stock by $1,900 during the quarter ended April 30, 2010. The Valuation Committee also determined not to increase the fair values of the

Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $188,000.

During the quarter ended July 31, 2010, the Valuation Committee increased the fair value of the Company s investments in PreVisor, Inc. common stock by $3.4 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,145,719. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.7 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended July 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $108,000. The Valuation Committee also decreased the fair value of the Company s investments in BP second lien loan by approximately $5.2 million, MVC Automotive equity interest by $4.4 million, Security Holdings equity interest by approximately $6.4 million, Ohio Medical common stock by $3.7 million, and GDC senior subordinated loan by approximately $1.6 million during the quarter ended July 31, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $193,000.

During the quarter ended October 31, 2010, the Valuation Committee increased the fair value of the Company s investments in MVC Automotive equity interest by $2.0 million, Summit common stock by $13.0 million, U.S. Gas preferred stock by approximately $17.8 million, Velocitius equity interest by $1.3 million and Vestal common stock by $600,000. 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 payment in kind (PIK) interest/dividends totaling $1,319,321. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.8 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal quarter ended October 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $39,000. The Valuation Committee also decreased the fair value of the Company s investments in BP second lien loan by approximately $7.4 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of $6.4 million, SGDA Europe equity interest by $4.1 million, Turf equity interest by $500,000, Ohio Medical common stock by $3.6 million, and GDC senior subordinated loan by approximately $1.6 million during the fiscal quarter ended October 31, 2010. The net decrease of $6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by $7.5 million and ascribed value of $1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Amersham loan, GDC senior subordinated loan and BP second lien loan for the accrued PIK interest totaling approximately $165,000.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $3.4 million and preferred stock by approximately $3.6 million, Octagon equity interest by $1.5 million, Summit common stock by $22.0 million, Velocitius equity interest by $1.7 million, PreVisor common stock by $3.4 million, U.S. Gas preferred stock by $17.8 million, Vestal common stock by $600,000 and LHD Europe series A common stock by approximately $166,000 and series B common Stock by approximately $58,000. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $5,561,308. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $6.8 million due to PIK distributions which were treated as a return of capital. Also, during the fiscal year ended October 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $298,000. The Valuation Committee also decreased the fair value of the Company s investments in Amersham second lien notes by $2.4 million, BP second lien loan by $14.1 million, Ohio

Medical common stock by $8.6 million, SGDA preferred equity interest by approximately $2.4 million, MVC Automotive equity interest by $2.4 million, Security Holdings equity interest by approximately $6.4 million, SGDA Europe equity interest by approximately $4.1 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of $6.4 million, Turf equity interest

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by $500,000, GDC senior subordinated loan by approximately $3.2 million and Vendio preferred stock by approximately $1.9 million and common stock by $5,500 during the fiscal year ended October 31, 2010. The net decrease of $6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by $7.5 million and ascribed value of $1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Amersham loan, BP second lien loan and GDC senior subordinated loan for the accrued PIK interest totaling approximately $732,000.

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

For the Fiscal Year Ended October 31, 2009

During the fiscal year ended October 31, 2009, the Company made six follow-on investments in four existing portfolio companies, committing capital totaling $6.3 million. The Company invested $3.4 million in Harmony Pharmacy in the form of three demand notes, a $700,000 demand note on November 4, 2008, a $2.2 million demand note on March 3, 2009 and a $500,000 demand note on September 1, 2009. The demand notes have an annual interest rate of 10% with the accrued interest being reserved against due to collectibility issues. On June 23, 2009, the Company invested $1.5 million in SGDA Europe in the form of a senior secured loan. The loan has an annual interest rate of 10% and a maturity date of June 23, 2012. On July 14, 2009 and September 1, 2009, the Company invested a combined $375,000 in Amersham in the form of a senior secured loan bearing annual interest of 6% and maturing on December 31, 2009. The Company also made an equity investment of approximately $1.0 million in MVC Partners during the fiscal year ended October 31, 2009.

At October 31, 2008, the balance of the revolving credit facility provided to Octagon was $650,000. Net repayments during the fiscal year ended October 31, 2009 were $650,000. There was no amount outstanding as of October 31, 2009.

At October 31, 2008, the balance of the secured revolving note provided to Marine was $700,000. Net borrowings during the fiscal year ended October 31, 2009 were $200,000 resulting in a balance of $900,000 at such date.

At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008. Net repayments for this portion of the credit facility were approximately $571,000, resulting in no balance outstanding at October 22, 2009. The balance of the remaining portion of the senior credit facility at October 31, 2008 was approximately $4.4 million. Net repayments on this portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were approximately $4.4 million, resulting in no balance outstanding at October 22, 2009. On October 22, 2009, the Company participated the revolving credit facility to another lender. The Company agreed to guarantee the $10 million credit facility under certain circumstances related to an event of default.

During the fiscal year ended October 31, 2009, the Company received approximately $106,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2009 was approximately $1.1 million.

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During the fiscal year ended October 31, 2009, the Company received principal payments of approximately $2.6 million on the term loan provided to Innovative Brands. The Company also received a loan amendment fee of approximately $57,000. The interest rate on the term loan was increased to 15.5% from 11.75%. The balance of the term loan as of October 31, 2009 was approximately $10.4 million.

On December 31, 2008, the Company received a quarterly principal payment from BP on term loan A of $146,250. During the fiscal year ended October 31, 2009, the interest rates increased on term loan A to LIBOR plus 5.75% or Prime Rate plus 4.75%, on term loan B to LIBOR plus 8.75% or Prime Rate plus 7.75%, and on the second lien loan to 16.5%. The balance of term loan A as of October 31, 2009 was approximately $2.0 million.

On December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009, Total Safety made principal payments of $2,500 on each date on its first lien loan. The balance of the first lien loan as of October 31, 2009 was $972,500.

During the fiscal year ended October 31, 2009, SP made principal payments totaling approximately $96,000 on its first lien loan. The balance of the first lien loan as of October 31, 2009, was approximately $901,000.

On December 31, 2008, Henry Company made a principal payment of approximately $127,000 on its term loan A. The balance of term loan A as of October 31, 2009 was approximately $1.7 million.

On March 11, 2009 and April 30, 2009, TerraMark made principal payments of $300,000 and $500,000 on its senior secured loan. On July 17, 2009, TerraMark repaid its senior secured loan in full including all accrued interest. The total amount received was approximately $715,000.

On July 31, 2009, the Company sponsored U.S. Gas in its acquisition of ESPI and provided a $10.0 million limited guarantee and cash collateral for a short-term $4.0 million letter of credit for U.S. Gas. For sponsoring and providing this credit support, the Company has earned one-time fee income of approximately $1.2 million and will be recognizing $1.0 million in fee income over the life of the guarantee. As of October 31, 2009, the cash collateral has been released as the letter of credit has expired.

On September 30, 2009, Marine made a principal payment of $625,000 on its senior subordinated loan. The balance of the loan as of October 31, 2009 was approximately $10.8 million.

During the fiscal year ended October 31, 2009, Endymion was determined to no longer be an operating company. Subsequent to this determination, the Company realized a loss of $7.0 million and removed the investment from its books.

During the fiscal year ended October 31, 2009, the Company realized a loss on Timberland of approximately $18.1 million. The Company received no proceeds from the company and Timberland has been removed from the Company s portfolio.

During the fiscal year ended October 31, 2009, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $55.2 million, SGDA preferred equity interest by $500,000, Tekers common stock by $615,000, Velocitius equity interest by $2.2 million, Vestal common stock by $650,000, MVC Automotive equity interest by $5.0 million, Summit common stock by $5.0 million, Vitality common stock and warrants by $260,300 and $100,000, respectively, and Dakota Growers common stock by approximately $4.9 million and preferred stock by approximately $5.1 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, BP, Summit, U.S. Gas, and WBS, and the Vitality and Marine preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $6,354,807. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $5.8 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal year ended October 31, 2009, 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 $157,000. The Valuation Committee also decreased the fair value of the Company s investments in Ohio Medical common stock by $8.1 million, Vendio preferred stock by approximately $2.1 million and common stock by $5,000, Foliofn preferred stock by $2.8 million, PreVisor common stock by $3.1 million, Custom Alloy preferred stock by $22.5 million, Amersham second lien notes by $3.1 million, Turf equity interest by $2.6 million, Harmony Pharmacy common stock by $750,000, MVC Partners equity interest by $16,000, SGDA common stock by $560,000, Security

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Holdings common equity interest by $18.2 million, HuaMei common stock by $475,000, Timberland senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million and BP term loan B by approximately $219,000, term loan A by approximately $255,000 and second lien loan by approximately $1.3 million, during the fiscal year ended October 31, 2009. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK interest totaling approximately $1.0 million. During the fiscal year ended October 31, 2009, the Company received a return of capital distribution from Turf of approximately $286,000.

At October 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was $502.8 million with a cost basis of $422.8 million. At October 31, 2009, the fair value and cost basis of portfolio investments of the Legacy Investments was $15.3 million and $48.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $487.5 million and $373.9 million, respectively. At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively.

Portfolio Companies

During the fiscal year ended October 31, 2010, the Company had investments in the following portfolio companies:

Actelis Networks, Inc.

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

At October 31, 2009 and October 31, 2010, the Company s investment in Actelis consisted of 150,602 shares of Series C preferred stock at a cost of $5.0 million. The investment has been fair valued at $0.

Amersham Corporation

Amersham, Louisville, Colorado, is a manufacturer of precision machined components for the aviation, automotive and medical device markets.

At October 31, 2009, the Company s investment in Amersham consisted of a $2.5 million note, a $3.1 million note, and a $375,000 senior secured loan. The $2.5 million note is bearing annual interest at 10%. The note has a maturity date of June 29, 2010. The note had a principal face amount and cost basis of $2.5 million at October 31, 2009. The $3.1 million note bears annual interest at 17%, which includes a 3% default interest rate. The interest rate then steps down to 13% for the period July 1, 2010 to June 30, 2012 and steps down again to 12% for the period July 1, 2012 to June 30, 2013. The note has a maturity date of June 30, 2013. The note had a principal face amount and cost basis of $3.9 million at October 31, 2009. The $375,000 note bears annual interest at 9.0% and has a maturity date February 28, 2010. The note had a principal face amount and costs basis of $375,000 at October 31, 2009. At October 31, 2009, the notes had a combined outstanding balance and cost of $6.6 million and a combined fair value of $2.8 million.

On June 29, 2010, the $2.5 million note matured. Amersham did not repay the note or the accrued interest at the time of maturity. The Company has not been accruing interest on this note since June 29, 2010.

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

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the combined fair value of the $2.5 million note and the $4.1 million note by approximately $2.4 million to a combined fair value of $0.

At October 31, 2010, the notes had a combined outstanding balance and cost of $6.5 million and a combined fair value of $0. The increase in the outstanding balance and cost of the loan is due to the capitalization of   payment in kind interest. The Company s Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest. The Company has reserved in full against the interest accrued on the $2.5 million and $4.0 million note.

BP Clothing, LLC

BP, Pico Rivera, California, is a company that designs, manufactures, markets and distributes Baby Phat®, a line of women s clothing. BP operates within the women s urban apparel market. The urban apparel market is highly fragmented, with a small number of prominent, nationally recognized brands and a large number of small niche players. Baby Phat is a recognized urban apparel brand in the women s category.

At October 31, 2009, the Company s investment in BP consisted of an $18.8 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 5.75% or Prime Rate plus 4.75%. The term loan B bears annual interest at LIBOR plus 8.75% or Prime Rate plus 7.75%. The interest rate option on the loan assignments is at the borrower s discretion. Both loans mature on July 18, 2011. The combined cost basis and fair value of the investments at October 31, 2009 was $22.6 million and $21.0 million, respectively.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the second lien loan by approximately $14.1 million.

During the fiscal year ended October 31, 2010, the interest rates on term loans A and B increased from LIBOR plus 5.75% or Prime Rate plus 4.75% and LIBOR plus 8.75% or Prime Rate plus 7.75%, respectively, to LIBOR plus 7.75% or Prime Rate plus 6.75% and LIBOR plus 10.75% or Prime Rate plus 9.75%, respectively, which includes a 2% default interest rate.

At October 31, 2010, the loans had a combined outstanding balance of $23.5 million, a cost basis of $23.4 million and a fair value of $7.4 million. The increase in the outstanding balance, cost and fair value of the term loans are due to the amortization of loan origination fees and the increase in the outstanding balance and cost of the second lien loan is due to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee. The Company s Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest for the quarter ending October 31, 2010. The Company has also reserved in full against the interest accrued on the second lien loan and term loan B starting on July 1, 2010.

Custom Alloy Corporation

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

At October 31, 2009, the Company s investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of $44,000, 1,991 shares of convertible series B preferred stock at a cost and fair value of approximately $10.0 million. The unsecured subordinated loan, which bears annual interest at 14% and matures on September 18, 2012, had a cost of $12.4 million and a fair value of $12.6 million.

At October 31, 2010, the Company s investment in Custom Alloy consisted of nine shares of convertible series A preferred stock at a cost and fair value of $44,000 and the 1,991 shares of convertible series B preferred stock had a cost and fair value of approximately $10.0 million. The unsecured subordinated loan had an outstanding balance of $13.6 million, a cost of $13.4 million and a fair value of $13.6 million. The increase in the cost basis and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

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

Dakota Growers Pasta Company, Inc.

Dakota Growers, Carrington, North Dakota, is the third largest manufacturer of dry pasta in North America and a market leader in private label sales. Dakota Growers and its partners in DNA Dreamfields Company, LLC introduced a new process that is designed to reduce the number of digestible carbohydrates found in traditional pasta products.

At October 31, 2009, the Company s investment in Dakota Growers consisted of 1,016,195 shares of common stock with a cost of $5.5 million and a fair value of $15.0 million and 1,065,000 shares of convertible preferred stock with a cost of $10.4 million and a fair value of $15.8 million.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the preferred stock by approximately $3.6 million and the common stock by approximately $3.4 million.

On March 10, 2010, the Company announced that its portfolio company, Dakota Growers had signed a definitive merger agreement with Viterra, Canada s leading agri-business that provides premium quality ingredients to leading global food manufacturers, under which Dakota Growers would be acquired by a subsidiary of Viterra for approximately $240 million in cash. Under the terms of the agreement, Viterra would commence a tender offer to acquire all of the outstanding shares of Dakota Growers common stock at a price of $18.28 per share resulting in anticipated proceeds of approximately $37.9 million. The acquisition closed shortly after completion of a tender of a majority (50.1%) of the outstanding shares of Dakota Growers common stock, the receipt of various regulatory approvals and the satisfaction of other customary closing conditions and contingencies. On May 3, 2010, the Company converted its 1,065,000 preferred shares of Dakota Growers to 1,065,000 common shares of Dakota Growers. On May 6, 2010, the Company sold its shares in Dakota Growers for approximately $37.9 million, resulting in a realized gain of approximately $22.0 million.

At October 31, 2010, the Company no longer held an investment in Dakota Growers.

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, 2009 and 2010, the Company s investment in DPHI consisted of 602,131 shares of Series A-1 preferred stock with a cost of $4.5 million. This investment has been fair valued at $0.

Foliofn, Inc.

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, 2009 and 2010, 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 Folio*fn.*

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

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

At October 31, 2009, the Company s investment in GDC consisted of a $3.1 million senior subordinated loan, bearing annual interest at 17% with a maturity date of August 31, 2011. The loan had a principal amount, an outstanding balance and a cost basis of $3.1 million and was fair valued at $3.1 million. The warrant was fair valued at $0.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the senior subordinated loan by approximately $3.2 million.

At October 31, 2010, the loan had an outstanding balance and cost of $3.2 million. The loan and warrants were fair valued at $0. The increase in the outstanding balance and cost of the loan is due to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee. The Company s Valuation Committee determined not to increase the fair value of the investment as a result of the capitalization of the PIK interest for the quarter ended October 31, 2010. The Company has reserved in full against the interest accrued on the senior subordinated note starting on July 1, 2010.

Harmony Pharmacy & Health Center, Inc.

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

At October 31, 2009, the Company s equity investment in Harmony Pharmacy consisted of 2 million shares of common stock with a cost of $750,000 and a fair value of $0. The revolving credit facility had an outstanding balance of $4.8 million, a cost of $4.8 million, and a fair value of $4.0 million. The credit facility bears annual interest at 10%, matures on December 1, 2009 and has a 0.50% unused fee per annum. The demand notes had an outstanding balance of $6.7 million with a cost and fair value of $6.7 million.

During the fiscal year ended October 31, 2010, the Company loaned $800,000 and committed $1.3 million to Harmony Pharmacy in the form of two demand notes. The demand notes have an annual interest rate of 10% with the accrued interest being reserved against. As of October 31, 2010, the $800,000 demand note was outstanding and $600,000 of the $1.3 million demand note was outstanding.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair values of the demand notes and revolving credit facility by a net amount of $6.4 million. The net decrease of $6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by $7.5 million and ascribed value of $1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value.

During the fiscal year ended October 31, 2010, the Company extended the maturity date of the revolving credit facility from April 30, 2010 to December 31, 2010.

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

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

Henry Company

Henry Company, Huntington Park, California, is a manufacturer and distributor of building products and specialty chemicals.

At October 31, 2009, the Company s investment in Henry Company consisted of $3.7 million in loan assignments. The $1.7 million term loan A had an annual interest rate of LIBOR plus 3.5% and matured on April 6, 2011. The $2.0 million term loan B had an annual interest rate of LIBOR plus 7.75% and also matured on April 6, 2011.

During the fiscal year ended October 31, 2010, Henry Company repaid its term loan in full, including all accrued interest.

At October 31, 2010, the Company no longer held an investment in Henry.

HuaMei Capital Company, Inc.

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

At October 31, 2009 and 2010, the Company s investment in HuaMei consisted of 500 shares of common stock with a cost of $2.0 million and fair value of $1.5 million.

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

Innovative Brands, LLC

Innovative Brands, Phoenix, Arizona, is a consumer product company that manufactures and distributes personal care products.

At October 31, 2009, the Company s investment in Innovative Brands consisted of a $10.4 million loan assignment. The $10.4 million term loan had an annual interest rate of 15.5% and matured on September 25, 2011. The loan had a cost basis and fair value of $10.4 million as of October 31, 2009.

During the fiscal year ended October 31, 2010, Innovative Brands repaid its term loan in full, including all accrued interest.

At October 31, 2010, the Company no longer held an investment in Innovative.

Integrated Packaging Corporation

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

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

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

LHD Europe Holding Inc.

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

On December 28, 2009, the Company sold the North American assets of Vitality. Prior to the sale of Vitality, Vitality s European operations (which were not acquired by the buyer) were distributed to Vitality s shareholders on a pro-rata basis. The Company received 960 shares of Series A common stock and 334 shares of convertible Series B common stock in LHD Europe as part of this transaction. These assets included the assets associated with the joint venture with Juice House.

On January 21, 2010, the Company sold the common stock of LHD Europe to Juice House, Inc. As of July 31, 2010, the proceeds of the sale of LHD Europe have not been distributed by LHD Europe and thus LHD Europe remains an investment of the Company.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the convertible Series A common stock by approximately $166,000 and the convertible Series B common stock by approximately

$58,000.

At October 31, 2010, the convertible Series A common stock had a cost basis of approximately $166,000 and a fair value of approximately $332,000 and the convertible Series B common stock had a cost basis of approximately $59,000 and a fair value of approximately $118,000.

Peter Seidenberg, Chief Financial Officer of the Company, serves as a director of LHD Europe.

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Lockorder Limited (formerly Safestone Technologies PLC)

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

At October 31, 2009 and 2010, 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, 2009 and 2010, 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, 2009, the Company s investment in Marine consisted of a senior secured loan, a secured revolving note, and 20,000 shares of preferred stock. The senior secured loan had an outstanding balance of $10.8 million and a cost of $10.7 million. The senior secured loan bears annual interest at 11% and matures on June 30, 2013. The senior secured loan was fair valued at $10.8 million. The secured revolving note had an outstanding balance, cost and fair value of $900,000. The secured revolving note bears interest at LIBOR plus 1%, has an unused fee of .50% per annum and matures on June 30, 2013. The preferred stock was fair valued at $2.6 million. The dividend rate on the preferred stock is 12% per annum.

On both December 31, 2009 and April 7, 2010, Marine made principal payments of $625,000 on its senior subordinated loan.

Net borrowings during fiscal year 2010 were $1.1 million resulting in a balance of $2.0 million as of October 27, 2010. On October 27, 2010, the Company refinanced the secured revolving note and the senior subordinated loan of Marine. The revolving note balance of $2.0 million was added to the senior subordinated loan resulting in a balance of $11.9 million as of October 31, 2010. The interest on the senior subordinated loan remained 11% and the maturity date was extended to October 26, 2017.

At October 31, 2010, the Company s senior secured loan had an outstanding balance, a cost basis and a fair value of $11.9 million. The preferred stock had a cost and fair value of $2.8 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 twelve Ford, Jaguar, Land Rover, Mazda, and Volvo dealerships located in Austria, Belgium, Czech Republic, and the Netherlands.

At October 31, 2009, the Company s investment in MVC Automotive consisted of an equity interest with a cost of $34.7 million and a fair value of $46.5 million. The bridge loan, which bears annual interest at 10% and matures on December 31, 2009, had a cost and fair value of $3.6 million. The guarantees for MVC Automotive were equivalent to approximately $17.4 million at October 31, 2009.

During the fiscal year ended October 31, 2010, the maturity date on the bridge loan was extended to December 31, 2010.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the equity interest by $2.4 million.

At October 31, 2010, the Company s investment in MVC Automotive consisted of an equity interest with a cost of $34.7 million and a fair value of $44.1 million. The bridge loan had a cost and fair value of $3.6 million. The mortgage guarantees for MVC Automotive were equivalent to approximately $16.7 million at October 31, 2010. These guarantees were taken into account in the valuation of MVC Automotive.

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

MVC Partners LLC

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

On October 29, 2010, through MVC Partners, the Company committed to invest $20 million in a private equity fund (PE Fund), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the GP). The PE Fund recently completed a first closing of approximately $80 million of capital commitments.

At October 31, 2009 and October 31, 2010, 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.

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, 2009, the Company s investment in Octagon consisted of a term loan with an outstanding balance and a cost basis of $5.0 million, a revolving line of credit with no outstanding balance, and an equity investment with a cost basis of approximately $1.3 million and fair value of approximately $2.7 million. The combined fair value of the investment at October 31, 2009 was $7.7 million. The term loan bears annual interest at LIBOR plus 4.25% and matures on December 31, 2011. The revolving line of credit bears annual interest at LIBOR plus 4.25%, matures on December 31, 2011 and has an unused fee of .50% per annum.

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

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the equity investment by $1.5 million.

During the fiscal year ended October 31, 2010, the cost basis of the equity investment was increased by approximately $298,000 because of an allocation in flow through income.

At October 31, 2010, the equity investment had a cost basis of approximately $1.6 million and a fair value of $4.5 million.

Ohio Medical Corporation

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

At October 31, 2009, the Company s investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of $17.0 million and $9.1 million, respectively, and 13,227 shares of convertible preferred stock with a cost basis of $30.0 million and a fair value of $40.0 million.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the common stock by $8.6 million.

At October 31, 2010, the Company s investment in Ohio Medical consisted of 5,620 shares of common stock with a cost basis and fair value of $17.0 million and $500,000, respectively, and 15,473 shares of convertible preferred stock with a cost basis of $30.0 million and a fair value of $46.8 million. The increase in the fair value of the convertible preferred stock of $6.8 million is due to PIK distributions which were treated as a return of capital. This increase was approved by the Company s Valuation Committee.

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.

Phoenix Coal Corporation

Phoenix Coal, Madisonville, Kentucky, is engaged in the acquisition, development, production and sale of bituminous coal reserves and resources located primarily in the Illinois Basin. With offices in Madisonville, Kentucky and Champaign, Illinois, the company is focused on consolidating small and medium-sized coal mining projects and applying proprietary technology to increase efficiency and enhance profit margins.

At October 31, 2009, the Company s investment in Phoenix Coal consisted of 666,667 shares of common stock, which had a cost basis of $500,000 and a market value of approximately $148,000.

During the fiscal year ended October 31, 2010, the Company sold the remaining 666,667 shares of Phoenix Coal common stock. The total amount received from the sale net of commission was approximately $295,000, resulting in a realized loss of approximately $205,000. Over the life of the investment, there was a combined realized gain on the sale of Phoenix Coal common stock of approximately $293,000.

At October 31, 2010, the Company no longer held an investment in Phoenix Coal.

PreVisor, Inc.

PreVisor, Roswell, Georgia, provides pre-employment testing and assessment solutions and related professional consulting services.

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, 2009, the common stock had a cost basis and fair value of $6.0 million and $7.0 million, respectively.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the common stock by $3.4 million.

At October 31, 2010, the common stock had a cost basis and fair value of $6.0 million and $10.4 million, respectively.

SafeStone Technologies Limited (formerly Safestone Technologies PLC)

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

At October 31, 2009 and 2010, 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.

Security Holdings, B.V.

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

At October 31, 2009, the Company s investment in Security Holdings had a cost basis of $28.2 million and a fair value of $10.0 million.

On March 12, 2010, the Company invested $1.7 million in Security Holdings in the form of equity interest.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the equity interest by $6.4 million.

At October 31, 2010, the Company s investment in Security Holdings had a cost of $29.9 million and a fair value of $5.3 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, 2009, the Company s equity investment had a cost basis and a fair value of $7.5 million. The senior secured loan, with an annual interest rate of 10% and a maturity date of June 23, 2012, had an outstanding balance, cost and fair value of $1.5 million.

On March 12, 2010, the Company invested $4.5 million in SGDA Europe in the form of equity interest.

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

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the equity interest by $4.1 million.

At October 31, 2010, the Company s equity investment had a cost basis of $17.4 million and a fair value of $12.1 million. The senior secured loan had an outstanding balance, cost and fair value of $1.5 million.

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

SGDA Sanierungsgesellschaft fur Deponien und Altasten GmbH

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

At October 31, 2009, the Company s investment in SGDA consisted of a term loan, common equity interest, and preferred equity interest. The term loan had an outstanding balance of $6.2 million with a cost of $6.2 million. The term loan bears annual interest at 7.0% and matures on August 31, 2012. The term loan was fair valued at $6.2 million. The common equity interest in SGDA had been fair valued at $1 with a cost basis of approximately $439,000. The preferred equity interest had been fair valued at $6.6 million with a cost basis of $5.0 million.

On March 16, 2010, the Company contributed its common and preferred equity interest in SGDA to SGDA Europe in a reorganization to achieve operating efficiencies. SGDA Europe is 99.99% owned by the Company. The fair value of SGDA Europe s equity interest increased by approximately $4.2 million and the cost basis was increased by $5.0 million as a result of this cashless transaction. There was no gain or loss to the Company from this transaction.

During the fiscal year ended October 31, 2010, the Valuation Committee determined to decrease the fair value of the Company s preferred equity interest by $2.4 million.

At October 31, 2010, the term loan had an outstanding balance of $6.2 million with a cost of $6.2 million. The term loan was fair valued at $6.2 million.

SIA Tekers Invest

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

At October 31, 2009, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and a fair value of $3.8 million. The Company guaranteed a 1.4 million Euro mortgage for Tekers. The guarantee was equivalent to approximately $2.1 million at October 31, 2009 for Tekers.

At October 31, 2010, the Company s investment in Tekers consisted of 68,800 shares of common stock with a cost of $2.3 million and a fair value of $3.8 million. The guarantee for Tekers was equivalent to approximately $2.0 million at October 31, 2010. These guarantees were taken into account in the valuation of Tekers.

Sonexis, Inc.

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

At October 31, 2009 and 2010, the Company s investment in Sonexis consisted of 131,615 shares of common stock with a cost of $10.0 million. The investment has been fair valued at $0.

SP Industries, Inc.

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

At October 31, 2009, the Company s investment in SP consisted of a first lien loan and a second lien loan that had outstanding balances of $901,000 and $25.4 million, respectively, with a cost basis of approximately $656,000 and $25.1 million, respectively. The first lien loan bears annual interest at LIBOR, with a 2.5% floor, plus 5% and matures on December 28, 2012, and the second lien loan bears annual interest at 15% and matures on December 31, 2013. The first lien loan and second lien loan had fair values of $901,000 and $25.4 million, respectively.

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

At October 31, 2010, the first lien loan and the second lien loan had outstanding balances of approximately $732,000 and $26.2 million, respectively, with a cost basis of approximately $598,000 and $26.0 million, respectively. The first lien loan and second loan had fair values of approximately $732,000 and $26.2 million, respectively. The increase in cost and fair value of the second lien loan is due to the amortization of loan origination fees and to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

Storage Canada, LLC

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

At October 31, 2009, the Company s investment in Storage Canada consisted of a term loan with an outstanding balance, cost basis and a fair value of $1.1 million. The borrowing bears annual interest at 8.75% and matures on March 30, 2013. The loan commitment to Storage Canada was not renewed in March 2009.

During the fiscal year ended October 31, 2010, the Company received approximately $106,000 in principal payments on the term loan provided to Storage Canada.

At October 31, 2010, the Company s investment in Storage Canada had an outstanding balance of $1.0 million and a cost basis and fair value of $1.0 million.

Summit Research Labs, Inc.

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

At October 31, 2009, 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 $9.6 million with a cost of $9.5 million. The second lien loan was fair valued at $9.6 million. The common stock had been fair valued at $38.0 million with a cost basis of $16.0 million.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the common stock by $22.0 million.

At October 31, 2010, the Company s second lien loan had an outstanding balance of $10.3 million with a cost of $10.2 million. The second lien loan was fair valued at $10.3 million. The 1,115 shares of common stock were fair valued at $60.0 million and had a cost basis of $16.0 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee.

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

Total Safety U.S., Inc.

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

At October 31, 2009, the Company s investment in Total Safety consisted of a $973,000 first lien loan bearing annual interest at LIBOR plus 2.75% and maturing on December 8, 2012 and a $3.5 million second lien loan bearing annual interest at LIBOR plus 6.5% and maturing on December 8, 2013. The loans had a combined outstanding balance and cost basis of $4.5 million. The loans were fair valued at $4.4 million.

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

During the fiscal year ended October 31, 2010, the interest rate on the first lien loan was increased to LIBOR, with a 2.0% floor, plus 4.25%.

At October 31, 2010, the loans had a combined outstanding balance and cost basis of $4.4 million. The loans were fair valued at $4.4 million.

Turf Products, LLC

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

At October 31, 2009, the Company s investment in Turf consisted of a senior subordinated loan, bearing interest at 15% per annum with a maturity date of November 30, 2010, LLC membership interest, and warrants. The senior subordinated loan had an outstanding balance of $8.1 million with a cost of $8.1 million. The loan was fair valued at $8.1 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 $3.2 million. The warrants had a cost of $0 and a fair value of $0.

During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the membership interest by $500,000.

At October 31, 2010, the mezzanine loan had an outstanding balance, cost basis and a fair value of $8.4 million. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees and to the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee. The junior revolving note had an outstanding balance and fair value of $1.0 million. The membership interest has a cost of $3.5 million and a fair value of $2.7 million. The warrant was fair valued at $0.

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

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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, 2009, the second lien loan had an outstanding balance of $8.3 million with a cost of $8.1 million and a fair value of $8.3 million. The second lien loan bears annual interest at 14% and matures on July 26, 2012. The 32,200 shares of convertible Series I preferred stock had a fair value of $58.9 million and a cost of $500,000, and the convertible Series J preferred stock had a fair value of $1.9 million and a cost of $0. The guarantees for U.S. Gas at October 31, 2009, totaled $20.0 million. These guarantees were taken into account in the valuation of U.S. Gas.

On July 31, 2009, the Company sponsored U.S. Gas in its acquisition of ESPI and provided a $10.0 million limited guarantee and cash collateral for a short-term $4.0 million letter of credit for U.S. Gas. The cash collateral has since been released as the letter of credit has expired and the limited guarantee is no longer a commitment of the Company.

On March 31, 2010, U.S. Gas refinanced its senior credit facility with another lender. As a result of the refinancing, the $10 million guarantee to Amzak Capital Management, LLC for the senior credit facility has been released. At October 31, 2010, the revolving senior credit facility was no longer a commitment of the Company.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the preferred stock by approximately $17.8 million.

At October 31, 2010, the second lien loan had an outstanding balance of $8.7 million with a cost of $8.6 million and a fair value of $8.7 million. The increases in the outstanding balance, cost and fair value of the loan are due to the amortization of loan origination fees and the capitalization of payment in kind interest. These increases were approved by the Company s Valuation Committee. The convertible Series I preferred stock had a fair value of $76.1 million and a cost of $500,000 and the convertible Series J preferred stock had a fair value of $2.5 million and a cost of $0. As of October 31, 2010, the Company no longer guaranteed any U.S. Gas obligation.

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

Velocitius B.V.

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

At October 31, 2009, the equity investment in Velocitius had a cost of $11.4 million and a fair value of $23.2 million. There was no amount outstanding on Line II, which expired on April 30, 2010 and bears annual interest at 8%.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the Company s equity investment by $1.7 million.

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

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

Vendio Services, Inc.

Vendio, San Bruno, California, a Legacy Investment, offers small businesses and entrepreneurs resources to build Internet sales channels by providing software solutions designed to help these merchants efficiently market, sell and distribute their products.

At October 31, 2009, the Company s investments in Vendio consisted of 10,476 shares of common stock and 6,443,188 shares of Series A preferred stock at a total cost of $6.6 million. The investments were fair valued at $4.5 million, $9,687 for the common stock and approximately $4.5 million for the Series A preferred stock.

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During the fiscal year ended October 31, 2010, the Valuation Committee decreased the fair value of the preferred stock by approximately $1.9 million and the common stock by $5,500.

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

At October 31, 2010, the Company no longer held an investment in Vendio.

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, 2009, the senior subordinated promissory note, which bears annual interest at 12% and matures on April 29, 2011, had an outstanding balance, cost, and fair value of $600,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.9 million were fair valued at $1.6 million.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the common stock by $600,000.

At October 31, 2010, the senior subordinated promissory note had an outstanding balance, cost, and fair value of $600,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.9 million were fair valued at $2.2 million.

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

Vitality Foodservice, Inc.

Vitality, Tampa, Florida, is a market leader in the processing and marketing of dispensed and non-dispensed juices and frozen concentrate liquid coffee to the foodservice industry. With an installed base of over 42,000 dispensers worldwide, Vitality sells its frozen concentrate through a network of over 350 distributors to such market niches as institutional foodservice, including schools, hospitals, cruise ships, hotels and restaurants.

At October 31, 2009, the investment in Vitality consisted of 556,472 shares of common stock at a cost of $5.6 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $11.0 million. The convertible preferred stock has a dividend rate of 13% per annum. The common stock, Series A convertible preferred stock, and warrants were fair valued at $10.1 million, $13.9 million and $3.8 million, respectively.

On December 29, 2009, the Company sold the common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately $10.0 million, for the 1 million preferred shares was approximately $14.0 million, and for the 1 million warrants were approximately $3.8 million. As part of this transaction, there was approximately $2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company received its first scheduled disbursement from the Vitality escrow totaling approximately $522,000. There were no claims against the escrow so

100% of the expected proceeds of the first scheduled disbursement were released. At the same time, the Company received its portion of a working capital adjustment paid to Vitality. The Company s share of the proceeds from the working capital adjustment totaled approximately $471,000 and was recorded as additional long-term capital gain. The total proceeds received from the escrow disbursement and working capital adjustment was approximately $993,000. The value of the escrow was increased by $150,000 by the Valuation Committee during the fiscal year ended October 31, 2010. This escrow is currently valued at approximately $1.9 million on the Company s consolidated balance sheet as of October 31, 2010. Total amount received from the sale as of October 31, 2010 was approximately $30.6 million resulting in a realized gain of approximately $13.9 million, which was treated as a long-term capital gain.

At October 31, 2010, the Company no longer held an investment in Vitality.

WBS Carbons Acquisitions Corp.

WBS, Middletown, New York, is a manufacturer of antiperspirant actives and water treatment chemicals.

At October 31, 2009, the bridge loan had an outstanding balance, cost and fair value of $1.8 million. The bridge loan bears annual interest at 6% and matures on December 30, 2011.

During the fiscal year ended October 31, 2010, WBS repaid its loan in full, including all accrued interest.

At October 31, 2010, the Company no longer held an investment in WBS.

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 proceeds from public and private offerings of securities to finance pursuit of our investment objective.

At October 31, 2010, the Company had investments in portfolio companies totaling $433.9 million. Also, at October 31, 2010, the Company had investments in cash and cash equivalents totaling approximately $56.4 million. 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.

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

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

Current balance sheet resources, which include the additional cash resources from the Credit Facilities, are believed to be sufficient to finance current commitments. Current commitments include:

Commitments to/for Portfolio Companies

At October 31, 2010, the Company s existing commitments to portfolio companies consisted of the following:

Commitments of MVC Capital, Inc.

Portfolio Company		**Amount Committed**		**Amount Funded at October 31, 2010**
Octagon Revolving Credit Facility	$	7.0 million		
Harmony Pharmacy Revolving Credit Facility	$	4.0 million	$	4.0 million
Turf Junior Revolver	$	1.0 million	$	1.0 million
Harmony Pharmacy Note	$	1.3 million	$	600,000
MVC Partners	$	20.0 million		
Total	**$**	**33.3 million**	**$**	**5.6 million**

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Off-Balance Sheet Arrangements

As of October 31, 2010, the Company had the following commitments to guarantee various loans and mortgages:

Off-Balance Sheet Arrangements

Guarantee	**Amount Committed**	**Amount Funded at October 31, 2010**
MVC Automotive	$ 9.1 million	
MVC Automotive	$ 5.6 million	
Tekers	$ 2.0 million	
MVC Automotive	$ 2.0 million	
Total	**$ 18.7 million**	

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 11, 2006, the Company provided Marine a $2.0 million secured revolving loan facility. The revolving loan facility bears annual interest at LIBOR plus 1%. The Company also receives a fee of 0.50% of the unused portion of the revolving loan facility. As of October 31, 2009, the outstanding balance of the secured revolving loan facility was $900,000. Net borrowings during fiscal year 2010 were $1.1 million resulting in a balance of $2.0 million as of October 27, 2010. On October 27, 2010, the Company refinanced the secured revolving note and the senior subordinated loan of Marine. The revolving note balance of $2.0 million was added to the senior subordinated loan resulting in a balance of $11.9 million as of October 31, 2010.

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

On January 11, 2007, the Company provided a $4.0 million revolving credit facility to Harmony Pharmacy. The credit facility bears annual interest at 10%. The Company also receives a fee of 0.50% on the unused portion of the loan. The maturity date of the revolving credit facility was extended to December 31, 2010. At October 31, 2009 and October 31, 2010, the outstanding balance of the revolving credit facility was $4.0 million.

On May 1, 2007, the Company provided Velocitius a $650,000 revolving line of credit. The revolving line of credit expired on April 30, 2010 and had an annual interest at 8%. At October 31, 2010, the revolving line of credit was no longer a commitment of the Company.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $2.0 million at October 31, 2010.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility to U.S. Gas. The revolving senior credit facility had an annual interest at LIBOR plus 6% or Prime plus 4.5%, which is at U.S. Gas discretion. The balance of the senior credit facility at October 31, 2008 was approximately $4.9 million. Net repayments during fiscal year 2009 on the senior credit facility were approximately $4.9 million, resulting in a zero balance at October 22, 2009. On October 22, 2009, the Company participated the revolving credit facility to Amzak Capital Management, LLC. The Company agreed to guarantee the $10 million credit facility under certain circumstances related to an event of default. On March 31, 2010, U.S. Gas refinanced its senior credit facility with another lender. As a result of the refinancing, the $10 million guarantee to Amzak Capital Management, LLC for the senior credit facility has been released. At October 31, 2009 and October 31, 2010, the revolving senior credit facility was no longer a commitment of the Company.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $9.1 million at October 31, 2010.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately $5.6 million at October 31, 2010) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended a $1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note. At October 31, 2009 and October 31, 2010, the outstanding balance of the secured junior revolving note was $1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million Czech Republic Koruna (CZK) mortgage for MVC Automotive, equivalent to approximately $2.0 million at October 31, 2010.

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

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

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

On October 29, 2010, through MVC Partners, the Company committed to invest $20 million in a private equity fund (PE Fund), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the GP). The PE Fund recently completed a first closing of approximately $80 million of capital commitments.

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 8 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 (Credit Facility I), consisting of $50.0 million in term debt and $50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. At October 31, 2009, there was $50.0 million in term debt and $12.3 million in revolving credit on Credit Facility I outstanding. The Company made net repayments of $12.3 million on the revolving credit portion of Credit Facility I during the period November 1, 2009 to April 13, 2010. On April 13, 2010, the Company renewed Credit Facility I with Guggenheim for three years. Credit Facility I now only consists of a $50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under Credit

Facility I will be due and payable. As of October 31, 2010, there was $50.0 million outstanding on Credit Facility I. The proceeds from borrowings made under Credit Facility I are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under Credit Facility I 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 Credit Facility I. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Consolidated Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility I will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios. Please see the Item 1A Risk Factor, We may be unable to meet our covenant obligations under our credit facility, which could adversely affect our business, for a risk factor relating to the Company s credit facility.

On April 24, 2008, the Company entered into a two-year, $50 million revolving credit facility (Credit Facility II) with Branch Banking and Trust Company (BB&T). There was no amount outstanding on Credit Facility II as of October 31, 2009 and on the maturity date of April 24, 2010. Credit Facility II was not renewed. Credit Facility II provided financing to the Company in addition to the Company s existing Credit Facility I with Guggenheim. Proceeds from borrowings made under Credit Facility II were used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bore interest at LIBOR plus 50 basis points. In addition, the Company was also subject to an annual utilization fee of 25 basis points for the amount of Credit Facility II that was outstanding for more than 33% of the calendar days during each fiscal quarter, as well as an annual fee of 25 basis points of the total amount of the facility. The Company paid a closing fee, legal and other costs associated with this transaction. These costs were amortized evenly over the life of the facility. The prepaid expenses on the Consolidated Balance Sheet included the unamortized portion of these costs. Borrowings under Credit Facility II were secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities whose purchase was approved by BB&T.

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.

A summary of our contractual payment obligations as of October 31, 2010 is as follows:

	Payments Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Credit Facility I	$ 50,000,000	N/A	$ 50,000,000	N/A	N/A
Total Debt	$ 50,000,000	N/A	$ 50,000,000	N/A	N/A

Subsequent Events

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

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

On November 30, 2010, a public Uniform Commercial Code (UCC) sale of Harmony 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 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. On December 21, 2010, Harmony filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized a $8.4 million loss on its investment in Harmony.

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.

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SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Company in the preparation of its consolidated financial statements:

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Recent Accounting Pronouncements

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

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which is codified in FASB ASC 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted ASC 855 in the third quarter of 2009 and evaluated all events or transactions through the date of issuance of the consolidated financial statements.

In January 2010, FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosure about Fair Value Measurements*. ASU 2010-06 provides an amendment to ASC 820-10 which requires new disclosures on transfers in and out of Levels I and II and activity in Level III fair value measurements. ASU 2010-06 also clarifies existing disclosures such as 1.) level of disaggregation and 2.) disclosure about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuance, and settlements in the roll-forward of activity in Level III fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted this guidance, the application of which has not had a material effect on the financial position or results of operations of the Company but has resulted in additional disclosures.

Tax Status and Capital Loss Carryforwards

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 Notes 12 and 13. Notes to Consolidated Financial Statements). 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 98% of its ordinary income and capital gains during each calendar year. At October 31, 2009, the Company had a net capital loss carryforward of $29,988,349. During fiscal year 2010, the Company utilized the prior year capital loss carryforwards and as a result, the Company has no remaining capital loss carryforwards as of October 31, 2010.

Valuation of Portfolio Securities

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

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

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

At October 31, 2010, approximately 87.13% of our total assets were portfolio investments and escrow receivables recorded at fair value.

Under most circumstances, at the time of acquisition, 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 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 comparables of companies when available, comparable private transactions when available, precedent transactions in the market when available, as well as other factors. The Company generally requires, where practicable, portfolio companies to provide annual audited and more regular unaudited financial statements, and/or annual projections for the upcoming fiscal year.

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

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 uses the level 3 inputs referenced in ASC 820.

The fair value measurement under ASC 820 also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the Company would sell or transfer the asset with the greatest volume and level of activity for the asset. If no market for the asset exists or if the Company does not have access to the principal market, the Company will use a hypothetical market.

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

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

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

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

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

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

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

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

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

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penalties and unamortized loan origination, closing and commitment fees are recorded as income. Prepayment premiums are recorded on loans when received.

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

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

Investment Classification

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

Investment Transactions and Related Operating Income

Investment transactions and related revenues and expenses are accounted for on the trade date (the date the order to buy or sell is executed). The cost of securities sold is determined on a first-in, first-out basis, unless otherwise specified. Dividend income and distributions on investment securities is recorded on the ex-dividend date. The tax characteristics of such distributions received from our portfolio companies will be determined by whether or not the distribution was made from the investment s current taxable earnings and profits or accumulated taxable earnings and profits from prior years. Interest income, which includes accretion of discount and amortization of premium, if applicable, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Fee income includes fees for guarantees and services rendered by the Company or its wholly-owned subsidiary to portfolio companies and other third parties such as due diligence, structuring, transaction services, monitoring services, and investment advisory services. Guaranty fees are recognized as income over the related period of the guaranty. Due diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Monitoring and investment advisory services fees are generally recognized as income as the services are rendered. Any fee income determined to be loan origination fees, original issue discount, and market discount are capitalized and then amortized into income using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as income and any unamortized original issue discount or market discount is recorded as a realized gain. For investments with PIK interest and dividends, we base income and dividend accrual on the valuation of the PIK notes or securities received from the borrower. If the portfolio company indicates a value of the PIK notes or securities that is not sufficient to cover the contractual interest or dividend, we will not accrue interest or dividend income on the notes or securities.

Cash Equivalents

For the purpose of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, the Company considers all money market and all highly liquid temporary cash investments purchased with an original maturity of less than three months to be cash equivalents.

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Restricted Securities

The Company will invest in privately-placed restricted securities. These securities may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and a prompt sale at an acceptable price may be difficult.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-dividend date.

Income Taxes

It is the policy of the Company to meet the requirements for qualification as a RIC under Subchapter M of the Code. As a RIC, the Company is not subject to income tax to the extent that it distributes all of its investment company taxable income and net realized capital gains for its taxable year. The Company is also exempt from excise tax if it distributes at least 98% of its ordinary income and capital gains during each calendar year.

Our consolidated operating subsidiary, MVCFS, is subject to federal and state income tax. We use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

ASC 740, Income Taxes, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions deemed to meet a more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statement of operations. During the fiscal year ended October 31, 2010, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal for the Company and MVCFS. The 2007, 2008, 2009 and 2010 federal tax years for the Company and MVCFS remain subject to examination by the IRS.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS

MVC Capital, Inc.

Consolidated Balance Sheets

	October 31, 2010	October 31, 2009
ASSETS		
Assets		
Cash and cash equivalents	$ 56,390,628	$ 1,007,873
Investments at fair value		
Non-control/Non-affiliated investments (cost $113,688,332 and $122,320,550)	56,704,561	85,451,605
Affiliate investments (cost $119,874,343 and $141,186,185)	167,106,213	210,519,609
Control investments (cost $142,019,459 and $159,287,686)	210,090,715	206,832,059
Total investments at fair value (cost $375,582,134 and $422,794,421)	433,901,489	502,803,273
Dividends, interest and fee receivables, net of reserves	6,374,314	5,385,333
Escrow receivables	2,063,420	
Prepaid expenses	1,564,306	1,271,353
Prepaid taxes	78,463	377,883
Total assets	$ 500,372,620	$ 510,845,715
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Term loan	$ 50,000,000	$ 50,000,000
Revolving credit facility		12,300,000
Provision for incentive compensation (Note 5)	21,990,314	19,511,147
Management fee payable	2,232,295	2,560,120
Other accrued expenses and liabilities	599,843	1,300,490
Professional fees payable	515,651	650,981
Consulting fees payable	38,054	67,278
Taxes payable	2,039	
Total liabilities	75,378,196	86,390,016
Shareholders equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 23,990,987 and 24,297,087 shares outstanding, respectively	283,044	283,044
Additional paid-in-capital	429,461,516	429,400,261
Accumulated earnings	40,218,844	34,768,686
Dividends paid to stockholders	(68,682,836)	(57,087,927)

Accumulated net realized gain (loss)	2,197,091	(30,113,755)
Net unrealized appreciation	58,319,355	80,008,852
Treasury stock, at cost, 4,313,461 and 4,007,361 shares held, respectively	(36,802,590)	(32,803,462)
Total shareholders equity	424,994,424	424,455,699
Total liabilities and shareholders equity	$ 500,372,620	$ 510,845,715
Net asset value per share	$ 17.71	$ 17.47

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

MVC Capital, Inc.

Consolidated Schedule of Investments
October 31, 2010

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

GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (b, h, i)	3,237,952	3,237,952	
		Warrants (d)			
				3,237,952	
Integrated Packaging Corporation	Manufacturer of Packaging Material	Warrants (d)			
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (d, j)		3,750,000	
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (d, e, j)		2,007,701	
SGDA Sanierungsgesellschaft fur Deponien und Altlasten GmbH	Soil Remediation	Term Loan 7.0000%, 08/31/2012 (e, h)	6,187,350	6,187,350	6,187,350
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares) (d, j)		10,000,000	
SP Industries, Inc.	Laboratory Research Equipment	First Lien Loan 7.5000%, 12/31/2012 (h)	732,054	597,890	732,054
		Second Lien Loan 15.0000%, 12/31/2013 (b, h)	26,226,421	25,959,855	26,226,421
				26,557,745	26,958,475
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (h)	1,002,500	1,004,096	1,002,500
Total Safety U.S., Inc.	Engineering Services		946,352	946,352	871,910

		First Lien Seller Note 6.2500%, 12/08/2012 (h) Second Lien Seller Note 6.7880%, 12/08/2013 (h)	3,500,000	3,500,000	3,500,000
				4,446,352	4,371,910
Sub Total Non-control/Non-affiliated investments				**113,688,332**	**56,704,561**
Affiliate investments 39.32% (a, c, f, g)					
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (b, h)	13,570,193	13,412,262	13,570,193
		Convertible Series A Preferred Stock (9 shares) (d)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (d)		9,956,000	9,956,000
				23,412,262	23,570,193
Harmony Pharmacy & Health Center, Inc.	Healthcare - Retail	Revolving Credit Facility 10.0000%, 12/31/2010 (b, h)	5,248,696	5,248,696	5,100,000
		Demand Note 10.0000% (h, i)	500,000	500,000	
		Demand Note 10.0000% (h, i)	800,000	800,000	
		Demand Note 10.0000% (h, i)	600,000	600,000	600,000
		Demand Note 10.0000% (h, i)	700,000	700,000	
		Demand Note 10.0000% (h, i)	3,300,000	3,300,000	
		Demand Note 10.0000% (h, i)	2,200,000	2,200,000	
		Common Stock (2,000,000 shares) (d)		750,000	
				14,098,696	5,700,000

HuaMei Capital Company, Inc.	Financial Services	Common Stock (120,000 shares) (d)		2,000,000	1,525,000
LHD Europe Holding, Inc.	Non-Alcoholic Beverages	Common Stock, Series A (960 shares) (d, e)		165,682	332,144
		Convertible Common Stock, Series B (344 shares) (d, e)		59,369	117,856
				225,051	450,000
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 10/26/2017 (b, h)	11,927,605	11,865,567	11,927,605
		Convertible Preferred Stock (20,000 shares) (b)		2,794,514	2,794,514
				14,660,081	14,722,119

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

MVC Capital, Inc.

Consolidated Schedule of Investments (Continued)
October 31, 2010

Company	Industry	Investment	Principal	Cost	Fair Value
Octagon Credit Investors, LLC	Financial Services	Limited Liability Company Interest		$ 1,587,236	$ 4,542,141
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares) (d)		6,000,000	10,400,000
Security Holdings B.V.	Electrical Engineering	Common Stock (900 shares) (d, e)		29,885,900	5,300,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (d, e)		17,388,551	12,100,000
		Senior Secured Loan 10.0000%, 6/23/2012 (e, h)	$ 1,500,000	1,500,000	1,500,000
				18,888,551	13,600,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (b, h)	8,692,789	8,616,566	8,692,789
		Convertible Series B Preferred Stock (32,200 shares) (d)		500,000	76,127,069
		Convertible Series C Preferred Stock (8,216 shares) (d)			2,476,902
				9,116,566	87,296,760
				119,874,343	**167,106,213**

Sub Total Affiliate investments					
Control Investments 49.43% (a, c, f, g)					
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		$ 34,736,939	$ 44,100,000
		Bridge Loan 10.0000%, 12/31/2010 (e, h)	$ 3,643,557	3,643,557	3,643,557
				38,380,496	47,743,557
MVC Partners, LLC	Private Equity Firm	Limited Liability Company Interest (d)		1,350,253	1,133,729
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		17,000,000	500,000
		Series A Convertible Preferred Stock (15,473 shares) (b, h)		30,000,000	46,806,540
				47,000,000	47,306,540
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	3,790,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/31/2013 (b, h)	10,299,834	10,213,333	10,299,834
		Common Stock (1,115 shares) (d)		16,000,000	60,000,000
				26,213,333	70,299,834

Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	8,395,261	8,394,368	8,395,261
		Junior Revolving Note 6.0000%, 5/1/2011 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,535,694	2,721,794
		Warrants (d)			
				12,930,062	12,117,055
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	24,900,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	2,200,000
				2,450,000	2,800,000
Sub Total Control Investments				**142,019,459**	**210,090,715**
TOTAL INVESTMENT ASSETS 102.09% (f)				**$ 375,582,134**	**$ 433,901,489**

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

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

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

Sanierungsgesellschaft fur Deponien und Altlasten mbH, SIA Tekers Invest, and Velocitius B.V. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located outside of the United States.

(f) Percentages are based on net assets of $424,994,424 as of October 31, 2010.

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

(h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.

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

(j) Legacy Investments.

Denotes zero cost or fair value.

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

MVC Capital, Inc.

Consolidated Schedule of Investments
October 31, 2009

Company	Industry	Investment	Principal	Cost	Fair Value
Non-control/Non-affiliated investments 20.13% (c, f, g)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares) (a, d, j)		$ 5,000,003	$
Amersham Corp.	Manufacturer of Precision - Machined Components	Senior Secured Loan 6.0000%, 12/31/2009 (a, h)	$ 375,000	375,000	375,000
		Second Lien Seller Note 10.0000%, 06/29/2010 (a, h, i)	2,473,521	2,473,521	775,000
		Second Lien Seller Note 17.0000%, 06/30/2013 (a, b, h, i)	3,793,841	3,793,841	1,625,000
				6,642,362	2,775,000
BP Clothing, LLC	Apparel	Second Lien Loan 16.5000%, 07/18/2012 (a, b, h)	18,778,308	18,617,403	17,503,916
		Term Loan A 6.0000%, 07/18/2011 (a, h)	1,987,500	1,973,763	1,719,388
		Term Loan B 9.0000%, 07/18/2011 (a, h)	2,000,000	1,987,208	1,742,004
				22,578,374	20,965,308
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares) (a, d, j)		4,520,355	

FOLIO*fn,* Inc.	Technology Investments	Preferred Stock (5,802,259 shares) (a, d, j)		15,000,000	10,790,000
GDC Acquisition, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 08/31/2011 (a, b, h)	3,096,252	3,096,252	3,096,252
		Warrants (a, d)			
				3,096,252	3,096,252
Henry Company	Building Products / Specialty Chemicals	Term Loan A 3.7429%, 04/06/2011 (a, h)	1,709,921	1,709,921	1,650,642
		Term Loan B 7.9929%, 04/06/2011 (a, h)	2,000,000	2,000,000	2,000,000
				3,709,921	3,650,642
Innovative Brands, LLC	Consumer Products	Term Loan 15.5000%, 09/25/2011 (a, h)	10,414,976	10,414,976	10,414,976
Lockorder Limited	Technology Investments	Common Stock (21,064 shares) (a, d, e, j)		2,007,701	
MainStream Data, Inc.	Technology Investments	Common Stock (5,786 shares) (a, d, j)		3,750,000	
Phoenix Coal Corporation	Coal Processing and Production	Common Stock (666,667 shares) (d)		500,000	148,000
SafeStone Technologies Limited	Technology Investments	Common Stock (21,064 shares) (a, d, e, j)		2,007,701	
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares) (a, d, j)		10,000,000	

SP Industries, Inc.	Laboratory Research Equipment	First Lien Loan 7.5000%, 12/28/2012 (a, h)	901,435	656,357	901,435
		Second Lien Loan 15.0000%, 12/31/2013 (a, b, h)	25,443,638	25,092,905	25,443,638
				25,749,262	26,345,073
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013 (a, h)	1,108,500	1,111,347	1,108,500
Total Safety U.S., Inc.	Engineering Services	First Lien Seller Note 3.0038%, 12/08/2012 (a, h)	972,500	972,500	898,058
		Second Lien Seller Note 6.7538%, 12/08/2013 (a, h)	3,500,000	3,500,000	3,500,000
				4,472,500	4,398,058
WBS Carbons Acquisitions Corp.	Specialty Chemicals	Bridge Loan 6.0000%, 12/30/2011 (a, h)	1,759,796	1,759,796	1,759,796
Sub Total Non-control/Non-affiliated investments				**122,320,550**	**85,451,605**
Affiliate investments 49.60% (c, f, g)					
Custom Alloy Corporation	Manufacturer of Pipe Fittings	Unsecured Subordinated Loan 14.0000%, 09/18/2012 (a, b, h)	12,648,338	12,406,499	12,648,338
		Convertible Series A Preferred Stock (9 shares) (a)		44,000	44,000
		Convertible Series B Preferred Stock (1,991 shares) (a)		9,956,000	9,956,000

				22,406,499	22,648,338
Dakota Growers Pasta Company, Inc.	Manufacturer of Packaged Foods	Common Stock (1,016,195 shares)		5,521,742	15,044,698
		Convertible Preferred Stock (1,065,000 shares)		10,357,500	15,767,252
				15,879,242	30,811,950
Harmony Pharmacy & Health Center, Inc.	Healthcare - Retail	Revolving Credit Facility 10.0000%, 12/01/2009 (a, b, h)	4,755,060	4,755,060	4,000,000
		Demand Note 10.0000% (a, h, i)	500,000	500,000	500,000
		Demand Note 10.0000% (a, h, i)	700,000	700,000	700,000
		Demand Note 10.0000% (a, h, i)	3,300,000	3,300,000	3,300,000
		Demand Note 10.0000% (a, h, i)	2,200,000	2,200,000	2,200,000
		Common Stock (2,000,000 shares) (a, d)		750,000	
				12,205,060	10,700,000
HuaMei Capital Company, Inc.	Financial Services	Common Stock (120,000 shares) (a, d)		2,000,000	1,525,000
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013 (a, b, h)	10,765,878	10,667,415	10,765,878
		Secured Revolving Note 1.2463%, 06/30/2013 (a, h)	900,000	900,000	900,000
		Convertible Preferred Stock (20,000 shares) (a, b)		2,581,699	2,581,699
				14,149,114	14,247,577

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

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MVC Capital, Inc.

Consolidated Schedule of Investments (Continued)
October 31, 2009

Company	Industry	Investment	Principal	Cost	Fair Value
Octagon Credit Investors, LLC	Financial Services	Term Loan 4.4963%, 12/31/2011 (a, h)	$ 5,000,000	$ 4,971,138	$ 5,000,000
		Limited Liability Company Interest(a)		1,289,178	2,744,083
				6,260,316	7,744,083
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares) (a, d)		6,000,000	7,000,000
Security Holdings B.V.	Electrical Engineering	Common Stock (900 shares) (a, d, e)		28,154,200	10,000,000
SGDA Europe B.V.	Soil Remediation	Common Equity Interest (a, d, e)		7,450,000	7,450,000
		Senior Secured Loan 10.0000%, 6/23/2012 (a, e, h)	1,500,000	1,500,000	1,500,000
				8,950,000	8,950,000
U.S. Gas & Electric, Inc.	Energy Services	Second Lien Loan 14.0000%, 07/26/2012 (a, b, h)	8,263,979	8,143,804	8,263,979
		Convertible Series I Preferred Stock (32,200 shares) (a, d)		500,000	58,907,092
		Convertible Series J Preferred Stock (8,216 shares) (a, d)			1,921,570

				8,643,804	69,092,641
Vitality Foodservice, Inc.	Non-Alcoholic Beverages	Common Stock (556,472 shares) (a, d)		5,564,716	10,089,957
		Preferred Stock (1,000,000 shares) (a, b, h)		10,973,234	13,875,005
		Warrants (a, d)			3,835,058
				16,537,950	27,800,020
Sub Total Affiliate investments				**141,186,185**	**210,519,609**
Control Investments (a, c, f, g)	**48.73%**				
MVC Automotive Group B.V.	Automotive Dealerships	Common Equity Interest (d, e)		34,736,939	46,500,000
		Bridge Loan 10.0000%, 12/31/2009 (e, h)	3,643,557	3,643,557	3,643,557
				38,380,496	50,143,557
MVC Partners, LLC	Private Equity Firm	Limited Liability Company Interest (d)		1,350,253	1,133,729
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares) (d)		17,000,000	9,100,000
		Series A Convertible Preferred Stock (13,227 shares) (b, h)		30,000,000	40,010,429
				47,000,000	49,110,429
SGDA Sanierungsgesellschaft	Soil Remediation	Term Loan 7.0000%, 08/31/2012 (e, h)	6,187,350	6,187,350	6,187,350
				438,551	1

fur Deponien und Altlasten GmbH		Common Equity Interest (d, e)			
		Preferred Equity Interest (d, e)		5,000,000	6,600,000
				11,625,901	12,787,351
SIA Tekers Invest	Port Facilities	Common Stock (68,800 shares) (d, e)		2,300,000	3,790,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/15/2012 (b, h)	9,596,177	9,479,142	9,596,177
		Common Stock (1,115 shares) (d)		16,000,000	38,000,000
				25,479,142	47,596,177
Turf Products, LLC	Distributor - Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010 (b, h)	8,149,021	8,136,884	8,149,021
		Junior Revolving Note 6.0000%, 5/1/2011 (h)	1,000,000	1,000,000	1,000,000
		Limited Liability Company Interest (d)		3,535,694	3,221,794
		Warrants (d)			
				12,672,578	12,370,815
Velocitius B.V.	Renewable Energy	Common Equity Interest (d, e)		11,395,315	23,200,000
Vendio Services, Inc.	Technology Investments	Common Stock (10,476 shares) (d, j)		5,500,000	9,687
		Preferred Stock (6,443,188 shares) (d, j)		1,134,001	4,490,314
				6,634,001	4,500,001

Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011 (h)	600,000	600,000	600,000
		Common Stock (81,000 shares) (d)		1,850,000	1,600,000
				2,450,000	2,200,000
Sub Total Control Investments				**159,287,686**	**206,832,059**
TOTAL INVESTMENT ASSETS	**118.46% (f)**			**$ 422,794,421**	**$ 502,803,273**

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

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

(c) All of the Company s equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Lockorder Limited, MVC Automotive Group B.V., SafeStone Technologies Limited, Security Holdings B.V., SGDA Europe B.V., SGDA Sanierungsgesellschaft fur Deponien und Altlasten mbH, SIA Tekers Invest, and Velocitius B.V. The Company makes available significant managerial assistance to all of the portfolio companies in which it has invested.

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

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MVC Capital, Inc.

Consolidated Schedule of Investments (Continued)
October 31, 2009

(d) Non-income producing assets.

(e) The principal operations of these portfolio companies are located outside of the United States.

(f) Percentages are based on net assets of $424,455,699 as of October 31, 2009.

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

(h) All or a portion of these securities have been committed as collateral for the Guggenheim Corporate Funding, LLC Credit Facility.

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

(j) Legacy Investments.

Denotes zero cost or fair value.

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

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MVC Capital, Inc.

Consolidated Statements of Operations

	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009	For the Year Ended October 31, 2008
Operating Income:			
Dividend income			
Affiliate investments	$ 2,275,531	$ 2,459,914	$ 3,505,332
Total dividend income	2,275,531	2,459,914	3,505,332
Interest income			
Non-control/Non-affiliated investments	8,693,240	10,294,769	11,608,730
Affiliate investments	5,007,696	5,070,990	5,838,181
Control investments	3,338,769	3,929,470	5,095,015
Total interest income	17,039,705	19,295,229	22,541,926
Fee income			
Non-control/Non-affiliated investments	352,679	621,252	1,037,745
Affiliate investments	2,717,090	2,615,151	1,022,733
Control investments	626,780	862,253	1,552,257
Total fee income	3,696,549	4,098,656	3,612,735
Other income	509,712	254,945	366,818
Total operating income	23,521,497	26,108,744	30,026,811
Operating Expenses:			
Management fee	9,329,809	9,843,427	8,989,491
Interest and other borrowing costs	2,824,788	3,127,594	4,463,822
Incentive compensation (Note 5)	2,479,167	3,716,852	10,822,127
Other expenses	832,391	904,695	791,789
Audit fees	548,500	659,400	473,500
Legal fees	487,000	594,000	938,000
Consulting fees	366,200	164,700	162,600
Insurance	353,135	377,400	379,725
Directors fees	346,800	272,100	249,300
Administration	273,986	290,362	330,680
Printing and postage	103,396	178,875	195,245
Public relations fees	84,000	77,800	98,600
Total operating expenses	18,029,172	20,207,205	27,894,879

Less: Expense Waiver by Adviser (1)		(150,000)				
Total net operating expenses		17,879,172		20,207,205		27,894,879
Net operating income before taxes		5,642,325		5,901,539		2,131,932
Tax (Benefit) Expenses:						
Deferred tax expense (benefit)				1,443,765		(640,482)
Current tax expense (benefit)		8,476		(66,946)		(295,914)
Total tax expense (benefit)		8,476		1,376,819		(936,396)
Net operating income		5,633,849		4,524,720		3,068,328
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency:						
Net realized gain (loss) on investments and foreign currency						
Non-control/Non-affiliated investments		(205,245)		(324)		(36,140)
Affiliate investments		36,111,253		(7,000,000)		1,116,952
Control investments		(3,717,209)		(18,081,404)		283,118
Foreign currency		(389)				54,211
Total net realized gain (loss) on investments and foreign currency		32,188,410		(25,081,728)		1,418,141
Net change in unrealized appreciation (depreciation) on investments		(21,689,497)		34,804,497		59,465,174
Net realized and unrealized gain on investments and foreign currency		10,498,913		9,722,769		60,883,315
Net increase in net assets resulting from operations	$	16,132,762	$	14,247,489	$	63,951,643
Net increase in net assets per share resulting from operations	$	0.66	$	0.59	$	2.63
Dividends declared per share	$	0.48	$	0.48	$	0.48

(1) Reflects waiver by TTG Advisers, pursuant to its voluntary waiver of $150,000 of expenses (for the 2010 fiscal year) that the Company is obligated to reimburse to TTG Advisers under the Advisory Agreement (the Voluntary Waiver). Please see Note 4 Management for more information.

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

MVC Capital, Inc.

Consolidated Statements of Cash Flows

	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009	For the Year Ended October 31, 2008
Cash flows from Operating Activities:			
Net increase in net assets resulting from operations	$ 16,132,762	$ 14,247,489	$ 63,951,643
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used) in operating activities:			
Net realized (gain) loss	(32,188,410)	25,081,728	(1,418,141)
Net change in unrealized (appreciation) depreciation	21,689,497	(34,804,497)	(59,465,174)
Amortization of discounts and fees	(15,517)	(73,434)	(103,428)
Increase in accrued payment-in-kind dividends and interest	(5,561,308)	(6,354,807)	(5,390,885)
Increase in allocation of flow through income	(298,058)	(156,742)	(22,067)
Changes in assets and liabilities:			
Dividends, interest and fees receivable	(988,981)	(2,743,339)	463,106
Escrow receivables	(2,063,420)		
Prepaid expenses	(292,953)	1,026,081	151,427
Prepaid taxes	299,420	381,142	(530,866)
Deferred tax		1,443,765	(640,482)
Deposits			25,156
Other assets			20,993
Incentive compensation (Note 5)	2,479,167	3,716,852	(2,081,201)
Other Liabilities	(1,190,987)	533,176	490,939
Purchases of equity investments	(6,456,751)	(1,017,554)	(79,196,164)
Purchases of debt instruments	(2,500,000)	(11,652,248)	(77,940,026)
Purchases of short term investments			(49,881,375)
Proceeds from equity investments	71,987,346	286,100	7,312,817
Proceeds from debt instruments	22,244,985	16,692,298	104,614,110
Sales/maturities of short term investments			49,853,750
Net cash provided by (used) in operating activities	83,276,792	6,606,010	(49,785,868)
Cash flows from Financing Activities:			
Repurchase of common stock	(3,999,128)		
Distributions to shareholders paid	(11,594,909)	(11,662,602)	(11,177,600)
Net repayments on revolving credit facility	(12,300,000)	(6,700,000)	(11,000,000)
Net cash used in financing activities	(27,894,037)	(18,362,602)	(22,177,600)

Net change in cash and cash equivalents for the year		55,382,755		(11,756,592)		(71,963,468)
Cash and cash equivalents, beginning of year		1,007,873		12,764,465		84,727,933
Cash and cash equivalents, end of year	$	56,390,628	$	1,007,873	$	12,764,465

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

MVC Capital, Inc.

Consolidated Statements of Cash Flows (continued)

During the year ended October 31, 2010, 2009 and 2008 MVC Capital, Inc. paid $2,157,732, $2,307,884 and $3,891,709, in interest expense, respectively.

During the year ended October 31, 2010, 2009 and 2008 MVC Capital, Inc. paid $2,039, $0 and $350,000 in income taxes, respectively.

Non-cash activity:

During the years ended October 31, 2010, 2009 and 2008, MVC Capital, Inc. recorded payment-in-kind dividend and interest income of $5,561,308, $6,354,807 and $5,390,885, respectively. This amount was added to the principal balance of the investments and recorded as dividend/interest income.

During the years ended October 31, 2010, 2009 and 2008 MVC Capital Inc. was allocated $509,712, $254,945 and $363,763, respectively, in flow-through income and $0, $0 and $24,130 respectively, in capital gains from its equity investment in Octagon Credit Investors, LLC. Of these amounts, $211,654, $98,203 and $365,826, respectively, was received in cash and the balance of $298,058, $156,742 and $22,067, respectively, was undistributed and therefore increased the cost of the investment. The fair value was then increased by $298,058, $156,742 and $22,067 respectively, by the Company s Valuation Committee.

On November 1, 2007, MVC Capital, Inc. re-issued 15,821 shares of treasury stock, in lieu of a $240,636 cash distribution, in accordance with the Company s dividend reinvestment plan.

On December 3, 2007, MVC Capital, Inc. converted the Ohio Medical Corporation Convertible Unsecured Subordinated Promissory Note from $3,405,263.60 of principal and interest to 1,125.700 shares of Ohio Medical Preferred Stock.

On January 9, 2008, MVC Capital, Inc. re-issued 15,930 shares of treasury stock, in lieu of a $242,455 cash distribution, in accordance with the Company s dividend reinvestment plan.

On June 9, 2008, Auto MOTOL BENI was acquired by MVC Automotive Group B.V. to achieve operating efficiencies. Both entities were 100% owned by the Company. MVC Automotive Group B.V. increased its shareholder s equity by $14.5 million and assumed $2.0 million of debt as a result of the cashless transaction.

On December 29, 2009, MVC Capital, Inc. sold the common and preferred shares and the warrants of Vitality Food Service, Inc. s (Vitality). As part of this transaction, there was approximately $2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. This escrow is currently carried at approximately $1.9 million on the Company s consolidated balance sheet.

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

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

On July 2, 2010, MVC Capital, Inc. sold its common and preferred shares of Vendio Services, Inc. As part of this transaction, there was approximately $465,205 deposited in an escrow account subject to a reduction over an 18 month period in accordance with a specified schedule. This escrow is currently carried at approximately $180,000 on the Company s consolidated balance sheet.

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

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MVC Capital, Inc.

Consolidated Statements of Changes in Net Assets

	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009	For the Year Ended October 31, 2008
Operations:			
Net operating income	$ 5,633,849	$ 4,524,720	$ 3,068,328
Net realized gain (loss) on investments and foreign currencies	32,188,410	(25,081,728)	1,418,141
Net change in unrealized appreciation (depreciation) on investments	(21,689,497)	34,804,497	59,465,174
Net increase in net assets from operations	16,132,762	14,247,489	63,951,643
Shareholder Distributions:			
Distributions to shareholders	(11,594,909)	(11,662,602)	(11,660,691)
Net decrease in net assets from shareholder distributions	(11,594,909)	(11,662,602)	(11,660,691)
Capital Share Transactions:			
Reissuance of treasury stock in lieu of cash dividend			483,091
Repurchase of common stock	(3,999,128)		
Net increase (decrease) in net assets from capital share transactions	(3,999,128)		483,091
Total increase in net assets	538,725	2,584,887	52,774,043
Net assets, beginning of year	424,455,699	421,870,812	369,096,769
Net assets, end of year	$ 424,994,424	$ 424,455,699	$ 421,870,812
Common shares outstanding, end of year	23,990,987	24,297,087	24,297,087

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

MVC Capital, Inc.

Consolidated Selected Per Share Data and Ratios

	For the Year Ended October 31, 2010	For the Year Ended October 31, 2009	For the Year Ended October 31, 2008	For the Year Ended October 31, 2007	For the Year Ended October 31, 2006
Net asset value, beginning of year	$ 17.47	$ 17.36	$ 15.21	$ 12.41	$ 10.41
Gain from operations:					
Net operating income	0.23	0.19	0.24	0.13	0.20
Net realized and unrealized gain on investments	0.43	0.40	2.39	2.79	2.28
Total gain from investment operations	0.66	0.59	2.63	2.92	2.48
Less distributions from:					
Income	(0.23)	(0.19)	(0.09)	(0.08)	(0.21)
Return of capital	(0.25)	(0.29)	(0.39)	(0.46)	(0.27)
Total distributions	(0.48)	(0.48)	(0.48)	(0.54)	(0.48)
Capital share transactions					
Anti-dilutive effect of share issuance				0.42	
Anti-dilutive effect of share repurchase program	0.06				
Total capital share transactions	0.06			0.42	
Net asset value, end of year	$ 17.71	$ 17.47	$ 17.36	$ 15.21	$ 12.41
Market value, end of year	$ 13.35	$ 9.18	$ 12.30	$ 17.06	$ 13.08
Market premium (discount)	(24.62)%	(47.45)%	(29.15)%	12.16%	5.40%
Total Return At NAV(a)	4.16%	3.50%	17.49%	27.39%	24.23%
Total Return At Market(a)	50.86%	(21.48)%	(25.44)%	35.02%	20.75%
Ratios and Supplemental Data:					
Net assets, end of year (in thousands)	$ 424,994	$ 424,456	$ 421,871	$ 369,097	$ 236,993
Ratios to average net assets:					
Expenses excluding tax expense (benefit)	4.19%	4.88%	7.00%	7.89%	6.78%

Expenses including tax expense (benefit)	4.19%	5.21%	6.77%	7.78%	6.85%
Expenses excluding incentive compensation	3.61%	4.31%	4.05%	4.40%	4.03%
Expenses excluding incentive compensation, interest and other borrowing costs	2.95%	3.56%	2.93%	2.88%	3.29%
Net operating income before tax expense (benefit)	1.32%	1.42%	0.54%	0.53%	1.83%
Net operating income after tax expense (benefit)	1.32%	1.09%	0.77%	0.64%	1.76%
Net operating income before incentive compensation	1.90%	1.99%	3.49%	4.02%	4.58%
Net operating income before incentive compensation, interest and other borrowing costs	2.56%	2.74%	4.61%	5.54%	5.32%
Ratios to average net assets excluding waivers:					
Expenses excluding tax expense (benefit)	4.22%	N/A	N/A	N/A	N/A
Expenses including tax expense (benefit)	4.22%	N/A	N/A	N/A	N/A
Expenses excluding incentive compensation	3.64%	N/A	N/A	N/A	N/A
Expenses excluding incentive compensation, interest and other borrowing costs	2.98%	N/A	N/A	N/A	N/A
Net operating income before tax expense (benefit)	1.29%	N/A	N/A	N/A	N/A
Net operating income after tax expense (benefit)	1.29%	N/A	N/A	N/A	N/A
Net operating income before incentive compensation	1.87%	N/A	N/A	N/A	N/A
Net operating income before incentive compensation, interest and other borrowing costs	2.53%	N/A	N/A	N/A	N/A

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

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

MVC Capital, Inc.

Notes to Consolidated Financial Statements
October 31, 2010

1. Organization and Business Purpose

MVC Capital, Inc. (the Company), formerly known as meVC Draper Fisher Jurvetson Fund I, Inc., is a Delaware corporation organized on December 2, 1999 which commenced operations on March 31, 2000. On December 2, 2002, the Company announced that it would begin doing business under the name MVC Capital, Inc. The Company s investment objective is to seek to maximize total return from capital appreciation and/or income. The Company seeks to achieve its investment objective by providing equity and debt financing to companies that are, for the most part, privately owned (Portfolio Companies). The Company s current investments in Portfolio Companies consist principally of senior and subordinated loans, venture capital, mezzanine and preferred instruments and private equity investments.

The Company has elected to be treated as a business development company under the 1940 Act. The shares of the Company commenced trading on the NYSE under the symbol MVC on June 26, 2000.

The Company had entered into an advisory agreement with meVC Advisers, Inc. (the Former Advisor) which had entered into a sub-advisory agreement with Draper Fisher Jurvetson MeVC Management Co., LLC (the Former Sub-Advisor). On June 19, 2002, the Former Advisor resigned without prior notice to the Company as the Company s investment advisor. This resignation resulted in the automatic termination of the agreement between the Former Advisor and the Former Sub-Advisor to the Company. As a result, the Company s board internalized the Company s operations, including management of the Company s investments.

At the February 28, 2003 Annual Meeting of Shareholders, a new board of directors (the Board) replaced the former board of directors of the Company (the Former Board) in its entirety. On March 6, 2003, the results of the election were certified by the Inspector of Elections, whereupon the Board terminated John M. Grillos, the Company s previous CEO. Shortly thereafter, other members of the Company s senior management team, who had previously reported to Mr. Grillos, resigned. With these significant changes in the Board and management of the Company, the Company operated in a transition mode and, as a result, no portfolio investments were made from early March 2003 through the end of October 2003 (the end of the Fiscal Year). During this period, the Board explored various alternatives for a long-term management plan for the Company. Accordingly, at the September 16, 2003 Special Meeting of Shareholders, the Board voted and approved the Company s revised business plan.

On November 6, 2003, Michael Tokarz assumed his position as Chairman, Portfolio Manager and Director of the Company.

On March 29, 2004 at the Annual Shareholders meeting, the shareholders approved the election of Emilio Dominianni, Robert S. Everett, Gerald Hellerman, Robert C. Knapp and Michael Tokarz to serve as members of the Board of Directors of the Company and adopted an amendment to the Company s Certificate of Incorporation authorizing the changing of the name of the Company from meVC Draper Fisher Jurvetson Fund I, Inc. to MVC Capital, Inc.

On July 7, 2004, the Company s name change from meVC Draper Fisher Jurvetson Fund I, Inc. to MVC Capital, Inc. became effective.

On July 16, 2004, the Company commenced the operations of MVC Financial Services, Inc. (MVCFS). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Company and the Company s portfolio companies. The Company does not hold MVCFS for investment purposes and does not intend to sell MVCFS.

On September 7, 2006, the stockholders of MVC Capital approved the adoption of the investment advisory and management agreement (the Advisory Agreement). The Advisory Agreement, which was entered into on October 31, 2006, provides for external management of the Company by TTG Advisers, which is led by Michael Tokarz. The agreement took effect on November 1, 2006. Upon the effectiveness of the Advisory Agreement, Mr. Tokarz s employment agreement with the Company terminated. All of the individuals (including the

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Company s investment professionals) that had been previously employed by the Company as of the fiscal year ended October 31, 2006 became employees of TTG Advisers.

On December 11, 2008, our Board of Directors, including all of the directors who are not interested persons, as defined under the 1940 Act, of the Company (the Independent Directors), at their in-person meeting approved an amended and restated investment advisory and management agreement (also, the Advisory Agreement), which was approved by stockholders of the Company on April 14, 2009. The renewal of the Advisory Agreement was last approved by the Independent Directors at their in-person meeting held on October 26, 2010.

2. Consolidation

On July 16, 2004, the Company formed a wholly owned subsidiary company, MVCFS. The results of MVCFS are consolidated into the Company and all inter-company accounts have been eliminated in consolidation.

3. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Company in the preparation of its consolidated financial statements:

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

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

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which is codified in FASB ASC 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted ASC 855 in the third quarter of 2009 and evaluated all events or transactions through the date of issuance of the consolidated financial statements (see Note 15, Subsequent Events).

In January 2010, FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosure about Fair Value Measurements*. ASU 2010-06 provides an amendment to ASC 820-10 which requires new disclosures on transfers in and out of Levels I and II and activity in Level III fair value measurements. ASU 2010-06 also clarifies existing disclosures such as 1.) level of disaggregation and 2.) disclosure about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuance, and settlements in the roll-forward of activity in Level III fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted this guidance, the application of which has not had a material effect on the financial position or results of operations of the Company but has resulted in additional disclosures.

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Valuation of Portfolio Securities ASC 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The price used to measure the fair value is not adjusted for transaction costs while the cost basis of our investments may include initial transaction costs. Under ASC 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC 820, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market. Pursuant to the requirements of the 1940 Act and in accordance with ASC 820, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with our Valuation Procedures adopted by the Board of Directors which are consistent with ASC 820. As permitted by the SEC, the Board of Directors has delegated the responsibility of making fair value determinations to the Valuation Committee, subject to the Board of Directors supervision and pursuant to our Valuation Procedures. Our Board of Directors may also hire independent consultants to review our Valuation Procedures or to conduct an independent valuation of one or more of our portfolio investments.

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

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

At October 31, 2010 approximately 86.72% of our total assets represented portfolio investments recorded at fair value.

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

The fair value measurement under ASC 820 also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the Company would sell or transfer the asset with the greatest volume and level of activity for the asset. If no market for the asset exists or if the Company does not have access to the principal market, the Company will use a hypothetical market.

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

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

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

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

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

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

market participant assumptions including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date.

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

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

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

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

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

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

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

Investment Transactions and Related Operating Income Investment transactions and related revenues and expenses are accounted for on the trade date. The cost of securities sold is determined on a first-in, first-out basis, unless otherwise specified. Dividend income and distributions on investment securities is recorded on the ex-dividend date. The tax characteristics of such distributions received from our portfolio companies will be determined by whether or not the distribution was made from the investment s current taxable earnings and profits or accumulated taxable earnings and profits from prior years. Interest income, which includes accretion of discount and amortization of premium, if applicable, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Fee income includes fees for guarantees and services rendered by the Company or its wholly-owned subsidiary to portfolio companies and other third parties such as due diligence, structuring,

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

transaction services, monitoring services, and investment advisory services. Guaranty fees are recognized as income over the related period of the guaranty. Due diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Monitoring and investment advisory services fees are generally recognized as income as the services are rendered. Any fee income determined to be loan origination fees, original issue discount, and market discount are capitalized and then amortized into income using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as income and any unamortized original issue discount or market discount is recorded as a realized gain. For investments with PIK interest and dividends, we base income and dividend accrual on the valuation of the PIK notes or securities received from the borrower. If the portfolio company indicates a value of the PIK notes or securities that is not sufficient to cover the contractual interest or dividend, we will not accrue interest or dividend income on the notes or securities.

Cash Equivalents For the purpose of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, the Company considers all money market and all highly liquid temporary cash investments purchased with an original maturity of less than three months to be cash equivalents.

Restricted Securities The Company will invest in privately placed restricted securities. These securities may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and a prompt sale at an acceptable price may be difficult.

Distributions to Shareholders Distributions to shareholders are recorded on the ex-dividend date.

Income Taxes It is the policy of the Company to meet the requirements for qualification as a RIC under Subchapter M of the Code. The Company is not subject to income tax to the extent that it distributes all of its investment company taxable income and net realized gains for its taxable year. The Company is also exempt from excise tax if it distributes most of its ordinary income and/or capital gains during each calendar year.

Our consolidated operating subsidiary, MVCFS, is subject to federal and state income tax. We use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

ASC 740, Income Taxes, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions deemed to meet a more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statement of operations. During the fiscal year ended October 31, 2010, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal for the Company and MVCFS. The 2007, 2008, 2009 and 2010 federal tax years for the Company and the 2007, 2008, 2009 and 2010 federal tax years for MVCFS remain subject to examination by the IRS.

4. Management

On November 6, 2003, Michael Tokarz assumed his positions as Chairman, Portfolio Manager and Director of the Company. From November 6, 2003 to October 31, 2006, the Company was internally managed. Effective November 1, 2006, Mr. Tokarz s employment agreement with the Company terminated and the obligations under Mr. Tokarz s agreement were superseded by those under the Advisory Agreement entered into with TTG Advisers.

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Under the terms of the Advisory Agreement, the Company pays TTG Advisers a base management fee and an incentive fee for its provision of investment advisory and management services.

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

Under the terms of the Advisory Agreement, TTG Advisers determines, consistent with the Company s investment strategy, the composition of the Company s portfolio, the nature and timing of the changes to the Company s portfolio and the manner of implementing such changes. TTG Advisers also identifies and negotiates the structure of the Company s investments (including performing due diligence on prospective portfolio companies), closes and monitors the Company s investments, determines the securities and other assets purchased, retains or sells and oversees the administration, recordkeeping and compliance functions of the Company and/or third parties performing such functions for the Company. TTG Advisers services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Company is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. The base management fee is calculated at 2.0% per annum of the Company s total assets excluding cash, the value of any investment in a Third-Party Vehicle covered by a Separate Agreement (as defined in the Advisory Agreement) and the value of any investment by the Company not made in portfolio companies (Non-Eligible Assets) but including assets purchased with borrowed funds that are not Non-Eligible Assets. The incentive fee consists of two parts: (i) one part is based on our pre-incentive fee net operating income; and (ii) the other part is based on the capital gains realized on our portfolio of securities acquired after November 1, 2003. The Advisory Agreement provides for an expense cap pursuant to which TTG Advisers will absorb or reimburse operating expenses of the Company, to the extent necessary to limit the Company s expense ratio (the consolidated expenses of the Company, including any amounts payable to TTG Advisers under the base management fee, but excluding the amount of any interest and other direct borrowing costs, taxes, incentive compensation and extraordinary expenses taken as a percentage of the Company s average net assets) to 3.5% in each of the 2009 and 2010 fiscal years. For more information, please see Note 5 of our consolidated financial statements, Incentive Compensation. On October 26, 2010, TTG Advisers and the Company entered into an agreement to extend the expense cap of 3.5% to the 2011 fiscal year. In addition, for fiscal years 2010 and 2011, TTG Advisers voluntarily agreed to waive $150,000 of expenses that the Company is obligated to reimburse to TTGA Advisers under the Advisory Agreement (the Voluntary Waiver).

5. Incentive Compensation

Effective November 1, 2006, Mr. Tokarz s employment agreement with the Company terminated and the obligations under Mr. Tokarz s agreement were superseded by those under the Advisory Agreement entered into with TTG Advisers. Pursuant to the Advisory Agreement, the Company pays an incentive fee to TTG Advisers which is generally: (i) 20% of pre-incentive fee net operating income and (ii) 20% of cumulative aggregate net realized capital gains less aggregate unrealized depreciation (on our portfolio securities acquired after November 1, 2003). TTG Advisers is entitled to an incentive fee with respect to our pre-incentive fee net operating income in each fiscal quarter as follows: no incentive fee in any fiscal quarter in which our pre-incentive fee net operating income does not exceed the lower hurdle rate of 1.75% of net assets, 100% of our pre-incentive fee net operating income with respect to that portion of such pre-incentive fee net operating income, if any, that exceeds the lower hurdle amount but is less than 2.1875% of net assets in any fiscal quarter and 20% of the amount of our pre-incentive fee net operating income, if any, that exceeds 2.1875% of net assets in any fiscal quarter. Under the Advisory Agreement, the accrual of the provision for incentive compensation for net realized capital gains is consistent with the accrual that was required under the employment agreement with Mr. Tokarz.

At October 31, 2007, the provision for estimated incentive compensation was $17,875,496. During the fiscal year ended October 31, 2008, this provision for incentive compensation was decreased by a net amount of

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

$2,081,201 to $15,794,295. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of nine of the Company s portfolio investments (U.S. Gas & Electric, Inc. (U.S. Gas), Vitality, Summit, Tekers, SGDA, Custom Alloy Corporation (Custom Alloy), Velocitius B.V. (Velocitius), MVC Automotive Group B.V. (MVC Automotive) and PreVisor) by a total of $64.8 million. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $4.2 million due to a PIK distribution, which was treated as a return of capital. The net decrease in the provision for incentive compensation during the fiscal year ended October 31, 2008 was a result of the incentive compensation payment to TTG Advisers of approximately $12.9 million due to the sale of Baltic Motors and BM Auto. Pursuant to the Advisory Agreement, incentive compensation payments will be made to TTG Advisers only upon the occurrence of a realization event (as defined under such agreement). On July 24, 2007, the Company realized a gain of $66.5 million from the sale of Baltic Motors and BM Auto. This transaction triggered an incentive compensation payment obligation to TTG Advisers, which payment was not required to be made until the precise amount of the payment obligation was confirmed based on the Company s completed audited financials for the fiscal year 2007. The payment obligation to TTG Advisers from this transaction totaled approximately $12.9 million (20% of the realized gain from the sale less unrealized depreciation on the portfolio). The net decrease also reflects the Valuation Committee s determination to decrease the fair values of nine of the Company s portfolio investments (Timberland, Octagon, Amersham Corporation (Amersham), Henry Company, Total Safety U.S., Inc. (Total Safety), Vendio Services, Inc. (Vendio), BP Clothing, LLC (BP), MVC Partners LLC (MVC Partners) and Vestal Manufacturing Enterprises, Inc. (Vestal)) by a total of $12.7 million and the Valuation Committee s determination not to increase the fair values of the Harmony revolving credit facility and the Amersham loan for the accrued PIK totaling $308,000. During the fiscal year ended October 31, 2008, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

At October 31, 2008, the provision for estimated incentive compensation was $15,794,295. During the fiscal year ended October 31, 2009, this provision for incentive compensation was increased by a net amount of $3,716,852 to $19,511,147. The amount of the provision reflects the Valuation Committee s determination to increase the fair values of eight of the Company s portfolio investments: U.S. Gas, Tekers, Vestal, Vitality, Summit, MVC Automotive, Dakota Growers and Velocitius by a total of $79.0 million. The provision also reflects the Valuation Committee s determination to increase the fair value of the Ohio Medical preferred stock by approximately $5.8 million due to a PIK distribution which was treated as a return of capital. The Company also received a return of capital distribution from Turf of approximately $286,000. The net increase in the provision for incentive compensation during the fiscal year ended October 31, 2009 was a result of the Valuation Committee s determination to decrease the fair values of 12 of the Company s portfolio investments (Ohio Medical, Timberland, Custom Alloy, PreVisor, Amersham, Turf Products, LLC (Turf), Harmony Pharmacy & Health Center, Inc. (Harmony Pharmacy), BP, MVC Partners, SGDA, Security Holdings B.V. (Security Holdings), and HuaMei Capital Company, Inc. (HuaMei)) by a total of $68.9 million. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK totaling $1.0 million. During the fiscal year ended October 31, 2009, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

At October 31, 2009, the provision for estimated incentive compensation was $19,511,147. During the fiscal year ended October 31, 2010, this provision for incentive compensation was increased by a net amount of $2,479,167 to $21,990,314. The increase in the provision for incentive compensation reflects both increases and decreases by the Valuation Committee in the fair values of certain portfolio companies and the sale of Vitality for a realized gain of $13.9 million. The difference between the amount received from the sale and Vitality s carrying value at October 31, 2009 was an increase of $3.0 million. The amount of the provision also reflects the Valuation Committee s determination to increase the fair values of eight of the Company s portfolio investments (Octagon, Summit, Velocitius, LHD Europe, PreVisor, U.S. Gas, Vestal and Dakota Growers) by a total of $54.2 million. The

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $6.8 million due to PIK distributions, which were treated as a return of capital. The net increase in the provision also reflects the Valuation Committee s determination to decrease the fair values of ten of the Company s portfolio investments (Amersham, BP, Ohio Medical, MVC Automotive, Security Holdings, Harmony Pharmacy, GDC, SGDA Europe, Turf and SGDA) by a total of $50.5 million and the Valuation Committee determination not to increase the fair values of the Harmony Pharmacy revolving credit facility, the Amersham loan, the BP second lien loan and the GDC senior subordinated loan for the accrued PIK interest totaling approximately $656,000. As of October 31, 2010, the Company does not anticipate an incentive compensation payment being made to TTG Advisers for fiscal year 2010 because 20% of cumulative aggregate net realized capital gains was than less than the aggregate unrealized depreciation (on our portfolio securities acquired after November 1, 2003) based on the terms of the Advisory Agreement. During the fiscal year ended October 31, 2010, there was no provision recorded for the net operating income portion of the incentive fee as pre-incentive fee net operating income did not exceed the hurdle rate.

6. Dividends and Distributions to Shareholders

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

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

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

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For the Fiscal Year Ended October 31, 2010

On December 18, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on January 8, 2010 to shareholders of record on December 31, 2009. The total distribution amounted to $2,915,650.

During the quarter ended January 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,890 shares of our common stock at an average price of $12.27, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On April 16, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2010 to shareholders of record on April 27, 2010. The total distribution amounted to $2,915,650.

During the quarter ended April 30, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,315 shares of our common stock at an average price of $14.75, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On July 16, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on July 30, 2010 to shareholders of record on July 27, 2010. The total distribution amounted to $2,884,691.

During the quarter ended July 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,377 shares of our common stock at an average price of $12.93, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 15, 2010, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on October 29, 2010 to shareholders of record on October 25, 2010. The total distribution amounted to $2,878,918.

During the quarter ended October 31, 2010, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 1,337 shares of our common stock at an average price of $13.43, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Fiscal Year Ended October 31, 2009

On December 19, 2008, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on January 9, 2009 to shareholders of record on December 31, 2008. The total distribution amounted to $2,915,650, including reinvested distributions.

During the quarter ended January 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 4,833 shares of our common stock at an average price of $11.00, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On April 13, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2009 to shareholders of record on April 23, 2009. The total distribution amounted to $2,915,650, including reinvested distributions.

During the quarter ended April 30, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 2,705 shares of our common stock at an average price of $8.74, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

On July 14, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on July 31, 2009 to shareholders of record on July 24, 2009. The total distribution amounted to $2,915,651, including reinvested distributions.

During the quarter ended July 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 6,395 shares of our common stock at an average price of $9.49, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 13, 2009, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on October 30, 2009 to shareholders of record on October 23, 2009. The total distribution amounted to $2,915,651, including reinvested distributions.

During the quarter ended October 31, 2009, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 6,806 shares of our common stock at an average price of $9.34, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

For the Fiscal Year Ended October 31, 2008

On December 20, 2007, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on January 9, 2008 to shareholders of record on December 31, 2007. The total distribution amounted to $2,913,738, including distributions reinvested. In accordance with the Plan, Computershare Ltd., the Plan Agent, re-issued 15,930 shares of common stock from the Company s treasury to shareholders participating in the Plan.

On April 11, 2008, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on April 30, 2008 to shareholders of record on April 23, 2008. The total distribution amounted to $2,915,651, including distributions reinvested.

During the quarter ended April 30, 2008, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 6,546 shares of our common stock at an average price of $15.73, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On July 10, 2008, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on July 31, 2008 to shareholders of record on July 24, 2008. The total distribution amounted to $2,915,651, including distributions reinvested.

During the quarter ended July 31, 2008, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 3,464 shares of our common stock at an average price of $14.40, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

On October 14, 2008, the Company s Board of Directors declared a dividend of $0.12 per share. The dividend was payable on October 31, 2008 to shareholders of record on October 24, 2008. The total distribution amounted to $2,915,651, including distributions reinvested.

During the quarter ended October 31, 2008, as part of the Company s dividend reinvestment plan for our common stockholders, the Company purchased 5,699 shares of our common stock at an average price of $12.53, including commission, in the open market in order to satisfy the reinvestment portion of our dividends under the Plan.

7. Transactions with Other Parties

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

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

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. During the past four fiscal years, no transactions were effected pursuant to the exemptive order. As a matter of policy, our Board of Directors 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 TTG Advisers is Mr. Tokarz, our Chairman. Our senior officers and Mr. Holtsberg, a Director of the Company, have other financial interests in TTG Advisers (i.e., based on TTG Advisers performance). In addition, our officers and the officers and employees of TTG Advisers 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 TTG Advisers or our affiliates. However, TTG Advisers intends to allocate investment opportunities in a fair and equitable manner. Our Board of Directors has approved a specific policy in this regard which is set forth in this Form 10-K.

8. Concentration of Market and Credit Risk

Financial instruments that subjected the Company to concentrations of market risk consisted principally of equity investments, subordinated notes, and debt instruments (other than cash equivalents), which represented approximately 86.72% of the Company s total assets at October 31, 2010. As discussed in Note 9, these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Company s fair value policies and procedures. The Company s investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. At this time, the Company s investments in short-term securities are in 90-day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Company s cash balances, if not large enough to be invested in 90-day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts.

9. Portfolio Investments

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

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

Level 1: Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for investments in publicly traded unrestricted securities for which we do not have a controlling interest. Such investments

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

are valued at the closing price on the measurement date. We did not value any of our investments using Level 1 inputs as of October 31, 2010.

Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly or other inputs that are observable or can be corroborated by observable market data. We did not value any of our investments using Level 2 inputs as of October 31, 2010.

Level 3: Level 3 inputs are unobservable and cannot be corroborated by observable market data. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See Note 3 for the investment valuation policies used to determine the fair value of these investments.

The following fair value hierarchy table sets forth our investment portfolio by level as of October 31, 2010 and October 31, 2009 (in thousands):

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

	October 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Senior/Subordinated Loans and credit facilities	$	$	$ 153,468	$ 153,468
Common Stock	148		86,159	86,307
Preferred Stock			164,943	164,943
Warrants			3,835	3,835
Other Equity Investments			94,250	94,250
Total Investments, net	$ 148	$	$ 502,655	$ 502,803

The following tables sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs for the fiscal years ended October 31, 2010 and 2009 (in thousands):

	Balances, November 1, 2009	Realized Gains (Losses)(1)	Reversal of Prior Period Appreciation (Depreciation) on Realization(2)	Unrealized Appreciation (Depreciation)(3)	Purchases(4)	Sales(5)	Transfers In & Out of Level 3	Balances, October 31, 2010
Senior/Subordinated Loans and credit facilities	$ 153,468	$	$	$ (27,595)	$ 8,182	$ (22,811)	$	$ 111,244
Common Stock	86,159	12,306	(11,970)	21,039	223	(28,892)		78,865
Preferred Stock	164,943	13,703	(13,355)	23,857	385	(40,538)		148,995
Warrants	3,835	3,800	(3,835)			(3,800)		
Other Equity Investments	94,250			(10,182)	10,730			94,798
Escrow receivables		2,585				(522)		2,063
Total	$ 502,655	$ 32,394	$ (29,160)	$ 7,119	$ 19,520	$ (96,563)	$	$ 435,965

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Notes to Consolidated Financial Statements (Continued)

	Balances, November 1, 2008	Realized Gains (Losses)(1)	Reversal of Prior Period Appreciation (Depreciation) on Realization(2)	Unrealized Appreciation (Depreciation)(3)	Purchases(4)	Sales(5)	Transfers In & Out of Level 3	Balances, October 31, 2009
Senior/Subordinated Loans and credit facilities	$ 167,703	$ (12,662)	$ 12,662	$ (14,469)	$ 3,688	$ (3,454)	$	$ 153,468
Common Stock	87,741	(5,420)	5,420	(1,582)				86,159
Preferred Stock	124,874	(7,000)	7,000	39,201	868			164,943
Warrants	3,735			100				3,835
Other Equity Investments	106,646			(13,570)	1,174			94,250
Total	$ 490,699	$ (25,082)	$ 25,082	$ 9,680	$ 5,730	$ (3,454)	$	$ 502,655

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

(2) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities disposed of during the fiscal years ended October 31, 2010 and 2009, respectively.

(3) Included in net unrealized appreciation (depreciation) of investments in the Consolidated Statement of Operations related to securities held at October 31, 2010 and 2009, respectively.

(4) Includes increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, premiums and closing fees and the exchange of one or more existing securities for one or more new securities.

(5) Includes decreases in the cost basis of investments resulting from principal repayments or sales.

For the Fiscal Year Ended October 31, 2010

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

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

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

On December 29, 2009, the Company sold the common stock, preferred stock and warrants of Vitality. The amount received from the sale of the 556,472 common shares was approximately $10.0 million, for the 1 million preferred shares was approximately $14.0 million, and for the 1 million warrants was approximately $3.8 million. As part of this transaction, there was approximately $2.9 million deposited in an escrow account subject to a reduction over a three year period in accordance with a specified schedule. On March 9, 2010, the Company

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

During the quarter ended January 31, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $2.4 million and preferred stock by approximately $2.6 million, Octagon equity interest by $1.0 million, Summit common stock by $2.0 million, Velocitius equity interest by $1.0 million, and LHD Europe series A common stock by approximately $166,000 and series B common Stock by approximately $58,000. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $1,752,454. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.6 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended January 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $89,000. The Valuation Committee also decreased the fair value of the Company s investments in Amersham second lien notes by $2.4 million, BP second lien loan by $1.6 million, Ohio Medical common stock by $1.3 million, SGDA preferred equity interest by approximately $2.4 million, and Vendio preferred stock by approximately $746,000 and common stock by $3,600 during the quarter ended January 31, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $186,000.

During the quarter ended April 30, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $1.0 million and preferred stock by approximately $1.0 million, Octagon equity interest by $500,000 and Summit common stock by $7.0 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling $1,343,814. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.7 million due to a PIK distribution which was treated as a return of capital. Also, during

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MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

the quarter ended April 30, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $62,000. The Valuation Committee also decreased the fair value of the Company s investments in Velocitius equity interest by $600,000 and Vendio preferred stock by approximately $1.1 million and common stock by $1,900 during the quarter ended April 30, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $188,000.

During the quarter ended July 31, 2010, the Valuation Committee increased the fair value of the Company s investments in PreVisor, Inc. common stock by $3.4 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine preferred stock were due to the capitalization of PIK interest/dividends totaling $1,145,719. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.7 million due to a PIK distribution which was treated as a return of capital. Also, during the quarter ended July 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $108,000. The Valuation Committee also decreased the fair value of the Company s investments in BP second lien loan by approximately $5.2 million, MVC Automotive equity interest by $4.4 million, Security Holdings equity interest by approximately $6.4 million, Ohio Medical common stock by $3.7 million, and GDC senior subordinated loan by approximately $1.6 million during the quarter ended July 31, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility and the Amersham loan for the accrued PIK interest totaling approximately $193,000.

During the quarter ended October 31, 2010, the Valuation Committee increased the fair value of the Company s investments in MVC Automotive equity interest by $2.0 million, Summit common stock by $13.0 million, U.S. Gas preferred stock by approximately $17.8 million, Velocitius equity interest by $1.3 million and Vestal common stock by $600,000. 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 $1,319,321. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $1.8 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal year ended October 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $39,000. The Valuation Committee also decreased the fair value of the Company s investments in BP second lien loan by approximately $7.4 million, Harmony Pharmacy demand notes by $6.4 million, SGDA Europe equity interest by $4.1 million, Turf equity interest by $500,000, Ohio Medical common stock by $3.6 million, and GDC senior subordinated loan by approximately $1.6 million during the fiscal year ended October 31, 2010. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Amersham loan, GDC senior subordinated loan and BP second lien loan for the accrued PIK interest totaling approximately $165,000.

During the fiscal year ended October 31, 2010, the Valuation Committee increased the fair value of the Company s investments in Dakota Growers common stock by approximately $3.4 million and preferred stock by approximately $3.6 million, Octagon equity interest by $1.5 million, Summit common stock by $22.0 million, Velocitius equity interest by $1.7 million, PreVisor common stock by $3.4 million, U.S. Gas preferred stock by $17.8 million, Vestal common stock by $600,000 and LHD Europe series A common stock by approximately $166,000 and series B common Stock by approximately $58,000. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, Turf, BP, Summit, and U.S. Gas and the Marine and Vitality preferred stock were due to the capitalization of PIK interest/dividends totaling $5,561,308. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $6.8 million due to PIK distributions which were treated as a return of capital. Also, during the fiscal year ended October 31, 2010, the undistributed allocation of flow through income from the Company s equity investment in Octagon increased the cost basis and fair value of this investment by approximately $298,000. The Valuation Committee also decreased the fair value of the Company s investments in Amersham second lien notes by $2.4 million, BP second

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

lien loan by $14.1 million, Ohio Medical common stock by $8.6 million, SGDA preferred equity interest by approximately $2.4 million, MVC Automotive equity interest by $2.4 million, Security Holdings equity interest by approximately $6.4 million, SGDA Europe equity interest by approximately $4.1 million, Harmony Pharmacy demand notes and revolving credit facility by a net amount of $6.4 million, Turf equity interest by $500,000, GDC senior subordinated loan by approximately $3.2 million and Vendio preferred stock by approximately $1.9 million and common stock by $5,500 during the fiscal year ended October 31, 2010. The net decrease of $6.4 million in Harmony Pharmacy was a result of the Valuation Committee determination to decrease the value of the unsecured demand notes by $7.5 million and ascribed value of $1.1 million to the capitalized PIK interest on the revolving credit facility which had no previous value. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Amersham loan, BP second lien loan and GDC senior subordinated loan for the accrued PIK interest totaling approximately $732,000.

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

For the Fiscal Year Ended October 31, 2009

During the fiscal year ended October 31, 2009, the Company made six follow-on investments in four existing portfolio companies, committing capital totaling $6.3 million. The Company invested $3.4 million in Harmony Pharmacy in the form of three demand notes, a $700,000 demand note on November 4, 2008, a $2.2 million demand note on March 3, 2009 and a $500,000 demand note on September 1, 2009. The demand notes have an annual interest rate of 10% with the accrued interest being reserved against due to collectibility issues. On June 23, 2009, the Company invested $1.5 million in SGDA Europe in the form of a senior secured loan. The loan has an annual interest rate of 10% and a maturity date of June 23, 2012. On July 14, 2009 and September 1, 2009, the Company invested a combined $375,000 in Amersham in the form of a senior secured loan bearing annual interest of 6% and maturing on December 31, 2009. The Company also made an equity investment of approximately $1.0 million in MVC Partners during the fiscal year ended October 31, 2009.

At October 31, 2008, the balance of the revolving credit facility provided to Octagon was $650,000. Net repayments during the fiscal year ended October 31, 2009 were $650,000. There was no amount outstanding as of October 31, 2009.

At October 31, 2008, the balance of the secured revolving note provided to Marine was $700,000. Net borrowings during the fiscal year ended October 31, 2009 were $200,000 resulting in a balance of $900,000 at such date.

At October 31, 2007, the balance of the revolving senior credit facility provided to U.S. Gas was approximately $85,000. During the fiscal year ended October 31, 2008, U.S. Gas entered into a swap agreement which locked in a portion of the senior credit facility with an annual rate of LIBOR plus 6% for a period of two years. This portion of the senior credit facility, in connection to the swap agreement, was approximately $571,000 at October 31, 2008. Net repayments for this portion of the credit facility were approximately $571,000, resulting in no balance outstanding at October 22, 2009. The balance of the remaining portion of the senior credit facility at October 31, 2008 was approximately $4.4 million. Net repayments on this portion of the senior credit facility, which were borrowed at an annual rate of Prime plus 4.5%, were approximately $4.4 million, resulting in no balance outstanding at October 22, 2009. On October 22, 2009, the Company participated the revolving credit facility

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Notes to Consolidated Financial Statements (Continued)

to another lender. The Company agreed to guarantee the $10 million credit facility under certain circumstances related to an event of default.

During the fiscal year ended October 31, 2009, the Company received approximately $106,000 in principal payments on the term loan provided to Storage Canada. The balance of the term loan at October 31, 2009 was approximately $1.1 million.

During the fiscal year ended October 31, 2009, the Company received principal payments of approximately $2.6 million on the term loan provided to Innovative Brands. The Company also received a loan amendment fee of approximately $57,000. The interest rate on the term loan was increased to 15.5% from 11.75%. The balance of the term loan as of October 31, 2009 was approximately $10.4 million.

On December 31, 2008, the Company received a quarterly principal payment from BP on term loan A of $146,250. During the fiscal year ended October 31, 2009, the interest rates increased on term loan A to LIBOR plus 5.75% or Prime Rate plus 4.75%, on term loan B to LIBOR plus 8.75% or Prime Rate plus 7.75%, and on the second lien loan to 16.5%. The balance of term loan A as of October 31, 2009 was approximately $2.0 million.

On December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009, Total Safety made principal payments of $2,500 on each date on its first lien loan. The balance of the first lien loan as of October 31, 2009 was $972,500.

During the fiscal year ended October 31, 2009, SP made principal payments totaling approximately $96,000 on its first lien loan. The balance of the first lien loan as of October 31, 2009, was approximately $901,000.

On December 31, 2008, Henry Company made a principal payment of approximately $127,000 on its term loan A. The balance of term loan A as of October 31, 2009 was approximately $1.7 million.

On March 11, 2009 and April 30, 2009, TerraMark made principal payments of $300,000 and $500,000 on its senior secured loan. On July 17, 2009, TerraMark repaid its senior secured loan in full including all accrued interest. The total amount received was approximately $715,000.

On July 31, 2009, the Company sponsored U.S. Gas in its acquisition of ESPI and provided a $10.0 million limited guarantee and cash collateral for a short-term $4.0 million letter of credit for U.S. Gas. For sponsoring and providing this credit support, the Company has earned one-time fee income of approximately $1.2 million and will be recognizing $1.0 million in fee income over the life of the guarantee. As of October 31, 2009, the cash collateral has been released as the letter of credit has expired.

On September 30, 2009, Marine made a principal payment of $625,000 on its senior subordinated loan. The balance of the loan as of October 31, 2009 was approximately $10.8 million.

During the fiscal year ended October 31, 2009, Endymion was determined to no longer be an operating company. Subsequent to this determination, the Company realized a loss of $7.0 million and removed the investment from its books.

During the fiscal year ended October 31, 2009, the Company realized a loss on Timberland of approximately $18.1 million. The Company received no proceeds from the company and Timberland has been removed from the Company s portfolio.

During the fiscal year ended October 31, 2009, the Valuation Committee increased the fair value of the Company s investments in U.S. Gas preferred stock by $55.2 million, SGDA preferred equity interest by $500,000, Tekers common stock by $615,000, Velocitius equity interest by $2.2 million, Vestal common stock by $650,000, MVC Automotive equity interest by $5.0 million, Summit common stock by $5.0 million, Vitality common stock and warrants by $260,300 and $100,000, respectively, and Dakota Growers common stock by approximately $4.9 million and preferred stock by approximately $5.1 million. In addition, increases in the cost basis and fair value of the loans to GDC, Custom Alloy, SP, Marine, BP, Summit, U.S. Gas, and WBS, and the Vitality and Marine

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

preferred stock were due to the capitalization of payment in kind (PIK) interest/dividends totaling $6,354,807. The Valuation Committee also increased the fair value of the Ohio Medical preferred stock by approximately $5.8 million due to a PIK distribution which was treated as a return of capital. Also, during the fiscal year ended October 31, 2009, 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 $157,000. The Valuation Committee also decreased the fair value of the Company s investments in Ohio Medical common stock by $8.1 million, Vendio preferred stock by approximately $2.1 million and common stock by $5,000, Foliofn preferred stock by $2.8 million, PreVisor common stock by $3.1 million, Custom Alloy preferred stock by $22.5 million, Amersham second lien notes by $3.1 million, Turf equity interest by $2.6 million, Harmony Pharmacy common stock by $750,000, MVC Partners equity interest by $16,000, SGDA common stock by $560,000, Security Holdings common equity interest by $18.2 million, HuaMei common stock by $475,000, Timberland senior subordinated loan by approximately $7.3 million and junior revolving line of credit by $1.0 million and BP term loan B by approximately $219,000, term loan A by approximately $255,000 and second lien loan by approximately $1.3 million, during the fiscal year ended October 31, 2009. The Valuation Committee also determined not to increase the fair values of the Harmony Pharmacy revolving credit facility, Timberland senior subordinated loan and the Amersham loan for the accrued PIK interest totaling approximately $1.0 million. During the fiscal year ended October 31, 2009, the Company received a return of capital distribution from Turf of approximately $286,000.

At October 31, 2009, the fair value of all portfolio investments, exclusive of short-term securities, was $502.8 million with a cost basis of $422.8 million. At October 31, 2009, the fair value and cost basis of portfolio investments of the Legacy Investments was $15.3 million and $48.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $487.5 million and $373.9 million, respectively. At October 31, 2008, the fair value of all portfolio investments, exclusive of short-term securities, was $490.8 million, with a cost basis of $445.6 million. At October 31, 2008, the fair value and cost basis of Legacy Investments was $20.2 million and $55.9 million, respectively, and the fair value and cost basis of portfolio investments made by the Company s current management team was $470.6 million and $389.7 million, respectively.

10. Commitments and Contingencies

Commitments to/for Portfolio Companies:

At October 31, 2010, the Company s existing commitments to portfolio companies consisted of the following:

Commitments of MVC Capital, Inc.

Portfolio Company		**Amount Committed**		**Amount Funded at October 31, 2010**
Octagon Revolving Credit Facility	$	7.0 million		
Harmony Pharmacy Revolving Credit Facility	$	4.0 million	$	4.0 million
Turf Junior Revolver	$	1.0 million	$	1.0 million
Harmony Pharmacy Note	$	1.3 million	$	600,000
MVC Partners	$	20.0 million		

Total	**$**	**33.3 million**	**$**	**5.6 million**

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Notes to Consolidated Financial Statements (Continued)

Off-Balance Sheet Arrangements

As of October 31, 2010, the Company had the following commitments to guarantee various loans and mortgages:

Off-Balance Sheet Arrangements

Guarantee	Amount Committed		Amount Funded at October 31, 2010
MVC Automotive	$	9.1 million	
MVC Automotive	$	5.6 million	
Tekers	$	2.0 million	
MVC Automotive	$	2.0 million	
Total	**$**	**18.7 million**	

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 11, 2006, the Company provided Marine a $2.0 million secured revolving loan facility. The revolving loan facility bears annual interest at LIBOR plus 1%. The Company also receives a fee of 0.50% of the unused portion of the revolving loan facility. As of October 31, 2009, the outstanding balance of the secured revolving loan facility was $900,000. Net borrowings during fiscal year 2010 were $1.1 million resulting in a balance of $2.0 million as of October 27, 2010. On October 27, 2010, the Company refinanced the secured revolving note and the senior subordinated loan of Marine. The revolving note balance of $2.0 million was added to the senior subordinated loan resulting in a balance of $11.9 million as of October 31, 2010.

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

On January 11, 2007, the Company provided a $4.0 million revolving credit facility to Harmony Pharmacy. The credit facility bears annual interest at 10%. The Company also receives a fee of 0.50% on the unused portion of the loan. The maturity date of the revolving credit facility was extended to December 31, 2010. At October 31, 2009 and October 31, 2010, the outstanding balance of the revolving credit facility was $4.0 million.

On May 1, 2007, the Company provided Velocitius a $650,000 revolving line of credit. The revolving line of credit expired on April 30, 2010 and had an annual interest at 8%. At October 31, 2010, the revolving line of credit was no longer a commitment of the Company.

On July 19, 2007, the Company agreed to guarantee a 1.4 million Euro mortgage for Tekers, equivalent to approximately $2.0 million at October 31, 2010.

On July 26, 2007, the Company provided a $10.0 million revolving senior credit facility to U.S. Gas. The revolving senior credit facility had an annual interest at LIBOR plus 6% or Prime plus 4.5%, which is at U.S. Gas discretion. The balance of the senior credit facility at October 31, 2008 was approximately $4.9 million. Net repayments during fiscal year 2009 on the senior credit facility were approximately $4.9 million, resulting in a zero balance at October 22, 2009. On October 22, 2009, the Company participated the revolving credit facility to Amzak Capital Management, LLC. The Company agreed to guarantee the $10 million credit facility under certain circumstances related to an event of default. On March 31, 2010, U.S. Gas refinanced its senior credit facility with

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

another lender. As a result of the refinancing, the $10 million guarantee to Amzak Capital Management, LLC for the senior credit facility has been released. At October 31, 2009 and October 31, 2010, the revolving senior credit facility was no longer a commitment of the Company.

On January 15, 2008, the Company agreed to guarantee a 6.5 million Euro mortgage for MVC Automotive, equivalent to approximately $9.1 million at October 31, 2010.

On January 16, 2008, the Company agreed to support a 4.0 million Euro mortgage for a Ford dealership owned and operated by MVC Automotive (equivalent to approximately $5.6 million at October 31, 2010) through making financing available to the dealership and agreeing under certain circumstances not to reduce its equity stake in MVC Automotive.

On July 31, 2008, the Company extended a $1.0 million loan to Turf in the form of a secured junior revolving note. The note bears annual interest at 6.0% and expires on May 1, 2011. On July 31, 2008, Turf borrowed $1.0 million from the secured junior revolving note. At October 31, 2009 and October 31, 2010, the outstanding balance of the secured junior revolving note was $1.0 million.

On September 9, 2008, the Company agreed to guarantee a 35.0 million Czech Republic Koruna (CZK) mortgage for MVC Automotive, equivalent to approximately $2.0 million at October 31, 2010.

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

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

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

On October 29, 2010, through MVC Partners, the Company committed to invest $20 million in a private equity fund (PE Fund), for which an indirect wholly-owned subsidiary of the Company serves as the general partner (the GP). The PE Fund recently completed a first closing of approximately $80 million of capital commitments.

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 4. 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 (Credit Facility I), consisting of $50.0 million in term debt and $50.0 million in revolving credit, with Guggenheim as administrative agent for the lenders. At October 31, 2009, there was $50.0 million in term debt and $12.3 million in revolving credit on Credit Facility I outstanding. The Company made net repayments of $12.3 million on the revolving credit portion of Credit Facility I during the period November 1, 2009 to April 13, 2010. On April 13, 2010, the Company renewed Credit Facility I with Guggenheim for three years. Credit Facility I now only consists of a $50.0 million term loan, which will expire on April 27, 2013, at which time the outstanding amount under Credit Facility I will be due and payable. As of October 31, 2010, there was $50.0 million outstanding

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

on Credit Facility I. The proceeds from borrowings made under Credit Facility I are used to fund new and existing portfolio investments and for general corporate purposes. Borrowings under Credit Facility I 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 Credit Facility I. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Consolidated Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility I will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Company. The Credit Facility includes standard financial covenants including limitations on total assets to debt, debt to equity, interest coverage and eligible debt ratios.

On April 24, 2008, the Company entered into a two-year, $50 million revolving credit facility (Credit Facility II) with Branch Banking and Trust Company (BB&T). There was no amount outstanding on Credit Facility II as of October 31, 2009 and on the maturity date of April 24, 2010. Credit Facility II was not renewed. Credit Facility II provided financing to the Company in addition to the Company s existing Credit Facility I with Guggenheim. Proceeds from borrowings made under Credit Facility II were used to provide the Company with better overall financial flexibility in managing its investment portfolio. Borrowings under Credit Facility II bore interest at LIBOR plus 50 basis points. In addition, the Company was also subject to an annual utilization fee of 25 basis points for the amount of Credit Facility II that was outstanding for more than 33% of the calendar days during each fiscal quarter, as well as an annual fee of 25 basis points of the total amount of the facility. The Company paid a closing fee, legal and other costs associated with this transaction. These costs were amortized evenly over the life of the facility. The prepaid expenses on the Consolidated Balance Sheet included the unamortized portion of these costs. Borrowings under Credit Facility II were secured by cash, short-term and long-term U.S. Treasury securities and other governmental agency securities whose purchase was approved by BB&T.

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.

A summary of our contractual payment obligations as of October 31, 2010 is as follows:

	Payments Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Credit Facility I	$ 50,000,000	N/A	$ 50,000,000	N/A	N/A
Total Debt	$ 50,000,000	N/A	$ 50,000,000	N/A	N/A

11. Certain Issuances of Equity Securities by the Issuer and Share Repurchase Program

We had no unregistered sales of equity securities for the fiscal year ended October 31, 2010.

On April 23, 2010, the Company s Board of Directors approved a share repurchase program authorizing up to $5.0 million in share repurchases. The share repurchase program has no time limit and does not obligate the Company to acquire any specific number of shares and may be discontinued at any time. Under the share repurchase program, shares may be repurchased from time to time at prevailing market prices during the Company s open trading periods. As of October 31, 2010, there have been 306,100 shares repurchased at an average price of $13.06, including commission, with a total cost of approximately $4.0 million. The Company s net asset value per share was increased by approximately $0.06 as a result of the share repurchases.

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Notes to Consolidated Financial Statements (Continued)

The following table represents our stock repurchase program for the fiscal year ended October 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share Including Commission	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
May 1, 2010 May 31, 2010				$ 5,000,000
June 1, 2010 June 30, 2010	175,000	$ 13.09	175,000	$ 2,708,461
July 1, 2010 July 31, 2010	83,000	$ 13.03	83,000	$ 1,627,035
Aug. 1, 2010 Aug. 31, 2010				$ 1,627,035
Sept. 1, 2010 Sept. 30, 2010				$ 1,627,035
Oct. 1, 2010 Oct. 31, 2010	48,100	$ 13.02	48,100	$ 1,000,872
Total	306,100	$ 13.06	306,100	$ 1,000,872

On February 28, 2007, the Company completed its public offering of 5,000,000 shares of the Company s common stock at a price of $16.25 per share. On March 28, 2007, pursuant to the 30-day over-allotment option granted by the Company to the underwriters in connection with the offering, the underwriters purchased an additional 158,500 shares of common stock at the purchase price of $16.25 per share. The Company raised approximately $78.4 million in net proceeds after deducting the underwriting discount and commissions and estimated offering expenses. The Company used the net proceeds of the offering to fund additional investments and for general corporate purposes, including the repayment of debt.

On April 15, 2005, the Company re-issued 146,750 shares of its treasury stock at the Company s NAV per share of $9.54 in exchange for 40,500 shares of common stock of Vestal.

On December 3, 2004, the Company commenced a rights offering to its shareholders of non-transferable subscription rights to purchase shares of the Company s common stock. Pursuant to the terms of the rights offering, each share of common stock held by a stockholder of record on December 3, 2004, entitled the holder to one right. For every two rights held, shareholders were able to purchase one share of the Company s common stock at the subscription price of 95% of the Company s NAV per share on January 3, 2005. In addition, shareholders who elected to exercise all of their rights to purchase the Company s common stock received an over-subscription right to subscribe for additional shares that were not purchased by other holders of rights. Based on a final count by the Company s subscription agent, the rights offering was over-subscribed with 6,645,948 shares of the Company s common stock subscribed for. This was in excess of the 6,146,521 shares available before the 25% oversubscription. Each share was subscribed for at a price of $9.10 which resulted in gross proceeds to the Company of approximately $60.5 million before offering expenses of approximately $402,000.

12. Tax Matters

Return of Capital Statement of Position (ROCSOP) Adjustment: During the year ended October 31, 2010, the Company recorded a reclassification for permanent book to tax differences. These differences were primarily due to book/tax treatment of partnership income. These differences resulted in a net decrease in accumulated earnings of $183,691 and an increase in accumulated net realized gains of $122,436 and an increase in additional paid-in capital of $61,255. This reclassification had no effect on net assets.

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Distributions to Shareholders: The table presented below includes MVC Capital, Inc. only. The Company s wholly-owned subsidiary MVCFS has not been included. As of October 31, 20010, the components of accumulated earnings/ (deficit) on a tax basis were as follows:

Tax Basis Accumulated Earnings (Deficit)		
Accumulated capital and other losses	$	
Undistributed Net investment Income		3,607,663
Undistributed Long-Term Capital Gain		2,200,450
Gross unrealized appreciation		168,452,770
Gross unrealized depreciation		(115,248,966)
Net unrealized appreciation	$	53,203,804
Total tax basis accumulated earnings		59,027,881
Tax cost of investments		380,681,721
Current year distributions to shareholders on a tax basis		
Ordinary income		11,594,910
Prior year distributions to shareholders on a tax basis		
Ordinary income		11,662,602

For fiscal year ended October 31, 2010, the Company utilized all of the prior year s capital loss carryforwards in the amount of $29,988,349. The Company has approximately $31.5 million in unrealized losses associated with Legacy investments.

Qualified Dividend Income Percentage

The Company designated 17% of dividends declared and paid during the fiscal year ended October 31, 2010 from net investment income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003.

Corporate Dividends Received Deduction Percentage

Corporate shareholders may be eligible for a dividends received deduction for certain ordinary income distributions paid by the Company. The Company designated 17% of dividends declared and paid during the fiscal year ending October 31, 2010 from net investment income as qualifying for the dividends received deduction. The deduction is a pass-through of dividends paid by domestic corporations (i.e. only equities) subject to taxation.

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

13. Income Taxes

The Company s wholly-owned subsidiary MVCFS is subject to federal and state income tax. For the fiscal years ended October 31, 2010 and 2009, the Company recorded a tax provision of $8,476 and $1,376,819, respectively. For the fiscal year ended October 31, 2008, the Company recorded a tax benefit of $936,396. The provision for income taxes was comprised of the following:

	Fiscal Year Ended		
	October 31, 2010	October 31, 2009	October 31, 2008
Current tax (benefit) expense:			
Federal	$	$ (67,101)	$ (296,850)
State	8,476	155	936
Total current tax (benefit) expense	8,476	(66,946)	(295,914)
Deferred tax expense (benefit):			
Federal		1,173,420	(513,849)
State		270,345	(126,633)
Total deferred tax expense (benefit)		1,443,765	(640,482)
Total tax (benefit) provision	$ 8,476	$ 1,376,819	$ (936,396)

The following table summarizes the significant differences between the U.S. federal statutory tax rate and the Company s effective tax rate for financial statement purposes for the fiscal years ended October 31, 2010, 2009 and 2008:

	Fiscal Year Ended		
	October 31, 2010	October 31, 2009	October 31, 2008
Federal income tax benefit at statutory rate	$ (940,558)	$ (1,035,500)	$ (810,550)
State income taxes, net of federal benefit	(152,979)	(168,239)	(131,834)
Other	5,593	408	5,988
Net change to valuation allowance	1,096,420	2,580,150	
	$ 8,476	$ 1,376,819	$ (936,396)

The Company s wholly-owned subsidiary, MVCFS, generated a net operating loss of approximately $4.0 million in the current year for federal and New York state purposes. The net operating loss will be carried forward to offset federal taxable income in future years. As of October 31, 2010, the Company has the following NOL available to be carried forward:

NOL Federal		NOL New York State		Fiscal Year of NOL	Expiration
$		$	327,526	October 31, 2007	October 31, 2027
$	1,410,449	$	2,282,601	October 31, 2008	October 31, 2028
$	2,583,661	$	2,780,861	October 31, 2009	October 31, 2029
$	3,976,611	$	3,968,135	October 31, 2010	October 31, 2030

Due to the uncertainty surrounding the ultimate utilization of these net operating losses, the Company has recorded a 100% valuation allowance against the current year federal deferred benefit of approximately $943,000 as well as against prior year federal deferred tax asset of approximately $2,141,000. Additionally, a 100% valuation allowance has been recorded for current year state and local deferred benefit of approximately $153,000 and against prior year state and local deferred tax asset of approximately $439,000

MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

Deferred income tax balances for MVCFS reflect the impact of temporary difference between the carrying amount of assets and liabilities and their tax bases and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. The components of our deferred tax assets and liabilities for MVCFS as of October 31, 2010, October 31, 2009 and October 31, 2008 were as follows:

	October 31, 2010	October 31, 2009	October 31, 2008
Deferred tax assets:			
Deferred revenues	$ 362,391	$ 922,566	$ 817,700
Net operating loss	3,229,077	1,657,584	625,364
Others	85,102		701
Total deferred tax assets	$ 3,676,570	$ 2,580,150	$ 1,443,765
Valuation allowance on Deferred revenues and Net operating loss	$ (3,676,570)	$ (2,580,150)	$
Net deferred tax assets	$	$	$ 1,443,765
Deferred tax liabilities:			
Deferred tax liabilities			
Total deferred tax liabilities			
Net deferred taxes	$	$	$ 1,443,765

14. Segment Data

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

The following table presents book basis segment data for the fiscal year ended October 31, 2010:

	MVC	MVCFS	Consolidated
Interest and dividend income	$ 19,315,058	$ 178	$ 19,315,236
Fee income	39,943	3,656,606	3,696,549
Other income	509,712		509,712
Total operating income	19,864,713	3,656,784	23,521,497
Total operating expenses	11,606,040	6,423,132	18,029,172
Less: Expense waiver by Adviser	(150,000)		(150,000)
Total net operating expenses	11,456,040	6,423,132	17,879,172
Net operating income (loss) before taxes	8,408,673	(2,766,348)	5,642,325

Tax expense		8,476	8,476
Net operating income (loss)	8,408,673	(2,774,824)	5,633,849
Net realized gain on investments and foreign currency	32,188,410		32,188,410
Net change in unrealized depreciation on investments	(21,689,497)		(21,689,497)
Net increase (decrease) in net assets resulting from operations	18,907,586	(2,774,824)	16,132,762

In all periods prior to July 16, 2004, all business was conducted through MVC Capital, Inc.

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MVC Capital, Inc.

Notes to Consolidated Financial Statements (Continued)

15. Subsequent Events

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

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

On November 30, 2010, a public Uniform Commercial Code sale of Harmony s assets took place. Prior to this sale, the Company formed a new company, Harmony Health & Beauty, Inc. (HH&B). The Company assigned its secured debt interest in Harmony 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. On December 21, 2010, Harmony filed for dissolution in the states of California, New Jersey and New York. As a result, the Company realized a $8.4 million loss on its investment in Harmony.

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.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of MVC Capital, Inc.

We have audited the accompanying consolidated balance sheets of MVC Capital, Inc. (the Company), including the consolidated schedules of investments, as of October 31, 2010 and 2009, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years in the period ended October 31, 2010, and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements, the selected per share data and ratios and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements, selected per share data and ratios and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and selected per share data and ratios. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2010, by correspondence with the custodians and management of the underlying investments. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the consolidated financial position of MVC Capital, Inc. at October 31, 2010 and 2009, and the consolidated results of their operations, their cash flows and their changes in net assets for each of the three years in the period ended October 31, 2010 and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MVC Capital, Inc. s internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 21, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
December 21, 2010

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

The Company recognizes management s responsibility for establishing and maintaining adequate internal control over financial reporting for the Company. Within the 90 days prior to the filing date of this annual report on Form 10-K, the Company carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of management, including the individual who performs the functions of a Principal Executive Officer (the CEO) and the individual who performs the functions of a Principal Financial Officer (the CFO). Based upon that evaluation, the CEO and the CFO have concluded that our disclosure controls and procedures are adequate and effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our disclosure controls and procedures or in other factors that could significantly affect our disclosure controls and procedures subsequent to the date we carried out the evaluation discussed above.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our CEO and CFO, the Company conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company s evaluation under the framework in Internal Control Integrated Framework, management concluded that the Company s internal control over financial reporting was effective as of October 31, 2010. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of October 31, 2010, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of MVC Capital, Inc.

We have audited MVC Capital, Inc. s internal control over financial reporting as of October 31, 2010, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MVC Capital Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Controls and Procedures. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MVC Capital, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MVC Capital, Inc., including the consolidated schedules of investments, as of October 31, 2010 and 2009, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years in the period ended October 31, 2010, and the consolidated selected per share data and ratios for each of the five years in the period ended October 31, 2010, and our report dated December 21, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
December 21, 2010

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9b. OTHER INFORMATION

None.

Part III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information with respect to directors and executive officers of the Registrant to be contained in the Company s proxy statement to be filed with the SEC, in connection with the Company s annual meeting of shareholders to be held in 2011 (the 2011 Proxy Statement), which information is incorporated herein by reference.

The Company has adopted a code of ethics that applies to the Company s chief executive officer and chief financial officer/chief accounting officer, a copy of which is posted on our website http://www.mvccapital.com.

Our CEO and CFO certify the accuracy of the financial statements contained in our periodic reports, and so certified in this Form 10-K through the filing of Section 302 certifications as exhibits to this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

Reference is made to the information with respect to executive compensation to be contained in the 2011 Proxy Statement, which information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Reference is made to the information with respect to security ownership of certain beneficial owners and management to be contained in the 2011 Proxy Statement, which information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information in response to this Item is incorporated by reference to the relevant section of the 2011 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Reference is made to the information with respect to principal accounting fees and services to be contained in the 2011 Proxy Statement, which information is incorporated herein by reference.

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES

In addition, there may be additional information not provided in a schedule because (i) such information is not required or (ii) the information required has been presented in the aforementioned financial statements.

(a)(3) The following exhibits are filed herewith or incorporated by reference as set forth below:

Exhibit Number	Description
3.1	

	Certificate of Incorporation. *(Incorporated by reference to Exhibit 99.a filed with the Registrant s initial Registration Statement on Form N-2 (File No. 333-92287) filed on December 8, 1999)*
3.2	Certificate of Amendment of Certificate of Incorporation. *(Incorporated by reference to Exhibit 99.a.2 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)*
3.3	Fifth Amended and Restated Bylaws. *(Incorporated by reference to Exhibit 99.b. filed with Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-125953) filed on August 29, 2005)*
4.1	Form of Share Certificate. *(Incorporated by reference to Exhibit 99.d.1 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)*

Exhibit Number	Description
10.1	Dividend Reinvestment Plan, as amended. *(Incorporated by reference to Exhibit 99.e filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)*
10.2	Amended and Restated Investment Advisory and Management Agreement between the Registrant and The Tokarz Group Advisers LLC. (*Incorporated by reference to Exhibit 10.1 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)*
10.3	Form of Custody Agreement between Registrant and U.S. Bank National Association. *(Incorporated by reference to Exhibit 99.j.1 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)*
10.4	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. *(Incorporated by reference to Exhibit 99.j.2 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)*
10.5	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. (*Incorporated by reference to Exhibit 10.4 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)*
10.6	Form of Transfer Agency Letter Agreement with Registrant and EquiServe Trust Company, N.A. *(Incorporated by reference to Exhibit 99.k.2 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 23, 2004)*
10.7	Form of Fee and Service Schedule Amendment to Transfer Agency Agreement with Registrant and Computershare Trust Company, N.A. (*Incorporated by reference to Exhibit 10.1 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on September 8, 2009)*
10.8	Form of Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. *(Incorporated by reference to Exhibit 99.k.6 filed with the Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)*
10.9	Form of Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. *(Incorporated by reference to Exhibit 99.k.7 filed with Registrant s Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-119625) filed on February 21, 2006)*
10.10	Form of First Amendment to Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. (*Incorporated by reference to Exhibit 10.2 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)*
10.11	Form of First Amendment to Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. (*Incorporated by reference to Exhibit 10.3 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 4, 2009)*
10.12	Form of Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al. *(Incorporated by reference to Exhibit 10 filed with Registrant s Quarterly Report on Form 10-Q (File No. 814-00201) filed on June 9, 2006)*
10.13	Form of Amendments to Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al. *(Incorporated by reference to Exhibit 10 filed with Registrant s Annual Report on Form 10-K (File No. 814-00201) filed on December 29, 2008)*
10.14*	Form of Amendments to Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al., filed herewith.
10.15*	Form of Custody Agreement between Registrant and JP Morgan Chase Bank, N.A., filed herewith.
14	Joint Code of Ethics of the Registrant and The Tokarz Group LLC. *(Incorporated by reference to Exhibit 99r filed with the Registrant s Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-119625) filed on November 29, 2006)*

31*	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32*	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

* Filed herewith

(b) Exhibits

Exhibit No.	Exhibit
10.14	Form of Amendment to Credit Agreement between Registrant and Guggenheim
10.15	Form of Custody Agreement between Registrant and JP Morgan
31	Certifications pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

(c) Financial Statement Schedules

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Schedule 12-14

MVC Capital, Inc. and Subsidiaries

Schedule of Investments in and Advances to Affiliaties

ortfolio Company	Investment(1)	Amount of Interest or Dividends Credited to Income(5)	Other(2)	October 31, 2009 Fair Value	Gross Additions(3)	Gross Reductions(4)	October 31, 2010 Fair Value
ompanies More than 5% owned							
IVC Automotive Group	Common Stock			46,500,000		(2,400,000)	44,100,000
utomotive Dealership)	Bridge Loan	362,397		3,643,557			3,643,557
IVC Partners, LLC	Common Equity Interest			1,133,729			1,133,729
rivate Equity Firm)							
hio Medical Corporation	Common Stock			9,100,000		(8,600,000)	500,000
Medical Device							
lanufacturer)	Preferred Stock			40,010,428	6,796,112		46,806,540
IA Tekers Invest	Common Stock			3,790,000			3,790,000
ort Facilities)							
GDA							
anierungsgesellschaft fur							
eponien und Altlasten	Loan	183,628		6,187,350		(6,187,350)	
oil Remediation)	Common Equity Interest			1		(1)	
	Preferred Equity Interest			6,600,000		(6,600,000)	
ummit Research Labs,							
c.	Loan	1,415,797		9,596,178	703,656		10,299,834
pecialty Chemical)	Preferred Stock			38,000,000	22,000,000		60,000,000
urf Products, LLC	Loan	1,243,947		8,149,021	246,240		8,395,261

Distributor Landscaping & rigation Equipment)	LLC Interest		3,221,794		(500,000)	2,721,794
	Revolver	60,000	1,000,000			1,000,000
	Warrant					
elocitius B.V. Renewable Energy)	Common Equity Interest		23,200,000	1,700,000		24,900,000
endio Services, Inc. Technology)	Common Stock		9,687		(9,687)	
	Preferred Stock		4,490,314		(4,490,314)	
estal Manufacturing nterprises, Inc. ron Foundries)	Loan	73,000	600,000			600,000
	Common Stock		1,600,000	600,000		2,200,000
otal companies more han 25% owned		**$ 3,338,769**				**$ 210,090,715**
ompanies More than 5% wned, but less than 25%						
ustom Alloy Corporation Manufacturer of Tubular oods for the Energy dustry)	Loan	1,856,145	12,648,338	921,855		13,570,193
	Preferred Stock		44,000			44,000
	Preferred Stock		9,956,000			9,956,000
akota Growers Pasta ompany, Inc. Manufacturer of Packaged ood)	Common Stock	1,290,341	15,044,698		(15,044,698)	
	Preferred Stock		15,767,252		(15,767,252)	
armony Pharmacy & ealth Center, Inc. Healthcare Retail)	Revolver	493,636	4,000,000	1,100,000		5,100,000
	Demand Note		3,300,000		(3,300,000)	
	Demand Note		2,200,000		(2,200,000)	
	Demand Note		700,000		(700,000)	
	Demand Note		500,000		(500,000)	
	Demand Note			800,000	(800,000)	
	Demand Note			600,000		600,000
	Common Stock					
	Common Stock		1,525,000			1,525,000

uaMei Capital Company, c. (Financial Services)						
HD Europe Holdings, Inc.	Common Stock			332,144		332,144
(Non-Alcoholic Beverages)	Convertible Common Stock			117,856		117,856
Iarine Exhibition orporation	Loan	1,127,364	10,765,878	2,411,727	(1,250,000)	11,927,605
Theme Park)	Preferred Stock*	319,223	2,581,699	212,815		2,794,514
	Revolver	23,104	900,000	1,100,000	(2,000,000)	
ctagon Credit Investors, LC	Loan	151,611	5,000,000		(5,000,000)	
(Financial Services)	Revolver					
	LLC Interest		2,744,083	298,058	1,500,000	4,542,141

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

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MVC Capital, Inc. and Subsidiaries

Schedule of Investments in and Advances to Affiliaties (Continued)

Portfolio Company	**Investment(1)**	**Amount of Interest or Dividends Credited to Income(5)**	**Other(2)**	**October 31, 2009 Fair Value**	**Gross Additions(3)**	**Gross Reductions(4)**	**October 31, 2010 Fair Value**
revisor, Inc. Human Capital Management)	Common Stock			7,000,000	3,400,000		10,400,000
ecurity Holdings, B.V. Technology Services)	Common Equity Interest			10,000,000	1,731,700	(6,431,700)	5,300,000
GDA Europe B.V. Soil Remediation)	Common Equity Interest			7,450,000	8,700,001	(4,050,001)	12,100,000
	Loan	150,000		1,500,000			1,500,000
.S. Gas & Electric, Inc. Energy Services)	Loan	1,205,836		8,263,979	428,810		8,692,789
	Credit Facility						
	Credit Facility						
	Preferred Stock			58,907,092	17,219,977		76,127,069
	Preferred Stock			1,921,570	555,332		2,476,902
itality Foodservice, Inc. Non-Alcoholic Beverages)	Common Stock			10,089,957		(10,089,957)	
	Preferred Stock	665,967		13,875,005	169,583	(14,044,588)	
	Warrants			3,835,058		(3,835,058)	
otal companies more han 5% owned, but less han 25%		**$ 7,283,227**					**$ 167,106,213**

This schedule should be read in conjunction with the Company s consolidated statements as of and for the year ended October 31, 2010, including the consolidated schedule of investments.

(1)

Common stock, preferred stock, warrants, options and equity interests are generally non-income producing and restricted. The principal amount for loans and debt securities and the number of shares of common and preferred stock are shown in the consolidated schedule of investments as of October 31, 2010.

(2) Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(5) Represents the total amount of interest or dividends credited to income for a portion of the year an investment was included in the companies more than 25% owned.

* All or a portion of the dividend income on this investment was or will be paid in the form of additional securities or by increasing the liquidation preference. Dividends paid-in-kind are also included in the Gross Additions for the investment, as applicable.

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

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signature	Title	Date
/s/ Michael Tokarz (Michael Tokarz)	Chairman (Principal Executive Officer) and Director	Date: December 21, 2010
/s/ Peter Seidenberg (Peter Seidenberg)	Chief Financial Officer	Date: December 21, 2010
/s/ Emilio Dominianni (Emilio Dominianni)	Director	Date: December 21, 2010
/s/ Gerald Hellerman (Gerald Hellerman)	Director	Date: December 21, 2010
/s/ Warren Holtsberg (Warren Holtsberg)	Director	Date: December 21, 2010
/s/ Robert C. Knapp (Robert C. Knapp)	Director	Date: December 21, 2010
/s/ William E. Taylor (William E. Taylor)	Director	Date: December 21, 2010