Medley Capital Corp
Form 10-Q
August 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended **June 30, 2012**

OR

¨ **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 1-35040

Medley Capital Corporation

(Exact name of registrant as specified in its charter)

Delaware	**27-4576073**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

375 Park Avenue, 33rd Floor

New York, NY 10152

(Address of principal executive offices)

(212) 759-0777

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

As of August 2, 2012, the Registrant had 17,320,468 shares of common stock, $0.001 par value, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

Medley Capital Corporation

Consolidated Statements of Assets and Liabilities

	As of June 30, 2012 (unaudited)	September 30, 2011
ASSETS		
Investments at fair value		
Non-controlled/non-affiliated investments (amortized cost of $356,108,198 and $153,268,701, respectively)	$355,035,060	$ 153,385,565
Affiliated investments (amortized cost of $8,569,436 and $46,087,374, respectively)	8,058,646	45,820,982
Total investments at fair value	363,093,706	199,206,547
Cash and cash equivalents	3,120,105	17,201,643
Interest receivable	3,277,289	1,679,738
Deferred financing costs, net	2,961,989	1,259,382
Other assets	160,078	782,006
Deferred offering costs	167,628	-
Total assets	$372,780,795	$ 220,129,316
LIABILITIES		
Credit facility payable	$108,700,000	$ -
Notes payable	40,000,000	-
Management and incentive fees payable, net	3,050,223	1,483,751
Accounts payable and accrued expenses	988,420	626,261
Administrator expenses payable	395,689	346,293
Deferred revenue	98,428	18,648
Interest and fees payable	1,211,149	1,667
Due to affiliate	81,391	-
Deferred offering costs payable	84,963	-
Total liabilities	$154,610,263	$ 2,476,620

NET ASSETS		
Common stock, par value $.001 per share, 100,000,000 common shares authorized, 17,320,468 and 17,320,468 common shares issued and outstanding, respectively	$17,320	$ 17,320
Capital in excess of par value	214,509,815	214,509,815
Accumulated undistributed net investment income	5,078,773	3,220,089
Accumulated net realized gain (loss) from investments	148,552	55,000
Net unrealized appreciation (depreciation) on investments	(1,583,928)	(149,528)
Total net assets	218,170,532	217,652,696
Total liabilities and net assets	$372,780,795	$ 220,129,316
NET ASSET VALUE PER SHARE	$12.60	$ 12.57

See accompanying notes to consolidated financial statements.

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Medley Capital Corporation

Consolidated Statements of Operations

	For the three months ended June 30		For the nine months ended June 30	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
INVESTMENT INCOME				
Interest from investments				
Non-controlled/Non-affiliated investments	$10,179,522	$2,704,988	$23,962,160	$4,116,146
Affiliated investments	239,761	1,538,533	2,013,461	2,664,963
Total interest income	10,419,283	4,243,521	25,975,621	6,781,109
Interest from cash and cash equivalents	781	22,187	3,513	63,730
Other fee income	1,832,307	633,454	4,475,777	833,454
Total investment income	12,252,371	4,899,162	30,454,911	7,678,293
EXPENSES				
Base management fees	1,498,212	974,844	3,782,158	1,689,030
Incentive fees	1,552,011	79,785	4,110,844	79,785
Administrator expenses	395,689	329,516	1,074,173	519,762
Professional fees	469,650	131,881	1,102,278	366,069
Interest and financing expenses	1,781,455	-	2,890,872	-
Directors fees	131,125	124,875	377,504	322,058
Insurance	121,506	103,467	343,325	182,912
General and administrative	94,678	23,741	371,505	73,814
Organizational expense	-	-	-	92,226
Expenses before management fee waiver	6,044,326	1,768,109	14,052,659	3,325,656
Management fee waiver (See Note 6)	-	(424,226)	(41,126)	(848,918)
Total expenses net of management fee waiver	6,044,326	1,343,883	14,011,533	2,476,738
Net investment income before excise taxes	6,208,045	3,555,279	16,443,378	5,201,555
Excise tax expense	-	-	(35,501)	-
NET INVESTMENT INCOME	6,208,045	3,555,279	16,407,877	5,201,555
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain/(loss) from investments	(15,016)	55,000	93,552	55,000
Net unrealized appreciation/(depreciation) on investments	(1,353,281)	343,927	(1,434,400)	343,927
Net gain/(loss) on investments	(1,368,297)	398,927	(1,340,848)	398,927
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$4,839,748	$3,954,206	$15,067,029	$5,600,482
	$0.28	$0.23	$0.87	$0.33

WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE				
WEIGHTED AVERAGE - BASIC AND DILUTED NET INVESTMENT INCOME PER COMMON SHARE	$0.36	$0.21	$0.95	$0.30
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED (SEE NOTE 10)	17,320,468	17,320,468	17,320,468	17,222,642
DIVIDENDS DECLARED PER COMMON SHARE	$0.31	$0.16	$0.84	$0.16

See accompanying notes to consolidated financial statements.

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Medley Capital Corporation

Consolidated Statement of Changes in Net Assets

	For the nine months ended June 30, 2012 (unaudited)	For the nine months ended June 30, 2011 (unaudited)
INCREASE FROM OPERATIONS:		
Net investment income	$ 16,407,877	$ 5,201,555
Net realized gain/(loss) from investments	93,552	55,000
Net unrealized appreciation/(depreciation) on investments	(1,434,400)	343,927
Net increase/(decrease) in net assets from operations	15,067,029	5,600,482
SHAREHOLDER DISTRIBUTIONS:		
Distributions declared ($0.84 and $0.16 per share, respectively)	(14,549,193)	(2,771,276)
Net increase/(decrease) in net assets from shareholder distributions	(14,549,193)	(2,771,276)
CAPITAL SHARE TRANSACTIONS:		
Issuance of common stock, net of underwriting costs	-	216,051,889
Offering costs	-	(1,422,948)
Net increase/(decrease) in net assets from capital share transactions	-	214,628,941
Total increase/(decrease) in net assets	517,836	217,458,147
Net assets at beginning of period	217,652,696	(92,050)
Net assets at end of period	$ 218,170,532	$ 217,366,097
Net asset value per common share	$ 12.60	$ 12.55
Common shares outstanding at end of period	17,320,468	17,320,468

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Statement of Cash Flows

	For the nine months ended June 30, 2012 (unaudited)	For the nine months ended June 30, 2011 (unaudited)
Cash flows from operating activities		
NET INCREASE IN NET ASSETS FROM OPERATIONS	$ 15,067,029	$ 5,600,482
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Paid-in-kind interest income	(2,545,968)	(1,022,209)
Net amortization/accretion of premium (discount) on investments	(23,574)	82,849
Amortization of deferred financing costs	432,836	-
Net realized (gain) loss from investments	(93,552)	(55,000)
Net unrealized (appreciation) depreciation on investments	1,434,400	(343,927)
Proceeds from sale and redemption of investments	26,637,386	2,055,000
Purchase of investments	(189,295,850)	(60,430,348)
(Increase) decrease in operating assets:		
Interest receivable	(1,597,551)	(1,296,430)
Other assets	621,928	(244,795)
Increase (decrease) in operating liabilities:		
Payable for unsettled trades	-	9,849,932
Accounts payable and accrued expenses	362,159	460,613
Management and incentive fees payable, net	1,566,472	630,403
Administrator expenses payable	49,396	329,516
Interest and credit facility fees payable	1,209,482	-
Deferred revenue	79,780	-
Due to affiliate	81,391	6,689
Accrued organizational costs	-	(92,000)
NET CASH USED BY OPERATING ACTIVITIES	(146,014,236)	(44,469,225)
Cash flows from financing activities		
Repayment of contributed loan	-	(50,000)
Proceeds from issuance of common stock, net of underwriting costs	-	131,101,393
Offering cost paid	(82,666)	(1,380,402)
Borrowings under credit facility	119,400,000	-
Repayments of credit facility	(10,700,000)	-
Proceeds from senior notes	40,000,000	-
Financing cost paid	(2,135,443)	-
Payments of cash dividends	(14,549,193)	(2,771,276)
NET CASH PROVIDED BY FINANCING ACTIVITIES	131,932,698	126,899,715

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,081,538)	82,430,490
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,201,643	15,190
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,120,105	$ 82,445,680
Supplemental Information:		
Interest paid during the period	$ 1,248,554	n/a
Excise tax paid during the period	$ 35,501	$ n/a
Supplemental non-cash information		
Paid-in-kind interest income	$ 2,545,968	$ 1,022,209
Net amortization of premium on investments	$ 23,574	$ (82,849)
Amortization of deferred financing costs	$ (432,836)	n/a
Issuance of 5,759,356 shares of common stock in connection with the formation transaction (See Note 1)	$ -	$ 84,950,496

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Schedule of Investments

June 30, 2012

(unaudited)

Company [(1)]	Industry	Interest	Maturity	**Par Amount** [(2)]	Cost	Fair Value	**% of Net A**
Non-controlled/Non-affiliated Investments - 162.7% [(3)]							
Senior Secured First Lien Term Loans							
Revstone Aero LLC	Aerospace & Defense	15.46% (LIBOR + 12.00% Cash, 3.00% PIK)	6/30/2017	$ 15,000,000	$ 14,776,044	$ 14,776,044	6.8
Revstone Aero LLC (fee note) [(7)]	Aerospace & Defense	17.38% [(7)]	6/30/2017	500,000	224,317	224,317	0.1
Welocalize, Inc. (term loan A)	Business Services	10.00% (LIBOR + 8.00%, 2.00% LIBOR Floor)	11/19/2015	4,746,588	4,746,588	4,746,588	2.2
Welocalize, Inc. (term loan B)	Business Services	12.25% (LIBOR + 9.00%, 2.00% LIBOR Floor, 1.25% PIK)	11/19/2015	5,461,263	5,461,263	5,461,263	2.5
BayDelta Maritime LLC (term loan)	Cargo Transport	13.75% (11.25% Cash, 2.50% Deferred)	6/30/2016	6,669,293	6,541,505	6,541,505	2.9
BayDelta Maritime LLC (fee note) [(7)]	Cargo Transport	14.88% [(7)]	6/30/2016	250,000	143,507	143,507	0.1
Hilex Poly Co.			11/19/2015	1,576,878	1,576,878	1,576,878	0.7

	Chemicals, Plastics and Rubber	11.25% (LIBOR + 9.25%, 2.00% LIBOR Floor)					
Bennu Glass, Inc.	Containers, Packaging and Glass	15.00%	4/30/2013	10,000,000	10,087,813	10,000,000	4.6 %
Flexera Software LLC	Electronics	7.50% (LIBOR + 6.25%, 1.25% LIBOR Floor)	9/30/2017	3,940,000	3,940,000	3,900,601	1.8 %
Allied Cash Holdings LLC	Finance	15.00%	9/30/2013	17,000,000	17,051,104	17,000,000	7.8 %
Velum Global Credit Management LLC	Finance	15.00%	3/31/2014	15,000,000	15,183,962	15,183,962	7.0 %
Water Capital USA, Inc.	Finance	14.00% (7.00% Cash, 7.00% PIK)	1/3/2013	23,437,803	23,437,803	23,437,803	10.7 %
The Great Atlantic & Pacific Tea Company, Inc.	Grocery	11.00% (LIBOR + 9.00%, 2.00% LIBOR Floor)	3/13/2017	7,980,000	7,980,000	7,980,000	3.7 %
Calloway Laboratories, Inc.	Healthcare, Education and Childcare	15.00% (LIBOR + 11.00% ,1.00% LIBOR Floor, 3.00% PIK)	9/30/2013	20,157,076	20,157,076	20,157,076	9.2 %
Meridian Behavioral Health LLC	Healthcare, Education and Childcare	14.00% (12.00% Cash, 2.00% PIK)	11/14/2016	6,076,757	5,585,370	5,983,044	2.7 %
Renaissance Learning LLC	Healthcare, Education and Childcare	7.75% (LIBOR + 6.25%, 1.50% LIBOR Floor)	10/19/2017	2,977,500	2,869,056	2,869,056	1.3 %
Applied Natural Gas Fuels, Inc. (term loan A)	Oil and Gas	13.00%	3/24/2014	5,000,000	5,000,000	5,150,286	2.4 %
	Oil and Gas	10.00%	3/24/2014	10,844,251	10,844,251	10,641,151	4.8 %

Applied Natural Gas Fuels, Inc. (term loan B)							
Geneva Wood Fuels LLC (4)	Personal and Nondurable Consumer Products (Manufacturing Only)	15.50% (LIBOR + 13.00%, 2.50% LIBOR Floor)	12/31/2012	7,500,000	7,500,000	7,046,250	3.2
Total Senior Secured First Lien Term Loans				$164,117,409	$163,106,537	$162,819,331	
Senior Secured Second Lien Term Loans							
Aurora Flight Sciences Corporation	Aerospace & Defense	13.25% (11.25% Cash, 2.00% PIK)	3/16/2014	$15,411,876	$15,411,876	$15,411,876	7.1
Kelley Amerit Holdings, Inc.	Business Services	12.20% (LIBOR + 9.70% Cash, 1.00% LIBOR Floor, 1.50% PIK)	12/22/2016	9,337,705	9,337,705	9,337,705	4.3
Prestige Industries LLC	Business Services	13.00% (10.00% Cash, 3.00% PIK)	1/31/2017	5,804,758	5,658,605	5,658,605	2.6
YRCW Receivables LLC	Cargo Transport	11.25% (LIBOR + 9.75%, 1.50% LIBOR Floor)	9/30/2014	9,922,512	9,735,768	9,426,390	4.3
RCS Management Corporation & Specialized Medical Services, Inc.	Diversified/Conglomerate Service	13.00% (LIBOR + 11.00% Cash, 1.50% LIBOR Floor, 0.50% PIK)	9/23/2015	17,324,040	17,324,040	17,215,783	7.9
Flexera Software LLC	Electronics	11.00% (LIBOR + 9.75%, 1.25% LIBOR Floor)	9/30/2018	6,000,000	6,000,000	5,700,000	2.6
Renaissance Learning LLC	Healthcare, Education and Childcare	12.00% (LIBOR + 10.50%, 1.50% LIBOR Floor)	10/19/2018	2,000,000	1,925,034	1,925,034	0.9

Sequel Youth and Family Services LLC	Healthcare, Education and Childcare	14.00%	12/23/2014	10,500,000	10,500,000	10,710,000	4.9
Caregiver Services, Inc.	Healthcare, Education and Childcare	14.45% (12.45% Cash, 2.00% PIK)	12/29/2017	15,001,667	15,001,667	15,001,667	6.9
Gulf Coast Asphalt Company, Inc.	Oil and Gas	15.50% (LIBOR + 11.00% Cash, 1.00% LIBOR Floor, 3.5% PIK)	6/14/2017	11,080,784	11,080,784	11,080,784	5.1
Santa Cruz Nutritional	Personal and Nondurable Consumer Products (Manufacturing Only)	14.50%	5/25/2015	15,000,000	15,000,000	15,000,000	6.9
Hoffmaster Group, Inc.	Personal and Nondurable Consumer Products (Manufacturing Only)	11.00% (1.50% Base + 9.50% Spread)	1/3/2019	6,000,000	6,000,000	5,933,239	2.7
Hoffmaster Group, Inc.	Personal and Nondurable Consumer Products (Manufacturing Only)	10.25% (LIBOR + 9.0% Cash, 1.25% LIBOR Floor)	1/3/2019	2,000,000	1,980,173	1,910,985	0.9
Insight Pharmaceuticals LLC	Personal, Food and Miscellaneous Services	13.25% (LIBOR + 11.75%, 1.50% LIBOR Floor)	8/25/2017	10,000,000	10,000,000	10,000,000	4.6
United Road Towing Inc.	Personal, Food and Miscellaneous Services	13.50% (11.50% Cash, 2.00% PIK)	10/21/2016	15,368,312	15,368,312	14,907,263	6.8
United Restaurant Group L.P.	Restaurant & Franchise	15.24% (LIBOR + 11.50% Cash, 3.50% PIK)	12/31/2016	10,362,699	10,362,699	10,044,981	4.6
Total Senior Secured Second Lien Term Loans				$161,114,353	$160,686,663	$159,264,312	
Senior Secured Notes							
Tower International, Inc.	Automobile	10.63%	9/1/2017	$6,101,000	$6,221,409	$6,375,515	2.9
Tempel Steel Company	Mining, Steel, Iron and Nonprecious Metals	12.00%	8/15/2016	10,000,000	9,791,863	9,600,023	4.4
	Oil and Gas		2/15/2017	5,000,000	4,958,285	4,958,285	2.3

U.S. Well Services LLC		14.50% (14.50% PIK until 8/15/12, 14.50% cash therafter)					
Sizzling Platter LLC	Restaurant & Franchise	12.25%	4/15/2016	3,630,000	3,524,166	3,757,049	1.7
Integra Telecom, Inc.	Telecommunications	10.75%	4/15/2016	7,250,000	7,106,124	7,026,700	3.2
Total Senior Secured Notes				$31,981,000	$31,601,847	$31,717,572	
Equity/Warrants							
Prestige Industries LLC	Business Services	Warrants to purchase 3.04% of the outstanding common units	1/31/2017	$-	$151,855	$239,290	0.1
BayDelta Maritime LLC	Cargo Transport	Warrants to purchase 10% of the outstanding equity	6/30/2016	-	25,000	210,176	0.1
Meridian Behavioral Health LLC	Healthcare, Education and Childcare	Warrants to purchase 8% of the outstanding membership units	11/14/2016	-	536,296	784,379	0.4

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Company [1]	Industry	Interest	Maturity	**Par Amount** [2]	Cost	Fair Value	**% of Net Assets** [3]	**LTV** [5] **(unaudited)**
U.S. Well Services LLC	Oil and Gas	Warrants to purchase 0.88% of the outstanding common membership interests	2/15/2017	-	-	-	0.0%	N/A
Total Common Equity/Warrants				$-	$713,151	$1,233,845		
Sub Total Non-controlled/Non-affiliated Investments				$357,212,762	$356,108,198	$355,035,060		
Affiliated Investments - 3.7% [3]								
Senior Secured First Lien Term Loans								
Cymax Stores, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	15.00% (10% Cash, 5% PIK)	8/1/2015	$8,489,072	$7,891,282	$7,385,492	3.4%	54.4%
Equity/Warrants								
Cymax Stores, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	190 Class B Common Units [6]	-	$-	$678,154	$673,154	0.3%	N/A
Sub Total Affiliated Investments				$8,489,072	$8,569,436	$8,058,646		
Total Invesmtents - 166.4% [3]				$365,701,834	$364,677,634	$363,093,706		

(1) All of our investments are domiciled in the United States except for Cymax Stores, Inc. which is domiciled in Canada.

(2) Par amount includes accumulated PIK interest and is net of repayments.

(3) Percentage is based on net assets of $218,170,532 as of June 30, 2012.

(4) Investment is held via participation agreements with affiliated entities (See note 7).

(5) Loan to value ratio ("LTV") is the amount of total net debt in the portfolio company’s capital structure that is ahead of and through our loan divided by the enterprise value of the portfolio company.

(6) 190 Class B Common Units represent 19% ownership of Cymax Stores, Inc.

(7) Fee note is a zero coupon note, due at the earlier of prepayment or maturity and stated interest rate represents an effective interest rate.

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Schedule of Investments

September 30, 2011

Company [(1)]	Industry	Interest	Maturity	Par Amount [(2)]	Cost	Fair Value	% of Net Assets [(3)]	LTV [(5)] (unaudit
Non-controlled/Non-affiliated Investments - 70.5% [(3)]								
Senior Secured First Lien Term Loans								
Water Capital USA, Inc.	Financial - Leasing	14.00% (7.00% Cash, 7.00% PIK)	1/3/2013	$22,227,926	$22,227,926	$22,227,926	10.2%	68.9%
Flexera Software LLC	Computer Programming Services	7.50% (LIBOR + 6.25%, 1.25% LIBOR Floor)	9/30/2017	4,000,000	4,000,000	3,840,000	1.8 %	44.7%
Geneva Wood Fuels LLC [(4)]	Energy	15.50% (LIBOR + 13.00%, 2.50% LIBOR Floor)	12/31/2012	7,500,000	7,500,000	7,424,659	3.4 %	64.2%
Velum Global Credit Management LLC	Consumer Financial	15.00%	3/31/2014	15,000,000	15,247,083	15,247,083	7.0 %	23.7%
Cymax Stores, Inc.	Home Furniture and Furnishings	13.75% (9.75% Cash, 4.00% PIK until 1/31/12, 13.75% Cash	8/1/2015	6,040,736	6,040,736	6,040,736	2.8 %	11.6%

		thereafter)						
BayDelta Maritime LLC (term loan)	Towing & Tugboat Services	13.75% (11.25% Cash, 2.50% Deferred)	6/30/2016	6,669,293	6,524,429	6,524,429	3.0 %	54.2%
BayDelta Maritime LLC (fee note) (7)	Towing & Tugboat Services	14.88% (7)	6/30/2016	250,000	129,240	129,240	0.1 %	54.2%
Total Senior Secured First Lien Term Loans				**$61,687,955**	**$61,669,414**	**$61,434,073**		
Senior Secured Second Lien Term Loans								
Aurora Flight Sciences Corporation	Aerospace & Defense	13.25% (11.25% Cash, 2.00% PIK)	3/16/2014	$15,179,244	$15,179,244	$15,179,244	7.0 %	36.9%
Flexera Software LLC	Computer Programming Services	11.00% (LIBOR + 9.75%, 1.25% LIBOR Floor)	9/30/2018	6,000,000	6,000,000	5,520,000	2.5 %	64.2%
United Road Towing Inc.	Wrecker Service	13.50% (11.50% Cash, 2.00% PIK)	10/21/2016	15,136,339	15,136,339	15,136,339	7.0 %	67.1%
Sequel Youth and Family Services LLC	Health Services	14.00%	12/23/2014	10,500,000	10,500,000	10,500,000	4.8 %	52.3%
Insight Pharmaceuticals LLC	Pharmaceutical Preparations	13.25% (LIBOR + 11.75%, 1.50% LIBOR Floor)	8/25/2017	10,000,000	10,000,000	10,000,000	4.6 %	65.5%
United Restaurant Group L.P.	Restaurant & Retail	15.22% (LIBOR + 11.50% Cash, 3.50% PIK)	12/31/2016	10,090,689	10,090,689	10,090,689	4.6 %	63.2%
YRCW Receivables LLC	Trucking	11.25% (LIBOR + 9.75%, 1.50% LIBOR Floor)	9/30/2014	7,000,000	6,945,754	6,945,754	3.2 %	68.7%
Gundle/SLT Environmental, Inc.	Unsupported Plastics Film and Sheet	13.00% (LIBOR + 9.50% Cash,	11/27/2016	6,042,352	6,049,109	6,042,352	2.8 %	53.4%

		1.50% LIBOR Floor, 2.00% PIK)						
Total Senior Secured Second Lien Term Loans				**$79,948,624**	**$79,901,135**	**$79,414,378**		
Senior Secured Notes								
Tempel Steel Company	Metal Stamping	12.00%	8/15/2016	$5,000,000	$4,902,114	$4,902,114	2.2 %	61.2%
Sizzling Platter LLC	Restaurant & Retail	12.25%	4/15/2016	7,000,000	6,766,038	6,930,000	3.2 %	56.1%
Total Senior Secured Notes				**$12,000,000**	**$11,668,152**	**$11,832,114**		
Equity/Warrants								
Cymax Stores, Inc.	Home Furniture and Furnishings	40 Class B Common Units	8/1/2015	$-	$5,000	$680,000	0.3 %	N/A
BayDelta Maritime LLC	Towing & Tugboat Service	Warrants to purchase 10% of the outstanding equity	6/30/2016	-	25,000	25,000	0.0 %	N/A
Total Common Equity/Warrants				**$-**	**$30,000**	**$705,000**		
Sub Total Non-controlled/Non-affiliated Investments				**$153,636,579**	**$153,268,701**	**$153,385,565**		
Affiliated Investments - 21.0% (3)								
Senior Secured First Lien Term Loans								
Bennu Glass, Inc. (6)	Manufacturing - Consumer	15.00%	4/30/2013	$10,000,000	$10,157,220	$10,157,220	4.6 %	29.8%
Allied Cash Holdings LLC (6)	Consumer Financial	15.00%	6/30/2013	20,000,000	20,085,903	20,000,000	9.2 %	32.7%
Applied Natural Gas Fuels, Inc. (term loan A) (6)	Energy Refining	13.00%	3/24/2014	5,000,000	5,000,000	4,943,043	2.3 %	37.8%
Applied Natural Gas Fuels, Inc. (term loan B) (6)	Energy Refining	10.00%	3/24/2014	10,844,251	10,844,251	10,720,719	4.9 %	37.8%
Total Senior Secured First Lien Term Loans				**$45,844,251**	**$46,087,374**	**$45,820,982**		
Sub Total Affiliated Investments				**$45,844,251**	**$46,087,374**	**$45,820,982**		
Total Investments - 91.5% (3)				**$199,480,830**	**$199,356,075**	**$199,206,547**		

(1) All of our investments are domiciled in USD.

(2) Par amount includes accumulated PIK interest and is net of repayments.

(3) Percentage is based on net assets of $217,652,696 as of September 30, 2011.

(4) Investment is held via participation agreements with affiliated entities (See note 7).

(5) Loan to value ratio ("LTV") is the amount of total net debt in the portfolio company's capital structure that is ahead of and through our loan divided by the enterprise value of the portfolio company.

(6) As defined in the Investment Company Act of 1940, as amended, we are deemed to be an "Affiliated Person" of this portfolio company because we are under common control with such portfolio company.

(7) BayDelta Maritime LLC fee note is a zero coupon note, due at the earlier of prepayment or maturity and 14.88% represents an effective interest rate.

See accompanying notes to consolidated financial statements

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements

June 30, 2012

(unaudited)

Note 1. Organization

Medley Capital Corporation (the “Company”, “we” and “us”) is a non-diversified closed end management investment company incorporated in Delaware that has elected to be treated and is regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). We completed our initial public offering (“IPO”) and commenced operations on January 20, 2011. The Company has elected and qualified to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). We are externally managed and advised by our investment adviser, MCC Advisors LLC (“MCC Advisors”) pursuant to an investment management agreement.

Medley Capital BDC LLC (the “LLC”), a Delaware limited liability company, was formed on April 23, 2010. On January 18, 2011, the LLC, in accordance with Delaware law, converted into Medley Capital Corporation, a Delaware corporation and on January 20, 2011, the Company filed an election to be regulated as a BDC under the 1940 Act.

On January 20, 2011, the Company consummated its IPO, sold 11,111,112 shares of common stock at $12.00 per share and commenced its operations and investment activities. On February 24, 2011, an additional 450,000 shares of common stock were issued at a price of $12.00 per share pursuant to the partial exercise of the underwriters’ over-allotment option. Net of underwriting fees and offering costs, the Company received total cash proceeds of approximately $129.6 million.

On January 20, 2011, the Company’s shares began trading on the New York Stock Exchange (“NYSE”) under the symbol “MCC.”

Prior to the consummation of our IPO, Medley Opportunity Fund LP (“MOF LP”), a Delaware limited partnership, and Medley Opportunity Fund, Ltd. (“MOF LTD”), a Cayman Islands exempted limited liability company, which are managed by an affiliate of MCC Advisors, transferred all of their respective interests in six loan participations in secured loans to middle market companies with a combined fair value, plus payment-in-kind interest and accrued interest thereon, of approximately $84.95 million (the “Loan Assets”) to MOF I BDC LLC (“MOF I BDC”), a Delaware limited liability company in exchange for membership interests in MOF I BDC. As a result, MOF LTD owned approximately 90% of the outstanding MOF I BDC membership interests and MOF LP owned approximately 10% of the outstanding MOF I BDC membership interests.

On January 18, 2011, each of MOF LTD and MOF LP contributed their respective MOF I BDC membership interests to the LLC in exchange for LLC membership interests. As a result, MOF I BDC became a wholly-owned subsidiary of the LLC. As a result of the LLC’s conversion noted above, MOF LTD and MOF LP’s LLC membership interests were exchanged for 5,759,356 shares of the Company’s common stock at $14.75 per share.

The Company’s investment objective is to generate current income and capital appreciation by lending directly to privately-held small and middle market companies to help these companies fund acquisitions, growth or refinancing. The portfolio will generally consist of senior secured first lien loans and senior secured second lien loans. In many of our investments, we will receive warrants or other equity participation features which we believe will increase the total investment returns.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly-owned subsidiaries, MOF I BDC and Medley SBIC LP. We have applied to the Small Business Administration for a license for Medley SBIC LP to operate as a small business investment company under Section 301(c) of the Small Business Investment Company Act of 1958. Currently Medley SBIC LP has no operations. All references made to the "Company," "we," and "us" herein include Medley Capital Corporation and its consolidated subsidiary, except as stated otherwise. Additionally, the accompanying consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. Therefore, this Form 10-Q should be read in conjunction with the Company's annual report on Form 10-K for the year ended September 30, 2011, which was filed with the U.S. Securities and Exchange Commission on December 14, 2011. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending September 30, 2012.

Cash and Cash Equivalents

The Company considers cash equivalents to be highly liquid investments with original maturities of three months or less. Cash and cash equivalents include deposits in a money market account. The Company deposits its cash in a financial institution and, at times, such balance may be in excess of the Federal Deposit Insurance Corporation insurance limits.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organizational Expenses

Organizational expenses consist principally of legal and accounting fees incurred in connection with the organization of the Company and have been expensed as incurred.

Deferred Offering Costs

Deferred offering costs consist of fees and expenses incurred in connection with the public offering and sale of the Company’s common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement.

Deferred Financing Costs

Financing costs, incurred in connection with our credit facilities and senior notes, are deferred and amortized using the straight line method over the life of the respective facility.

Indemnification

In the normal course of business, the Company enters into contractual agreements that provide general indemnifications against losses, costs, claims and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to such agreements. The Company’s individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on management’s experience, the Company expects the risk of loss to be remote.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

Revenue Recognition

Interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis.

Origination, amendment, closing and/or commitment fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Other fees are capitalized as deferred revenue and recorded into income over the respective period.

Prepayment penalties received by the Company for debt instruments paid back to the Company prior to the maturity date are recorded as income upon receipt.

The Company holds debt investments in its portfolio that contain a payment-in-kind ("PIK") interest provision. The PIK interest, which represents contractually deferred interest added to the investment balance that is generally due at maturity, is recorded on the accrual basis to the extent such amounts are expected to be collected. PIK interest is not accrued if the Company does not expect the issuer to be able to pay all principal and interest when due. For the three and nine months ended June 30, 2012, the Company earned $1.0 million and $2.5 million in PIK interest, respectively.

Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of investment, without regard to unrealized gains or losses previously recognized. The Company reports changes in fair value of investments that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Management reviews all loans that become 90 days or more past due on principal and interest or when there is reasonable doubt that principal or interest will be collected for possible placement on non-accrual status. Accrued interest is generally reserved when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current, although we may make exceptions to this general rule if the loan has sufficient collateral value and is in the process of collection.

Investment Classification

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, we would be deemed to "control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. We refer to such investments in portfolio companies that we "control" as "Control Investments." Under the 1940 Act, we would be deemed to be an "Affiliated Person" of a portfolio company if we own between 5% and 25% of the portfolio company's outstanding voting securities or we are under common control with such portfolio company. We refer to such investments in Affiliated Persons as "Affiliated Investments."

Valuation of Investments

The Company applies fair value accounting to all of its financial instruments in accordance with the 1940 Act and ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements. In accordance with ASC 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as discussed in Note 4. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company's own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

Investments for which market quotations are readily available are valued at such market quotations, which are generally obtained from an independent pricing service or multiple broker-dealers or market makers. We weight the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer. However, debt investments with remaining maturities within 60 days that are not credit impaired are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. Investments for which market quotations are not readily available are valued at fair value as determined by the Company's board of directors based upon input from management and third party valuation firms. Because these investments are illiquid and because there may not be any directly comparable companies whose financial instruments have observable market values, these loans are valued using a fundamental valuation methodology, consistent with traditional asset pricing standards, that is objective and consistently applied across all loans and through time.

The Company uses third-party valuation firms to assist the board of directors in the valuation of its portfolio investments. The valuation reports generated by the third-party valuation firms consider the evaluation of financing and sale transactions with third parties, expected cash flows and market based information, including comparable transactions, performance multiples, and movement in yields of debt instruments, among other factors. Based on information obtained from the third-party valuation firms, the Company uses a combined market yield analysis and an enterprise model of valuation. In applying the market yield analysis, the value of the Company's loans is determined based upon inputs such as the coupon rate, current market discount yield, interest rate spreads of similar securities, the stated value of the loan, and the length to maturity. In applying the enterprise model, the Company uses a waterfall analysis which takes into account the specific capital structure of the borrower and the related seniority of the instruments within the borrower's capital structure into consideration. To estimate the enterprise value of the portfolio company, we weigh 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 investments 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 investments, we may estimate the liquidation or collateral value of the portfolio company's assets and liabilities using an expected recovery model. We may estimate the fair value of warrants based on a model such as the Black-Scholes model or simulation models or a combination thereof.

We undertake a multi-step valuation process each quarter when valuing investments for which market quotations are not readily available, as described below:

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- our quarterly valuation process begins with each portfolio investment being initially valued by the investment professionals responsible for monitoring the portfolio investment;

- preliminary valuation conclusions are then documented and discussed with senior management; and

- an independent valuation firm engaged by our board of directors reviews approximately one third of these preliminary valuations each quarter on a rotating quarterly basis on non fiscal year-end quarters, such that each of these investments will be valued by independent valuation firms at least twice per annum when combined with the fiscal year end review of all the investments by independent valuation firms.

In addition, all of our investments are subject to the following valuation process:

- review management's preliminary valuations and their own independent assessment;

- the audit committee of our board of directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms; and

- our board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of MCC Advisors, the respective independent valuation firms and the audit committee.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts payable and accrued expenses, approximate fair value due to their short-term nature. The carrying amounts and fair values of our long-term obligations are discussed in Note 5.

Federal Income Taxes

The Company has elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its stockholders at least 90% of the sum of investment company taxable income ("ICTI") including PIK, as defined by the Code, and net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions) for each taxable year in order to be eligible for tax treatment under subchapter M of the Code. The Company is subject to a nondeductible U.S. federal excise tax of 4% on undistributed income if it does not distribute at least 98% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31 of such calendar year. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. Any such carryover ICTI must be distributed before the end of that next tax year through a dividend declared prior to filing the final tax return related to the year which generated such ICTI. For the calendar year ended December 31, 2011, the Company did not distribute at least 98% of its ordinary income and 98.2% of its capital gains and subsequently paid $35,501 in federal excise taxes. There is no provision for federal excise tax accrued at June 30, 2012.

The Company accounts for income taxes in conformity with ASC Topic 740 - Income Taxes ("ASC 740"). ASC 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in 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. There were no material uncertain income tax positions at June 30, 2012. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2011 federal tax year for the Company remains subject to examination by the Internal Revenue Service.

Company Investment Risk, Concentration of Credit Risk, and Liquidity Risk

MCC Advisors has broad discretion in making investments for the Company. Investments will generally consist of debt instruments that may be affected by business, financial market or legal uncertainties. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Company's activities and the value of its investments. In addition, the value of the Company's portfolio may fluctuate as the general level of interest rates fluctuate.

The value of the Company's investments in loans may be detrimentally affected to the extent, among other things, that a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan, observable secondary or primary market yields for similar instruments issued by comparable companies increase materially or risk premiums required in the market between smaller companies, such as our borrowers, and those for which market yields are observable increase materially. MCC Advisors may attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying the loan.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

The Company’s assets may, at any time, include securities and other financial instruments or obligations that are illiquid or thinly traded, making purchase or sale of such securities and financial instruments at desired prices or in desired quantities difficult. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

Note 3. Investments

The composition of our investments as of June 30, 2012 as a percentage of our total portfolio, at amortized cost and fair value were as follows (dollars in thousands):

	Investments at Amortized Cost	Percentage		Investments at Fair Value	Percentage	
Senior Secured First Lien Term Loans	$ 170,998	46.9	%	$ 170,205	46.9	%
Senior Secured Second Lien Term Loans	160,687	44.1		159,264	43.9	
Senior Secured Notes	31,602	8.6		31,718	8.7	
Equities/Warrants	1,391	0.4		1,907	0.5	
Total	$ 364,678	100.0	%	$ 363,094	100.0	%

The composition of our investments as of September 30, 2011 as a percentage of our total portfolio, at amortized cost and fair value were as follows (dollars in thousands):

	Investments at Amortized Cost	**Percentage**		**Investments at Fair Value**	**Percentage**	
Senior Secured First Lien Term Loans	$ 107,757	54.0	%	$ 107,255	53.8	%
Senior Secured Second Lien Term Loans	79,901	40.1		79,415	39.9	
Senior Secured Notes	11,668	5.9		11,832	5.9	
Equities/Warrants	30	0.0		705	0.4	
Total	$ 199,356	100.0	%	$ 199,207	100.0	%

The following table shows the portfolio composition by industry grouping at fair value at June 30, 2012 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio	
Healthcare, Education and Childcare	$ 57,430	15.8	%
Finance	55,622	15.3	
Oil and Gas	31,830	8.8	
Aerospace & Defense	30,412	8.4	
Personal and Nondurable Consumer Products (Manufacturing Only)	29,890	8.2	
Business Services	25,443	7.0	
Personal, Food and Miscellaneous Services	24,907	6.9	
Diversified/Conglomerate Service	17,216	4.8	
Cargo Transport	16,322	4.5	
Restaurant & Franchise	13,802	3.8	
Containers, Packaging and Glass	10,000	2.8	
Electronics	9,601	2.6	
Mining, Steel, Iron and Nonprecious Metals	9,600	2.6	
Home and Office Furnishings, Housewares, and Durable Consumer Products	8,059	2.2	
Grocery	7,980	2.2	
Telecommunications	7,027	1.9	
Automobile	6,376	1.8	
Chemicals, Plastics and Rubber	1,577	0.4	
Total	$ 363,094	100.0	%

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

The following table shows the portfolio composition by industry grouping at fair value at September 30, 2011. Subsequent to September 30, 2011, industry groupings have been modified and are now substantially different (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio
Consumer Financial	$ 35,247	17.7 %
Financial - Leasing	22,228	11.2
Restaurant & Retail	17,021	8.5
Energy Refining	15,664	7.9
Aerospace & Defense	15,179	7.6
Wrecker Service	15,136	7.6
Health Services	10,500	5.3
Manufacturing - Consumer	10,157	5.1
Pharmaceutical Preparations	10,000	5.0
Computer Programming Services	9,360	4.7
Energy	7,425	3.7
Trucking	6,946	3.5
Home Furniture and Furnishings	6,721	3.4
Towing & Tugboat Services	6,679	3.3
Unsupported Plastics Film and Sheet	6,042	3.0
Metal Stamping	4,902	2.5
Total	$ 199,207	100.0 %

The Company invests in portfolio companies principally located in North America. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business. The following table shows the portfolio composition by geographic location at fair value at June 30, 2012 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio
Midwest	$ 116,716	32.1 %
West	75,454	20.8
Mid-Atlantic	59,543	16.4
Southeast	44,289	12.2
Southwest	31,830	8.8
Northeast	27,203	7.5

International	8,059	2.2	
Total	$ 363,094	100.0	%

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MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

The following table shows the portfolio composition by geographic location at fair value at September 30, 2011 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio	
Midwest	$ 51,591	25.9	%
West	45,994	23.1	
Mid-Atlantic	35,270	17.7	
Southeast	30,500	15.3	
Southwest	21,706	10.9	
Northeast	7,425	3.7	
International	6,721	3.4	
Total	$ 199,207	100.0	%

Note 4. Fair Value Measurements

The Company follows ASC 820 for measuring the fair value of portfolio investments. Fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. The Company's fair value analysis includes an analysis of the value of any unfunded loan commitments. Financial investments recorded at fair value in the consolidated financial statements are categorized for disclosure purposes based upon the level of judgment associated with the inputs used to measure their value. The valuation hierarchical levels are based upon the transparency of the inputs to the valuation of the investment as of the measurement date. The three levels are defined as follows:

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 — Valuations based on inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable at the measurement date. This category includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets including actionable bids from third parties for privately held assets or liabilities, and observable inputs other than quoted prices such as yield curves and forward currency rates that are entered directly into valuation models to determine the value of derivatives or other assets or liabilities.

- Level 3 — Valuations based on inputs that are unobservable and where there is little, if any, market activity at the measurement date. The inputs for the determination of fair value may require significant management judgment or estimation and is based upon management’s assessment of the assumptions that market participants would use in pricing the assets or liabilities. These investments include debt and equity investments in private companies or assets valued using the market or income approach and may involve pricing models whose inputs require significant judgment or estimation because of the absence of any meaningful current market data for identical or similar investments. The inputs in these valuations may include, but are not limited to, capitalization and discount rates, beta and EBITDA multiples. The information may also include pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the board of directors that is consistent with ASC 820 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

The following table presents the fair value measurements of our investments, by major class according to the fair value hierarchy, as of June 30, 2012 (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Senior Secured First Lien Term Loans	$ —	$ —	$170,205	$170,205
Senior Secured Second Lien Term Loans	—	—	159,264	159,264
Senior Secured Notes	—	—	31,718	31,718
Equities/Warrants	—	—	1,907	1,907
Total	$ —	$ —	$363,094	$363,094

The following table presents the fair value measurements of our investments, by major class according to the fair value hierarchy, as of September 30, 2011 (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Senior Secured First Lien Term Loans	$ —	$ —	$107,255	$107,255
Senior Secured Second Lien Term Loans	—	—	79,415	79,415
Senior Secured Notes	—	—	11,832	11,832
Equities/Warrants	—	—	705	705
Total	$ —	$ —	$199,207	$199,207

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the nine months ended June 30, 2012 (dollars in thousands):

	Senior Secured First Lien Loans	Senior Secured Second Lien Loans	Senior Secured Notes	Equities / Warrants	Total
Balance as of September 30, 2011	$ 107,255	$ 79,415	$11,832	$ 705	$199,207
Purchases and other adjustments to cost	18,184	13,737	23,193	—	55,114
Issuance	52,420	82,970	—	1,361	136,751
Sales	—	—	—	—	—
Settlements	(7,352)	(15,915)	(3,370)	—	(26,637)
Net realized gains (losses) from investments	(11)	(7)	111	—	93
Net change in unrealized gains (losses)	(291)	(936)	(48)	(159)	(1,434)
Balance as of June 30, 2012	$ 170,205	$ 159,264	$31,718	$ 1,907	$363,094

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the nine months ended June 30, 2011 (dollars in thousands):

	Senior Secured First Lien Loans	Senior Secured Second Lien Loans	Senior Secured Notes	Warrants	Total
Balance as of September 30, 2010	$ —	$ —	$—	$ —	$—
Purchases and other adjustments to cost	97,373	40,162	8,760	25	146,320
Sales and redemptions	—	—	(2,055)	—	(2,055)
Net realized gains (losses) from investments	—	—	55	—	55
Net change in unrealized gains (losses)	—	—	344	—	344
Balance as of June 30, 2011	$ 97,373	$ 40,162	$ 7,104	$ 25	$ 144,664

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Notes to Consolidated Financial Statements (Continued)

Net change in unrealized loss included in earnings related to investments still held at reporting date, June 30, 2012 and 2011, was approximately $1.7 million and $0.1 million, respectively.

Purchases and other adjustments to cost include purchases of new investments at cost, effects of refinancing/restructuring, accretion/amortization of income from discount/premium on debt securities, and PIK.

Sales represents net proceeds received from investments sold.

Settlements represents principal paydowns received, during the year.

No significant transfers between levels have occurred during the period.

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

The following table presents the quantitative information about level 3 fair value measurements of our investments, as of June 30, 2012 (dollars in thousands):

	Fair value	Valuation techniques	Unobservable input	Range (weighted average)
Senior secured first lien term loan	$ 170,205	Market approach	Market yield	7.7% - 21.2% (14.2%)
Senior secured second lien term loan	$ 159,264	Market approach	Market yield	11.3% - 16.3% (13.7%)

Senior secured notes	$31,718	Market approach	Market yield	9.5% - 14.8% (12.2%)
Equity/Warrants	$1,907	Enterprise valuation analysis	EBITDA multiple (1)	0.2x – 5.6x (3.3x)
Total	$363,094			

(1) Represents amounts used when the Company has determined that market participants would use such multiples when measuring the fair value of these investments.

The significant unobservable inputs used in the fair value measurement of the Company's debt investments are market yields. Significant increases in market yields would result in significantly lower fair value measurements.

The significant unobservable inputs used in the fair value measurement of the Company's equity/warrants investments are comparable company EBITDA multiples. Significant increases in EBITDA multiples in isolation would result in significantly higher fair value measurements.

Note 5. Borrowings

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, equals at least 200% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

On August 4, 2011, the Company closed a four-year senior secured revolving credit facility (the "Facility") led by ING Capital LLC with initial commitments of $60 million and a feature that provides for expansion of the Facility up to $125 million, subject to customary conditions. On January 31, 2012, February 10, 2012, March 30, 2012 and May 3, 2012 the Company closed $25 million, $15 million, $15 million and $10 million respectively, of additional commitments to the Facility. Total commitments to the Facility are now $125 million. The Facility will bear interest at the Company's option of the Alternate Base Rate + 2.75% per annum or a rate of LIBOR + 3.75% per annum, with a 1% LIBOR floor. The Alternate Base Rate means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the federal funds effective rate for such day plus 0.5%, (c) LIBOR for a period of three months plus 1%, and (d) the ABR Floor of 2%. In addition to the stated interest expense Facility, the Company is required to pay a commitment fee of between 0.50% and 1.00% depending on the usage level on any unused portion of the Facility. A significant percentage of our total assets have been pledged under the Facility to secure our obligations thereunder. The Facility contains commercially reasonable limitations as to how borrowed funds may be used, such as restrictions on industry concentrations, asset size, weighted average life, currency denomination and collateral interests. The Facility also includes certain commercially reasonable requirements relating to portfolio performance, the violation of which could result in the limit of further advances and, in some cases, result in an event of default, allowing the lenders to accelerate repayment of amounts owed thereunder.

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Notes to Consolidated Financial Statements (Continued)

On March 21, 2012, the Company issued $40.0 million in aggregate principal amount of 7.125% senior notes that mature on March 30, 2019 (the "Notes"). The Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after March 30, 2015. The Notes bear interest at a rate of 7.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2012. The Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol "MCQ".

At June 30, 2012 , the carrying amount of our credit facility borrowings approximates the fair value. At June 30, 2012, the carrying amount and fair value of our notes payable was $40.0 million and $40.1 million, respectively. The fair values of our debt obligations are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of our credit facility borrowings are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. The fair value of our notes, which are publicly traded, is based upon closing market quotes as of the measurement date.

As of June 30, 2012, $2.0 million of financing costs related to the Facility and $1.5 million of financing costs related to the Notes have been capitalized and are being amortized over their respective terms. For the nine months ended June 30, 2012, we recorded $2.9 million of interest and financing expenses, of which $1.3 million was attributable to interest related to the Facility, $0.4 million to commitment fees related to the Facility, $0.8 million to interest related to the Notes and $0.4 million of amortization of deferred financing costs. As of June 30, 2012, there was $108.7 million outstanding under the Facility and $40.0 million in aggregate principal amount of the Notes were outstanding. For the nine months ended June 30, 2012, we had a weighted average stated interest rate of 4.9% and weighted average outstanding debt balance of $35.5 million related to the Facility.

Note 6. Agreements

Investment Management Agreement

On January 19, 2011, the Company entered into an investment management agreement (the “Management Agreement”) with MCC Advisors, a registered investment advisor under the Investment Advisers Act of 1940, as amended. Pursuant to the Management Agreement, MCC Advisors implements our business strategy on a day-to-day basis and performs certain services for us, subject to oversight by our board of directors. MCC Advisors is responsible for, among other duties, determining investment criteria, sourcing, analyzing and executing investments transactions, asset sales, financings and performing asset management duties. Under the Management Agreement, we have agreed to pay MCC Advisors a management fee for investment advisory and management services consisting of a base management fee and an incentive fee.

The base management fee will be calculated at an annual rate of 1.75% of our gross assets payable quarterly in arrears. For purposes of calculating the base management fee, the term “gross assets” includes any assets acquired with the proceeds of leverage. For the first quarter of our operations, the base management fee was calculated based on the initial value of our gross assets. Subsequently, the base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. MCC Advisors agreed to waive the base management fee payable, in the amount of $41,126, with respect to cash and cash equivalents held by the Company through December 31, 2011.

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Notes to Consolidated Financial Statements (Continued)

The incentive fee consists of the following two parts:

The first, payable quarterly in arrears is based on our pre-incentive fee net investment income for the immediately preceding calendar quarter and will be 20.0% of the amount, if any, by which our pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a “catch-up” provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.0%, but then receives, as a “catch-up”, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if the hurdle rate did not apply. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter including the base management fee, expenses payable under the administration agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee. Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses, unrealized capital appreciation, unrealized capital depreciation or excise tax expense. Since the hurdle rate is fixed, as interest rates rise, it will be easier for the MCC Advisors to surpass the hurdle rate and receive an incentive fee based on net investment income.

The second component of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Management Agreement, as of the termination date) and equals 20.0% of our cumulative aggregate realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments are previously made to the investment adviser.

The Company calculates incentive fee as if the Company had realized all assets at their fair values and liabilities at their settlement amounts as of the reporting date. Accordingly, the Company accrues a provisional incentive fee taking into account any unrealized gains. As the provisional incentive fee is subject to the performance of investments until there is a realization event, the amount or provisional incentive fee accrued at a reporting date may vary from the incentive fee that is ultimately paid and the differences could be material.

For the three and nine month periods ended June 30, 2012, the Company incurred net base management fees payable to MCC Advisors of $1.5 million and $3.7 million, respectively. For the three and nine month periods ended June 30, 2012, we incurred $1.6 million and $4.1 million in incentive fees related to pre-incentive fee net investment income, respectively. For the three and nine months ended June 30, 2011, the Company incurred net base management fees payable to MCC Advisors of $0.6 million and $0.8 million, respectively. For the three and nine months ended June 30, 2011, the Company incurred $79,785 and $79,785 of incentive fees, respectively, of which $11,000 and $11,000 was attributable to cumulative aggregate realized capital gains and $68,785 and $68,785 was attributable to provisional incentive fees taking into account unrealized gains or losses, respectively.

Administration Agreement

On January 19, 2011, the Company entered into an administration agreement with MCC Advisors. Pursuant to this agreement, MCC Advisors furnishes us with office facilities and equipment, clerical, bookkeeping, recordkeeping and other administrative services related to the operations of the Company. We reimburse MCC Advisors for our allocable portion of overhead and other expenses incurred by our administrator in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of certain of our officers and their respective staff. From time to time, our administrator may pay amounts owed by us to third-party service providers and we will subsequently reimburse our administrator for such amounts paid on our behalf. For the three and nine months ended June 30, 2012, we recognized $0.4 million and $1.1 million in administrator expenses, respectively. For the three and nine months ended June 30, 2011, we recognized $0.3 million and $0.5 million in administrator expenses, respectively.

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Notes to Consolidated Financial Statements (Continued)

Note 7. Related Party Transactions

Loan Participations

As discussed in Note 1, the Loan Assets contributed to the Company by MOF LP and MOF LTD upon consummation of the Company's IPO were in the form of loan participations with an affiliated entity managed by affiliates of MCC Advisors. On June 30, 2011, the Company cancelled its participation agreements with an affiliate and executed loan assignment agreements for its investments in Allied Cash Holdings LLC, Applied Natural Gas Fuels, Inc., Bennu Glass, Inc., Velum Global Credit Management LLC and Water Capital USA, Inc. The Company is now a direct lender of record to these borrowers.

The Company holds its investment in Geneva Wood Fuels LLC through a participation agreement with an affiliated entity, which represents 1.9% of the Company's investments as of June 30, 2012. By virtue of owning loans through a participation agreement, the Company has a contractual relationship with the affiliate, not the borrower. As a result, the Company is subject to the credit risk of the affiliate as well as that of the borrower. As of June 30, 2012, the principal amount related to this loan participation was $7.5 million and for the three and nine months ended June 30, 2012 total investment income related to this loan participation was $0.3 million and $0.9 million, respectively.

Due to Affiliate

Due to affiliate consists of certain general and administrative expenses paid by an affiliate on behalf of the company.

Other Related Party Transactions

Certain affiliates of MCC Advisors, Medley Capital LLC, their respective affiliates and some of their employees purchased in the IPO an aggregate of 833,333 shares of common stock at the initial public offering price per share of $12.00. The Company received the full proceeds from the sale of these shares, and no underwriting discounts or commissions were paid in respect of these shares.

On February 23, 2012, MOF LTD and MOF LP sold 4,406,301 shares of common stock at a price of $11.13 per share. The Company did not receive any of the proceeds of the sale of these shares. In April and May 2012, MOF LTD and MOF LP distributed the remaining 946,293 shares of common stock to their investors and as of June 30, 2012, MOF LTD and MOF LP collectively no longer own shares of our common stock.

Employees of Medley Capital LLC, an affiliate of the Company, serve as a board member, managing member or senior corporate officer of Bennu Glass, Inc., Velum Global Credit Management LLC and Applied Natural Gas Fuels, Inc.

Note 8. Commitments and Contingencies

As of June 30, 2012, we had commitments under loan and financing agreements to fund up to $12.3 million to three portfolio companies. These commitments are primarily composed of senior secured term loans and preferred equity. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with covenants and certain operational metrics. The terms of the borrowings and financings subject to commitment are comparable to the terms of other loan and equity securities in our portfolio.

Note 9. Directors Fees

The independent directors receive an annual fee of $35,000. They also receive $7,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of $25,000 and the chairman of each other committee receives an annual fee of $10,000 for their additional services in these capacities. In addition, other members of the audit committee receive an annual fee of $12,500 and other members of each other committee receive an annual fee of $6,000. No compensation is paid to directors who are “interested persons” of the Company (as such term is defined in the 1940 Act). For the three and nine months ended June 30, 2012, we accrued $0.1 million and $0.4 million for directors’ fees expense, respectively. For the three and nine months ended June 30, 2011, we accrued $0.1 million and $0.3 million for directors’ fees expense, respectively.

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Notes to Consolidated Financial Statements (Continued)

Note 10. Earnings Per Share

In accordance with the provisions of ASC Topic 260 – Earnings per Share (“ASC 260”), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and nine months ended June 30, 2012 (dollars in thousands except share and per share amounts):

Basic and diluted	**Three months ended June 30, 2012**	**Nine months ended June 30, 2012**
Net increase in net assets from operations	$ 4,840	$ 15,067
Weighted average common shares outstanding	17,320,468	17,320,468
Earnings per common share-basic and diluted	$ 0.28	$ 0.87

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and nine months ended June 30, 2011(dollars in thousands except share and per share amounts):

Basic and diluted	**Three months ended June 30, 2011**	**Nine months ended June 30, 2011**
Net increase in net assets from operations	$ 3,954	$ 5,600
Weighted average common shares outstanding	17,320,468	17,222,642
Earnings per common share-basic and diluted	$ 0.23	$ 0.33

Note 11. Financial Highlights

The following is a schedule of financial highlights for the nine months ended June 30, 2012 and June 30, 2011:

	For the nine months ended	
	June 30, 2012	June 30, 2011
Per share data:		
Net asset value per share at beginning of period	$12.57	$(0.01)
Issuance of common stock, net of underwriting costs	-	12.47
Offering cost	-	(0.08)
Net investment income (1)	0.95	0.30
Net realized gains on investments	0.00	0.01
Net unrealized appreciation/(depreciation) on investments	(0.08)	0.02
Net increase in net assets	0.87	12.72
Distributions declared from net investment income	(0.84)	(0.16)
Distributions declared from net realized capital gains	-	-
Total distributions to stockholders	(0.84)	(0.16)
Net asset value at end of period	$12.60	$12.55
Net assets at end of period	$218,170,532	$217,366,097
Shares outstanding at end of period	17,320,468	17,320,468
Per share market value at end of period	$12.04	$11.74
Total return based on market value (2)	28.73%	(0.83)%
Total return based on net asset value (3)	8.03%	3.90%
Ratio/Supplemental data:		
Ratio of net investment income net of management fee waiver to average net assets (4) (7)	10.05%	5.50%
Ratio of operating expenses net of management fee waiver to average net assets (4) (7)	4.29%	2.53%
Ratio of incentive fees to average net assets (4) (7)	2.52%	0.08%
Ratio of credit facility related expenses to average net assets (4) (7)	1.77%	0.00%
Ratio of total expenses net of management fee waiver to average net assets (4) (7)	8.60%	2.62%
Average debt outstanding (5)	$50,345,620	$-
Average debt outstanding per common share	$2.91	$-
Asset coverage ratio per unit (6)	2,467	n/a
Average market value per unit		
Credit facility	n/a (8)	n/a (8)
Senior notes	$24.96	n/a

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Notes to Consolidated Financial Statements (Continued)

(1) Net investment income excluding management fee waiver based on total common stock outstanding equals $0.94 and $0.25 per share for the nine months ended June 30, 2012 and June 30, 2011, respectively.

(2) Total annual return is historical and assumes changes in share price, reinvestments of all dividends and distributions at prices obtained under the Company's dividend reinvestment plan, and no sales change for the period.

(3) Total annual return is historical and assumes changes in net assets value, reinvestments of all dividends and distributions at prices obtained under the Company's dividend reinvestment plan, and no sales change for the period.

(4) For the nine months ended June 30, 2012, excluding the management fee waiver, the ratio of net investment income, operating expenses, incentive fees, credit facility related expenses and total expenses to average net assets is 10.03%, 4.32%, 2.52%, 1.77% and 8.63%, respectively. For the nine months ended June 30, 2011, excluding the management fee waiver, the ratio of net investment income, operating expenses, incentive fees and total expenses to average net assets is 4.60%, 3.43%, 0.08% and 3.52%, respectively.

(5) Based on daily weighted average balance of debt outstanding during the period.

(6) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.

(7) Ratios are annualized.

(8) The credit facility is not registered for public trading.

Note 12. Dividends

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by our board of directors.

We have adopted an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend or other distribution, each stockholder that has not "opted out" of our dividend reinvestment plan will have its dividends automatically reinvested in additional shares of our common stock rather than receiving cash dividends. Stockholders who receive distributions in the form of shares of common stock will be subject to the same federal, state and local tax consequences as if they received cash distributions.

The following table summarizes the Company's dividend declaration and distribution during the nine months ended June 30, 2012 and 2011:

Date Declared	Record Date	Payment Date	Amount Per Share
Nine months ended June 30, 2012			
11/29/2011	12/15/2011	12/30/2011	$ 0.25
2/2/2012	2/24/2012	3/15/2012	0.28
5/2/2012	5/25/2012	6/15/2012	0.31
			$ 0.84

Date Declared	Record Date	Payment Date	Amount Per Share
Nine months ended June 30, 2011			
5/11/2011	6/1/2011	6/15/2011	$ 0.16
			$ 0.16

MEDLEY CAPITAL CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 13. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements as of and for the nine months ended June 30, 2012, except as disclosed below.

In August 2012, the Company closed on a $10.9 million investment in senior secured second lien term loan to Brantley Transportation, LLC. Headquartered in Monahans, Texas, Brantley Transportation, LLC is a leading provider of mission-critical transportation services to energy producers and drilling companies in the upstream and midstream energy markets. The loan has a variable coupon of LIBOR + 10.0% cash with a 1.5% LIBOR floor and 2.5% PIK, with principal due at maturity in August 2017.

On August 1, 2012, the Company's board of directors declared a quarterly dividend of $0.36 per share payable on September 14, 2012, to stockholders of record at the close of business on August 24, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this quarterly report on Form 10-Q.

Except as otherwise specified, references to "we," "us," "our," or the "Company," refer to Medley Capital Corporation.

Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

· the introduction, withdrawal, success and timing of business initiatives and strategies;

· changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes in the value of our assets;

· the relative and absolute investment performance and operations of our investment adviser;

· the impact of increased competition;

· the impact of future acquisitions and divestitures;

· our business prospects and the prospects of our portfolio companies;

· limitations on entering into transactions with our affiliates in the absence of regulatory relief;

· the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or MCC Advisors LLC ("MCC Advisors");

- our contractual arrangements and relationships with third parties;
- any future financings by us;
- the ability of MCC Advisors to attract and retain highly talented professionals;
- fluctuations in foreign currency exchange rates;
- the impact of changes to tax legislation and, generally, our tax position; and
- the unfavorable resolution of legal proceedings.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “ “assume,” “potential,” “outlook,” “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve,” and similar expressions, or fu conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. The forward looking statements contained in this quarterly report involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth as “Risk Factors” and elsewhere in this quarterly report on Form 10-Q.

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We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

Formation Transaction

Prior to the pricing of our initial public offering, Medley Opportunity Fund LP ("MOF LP") and Medley Opportunity Fund, Ltd. ("MOF LTD") transferred all of their respective interests in six loan participations in secured loans to middle market companies with a combined fair value, plus payment-in-kind interest and accrued interest thereon, of approximately $84.95 million (the "Loan Assets") to MOF I BDC LLC ("MOF I BDC") in exchange for membership interests in MOF I BDC. As a result, MOF LTD owned approximately 90% of the outstanding MOF I BDC membership interests and MOF LP owned approximately 10% of the outstanding MOF I BDC membership interests. On January 18, 2011, each of MOF LTD and MOF LP contributed their respective MOF I BDC membership interests to Medley Capital BDC LLC in exchange for Medley Capital BDC LLC membership interests. As a result, MOF I BDC became a wholly-owned subsidiary of Medley Capital BDC LLC.

On January 18, 2011, Medley Capital BDC LLC, a Delaware limited liability company converted into Medley Capital Corporation, a Delaware corporation. As a result, MOF LTD and MOF LP's LLC membership interests were exchanged for 5,759,356 shares of the Company's common stock at $14.75 per share. On January 20, 2011, Medley Capital Corporation filed an election to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended ("1940 Act").

On January 20, 2011, we priced our initial public offering and sold 11,111,112 shares of our common stock at $12.00 per share. On February 24, 2011, an additional 450,000 shares of our common stock were issued at a price of $12.00 per share pursuant to the partial exercise of the underwriters' over-allotment option. Net of underwriting fees and estimated offering costs, we raised a total of approximately $129.6 million. Our shares began trading on January 20, 2011 on the New York Stock Exchange under the symbol "MCC."

Overview

We are an externally-managed, non-diversified closed-end management investment company that filed an election to be regulated as a BDC under the 1940 Act. In addition, we have elected and qualified to be treated for U.S. federal income tax purposes, as a regulated investment company (“RIC”), under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

We commenced operations and completed our initial public offering on January 20, 2011. Our investment activities are managed by MCC Advisors and supervised by our board of directors, of which a majority of the members are independent of us.

Our investment objective is to generate current income and capital appreciation by lending directly to privately-held small and middle market companies to help these companies fund acquisitions, growth or refinancing. Our portfolio will generally consist of senior secured first lien term loans and senior secured second lien term loans. In many of our investments, we will receive warrants or other equity participation features which we believe will increase the total investment returns.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in “qualifying assets,” including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing, with certain limited exceptions. To obtain and maintain our RIC status, we must meet specified source-of-income and asset diversification requirements. To be eligible for tax treatment under subchapter M for U.S. federal income tax purposes, we must distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, for the taxable year.

Revenues

We generate revenue in the form of interest income on the debt that we hold and capital gains, if any, on warrants or other equity interests that we may acquire in portfolio companies. We invest our assets primarily in privately held companies with enterprise or asset values between $25 million and $250 million and focus on investment sizes of $10 million to $50 million. We believe that pursuing opportunities of this size offers several benefits including reduced competition, a larger investment opportunity set and the ability to minimize the impact of financial intermediaries. We expect our debt investments to bear interest at either a fixed or floating rate. Interest on debt will be payable generally either monthly or quarterly. In some cases our debt investments may provide for a portion of the interest to be paid-in-kind (“PIK”). To the extent interest is PIK, it will be payable through the increase of the principal amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation. The principal amount of the debt and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance or investment management services and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned.

Expenses

Our primary operating expenses include the payment of investment management fees and overhead expenses, including our allocable portion of our administrator’s overhead under the administration agreement. Our investment management fees compensate our investment adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions, including those relating to:

- our organization;
- calculating our NAV (including the cost and expenses of any independent valuation firms);
- expenses incurred by our investment adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of all future offerings of common stock and other securities, if any;

- the base management fee and any incentive fee;
- distributions on our shares;
- administration fees payable under our administration agreement;
- the allocated costs incurred by our administrator in providing managerial assistance to those portfolio companies that request it;
- amounts payable to third parties relating to, or associated with, making investments;
- transfer agent and custodial fees;
- registration fees and listing fees;
- U.S. federal, state and local taxes;
- independent director fees and expenses;
- costs of preparing and filing reports or other documents with the SEC;

- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- our fidelity bond;
- directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- indemnification payments;
- direct costs and expenses of administration, including audit and legal costs; and
- all other expenses reasonably incurred by us or our administrator in connection with administering our business, such as the allocable portion of overhead under our administration agreement, including rent and other allocable portions of the cost of certain of our officers and their respective staffs (including travel expenses).

Portfolio and Investment Activity

As of June 30, 2012, our portfolio consisted of investments in 34 portfolio companies with a fair value of approximately $363.1 million. During the three months ended June 30, 2012, we invested $63.2 million in five new portfolio companies and $4.3 million in three existing portfolio companies, and we had $10.3 million in aggregate amount of exits and repayments, resulting in net investments of $57.2 million for the period. During the three months ended June 30, 2011, we invested $40.4 million in five new portfolio companies and had $2.0 million in aggregate amount of exits and repayments, resulting in net investments of $38.4 million for the period.

During the nine months ended June 30, 2012, we invested $177.0 million in seventeen new portfolio companies and $12.3 million in five existing portfolio companies, and we had $26.6 million in aggregate amount of exits and repayments, resulting in net investments of $162.7 million for the period. During the nine months ended June 30, 2011, approximately $84.95 million was contributed to us as part of the formation transaction described above. Additionally, during the nine months ended June 30, 2011, we invested $55.4 million in six new portfolio companies and $5.0 million in one existing portfolio company, and we had $2.0 million in aggregate amount of exits and repayments, resulting in net investments of $58.4 million for the period.

As of June 30, 2012, our average portfolio company investment and our largest portfolio company investment at amortized cost and fair value was approximately $10.7 million and $10.7 million, and $23.4 million and $23.4 million, respectively, and the Company had approximately $3.1 million of cash and cash equivalents.

The following table summarizes the amortized cost and the fair value of investments and cash and cash equivalents as of June 30, 2012 (dollars in thousands):

	Amortized Cost	Percentage of Total	Fair Value	Percentage of Total
Senior Secured First Lien Term Loans	$ 170,998	46.5 %	$ 170,205	46.5 %
Senior Secured Second Lien Term Loans	160,687	43.7	159,264	43.5
Senior Secured Notes	31,602	8.6	31,718	8.7
Equities/Warrants	1,391	0.4	1,907	0.5
Cash and Cash Equivalents	3,120	0.8	3,120	0.8
Total	$ 367,798	100.0 %	$ 366,214	100.0 %

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The following table summarizes the amortized cost and the fair value of investments and cash and cash equivalents as of September 30, 2011 (dollars in thousands):

	Amortized Cost	Percentage of Total	Fair Value	Percentage of Total
Senior Secured First Lien Term Loans	$ 107,757	49.8 %	$ 107,255	49.6 %
Senior Secured Second Lien Term Loans	79,901	36.9	79,414	36.7
Senior Secured Notes	11,668	5.4	11,832	5.5
Equities/Warrants	30	0.0	705	0.3
Cash and Cash Equivalents	17,202	7.9	17,202	7.9
Total	$ 216,558	100.0 %	$ 216,408	100.0 %

As of June 30, 2012, the weighted average loan to value ratio ("LTV") of our portfolio investments was approximately 47.5%. We believe that the LTV ratio for a portfolio investment is a useful indicator of the riskiness of the portfolio investment, or its likelihood of default. As part of our investment strategy we seek to structure transactions with downside protection and seek LTVs of lower than 65%. We regularly evaluate the LTV of our portfolio investments and believe that LTV is a useful indicator for management and investors.

As of June 30, 2012, our income-bearing investment portfolio, which represented nearly 99.5% of our total portfolio, had a weighted average yield based upon cost on our portfolio investments of approximately 14.3%, and 41.9% of our income-bearing investment portfolio bore interest based on floating rates, such as LIBOR, and 58.1% bore interest at fixed rates.

MCC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on the following categories, which we refer to as MCC Advisors' investment credit rating:

Credit Rating	**Definition**
1	Investments that are performing above expectations.
2	Investments that are performing within expectations, with risks that are neutral or favorable compared to risks at the time of origination. All new loans are rated '2'.
3	Investments that are performing below expectations and that require closer monitoring, but where no loss of interest, dividend or principal is expected.

Companies rated '3' may be out of compliance with financial covenants, however, loan payments are generally not past due.

4 Investments that are performing below expectations and for which risk has increased materially since origination.

Some loss of interest or dividend is expected but no loss of principal.

In addition to the borrower being generally out of compliance with debt covenants, loan payments may be past due (but generally not more than 180 days past due).

5 Investments that are performing substantially below expectations and whose risks have increased substantially since origination.

Most or all of the debt covenants are out of compliance and payments are substantially delinquent.

Some loss of principal is expected.

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The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of June 30, 2012 (dollars in thousands):

Investment Performance Rating	Investments at Fair Value	Percentage	
1	$ 23,895	6.6	%
2	321,095	88.4	
3	18,104	5.0	
4	—	—	
5	—	—	
Total	$ 363,094	100.0	%

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of September 30, 2011 (dollars in thousands):

Investment Performance Rating	Investments at Fair Value	Percentage	
1	$ —	—	%
2	199,207	100.0	
3	—	—	
4	—	—	
5	—	—	
Total	$ 199,207	100.0	%

Results of Operations

Operating results for the three and nine months ended June 30, 2012 and 2011 are as follows:

	For the three months ended	
	June 30, 2012	June 30, 2011
	($ in thousands)	
Total investment income	$ 12,252	$ 4,899
Total expenses, net	6,044	1,344
Net investment income before excise taxes	6,208	3,555
Excise tax expense	—	—
Net investment income	6,208	3,555

Net realized gains (losses)	(15)	55
Net unrealized gains (losses)	(1,353)	344
Net increase in net assets resulting from operations	$ 4,840	$ 3,954

	For the nine months ended	
	June 30, 2012	June 30, 2011
	($ in thousands)	
Total investment income	$ 30,455	$ 7,678
Total expenses, net	14,011	2,477
Net investment income before excise taxes	16,444	5,201
Excise tax expense	36	—
Net investment income	16,408	5,201
Net realized gains (losses)	93	55
Net unrealized gains (losses)	(1,434)	344
Net increase in net assets resulting from operations	$ 15,067	$ 5,600

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Investment Income

For the three and nine months ended June 30, 2012, investment income totaled $12.3 million and $30.5 million, respectively, of which $10.4 million and $26.0 million was attributable to portfolio interest and $1.9 million and $4.5 million to other fee income, respectively.

For the three and nine months ended June 30, 2011, investment income totaled $4.9 million and $7.7 million, respectively, of which $4.2 million and $6.8 million was attributable to portfolio interest, $0.1 million and $0.1 million to interest earned on cash and cash equivalents and $0.6 million and $0.8 million to other fee income, respectively.

Operating Expenses

Operating expenses for the three and nine months ended June 30, 2012 and 2011 are as follows:

	For the three months ended	
	June 30, 2012	June 30, 2011
	($ in thousands)	
Base management fees	$ 1,498	$ 975
Incentive fees	1,552	80
Administrator expenses	396	329
Professional fees	470	132
Interest and financing expenses	1,781	—
Directors fees	131	125
Insurance	121	103
Organizational expense	—	—
General and administrative	95	24
Expenses before management fee waiver	$ 6,044	$ 1,768

	For the nine months ended	
	June 30, 2012	June 30, 2011
	($ in thousands)	
Base management fees	$ 3,782	$ 1,689
Incentive fees	4,111	80
Administrator expenses	1,074	520
Professional fees	1,102	366
Interest and financing expenses	2,891	—

Directors fees	378	322
Insurance	343	183
Organizational expense	—	92
General and administrative	372	74
Expenses before management fee waiver	$ 14,053	$ 3,326

For the three months ended June 30, 2012, total operating expenses before manager expense waiver and reimbursement increased $4.3 million, or 241.9%, compared to the three months ended June 30, 2011. For the nine months ended June 30, 2012, total operating expenses before manager expense waiver and reimbursement increased $10.7 million, or 322.6%, compared to the nine months ended June 30, 2011.

Interest and financing expenses were higher in the three and nine months ended June 30, 2012 than the three and nine months ended June 30, 2011 as a result of the Company closing a four-year senior secured revolving credit facility and issuing $40.0 million in aggregate principal amount of 7.125% senior notes that mature on March 30, 2019.

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Excluding interest and financing expenses, expenses increased for both the three and nine month period ended June 30, 2012 due to an increase in professional fees, base management fees, incentive fees, administrative service fees, and general administrative expenses as a result of us becoming a public company. Professional fees increased due to higher legal, audit, and valuation services.

Net Realized Gains/Losses from Investments

We measure realized gains or losses by the difference between the net proceeds from the disposition and the amortized cost basis of an investment, without regard to unrealized gains or losses previously recognized.

During the three and nine months ended June 30, 2012, we recognized $15,016 of realized losses and $0.1 million of realized gains, respectively, on our portfolio investments. During the three and nine months ended June 30, 2011, we recognized $55,000 and $55,000 of realized gains on our portfolio investments, respectively.

Net Unrealized Appreciation/Depreciation on Investments

Net change in unrealized appreciation on investments reflects the net change in the fair value of the Company’s investment portfolio. For the three and nine months ended June 30, 2012, we had $1.4 million and $1.4 million of unrealized depreciation, respectively, on portfolio investments. For the three and nine months ended June 30, 2011, we had $0.3 million and $0.3 million of unrealized appreciation on portfolio investments, respectively.

Changes in Net Assets from Operations

For the three months ended June 30, 2012, we recorded a net increase in net assets resulting from operations of $4.8 million versus a net increase in net assets resulting from operations of $4.0 million for the three months ended June 30, 2011. The difference is attributable to an increase in total investment income offset by an increase in total operating expenses, resulting from portfolio growth and an increase in net unrealized depreciation for the three months ended June 30, 2012, as compared to the same period in the prior year. Based on 17,320,468 and 17,320,468 weighted average common shares outstanding for the three months ended June 30, 2012 and June 30, 2011, respectively, our per share net increase in net assets resulting from operations was $0.28 for the three months ended June 30, 2012 versus a per share net increase in net assets from operations of $0.23 for the three months ended June 30, 2011.

For the nine months ended June 30, 2012, we recorded a net increase in net assets resulting from operations of $15.1 million versus a net increase in net assets resulting from operations of $5.6 million for the nine months ended June 30, 2011 The difference is attributable to an increase in total investment income offset by an increase in total operating expenses, resulting from portfolio growth and an increase in net unrealized depreciation for the nine months ended June 30, 2012, as compared to the same period in the prior year. Based on 17,320,468 and 17,222,642 weighted average common shares outstanding for the nine months ended June 30, 2012 and June 30, 2011, respectively, our per share net increase in net assets resulting from operations was $0.87 for the nine months ended June 30, 2012 versus a per share net increase in net assets from operations of $0.33 for the nine months ended June 30, 2011.

Financial Condition, Liquidity and Capital Resources

As a BDC, we distribute substantially all of our net income to our stockholders and will have an ongoing need to raise additional capital for investment purposes. To fund growth, we have a number of alternatives available to increase capital, including raising equity, increasing debt, and funding from operational cash flow.

The Company’s liquidity and capital resources have been generated primarily from the net proceeds of its IPO, as well as cash flows from operations. On January 20, 2011, we completed our IPO and issued 11,111,112 common shares and received net proceeds of $129.6 million.

On August 4, 2011, the Company closed a four-year senior secured revolving credit facility (the “Facility”) led by ING Capital LLC with initial commitments of $60 million and an accordion feature that provides for expansion of the Facility up to $125 million, subject to customary conditions. On January 31, 2012, February 10, 2012, March 30, 2012 and May 3, 2012 the Company closed $25 million, $15 million, $15 million and $10 million respectively, of additional commitments to the Facility. Total commitments to the Facility are now $125 million. As of June 30, 2012, there was $108.7 million outstanding under the Facility.

On March 21, 2012 the Company issued $40.0 million in aggregate principal amount of 7.125% senior notes that mature on March 30, 2019 (the “Notes”). The Notes may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after March 30, 2015. The Notes will bear interest at a rate of 7.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2012. The Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol “MCQ”. As of June 30, 2012, $40.0 million in aggregate principal amount of the Notes were outstanding.

As of June 30, 2012, we had $3.1 million in cash and cash equivalents. We generated cash from the net proceeds of our initial public offering and the exercise of the underwriters’ over-allotment option and the net proceeds of our offering of the Notes. In the future, we may generate cash from future offerings of securities, future borrowings and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. Our primary use of funds will be investments in our targeted asset classes, cash distributions to our stockholders, and other general corporate purposes.

We have applied to the Small Business Administration (“SBA”) for a license for Medley SBIC LP to operate as a Small Business Investment Company (“SBIC”) under Section 301(c) of the Small Business Investment Act of 1958. On March 26, 2012, the application was accepted for filing. The application is expected to be approved within the next six months from the date of acceptance, although there can be no assurance that the SBA will approve the application. SBICs are designated to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses.

The SBIC license would allow our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to our SBIC subsidiary’s assets over our stockholders in the event we liquidate our SBIC subsidiary or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiary upon an event of default.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

On March 27, 2012, we applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. If we receive an exemption for this SBA debt, we would have increased flexibility under the 200% asset coverage test.

Contractual Obligations and Off-Balance Sheet Arrangements

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized on our balance sheet. As of June 30, 2012, we had commitments under loan and financing agreements to fund up to $12.3 million to three portfolio companies. These commitments are primarily composed of senior secured term loans and preferred equity. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with covenants and certain operational metrics. The terms of the borrowings and financings subject to commitment are comparable to the terms of other loan and equity securities in our portfolio.

We have certain contracts under which we have material future commitments. We have entered into an investment management agreement with MCC Advisors in accordance with the 1940 Act. The investment management agreement became effective upon the pricing of our initial public offering. Under the investment management agreement, MCC Advisors has agreed to provide us with investment advisory and management services. For these services, we have agreed to pay a base management fee equal to a percentage of our gross assets and an incentive fee based on our performance.

We have also entered into an administration agreement with MCC Advisors as our administrator. The administration agreement became effective upon the pricing of our initial public offering. Under the administration agreement, MCC Advisors has agreed to furnish us with office facilities and equipment, provide us clerical, bookkeeping and record keeping services at such facilities and provide us with other administrative services necessary to conduct our day-to-day operations. MCC Advisors will also provide on our behalf significant managerial assistance to those portfolio companies to which we are required to provide such assistance.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our investment management agreement and our administration agreement. Any new investment management agreement would also be subject to approval by our stockholders.

Distributions

We intend to elect and to qualify to be taxed as a RIC for U.S. federal income tax purposes under subchapter M of the Code. As a RIC, in any taxable year with respect to which we distribute at least 90 percent of the sum of our (i) investment company taxable income (which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses) determined without regard to the deduction for dividends paid and (ii) net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions), we (but not our stockholders) generally will not be subject to U.S. federal income tax on investment company taxable income and net capital gains that we distribute to our stockholders. We intend to distribute annually all or substantially all of such income. To the extent that we retain our net capital gains or any investment company taxable income, we may be subject to U.S. federal income tax. We may choose to retain our net capital gains or any investment company taxable income, and pay the associated federal corporate income tax, including the federal excise tax described below.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% U.S. federal excise tax payable by us. To avoid this tax, we must distribute (or be deemed to have distributed) during each calendar year an amount equal to the sum of:

(1) at least 98.0 percent of our ordinary income (not taking into account any capital gains or losses) for the calendar year;

(2) at least 98.2 percent of the amount by which our capital gains exceed our capital losses (adjusted for certain ordinary losses) for a one-year period ending on October 31st of the calendar year; and

(3) income realized, but not distributed, in preceding years.

While we intend to distribute any income and capital gains in the manner necessary to minimize imposition of the 4% U.S. federal excise tax, sufficient amounts of our taxable income and capital gains may not be distributed to avoid entirely the imposition of the tax. In that event, we will be liable for the tax only on the amount by which we do not meet the foregoing distribution requirement.

We intend to pay quarterly dividends to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to pay a specified level of dividends or year-to-year increases in dividends. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC could limit our ability to pay dividends. All dividends will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will pay dividends to our stockholders in the future.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend or other distribution, each stockholder that has not "opted out" of our dividend reinvestment plan will have their dividends automatically reinvested in additional shares of our common stock rather than receiving cash dividends. Stockholders who receive distributions in the form of shares of common stock will be subject to the same federal, state and local tax consequences as if they received cash distributions.

On May 11, 2011, the Company's board of directors declared a quarterly dividend of $0.16 per share payable on June 15, 2011 to stockholders of record at the close of business on June 1, 2011.

On August 4, 2011, the Company's board of directors declared a quarterly dividend of $0.21 per share payable on September 15, 2011 to stockholders of record at the close of business on September 1, 2011.

On November 29, 2011, the Company's board of directors declared a quarterly dividend of $0.25 per share payable on December 30, 2011 to stockholders of record at the close of business on December 15, 2011.

On February 2, 2012, the Company's board of directors declared a quarterly dividend of $0.28 per share payable on March 15, 2012 to stockholders of record at the close of business on February 24, 2012.

On May 2, 2012, the Company's board of directors declared a quarterly dividend of $0.31 per share payable on June 15, 2012, to stockholders of record at the close of business on May 25, 2012.

Related Party Transactions

Concurrent with the pricing of our initial public offering, we entered into a number of business relationships with affiliated or related parties, including the following:

- We entered into an investment management agreement with MCC Advisors. Mr. Brook Taube, our chairman and chief executive officer, is a managing partner and senior portfolio manager of MCC Advisors, and Mr. Seth Taube and Mr. Andrew Fentress, two of our directors, are managing partners of MCC Advisors.

- MCC Advisors provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our administration agreement. We reimburse MCC Advisors for the allocable portion (subject to the review and approval of our board of directors) of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

- We have entered into a license agreement with Medley Capital LLC, pursuant to which Medley Capital LLC has granted us a non-exclusive, royalty-free license to use the name “Medley.”

- Certain affiliates of MCC Advisors, Medley Capital LLC, their respective affiliates and some of their employees purchased in the initial public offering an aggregate of 833,333 shares of common stock at the initial public offering price per share of $12.00. We received the full proceeds from the sale of these shares, and no underwriting discounts or commissions were paid in respect of these shares.

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MCC Advisors and its affiliates may in the future manage other accounts that have investment mandates that are similar, in whole and in part, with ours. MCC Advisors and its affiliates may determine that an investment is appropriate for us and for one or more of those other accounts. In such event, depending on the availability of such investment and other appropriate factors, and pursuant to MCC Advisors' allocation policy, MCC Advisors or its affiliates may determine that we should invest side-by-side with one or more other accounts. We will not make any investments if they are not permitted by applicable law and interpretive positions of the SEC and its staff, or if they are inconsistent with MCC Advisors' allocation procedures.

In addition, we have adopted a formal code of ethics that governs the conduct of our and MCC Advisors' officers, directors and employees. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Delaware General Corporation Law.

Management Fee

Pursuant to the investment management agreement, we pay our investment adviser a fee for investment management services consisting of two components — a base management fee and an incentive fee.

MCC Advisors receives a base management fee from the Company payable quarterly in arrears, at an annual rate of 1.75% of the Company's gross assets, including any assets acquired with the proceeds of leverage. MCC Advisors agreed to waive the base management fee payable with respect to cash and cash equivalents held by the Company through December 31, 2011.

The investment management agreement also provides that MCC Advisors will be entitled to an incentive fee of 20.0%. The incentive fee consists of two parts: (1) the first component, which is payable quarterly in arrears, will equal 20.0% of the excess, if any, of the pre-incentive fee net investment income over a hurdle rate (2.0% quarterly) and subject to a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.0%, but then receives, as a "catch-up", 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if the hurdle rate did not apply; and (2) the second component, which will be payable in arrears at the end of each calendar year (or upon termination of the investment management agreement, as of the termination date), commencing with the year ending December 31, 2011, will equal 20.0% of our cumulative aggregate realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the investment adviser.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

Valuation of Portfolio Investments

We value investments for which market quotations are readily available at their market quotations, which are generally obtained from an independent pricing service or multiple broker-dealers or market makers. We weight the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer. However, a readily available market value is not expected to exist for many of the investments in our portfolio, and we will value these portfolio investments at fair value as determined in good faith by our board of directors under our valuation policy and process. We may seek pricing information with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. We will also employ independent third party valuation firms for all of our investments for which there is not a readily available market value.

Valuation methods may include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will consider the pricing indicated by the external event to corroborate the private equity valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Our board of directors is ultimately and solely responsible for determining the fair value of the investments in our portfolio that are not publicly traded, whose market prices are not readily available on a quarterly basis or any other situation where portfolio investments require a fair value determination.

With respect to investments for which market quotations are not readily available, our board of directors will undertake a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each investment being initially valued by the investment professionals responsible for monitoring the portfolio investment.
- Preliminary valuation conclusions are then documented and discussed with senior management.
- At least twice annually, the valuation for each portfolio investment is reviewed by an independent valuation firm.
- The audit committee of our board of directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms.
- Our board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith based on the input of MCC Advisors, the respective independent valuation firms and the audit committee.

In following these approaches, the types of factors that are taken into account in fair value pricing investments include available current market data, including relevant and applicable market trading and transaction comparables; applicable market yields and multiples; security covenants; call protection provisions; information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flows; the markets in which the portfolio company does business; comparisons of financial ratios of peer companies that are public; comparable merger and acquisition transactions; and the principal market and enterprise values.

Determination of fair values involves subjective judgments and estimates not verifiable by auditing procedures. Under current auditing standards, the notes to our financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our consolidated financial statements.

Revenue Recognition

Our revenue recognition policies are as follows:

Investments and Related Investment Income .. We account for investment transactions on a trade-date basis and interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis. For investments with contractual PIK interest, which represents contractual interest accrued and added to the principal balance that generally becomes due at maturity, we will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Origination, closing and/or commitment fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Other fees are capitalized as deferred revenue and recorded into income over the respective period. Prepayment penalties received by the Company for debt instruments paid back to the Company prior to the maturity date are recorded as income upon receipt. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of investment, without regard to unrealized gains or losses previously recognized. We report changes in the fair value of investments that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on investments in our consolidated statement of operations.

Non-accrual. We place loans on non-accrual status when principal and interest payments are past due by 90 days or more, or when there is reasonable doubt that we will collect principal or interest. Accrued interest is generally reversed when a loan is placed on non-accrual. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in our management's judgment, are likely to remain current.

Federal Income Taxes

The Company intends to elect to be treated as a RIC under subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements. Once qualified as a RIC, the Company must timely distribute to its stockholders at least 90% of the sum of investment company taxable income ("ICTI") including PIK, as defined by the Code, and net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions) for each taxable year in order to be eligible for tax treatment under subchapter M of the Code. The Company will be subject to a nondeductible U.S. federal excise tax of 4% on undistributed income if it does not distribute at least 98% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31 of such calender year. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year distributions into the next tax year and pay a 4% excise tax on such excess. Any such carryover ICTI must be distributed before the end of that next tax year through a dividend declared prior to filing the final tax return related to the year which generated such ICTI.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the consolidated financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Recent Developments

On May 3, 2012, the Company closed a $10 million additional commitment to the Facility. The Facility is now fully committed with $125 million of total commitments.

In August 2012, the Company closed on a $10.9 million investment in senior secured second lien term loan to Brantley Transportation, LLC. Headquartered in Monahans, Texas, Brantley Transportation, LLC is a leading provider of mission-critical transportation services to energy producers and drilling companies in the upstream and midstream energy markets. The loan has a variable coupon of LIBOR + 10.0% cash with a 1.5% LIBOR floor and 2.5% PIK, with principal due at maturity in August 2017.

On August 1, 2012, the Company's board of directors declared a quarterly dividend of $0.36 per share payable on September 14, 2012, to stockholders of record at the close of business on August 24, 2012.

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. For the nine months ended June 30, 2012, 58.1% of our income-bearing investment portfolio bore interest at fixed rates and 41.9% have a floating interest rate such as LIBOR. In the future, we expect other loans in our portfolio will have floating rates. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. For the nine months ended June 30, 2012, we did not engage in hedging activities.

Item 4: Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2011. The term “disclosure controls and procedures” is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), as amended. Based on the evaluation of our disclosure controls and procedures as of June 30, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

There has not been any change in our internal controls over financial reporting (as defined in Rule 13a-15 (f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Part II - Other Information

Item 1: Legal Proceedings.

Neither we nor any of our subsidiaries is currently subject to any legal proceedings, nor, to our knowledge, are any legal proceedings threatened against us or our subsidiaries.

Item 1A: Risk Factors.

In addition to other information set forth in this report, you should carefully consider the "Risk Factors" discussed in our annual report on Form 10-K filed with the SEC on December 14, 2011 which could materially affect our business, financial condition and/or operating results. Additional risks or uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Removed and Reserved.

None.

Item 5: Other Information.

None.

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Item 6: Exhibits.

EXHIBIT INDEX

Number	**Description**
31.1	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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.

Dated:	August 2, 2012	Medley Capital Corporation.
		By /s/ Brook Taube Brook Taube Chief Executive Officer (Principal Executive Officer)
Dated:	August 2, 2012	By /s/ Richard T. Allorto, Jr. Richard T. Allorto, Jr. Chief Financial Officer (Principal Accounting and Financial Officer)

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