This post is excerpted from a letter by Jim Roumell, partner and portfolio manager of Roumell Asset Management.

Medley Capital Corporation (MCC) is a publicly-traded business development company (BDC) primarily engaged in providing debt capital to a wide range of U.S.-based companies. We wrote about MCC in our 3rd quarter letter. Our 4th quarter purchase was an add-on investment as MCC's shares weakened and we took advantage of an even deeper discount to the company's reported net asset value, NAV, as compared to our first purchase.

The investment thesis on MCC is pretty straightforward. MCC is now trading at approximately a 40% discount to its most recently reported NAV (as of 9/30/17). MCC is comprised of roughly 68% 1st Lien Notes, 16% 2nd Lien Notes and 16% Equity. MCC's discount is unusually high, and pays a dividend of $0.16/quarter, which it is currently earning, resulting in a yield exceeding 12%. Importantly, MCC's bal-ance sheet is well constructed with an average maturity of 2.8 years on the loans it holds and a weighted average maturity of liabilities of 5.1 years. Moreover, the portfolio is also well-positioned if interest rates rise —84% of its loans are floating-rate while 66% of its debt is fixed-rate.

Although we do not have access to underlying financial statements of the privately placed Notes inside MCC's portfolio, we believe aggressive stress-testing and default scenarios allow us to sufficiently to conclude that MCC is a real bargain-priced security.

MCC has a credit rating system as follows:

Class 1 – Credit is performing better than expected.

Class 2 – Credit is performing as expected.

Class 3 – Credit is performing below expectations, but no loss is expected.

Class 4 – Credit is performing materially below expectations and while MCC does not expect a loss of principal, there could be a loss of interest payments. In many cases payments are delinquent, but normally not more than 180 days.

Class 5 – Credit is performing substantially below expectations, risk of loss has increased substantially, most or all covenants have been breached and payment is substantially delinquent. Some principal loss is expected.

If we assume dramatic credit degradation—Class 4 and Class 5 assets have a total loss ratio of 100%— the NAV drops from $8.45/share to $6.10/share compared to a current price of about $5.30/share, i.e., still a discount of 13%. As noted earlier in the MVC write-up, the 1940 Investment Company Act restricts the amount of leverage a BDC can have to 2x equity ($1 of equity can be leveraged by $1), thereby structurally protecting the equity from the effects of outsized leverage often found in other financial vehicles. If we go a step further, and wipe-out 25% of Class 3 assets, the NAV falls to roughly $5.50/share (still above the most recent market quote, but roughly 8% below our average purchase price). This most

draconian stress test, and resultant NAV loss, would be offset by the quarterly income generated by the portfolio and still result in an ultimately positive investment return. Based on this analysis, would we take MCC private "in a heartbeat"? Absolutely.

MCC is not without "hair", as is commonly found in our investments, although, in our opinion, it's more than accounted for in its price. First, the company's NAV is not derived from public marks as are found in closed-end funds holding high-yield bonds. The marks are independently derived and are audited, but nothing can take the place of a liquid public mark. Second, the restriction on leverage (an attribute we very much like about BDCs), could put MCC in the position of being a forced seller. Third, these are primarily smaller, riskier issuers, albeit 68% are 1st lien. It should be noted that roughly 40% of MCC's portfolio is comprised of post-2014 loans as the company moved away from 2nd lien and direct small company lending and began buying pieces of larger syndicated loans issued by much larger companies with sturdier financial profiles.

That said, some of the mispricing of MCC's shares is likely the result of investors not properly under-standing the company's balance sheet and the amount of flexibility management has in managing it if losses meaningfully rise from current levels. MCC's $150 million loan from the SBA (not due until 2023) is not counted toward regulated debt. Thus, MCC's regulated debt is roughly 75% of equity, not the 108% GAAP number. MCC's losses would have to drop roughly 15% more in order to hit the regu-lated debt limit of 100%. In this scenario, MCC could sell some of its Class 1 asset level loans to reduce leverage.

Moreover, few investors seem to understand that the '40 Act leverage restriction only has to be met if the company wants to pay a dividend. The company could choose to temporarily suspend the dividend (Pimco did this on some leveraged loan funds during the financial crisis) if it believed the marks were not properly reflecting the underlying value of its loans. Shareholders would be better served by being patient for recoveries to occur (either through maturities and/or better marks), than being forced sellers. Interest would simply accrue to MCC's balance sheet during this suspension period and could be distrib-uted at a later date. To be clear, the suspension of the dividend would in all likelihood result in a drop in the share price, but if done for the right reasons, this event would be a temporary mark and provide another opportunity to average down.

As we go to print, MCC just announced a material debt issuance conducted in Israel at a yield of 5.05%, maturing in 2024. The Note issuance interest rate and maturity are attractive terms that will allow the company to, among other possible uses, pay down existing higher cost debt while extending its maturity schedule. The Note was rated A+ by S&P Global Ratings Maalot, Ltd. MCC simultaneously announced that its common stock will have a dual listing on the Tel Aviv Stock Exchange.

Finally, in the past several months there has been meaningful inside buying by MCC's investment man-ager, Medley Management, Inc. (MDLY), which is controlled by MCC's CEO Brook Taube, at signifi-cantly higher prices than today's, i.e., purchases were done at roughly $6.35/share versus today's price of about $5.30/share. We recently sat down with Brook at MCC's headquarters in New York and found him to be open and honest, forthcoming and non-promotional. MCC is not "out of the woods" yet, but we believe its

price more than factors in significant credit stress testing while providing high current income and an opportunity for a meaningful closing of the discount to its underlying NAV over time.

Disclosure: The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. The top three securities purchased in the quarter are based on the largest absolute dollar purchases made in the quarter.