PUBLIC VERSION

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of	)	
	)	
Thermo Electron Corporation,	)	Docket No. C-4170
	)	File No. 061 0187
a corporation.	)	
	)	
	)	
	)	

PETITION OF RESPONDENT FOR APPROVAL OF PROPOSED BUYER(S) FOR THE DIVESTITURE OF THE CVE BUSINESS

Pursuant to Section 2.41(f) of the Federal Trade Commission ("Commission") Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2006), and Paragraph II.A. of the Decision and Order contained in the Agreement Containing Consent Orders ("Decision and Order"), which following the public comment period has been finally approved by the Commission, Respondent Thermo Electron Corporation ("Thermo") hereby petitions the Commission to approve the divestiture of the CVE Business (as defined in the Decision and Order) to Riverlake Equity Partners, L.P. ("Riverlake") and, in part owing to the acquisition of certain indirect ownership interests, to MVC Capital, Inc. ("MVC"). A Share Purchase Agreement dated January 25, 2007 ("SPA"), has been entered into between Thermo Fisher Scientific Inc. ("Thermo"), Erie U.K. Limited and Robbins Scientific Corporation,[1] both of which are wholly owned

[1] Erie U.K. Limited is the legal and beneficial owner of issued share capital of Genevac Limited, and Robbins Scientific Corporation is the legal and beneficial owner of the issued share capital of Genevac Inc. Both entities are defined in the Decision and Order as "Genevac". In the Decision and Order, the CVE Business is defined as all of Thermo's right, title and interest in Genevac.

subsidiaries of Thermo, and Riverlake. The executed SPA and all schedules, attachments and related agreements are attached hereto as **Confidential Exhibit 1**. MVC will acquire certain indirect debt and equity interests in the CVE Business in exchange for the financing it will provide in connection with the acquisition of the CVE Business.

Background

On September 21, 2006, Thermo executed an Agreement Containing Consent Orders that included the Decision and Order and an Order to Hold Separate and Maintain Assets (collectively, the "Consent Agreement") to settle the Commission's charges that the proposed acquisition by Thermo of Fisher Scientific International, Inc. would violate Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. On October 17, 2006, the Commission accepted the Consent Agreement for public comment, and following the public comment period, the Consent Agreement became final on December 11, 2006.

On November 9, 2006, Thermo consummated its acquisition of Fisher. Fisher is now a wholly owned subsidiary of Thermo, and Thermo's new corporate name is Thermo Fisher Scientific Inc.

Because this petition and its attachments contain confidential and competitively sensitive business information relating to the divestiture of the CVE Business — the disclosure of which may prejudice Thermo, Riverlake and MVC and cause harm to the ongoing competitiveness of the CVE Business, and impair Thermo's ability to comply with its obligations under the Consent Agreement — Thermo has redacted such confidential information from the public version of this petition and its attachments. Pursuant to Sections 2.41(f)(4) and 4.9(c) of the Commission's Rules of Practice and

Procedure, 16 C.F.R. § 2.41(f)(4) & 4.9(c) (2006), Thermo requests that the confidential version of this petition and its attachments and the information contained herein be accorded confidential treatment. The confidential version of this petition should be accorded such confidential treatment under 5 U.S.C. § 552 and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2006). The confidential version of this petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), 552(b)(7)(A), 552(b)(7)(B), & 552(b)(7)(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h).

Thermo desires to complete the proposed divestiture of the CVE Business as soon as possible, following Commission approval of the proposed divestiture buyer. Thermo and Riverlake intend to close the divestiture no later than 10 business days after Commission and EU approval. Prompt consummation will further the purposes of the Decision and Order and is in the interests of the public, Riverlake, MVC and Thermo, because it will allow Riverlake to move forward with its business plans for the competitive operation of the CVE Business. Thermo accordingly requests that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2) (2006), limit the public comment period to the customary 30-day period, and grant this petition by approving the divestiture of the CVE Business to Riverlake pursuant to the above-referenced SPA and, if deemed a buyer, to MVC as soon as practicable after the close of the public comment period.

I. The Share Purchase Agreement Is Final and Consistent with the Decision and Order's Terms

Paragraph II.A. of the Decision and Order requires Thermo to divest the CVE Business within 150 days of the date on which Thermo's acquisition of Fisher is consummated (*i.e.*, November 9, 2006). Pursuant to this requirement, Thermo has diligently sought a buyer that would be acceptable to the Commission, through an extensive auction process. During that process, Thermo contacted [redacted] All such parties were given an opportunity to participate in the process, provided there was no obvious reason that such party could not ultimately be "approvable" as a buyer of the CVE Business. Potential buyers were encouraged to participate in the process and submit bids [redacted] Of the [redacted]

On January 25, 2007, Thermo entered into an SPA with Riverlake, pursuant to which Thermo and its two wholly owned subsidiaries are selling 100% of the capital shares of Genevac (which comprises the CVE Business) to Riverlake or an entity or entities that are wholly owned and controlled by Riverlake and/or MVC. The executed SPA is attached hereto as **Confidential Exhibit 1.**

Thermo selected Riverlake as the potential buyer because Riverlake (1) has a compelling strategic fit between SP Industries, which Riverlake is the ultimate parent entity of, and the CVE Business, (2) indicated that it would require minimal transitional services, ensuring a smooth and clean separation from Thermo, (3) intends to retain the management team of the CVE Business and to continue the U.S. and U.K. Genevac operations as is, (4) has the financing capability to make the acquisition and financial viability to maintain and enhance the CVE Business as a strong, competitive business, and (5) offered a reasonable valuation of the business.

The SPA that Thermo entered into with Riverlake complies with the requirements of Paragraph II.A. of the Decision and Order. Paragraph II.A. requires that Respondent divest the CVE Business, absolutely and in good faith. Pursuant to the SPA, Riverlake (and as described below, to a limited extent, MVC) will acquire 100% of the share capital of Genevac (which comprises the CVE Business). See SPA § 2.1.

* * *

As demonstrated above and in the accompanying SPA, Thermo has entered into an agreement relating to the divestiture of the CVE Business that fully complies with the Commission's Decision and Order. Accordingly, Thermo hereby seeks Commission approval of the proposed divestiture of the CVE Business to Riverlake and, if deemed to be a buyer, MVC, pursuant to Paragraph II.A. of the Decision and Order.

II. The Proposed Acquirer or Acquirers Are Appropriate Buyers for the CVE Business

Background

Riverlake is a limited partnership organized under Delaware law. Riverlake is managed by Riverlake Partners LLC, a limited liability company organized under Delaware law. Riverlake focuses on investments in traditional economy manufacturing, distribution and service businesses. As of December 31, 2006, Riverlake controlled four companies with total revenues of [redacted] million and with total debt and equity capital of $90 million. One of the four companies in Riverlake's current portfolio – SP Industries, Inc. ("SP Industries") – is involved in the production, development, marketing and sale of laboratory equipment products and services. Although Riverlake is making the acquisition of the CVE Business, Riverlake is the ultimate parent entity of SP Industries, and its intent is to operate SP Industries and the CVE Business together and, as soon as practicable following its acquisition of the CVE Business, to combine the CVE Business with SP Industries. SP Industries' products, described below, are sold to similar customers and in similar channels as the centrifugal vacuum evaporators ("CVEs") produced and sold by the CVE Business. SP Industries does not need to establish itself in this industry: it already is well-established and has significant relationships with customers who are also buying and using the Genevac CVE products.

To complete the acquisition, Riverlake will obtain financing from MVC, and, in combination, will provide a bridge loan to newly formed entities ("Newco") to acquire the CVE Business. Riverlake and MVC will provide this funding in return for certain interests described in more detail below. The bridge loan will make it possible for Riverlake to recapitalize Genevac under SP Industries (*i.e.*, Genevac will become a subsidiary of SP Industries) within six months after the completion of the acquisition.

Below we describe Riverlake, SP Industries and MVC.

<u>Riverlake</u>

Riverlake is a private equity fund focused on traditional economy manufacturing, distribution and service businesses, specializing in equity and equity-related debt investments in lower middle market-sized companies. It has offices in Portland, Oregon, and Chicago, Illinois, and has a national network of partners and advisors.[2] Riverlake was launched in 2003 by Erik Krieger and Jim Lawson. At the time of its founding, Krieger already had nearly two decades of experience advising corporations on mergers and acquisitions as a co-founder of an investment bank specializing in technology. Lawson similarly had an extensive 21-year background in identifying and making successful investments as a co-founder of a Chicago-based investment banking firm focusing on the sale side. For Krieger, transitioning to Riverlake meant being able to move from pure investments to "focus[ing] exclusively on acquiring and operating businesses."

Riverlake's team combines extensive deal-making skills with operational experience. This experience spans over 40 years of combined efforts advising and investing in complex and sophisticated financing and M&A transactions including leverage buyouts, going public, private debt and equity capital investments, cross border acquisitions and strategic technology and asset partnerships.

Riverlake has the financial wherewithal and investment and operational experience to make this acquisition, and the acquisition of the CVE Business by Riverlake will assure that the CVE Business, which will benefit from operational synergies of SP Industries, remains strong and an effective competitor in the research, development, production, sale, and service of high-performance centrifugal vacuum evaporators. The Audited Financial Statements of Riverlake, dated December 31, 2005 and 2004, are attached hereto as **Confidential Exhibit 2.**

SP Industries[3]

SP Industries, which is headquartered in Warminster, Pennsylvania, is a leading designer, manufacturer, and marketer of laboratory research and process

[2] Riverlake's website is www.riverlakepartners.com.
[3] SP Industries' website is www.spindustries.com.

equipment, glassware and components, and configured to order manufacturing equipment. It was established in 1982 by Trivest, Inc. and Prudential Capital to complete the acquisitions of the following long-established entities: Wilmad, LabGlass, VirTis, and other operating divisions of Manor Care, Inc. Subsequent acquisitions have included Lurex Manufacturing in 1990, Hotpack in 1993, Hull in 1997, Reliance Glass Company in 1999 and most recently FTS Systems in 2006.

On March 31, 2005, SP Industries was acquired by Riverlake. A copy of the Offering Memorandum distributed in connection with that sale is annexed hereto as **Confidential Exhibit 3**. As Riverlake stated publicly upon its acquisition of SP: "SP Industries is an ideal platform business for Riverlake . . . . It includes a superior, committed management team, large market position in many of its product offerings, international presence, and a significant infrastructure to build upon. . . ." (Press Release, Riverlake Partners, dated April 5, 2005, available at www.riverlakepartners.com.)

SP Industries' product brands, such as VirTis, Wilmad LabGlass, Hotpack, Hull, and FTS, are widely recognized names in the laboratory products market.

Wilmad LabGlass branded products include laboratory glassware, NMR sample tubes and accessories, spectroscopy supplies, flow tubes, and custom glassware. It also manufactures precision fabricated glass components for a variety of applications (including lasers, medical instruments, fiber optics and microwave).

VirTis equipment products include laboratory freeze dryers, pilot plant and production scale lyophilizers, mechanical homogenizers, ultrasonic cell disrupters, and fermenters. It also has a broad range of freeze drying accessories including freeze drying flasks.

Hotpack manufactures under-counter and floor model glassware washers, glassware dryers, tissue culture incubators, vacuum ovens, stability chambers, and laboratory steam sterilizers (autoclaves).

Hull makes standard and customized laboratory products. Its freeze drying systems are engineered and manufactured to pharmaceutical cGMP standards. It also rebuilds freeze dryers and fabricates their sub-components: ASME certified chambers and condensers, heat transfer shelves, refrigeration skids, vacuum isolation valves, and autoloaders for vial handling. Hull provides complete project support from specification through engineering, fabrication, servicing, and parts.

In October 2006, SP Industries acquired FTS Systems, which is a leading manufacturer of precision thermal control systems, including systems such as the innovative SMART freeze drying cycle development technology. FTS' family of products includes a full line of freeze drying products, thermal control and temperature forcing systems, controlled rate freezers and NMR sample coolers. With the acquisition of FTS, Riverlake reaffirmed its commitment to the industry, stating that the acquisition was "an example of the commitment of Riverlake and its partners to SP and sends a strong signal to our employees and the market that SP Industries is committed to profitable growth." (Press Release, SP Industries, *SP Industries Announces Acquisition of FTS Systems*, dated October 16, 2006, available at www.spindustries.com.)

The brands and products identified above are complemented by SP Industries' service and support group, SP TechCare. SP TechCare provides a number of services including preventive maintenance programs, validation and calibration services, equipment upgrades, factory installations and emergency repair services.

SP Industries markets its products to laboratory and production facilities within pharmaceutical, biotechnology, industrial, academic, and governmental organizations around the world. Accordingly, SP Industries has established relationships with a majority of the largest pharmaceutical and biotechnology companies, highlighted by the fact that SP's equipment and glassware is utilized in more than 5,000 laboratories and manufacturing locations worldwide. Some of SP's customers include: Abbott Laboratories, Bayer, Corning, Dow, DuPont, Eastman, Novartis, Pfizer, VWR International, Fisher and Wyeth. As a result of SP Industries' strong brands and extensive customer reach, SP maintains an attractive market position in a number of key product offerings, including laboratory freeze dryers, magnetic spectroscopy tubes, precision bore glass products, and stability chambers.

SP Industries classifies its business into two general product segments, Research Products and Process Equipment, which are based on differing sales channel dynamics and customer-buying processes. In addition, SP TechCare was formed in early 2001 to focus on the increasing demand by customers for up-front installation and value-added after market customer support, and post-sale product and warranty support.

As of March 31, 2006, SP Industries had [redacted] million in revenues. For the fiscal year to end on March 31, 2007, revenues are estimated to be [redacted] million. It employs 450 full-time employees. (See SP Industries' consolidated financial statements for the year-ended March 31, 2006, attached hereto as **Confidential Exhibit** 4.)

<u>Riverlake Acquisition History</u>

In addition to SP Industries, Riverlake's current portfolio consists of three other companies. Riverlake acquired (1) Hawkins and E-Z Messenger Legal-Support

Providers, LLC (HELP, LLC), which provides legal support services; (2) Fluid Logic, LLC, which produces high quality colloidal silicas; and (3) Advanced Decorative Systems, which manufactures automotive instrument dials and appliques. None of the three portfolio companies above is in the same industry as Genevac and none makes or sells any products that compete with Genevac's products and services. As described above, SP itself does not make, market or sell any CVE products. However, we note that SP sells other complementary research and laboratory products that are purchased and used by some of the same customers that purchase and use CVE products.

While under Riverlake's control, SP Industries has grown from 375 employees to 450 full-time employees. SP's revenues grew by 7% from fiscal year 2005 to fiscal year 2006. From fiscal year 2006 to fiscal year 2007, revenues are projected to grow by [redacted]%. Under the management leadership of Charles Grant, who has been the CEO since 2002 and who also is an operating partner of Riverlake, SP has undertaken several growth and cost reduction initiatives. Some of these initiatives include the closure and sale of underutilized facilities in Tennesse, New York and Pennsylvania, the improvement in SP's service business by shifting away from third-party vendors to internal staff, and the upgrading of personnel.

<u>MVC</u>

MVC, a publicly traded company listed on the NYSE, is an externally managed, non-diversified closed-end management investment company that has elected to be regulated as a business development company.[4] MVC, based in Purchase, New York, provides equity and debt investment capital to fund growth, acquisitions and

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[4] MVC was internally advised through the end of the fiscal year ended October 31, 2006. Effective November 1, 2006, MVC is externally managed by TTG Advisers. MVC's website is www.mvccapital.com.

recapitalizations of small and middle-market companies in a variety of industries. Its investment objective is to maximize total return from capital appreciation and/or income. MVC had $279 million in portfolio investments and had $237.6 million of net assets as of November 30, 2006.

MVC's investment team has significant experience in identifying and consummating acquisitions and extensive experience in working with privately held small and middle market companies. The investment team has developed both in-depth knowledge and an extensive network of contacts across a broad range of industries. Moreover, members of MVC's investment team have the experience of investing in and managing businesses during both recessionary and expansionary periods, through full interest rate cycles and a broad range of financial market conditions. MVC is headed by Michael Tokarz, Chairman and Portfolio Manager, who has over 30 years of lending and investment experience.

MVC's portfolio investments include, among others, Vestal Manufacturing Enterprises, Octagon Credit Investors, LLC, Baltic Motors Corporation, Dakota Growers Pasta Company, Impact Confections, Inc., Timberland Machines & Irrigation, Inc., Vitality Foodservice, Inc., Amersham Corporation and Summit Research Labs, Inc. In addition, MVC is also an investor in SP Industries. MVC provided $10.5 million in senior debt and subordinated debt to support the buyout of SP Industries by Riverlake and SP Industries management. A list of MVC's entire current portfolio is provided in its most recently filed Form 10-K for the fiscal year end October 31, 2006, which is attached as **Exhibit 6.**[5] Apart from SP Industries, none of the companies in which MVC has investments is in the same

[5] The list of investments in Exhibit 6 includes all of MVC's investments – both debt and equity – through January 4, 2007.

industry as Genevac and none makes or sells any products that compete with Genevac's products and services. As shown above, SP Industries does not produce, market or sell any products that compete with the CVE Business.

Financial Capability to Make the Acquisition

Riverlake will pay Thermo [redacted] million to acquire, through Newco, the capital stock of Genevac. In addition, Riverlake will fund an additional approximately [redacted] million of cash to be used at closing to pay for transaction fees and support any near-term working capital needs of Genevac. To finance the consideration, Riverlake and MVC will contribute a [redacted]-month bridge loan of [redacted] million and [redacted] million in cash, respectively. Riverlake will fund its portion of the bridge loan with existing committed capital as well as with commitments from current Riverlake and SP Industries co-investors. MVC will fund its portion of the bridge loan with existing committed capital. The loan will carry a rate of [redacted]% per annum payable on the last day of each month and can be repaid at any time before maturity without any prepayment penalties.

To acquire the shares of Genevac, Riverlake will create an entity or entities ("Newco"), which will acquire 100% of the capital shares of Genevac. Newco will have two types of capital stock: Class A Common and Class B Common. Only Class A Common shares will hold voting rights. Class B Common will be non-voting shares. At the time Newco acquires the entire share capital of Genevac, Riverlake will obtain 90.10% of the Class A shares of Newco, MVC will obtain 9.90% of the Class A Common shares of Newco and MVC will obtain 100% of the Class B Common shares. Newco's Board will consist of two members designated by Riverlake and two members designated by MVC.

Riverlake's intention is to integrate Genevac into the operations and the capital structure of SP Industries. Within six months following the indirect acquisition by Riverlake and MVC of the capital stock of Genevac, Riverlake intends to recapitalize Genevac into SP Industries.

Numerous strategic synergies and opportunities exist for SP Industries and Genevac in combination, including (1) enhancing their position in the life science research industry with a broadened product portfolio, (2) strengthening the global manufacturing reach of the combined businesses with complimentary customer service and support in both the U.S. and in Europe, (3) strengthening the combined management team and expanding employee growth opportunities across the businesses, and (4) leveraging complementary marketing and sales channels with strong direct sales relationships.

<u>Operations Experience</u>

Riverlake's principals and SP Industries' management have significant investment and operational experience and are appropriate buyers of the CVE Business. Riverlake's general partners are Erik J. Krieger, Robert B. Barr and Lawrence J. Lawson III. Charles L. Grant is its operating partner. These individuals have extensive experience in the identification, evaluation and acquisition of new business opportunities. As previously mentioned, Chuck Grant is also the CEO of SP Industries, and even prior to his tenure at SP Industries, had significant leadership experience through his positions at other companies. In addition, SP Industries' other management has extensive experience in the laboratory equipment industry through their experience at SP and prior employment backgrounds.

Erik J. Krieger is a general partner and the managing member of Riverlake. As mentioned previously he is also one of the founding partners of Riverlake. Prior to forming Riverlake, Krieger played a key leadership role in Pacific Crest Securities, a firm he co-founded and one that is recognized as one of the nation's leading independent technology investment banking boutiques. Krieger began his investment banking career at Security Pacific Bank and thereafter was an investment banker at PaineWebber, Inc. in New York and at PaineWebber's Mergers and Acquisitions Group in Chicago. In addition to Pacific Crest, Krieger has guided a number of companies as either an investor or a director, including Applied Research, CLEANPAK International, Inc., Morrow Snowboard Corporation and Wholesome and Hearty Foods. He currently serves as Chairman of JEB, Inc. and is on the board of directors of, among others, Pacific Crest Securities, HELP, Inc., Fluid Logic, Inc. and SP Industries.

Robert B. Barr is a general partner and is a member of Riverlake's Investment Committee. Barr is a co-founder of Lincoln International, a private equity investment firm with offices in Chicago, Los Angeles, New York, Frankfurt and Paris. Prior to founding Lincoln in 1996, Barr helped to establish and served as a senior officer of the Chicago office of Peers & Co., an international mergers and acquisitions advisory firm formed in collaboration with the Long Term Credit Bank of Japan and Kemper Financial. Prior to joining Peers & Co., Barr worked for Data Resources, Inc., an economic consulting firm, and thereafter for PaineWebber's Corporate Finance Group and Mergers and Acquisitions Group, respectively, in New York and Chicago from 1979 to 1990.

Lawrence J. Lawson III, is a general partner and a managing member of Riverlake and serves as a member of Riverlake's Investment Committee. Lawson also is a co-founder of Lincoln International. Prior to co-founding Lincoln, Lawson helped to establish the Chicago office of Peers & Co. and before then worked for KPMG and thereafter was a member of PaineWebber's Corporate Finance Group in New York and Chicago. Lawson currently serves on the Board of Directors and is a member of the audit committee of Bell Industries, Inc., a publicly traded company. He also serves on the board of directors of JEB, Inc.

Charles L. ("Chuck") Grant is an operating partner of Riverlake and is President & Chief Executive Officer of SP Industries. Grant has served as President/CEO of SP since October 2002. Mr. Grant has over 30 years of leadership and executive experience and 20 years served in global markets. Prior to joining SP Industries, Mr. Grant served in an executive capacity from 1993-2002 with SPX Corporation (SPX), a multi-industry company located in Charlotte, NC whose segments include industrial services, technology and communications, flow technology and service solutions. From 1998 to 2001, Mr. Grant was president of the motors and material handling group of SPX and served as chief executive officer of two companies: GS Electric, which produced fractional horsepower motors and generated $100 million in annual revenue; and Stock Equipment Co., located in Cleveland, OH with a joint venture in China. From 2001 to 2002, Mr. Grant was president of SPX's fluid and material handling products group where he had full profit and loss responsibility for a group of four global manufacturing businesses with sales of $450 million. These entities included: Marley Cooling Technology, located in Kansas City, KS, which manufactured cooling tower solutions; Stock Equipment Company, located in Cleveland, OH, which produced material handling equipment; Resolite Company, located in Pittsburgh, PA, which manufactured fiberglass components; and C&M

Conveyors, located in Indianapolis, IN, which produced conveying systems for pulp and paper industries. Mr. Grant also held various positions as president, vice president and chief financial officer of several other companies in NJ and PA. He currently serves on the board of directors of Columbus Insurance and Lab Products Association. Mr. Grant holds a MBA from Columbia University and a BS in accounting from Northeastern University.

Wayne Miller is the Director of Growth & Business Development at SP Industries. Mr. Miller joined SP in March 2003 with over 30 years of life science experience including marketing laboratory consumables, analytical instruments, laboratory equipment, and process consumable and equipment. Before joining SP Industries, Mr. Miller had significant experience in sales and marketing for other well known laboratory equipment companies, such as Curtin Matheson Scientific, Sherwood Medical, Gelman Sciences (which specialized in filters for filtration and separation techniques in the laboratory and was later acquired by Pall Corporation), and Osmonics (which was later acquired by GE).

Lee Royle joined SP Industries in April 2003 and is the Treasurer and Director of Human Resources of SP Industries. After graduating from the University of Bridgeport, Mr. Royle began his career as a certified public accountant in public accounting with Price Waterhouse, and has served as vice president of finance, chief financial officer, and controller of several public and private companies. In addition, Mr. Royle served as chief executive officer of Baseline, an information processing company, for eight years.

Harry MacLacklin, joined SP Industries in March 2004, and is the Controller of Planning and Analysis of SP Industries. After graduating from King's College, Mr.

MacLacklin began his career as a certified public accountant in public accounting with Pricewaterhouse Coopers. He has over five years of auditing experience, focused mainly on small, privately held companies. During his last three years at PricewaterhouseCoopers, he served as the lead auditor for SP Industries.

Robert Hoesly is the Director of Sales of SP Industries, joining SP Industries in January 2004 with over 25 years of sales and marketing experience. Prior to joining SP Industries, Mr. Hoesly held various positions at DentalEZ Group, including vice president of sales, vice president of marketing, and director of corporate communications. In addition, Mr. Hoesly spent 17 years with Mettler Toledo, one of the global leaders in the laboratory equipment and instruments industry, in role of marketing manager, regional sales manager, product manager, and sales representative.

MVC

MVC is an appropriate buyer for the CVE Business. It has an experienced, seasoned team of investment professionals who have significant experience in identifying and consummating investments and nurturing and guiding portfolio companies. MVC's senior management has combined experience of over 75 years in lending, private equity and investment banking. MVC's senior management is identified below.

Michael Tokarz, Chairman and Portfolio Manager, has over 30 years of lending and investment experience. He has raised over $3 billion of public equity for U.S. and foreign corporations. Tokarz (BA (Economics) and MBA, University of Illinois at Urbana), was a General Partner for 17 years with Kohlberg Kravis Roberts & Co. While at KKR, he invested over $3.5 billion of equity and arranged over $25 billion in financing for various KKR companies. His experience also includes 12 years in commercial banking with Continental Illinois Bank during which he grew the bank's Miami office from start-up into the most profitable office of the bank and ran the bank's New and East Coast operations. Tokarz has expertise in all levels of the capital structure and transaction types, with over 30 private equity venture capital investments and over 25 private equity investments. He has nurtured numerous companies to initial public offerings and public status.

Bruce Shewmaker, the Managing Director of MVC, has extensive knowledge of and experience with business development companies. He designed and managed the first BDC structured as a partnership, launched two U.S. geographically focused venture funds, and he managed the largest international enterprise fund focused on the Russian Federation. Shewmaker's experience includes a diverse range of transactions, from start-ups to turnarounds to buyouts. He worked at Irving Trust and Chase Bank, where he was involved in commercial lending to large and small borrowers; at Merrill Lynch Technology Ventures, where he engaged in tax advantaged financing of research and development projects; and he was one of the founding partners of Merrill Lynch Venture Capital. Shewmaker has extensive experience in investment banking transaction and strategic planning. He has participated in more than 50 IPOs co-managed by E*Offering Corp., he designed an internet-based global investment banking network, and he coordinated the management of private assets with a large capital markets division.

Puneet Sanan, Vice President, has over 11 years of experience in private equity and leveraged and corporate finance. He is the Chief Marketing Officer of MVC, responsible for fund-raising, marketing, deal origination, execution and monitoring. Sanan also serves as a director on the boards of Impact Confections, Timberland Machines &

Irrigation, Turf Products and Summit Research Labs. Sanan's prior experience includes Cadigan Investment Partners, where he was involved in originating, analyzing, structuring and financing middle-market leveraged and management buyouts and recapitalization transactions; UBS Warburg and PaineWebber, where he executed leveraged buyout deals on the sell-side and provided financing and advisory services to private equity funds; and Legg Mason, where he performed buy-side research.

Shivani Khurana, Vice President, has over nine years of experience in private equity, mezzanine, debt restructuring, leveraged finance, investment banking and investment management. At MVC, Khurana's responsibilities include deal sourcing, execution and monitoring of portfolio companies. She serves as a director on the boards of Impact Confections, Turf Products and Summit Research Labs. Prior experience includes Cadigan Investment Partners, where Khurana was involved in originating, analyzing, structuring and financing middle-market leveraged and management buyouts and recapitaliztion transactions. She also worked at Wachovia Securities, where she was involved in restructuring and turnaround financing and leverage finance, Merrill Lynch, where she was engaged in investment banking, and Al-Ahlia Investment Company, where she was engaged in investment management.

In accordance with the provisions of the Decision and Order, Thermo has given Riverlake a list of all Knowledgeable Employees and is allowing Riverlake an opportunity to interview such employees and to inspect the personnel files and other documentation relating to such employees. Moreover, Thermo is providing Riverlake with the opportunity to meet with the Knowledgeable Employees, outside of Thermo's presence, and to make offers of employment to all such employees. Riverlake intends to offer employment to the entire workforce of the CVE Business. Finally, the SPA specifically incorporates the provisions of the Decision and Order prohibiting Thermo, for two years from the Effective Date of Divestiture, from soliciting, hiring or entering into any arrangement for the services of all or any of the Key Employees, and for a period of one year from the Effective Date of Divestiture, from directly or indirectly soliciting, negotiating, hiring or entering into any arrangement for the services of all or any of the Knowledgeable Employees.

Riverlake sees tremendous opportunity in this transaction not only to maintain the competitiveness of the CVE Business but to enhance it, by supporting continued product development and by cross-selling Genevac and SP Products to the expanded and combined customer base.

III. The Proposed Divestiture Agreement Will Achieve the Purposes of the Decision and Order and Result in No Harm to Competition

The proposed divestiture of the CVE Business, as embodied in the SPA, will achieve the purposes of the Decision and Order. Riverlake and its subsidiary, SP Industries, are experienced in the laboratory equipment and life sciences research industry, with a proven track record of successfully operating and enhancing not only SP but the other businesses it has acquired in the past. Riverlake and MVC enjoy a strong financial positions that will enable them to complete this acquisition, continue the operation of the CVE Business and enhance its competitiveness in the market for CVE products and services. Combining the CVE Business with Riverlake's and MVC's experience and financial wherewithal will ensure that the objectives of the Commission's Decision and Order will be realized.

The proposed divestiture will result in no harm to competition. Neither Riverlake nor SP nor MVC currently competes in any market, as defined in the Commission's Complaint, in which the CVE Business operates. Consequently, there is no overlap between the operations of Riverlake, SP or MVC and the CVE Business, and the proposed divestiture does not raise any competitive issue.

In sum, the proposed divestiture will remedy any anticompetitive effects that could result from the Acquisition. The SPA will achieve the Commission's stated purposes of ensuring the continued use of the CVE Business in the same business in which it had been engaged at the time of the announcement of the proposed Acquisition and remedying the lessening of competition as alleged in the Commission's Complaint.

Conclusion

For the foregoing reasons, Thermo respectfully requests that the Commission approve the proposed divestiture of the CVE Business to Riverlake, as embodied in the SPA and, if deemed to be a buyer, to MVC as soon as practicable.

Respectfully submitted,

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Dated: January 31, 2007

<u>CERTIFICATION OF THERMO FISHER SCIENTIFIC INC.</u>

The facts and information related in the foregoing Petition, insofar as they pertain to Thermo Fisher Scientific Inc., its subsidiaries, and its assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Seth H. Hoogasian
Senior Vice President, General Counsel & Secretary
Thermo Fisher Scientific Inc.

Executed on January 31, 2007

CERTIFICATION OF RIVERLAKE EQUITY PARTNERS, L.P.

The facts and information related in the foregoing Petition, insofar as they pertain to Riverlake Equity Partners, L.P., its affiliates, subsidiaries, and its assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

/s/ Charles L. Grant
Charles L. Grant

Riverlake Equity Partners, L.P.

Executed on January 31, 2007

<u>CERTIFICATION OF MVC CAPITAL, INC.</u>

The facts and information related in the foregoing Petition, insofar as they pertain to MVC Capital, Inc., its affiliates, subsidiaries, and its assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Jackie Shapiro-Rothchild
Vice President & Corporate Secretary
MVC Capital, Inc.

Executed on January 31, 2007

EXHIBIT 1

[REDACTED FROM THE PUBLIC RECORD VERSION]

EXHIBIT 2

[REDACTED FROM THE PUBLIC RECORD VERSION]

EXHIBIT 3

[REDACTED FROM THE PUBLIC RECORD VERSION]

EXHIBIT 4

[REDACTED FROM THE PUBLIC RECORD VERSION]

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

Form 10–K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2006

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 814–00201

MVC Capital, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

(Title of class)

(Title of class)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b–2 of the Act). Yes ☑ No ☐.

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

Approximate aggregate market value of common stock held by non–affiliates of the registrant as of the last business day of the Fund's most recently completed fiscal second quarter: $76,500,125 computed on the basis of $12.29 per share, closing price of the common stock on the New York Stock Exchange (the "NYSE") on April 30, 2006. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

There were 19,096,256 shares of the registrant's common stock, $.01 par value, outstanding as of January 8, 2007.

DOCUMENT INCORPORATED BY REFERENCE:

Proxy Statement for the Fund's Annual Meeting of Shareholders 2006, incorporated by reference in Part III, Items 10, 11, 12 and 14.

MVC Capital, Inc.

(A Delaware Corporation)

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Part I

Factors That May Affect Future Results

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

In this Annual Report on Form 10–K, unless otherwise indicated, "MVC Capital," "we," "us," "our" or the "Fund" refer to MVC Capital, Inc. and its wholly–owned subsidiary company, MVC Financial Services, Inc. and "TTG Advisers" or the "Adviser" refers to The Tokarz Group Advisers LLC. Unless the context dictates otherwise, "we" also refers to TTG Advisers acting on behalf of MVC Capital.

Item 1. ***Business***

General

MVC Capital, Inc. is an externally managed, non–diversified closed–end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). MVC Capital provides equity and debt investment capital to fund growth, acquisitions and recapitalizations of small and middle–market companies in a variety of industries primarily located in the United States. Our investments can take the form of common and preferred stock and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "MVC." During the fiscal year, MVC Capital was an internally managed investment company. Effective November 1, 2006, the Fund is externally managed by The Tokarz Group Advisers LLC ("TTG Advisers") pursuant to an Investment Advisory and Management Agreement, dated October 31, 2006 (the "Advisory Agreement").

Although the Fund has been in operation since 2000, the year 2003 marked a new beginning for the Fund. In February 2003, shareholders elected an entirely new board of directors. The board of directors developed a new long–term strategy for the Fund. In September 2003, upon the recommendation of the board of directors, shareholders voted to adopt a new investment objective for the Fund of seeking to maximize total return from capital appreciation and/or income. The Fund's prior objective had been limited to seeking long–term capital appreciation from venture capital investments in the information technology industries. Consistent with our broader objective, we adopted a more flexible investment strategy of providing equity and debt financing to small and middle–market companies in a variety of industries. With the recommendation of the board of directors, shareholders also voted to appoint Michael Tokarz as Chairman and Portfolio Manager to lead the implementation of our new objective and strategy and to stabilize the existing portfolio. Prior to the arrival of Mr. Tokarz and his new management team in November 2003, the Fund had experienced significant valuation declines from investments made by the former management team. After three quarters of operations under the new management team, the Fund posted a profitable third quarter for fiscal 2004 reversing a trend of 12 consecutive quarters of net investment losses and earned a profit of approximately $18,000 for fiscal year 2004. The Fund has continued to be profitable in each of the last eight quarters since fiscal 2004 posting annual net operating income of $5.7 million and $3.9 million in fiscal years 2005 and 2006, respectively. Similarly, the change in net assets resulting from operations increased from $11.6 million at the end of fiscal 2004 to $26.3 million as of the end of fiscal 2005, and increasing to $47.3 million as of the end of fiscal 2006.

Fiscal year 2006, represented a very positive year for the Fund. The Fund made sixteen new investments and eight follow–on investments in fiscal 2006, which is an increase from six new investments and three follow–on investments in fiscal 2005 and seven new investments in fiscal 2004. The Fund committed a total of $166.3 million of capital in fiscal 2006, compared to $53.8 million and $60.7 million in fiscal 2005 and 2004, respectively. The fiscal 2006 new investments include: Turf Products, LLC ("Turf"), Strategic Outsourcing, Inc. ("SOI"), Henry Company ("Henry"), SIA BM Auto ("BM Auto"), Storage Canada, LLC ("Storage Canada"), Phoenix Coal

Corporation ("Phoenix"), Harmony Pharmacy & Health Center, Inc. ("Harmony Pharmacy"), Total Safety U.S., Inc. ("Total Safety"), PreVisor, Inc. ("PreVisor"), Marine Exhibition Corporation ("Marine"), BP, Velocitius B.V. ("Velocitius"), Summit Research Labs, Inc. ("Summit"), Octagon, auto MOTOL BENI ("BENI"), and Innovative Brands LLC ("Innovative Brands"). The fiscal 2006 follow–on investments include: Dakota, Baltic, SGDA, Amersham, Timberland, SP, Harmony, and Velocitius.

The fiscal 2005 investments include: JDC Lighting, LLC ("JDC"), SGDA Sanierungsgesellschaft fur Deponien und Altasten mbH ("SGDA"), SP Industries, Inc. ("SP"), BP Clothing, LLC ("BP"), Ohio Medical Corporation ("Ohio"), Amersham Corporation ("Amersham"), Timberland, Vestal, and Impact.

The fiscal 2004 investments include: Vestal Manufacturing Enterprises, Inc. ("Vestal"), Octagon Credit Investors, LLC ("Octagon"), Baltic Motors Corporation ("Baltic"), Dakota Growers Pasta Company, Inc. ("Dakota"), Impact Confections, Inc. ("Impact"), Timberland Machines & Irrigation, Inc. ("Timberland"), and Vitality Foodservice, Inc. ("Vitality").

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

We are currently working on an active pipeline of potential new investment opportunities. We expect that our equity and loan investments will generally range between $3 million and $25 million each, though we may occasionally invest smaller or greater amounts of capital depending upon the particular investment. While the Fund does not adhere to a specific equity and debt asset allocation mix, no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses as of the close of each quarter. Our portfolio company investments are typically illiquid and are made through privately negotiated transactions. We generally seek to invest in companies with a history of strong, predictable, positive EBITDA (net income before net interest expense, income tax expense, depreciation and amortization).

Our portfolio company investments currently consist of common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, and convertible securities. At October 31, 2006, the value of all investments in portfolio companies was approximately $275.9 million and our gross assets were approximately $347.0 million compared to the value of investments in portfolio companies of approximately $122.3 million and gross assets of approximately $201.4 million at October 31, 2005.

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

On July 16, 2004, the Fund formed a wholly–owned subsidiary, MVC Financial Services, Inc. ("MVCFS"). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Fund, the Fund's portfolio companies and other entities (including other private equity firms or business development companies). The Fund does not hold MVCFS for investment purposes. The results of MVCFS are consolidated into the Fund and all inter–company accounts have been eliminated in consolidation.

Our board of directors has the authority to change any of the strategies described in this report without seeking the approval of our shareholders. However, the 1940 Act prohibits us from altering or changing our investment objective, strategies or policies such that we cease to be a business development company, nor can we voluntarily withdraw our election to be regulated as a business development company, without the approval of the holders of a "majority", as defined in the 1940 Act, of our outstanding voting securities.

Substantially all amounts not invested in securities of portfolio companies are invested in short–term, highly liquid money market investments or held in cash in an interest bearing account. As of October 31, 2006, the Fund's investments in short–term securities, cash equivalents and cash were valued at $66.2 million.

Corporate History And Offices

The Fund was organized on December 2, 1999. Prior to July 2004, our name was meVC Draper Fisher Jurvetson Fund I, Inc. On March 31, 2000, the Fund raised $330 million in an initial public offering whereupon it commenced operations as a closed–end investment company. On December 4, 2002, the Fund announced it had commenced doing business under the name MVC Capital.

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

The Fund has been "internally managed," *i.e.*, has had no investment adviser from June 2002 through the end of the fiscal year ended October 31, 2006. Effective November 1, 2006, pursuant to the Advisory Agreement, the Fund is externally managed by TTG Advisers, which serves as the Fund's investment adviser. The Advisory Agreement was unanimously approved by the independent directors on May 30, 2006 and by shareholders at the annual meeting of shareholders on September 7, 2006. TTG Advisers is a registered investment adviser that is controlled by Mr. Tokarz. All of the individuals (including the Fund's investment professionals) that had been employed by the Fund as of the fiscal year ended October 31, 2006 are now employed by TTG Advisers and are expected to continue to provide services to the Fund. It is currently anticipated that the Fund's investment strategy and selection process will remain the same under the externalized management structure. Accordingly, the section below entitled "Our Investment Strategy" is currently expected to remain applicable to the Fund under external management.

All but one of the independent members of the current board of directors were first elected at the February 28, 2003 Annual Meeting of the shareholders, replacing the previous board of directors in its entirety. The new board of directors then worked on developing a new long–term strategy for the Fund. Then, in September 2003, upon the recommendation of the board of directors, shareholders voted to adopt our new investment objective. With the recommendation of the board of directors, shareholders also voted to appoint Mr. Tokarz as Chairman and Portfolio Manager to lead the implementation of our new objective and strategy and to stabilize the existing portfolio. Mr. Tokarz and his team managed the Fund under an internal structure through October 31, 2006. On September 7, 2006, the shareholders of the Fund approved the Advisory Agreement (with over 92% of the votes cast on the agreement voting in its favor) that provided for the Fund to be externally managed by TTG Advisers. The agreement took effect on November 1, 2006. TTG Advisers is a registered investment adviser that is controlled by Mr. Tokarz. All of the individuals (including the Fund's investment professionals) that had been previously employed by the Fund as of the fiscal year ended October 31, 2006 are now employed by TTG Advisers and are expected to continue to provide services to the Fund.

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

Our Investment Strategy

On November 6, 2003, Mr. Tokarz assumed his current positions as Chairman and Portfolio Manager. We seek to implement our investment objective (*i.e.*, to maximize total return from capital appreciation and/or income) through making a broad range of private investments in a variety of industries. The investments can include common and preferred stock, other forms of equity interests and warrants or rights to acquire equity interests, senior and subordinated loans, or convertible securities. During the fiscal year ended October 31, 2006, the Fund made sixteen new investments and eight follow–on investments, committing a total of $166.3 million of capital to these investments.

Prior to the adoption of our current investment objective, the Fund's investment objective had been to achieve long–term capital appreciation from venture capital investments in information technology companies. The Fund's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of October 31, 2006, 2.42% of our assets consisted of investments made by the Fund's former management team pursuant to the prior investment objective. We are, however, seeking to manage these legacy investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential "liquidity event," *i.e.*, a sale, public offering, merger or other reorganization.

Our new portfolio investments are made pursuant to our new objective and strategy. We are concentrating our investment efforts on small and middle–market companies that, in our view, provide opportunities to maximize total return from capital appreciation and/or income. Under our investment approach, we have the authority to invest, without limit, in any one portfolio company, subject to any diversification limits that may be required in order for us to continue to qualify as a "regulated investment company" ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

We participate in the private equity business generally by providing negotiated equity and/or long–term debt investment capital. Our financing is generally used to fund growth, buyouts, acquisitions, recapitalizations, note purchases, and/or bridge financings. We may or may not be a lead investor in such transactions and may also provide equity and debt financing to companies led by private equity firms. We generally invest in private companies, though, from time to time, we may invest in small public companies that may lack adequate access to public capital. We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner to a private equity or other investment fund(s). In fact, during 2006, we established MVC Partners, LLC for this purpose. Additionally, we may also acquire a portfolio of existing private equity or debt investments held by financial institutions or other investment funds.

At October 31, 2006, October 31, 2005 and October 31, 2004, the fair value of the invested portion (excluding cash and short–term securities) of our net assets consisted of the following:

	Fair Value as a Percentage of Our Net Assets		
	As of October 31,	As of October 31,	As of October 31,
Type of Investment	2006	2005	2004
Senior/Subordinated Loans and credit facilities	55.98%	28.81%	23.80%
Common Stock	39.40%	23.10%	26.54%
Warrants	0.46%	0.89%	0.48%
Preferred Stock	13.79%	7.96%	16.64%
Other Equity Investments	6.77%	0.78%	0.48%
Other Rights	0.00%	0.00%	0.00%

Substantially all amounts not invested in securities of portfolio companies are invested in short–term, highly liquid money market investments or held in cash in an interest bearing account. As of October 31, 2006, these investments were valued at approximately $66.2 million or 27.94% of net assets.

The current portfolio has investments in a variety of industries including food and food service, value–added distribution, industrial manufacturing, financial services, consumer products, automotive dealerships, and information technology. The current portfolio also has investments in a variety of geographical areas including United States, Europe, and Asia.

Market. We have developed and maintained relationships with intermediaries, including investment banks, financial services companies and private mezzanine and equity sponsors, through which we source investment opportunities. Through these relationships, we have been able to strengthen our position as an investor. For the transactions in which we may provide debt capital, an equity sponsor can provide a source of additional equity capital if a portfolio company requires additional financing. Private equity sponsors also assist us in confirming our own due diligence findings when assessing a new investment opportunity, and they may provide assistance and leadership to the portfolio company's management throughout our investment period.

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

- Businesses with secure market niches and predictable profit margins;
- The presence or availability of highly qualified management teams;
- The line of products or services offered and their market potential;
- The presence of a sustainable competitive advantage;

- Favorable industry and competitive dynamics; and
- Stable free cash flow of the business.

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

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

- private mezzanine and equity investors;
- investment banks;
- business brokers;
- merger and acquisition advisors;
- financial services companies; and
- banks, law firms and accountants.

Allocation of Investment Opportunities. In allocating investment opportunities, TTG Advisers adheres to the following policy, which was approved by the board of directors on October 31, 2006: (1) absent the consent of the board of directors, TTG Advisers will allocate to the Fund all investment opportunities in (i) mezzanine and debt securities or (ii) equity or other "non–debt" investments that are (a) expected to be equal to or less than the lesser of 10% of the Fund's net assets or $25 million; and (b) issued by U.S. companies with less than $150 million in revenues; (2) notwithstanding Item 1 any private fund managed or co–managed by TTG Advisers and a person or entity not affiliated with TTG Advisers or MVC Partners, LLC, a subsidiary of the Fund ("MVC Partners"), is permitted to make an investment, without regard to the Fund, if such investment is sourced by a person or entity not affiliated with TTG Advisers and MVC Partners; and (3) notwithstanding Item 1, TTG Advisers shall not have an obligation to seek the consent of the board of directors nor be required to allocate to the Fund any equity investment where the investor would hold a majority of the outstanding "voting securities" (as defined by the 1940 Act) of the relevant company, provided that such investment is allocated, in its entirety, to MVC Partners.

Co–Investments. The Fund is permitted to co–invest in certain portfolio companies with its affiliates, subject to specified conditions set forth in an exemptive order obtained from the Securities and Exchange Commission (the "SEC"). Under the terms of the exemptive order, portfolio companies purchased by the Fund and its affiliates are required to be approved by the directors who are not "interested persons" of the Fund (the "Independent Directors") and are required to satisfy certain other conditions established by the SEC.

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

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

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

Our senior, subordinated and mezzanine debt investments are tailored to the facts and circumstances of the deal. The specific structure is negotiated over a period of several weeks and is designed to seek to protect our rights and manage our risk in the transaction. We may structure the debt instrument to require restrictive affirmative and negative covenants, default penalties, lien protection, equity calls, take control provisions and board observation. Our debt investments are not, and typically will not be, rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade quality (rated lower than "Baa3" by Moody's or lower than "BBB–" by Standard & Poor's, commonly referred to as "junk bonds").

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

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

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

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

Providing Management Assistance. As a business development company, we are required to make significant managerial assistance available to the companies in our investment portfolio. In addition to the interest and dividends received from our investments, we often generate additional fee income for the structuring, diligence, transaction, administration, and management services and financial guarantees we provide to our portfolio companies through the Fund or our wholly–owned subsidiary MVCFS. In some cases, officers, directors and employees of the Fund or the Adviser may serve as members of the board of directors of portfolio companies. The Fund may provide guidance and management assistance to portfolio companies with respect to such matters as budgets, profit goals, business and financing strategy, management additions or replacements and plans for liquidity events for portfolio company investors such as a merger or initial public offering. MVCFS may also generate additional fee income for providing administrative and other management services to other entities, including private equity firms or other business development companies (as it currently does for Brantley Capital Corporation).

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

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

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

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

The typical key steps in our investment approval process are:

- Initial investment screening by deal person or investment team;
- Investment professionals present an investment proposal containing key terms and understandings (verbal and written) to the entire investment team;
- Our Chief Compliance Officer reviews the proposed investment for compliance with the 1940 Act, the Code and all other relevant rules and regulations;
- Investment professionals are provided with authorization to commence due diligence;
- Any investment professional can call a meeting, as deemed necessary, to: (i) review the due diligence reports; (ii) review the investment structure and terms; (iii) or to obtain any other information deemed relevant;
- Once all due diligence is completed, the proposed investment is rated using a rating system which tests several factors including, but not limited to, cash flow, EBITDA growth, management and business stability. We use this rating system as the base line for tracking the investment in the future;
- Our Chief Compliance Officer confirms that the proposed investment will not cause us to violate the 1940 Act, the Code or any other applicable rule or regulation;
- Mr. Tokarz approves the transaction; and
- The investment is funded.

Employees

At October 31, 2006, Michael Tokarz served as Chairman & Portfolio Manager of the Fund and we employed 13 individuals, including investment and portfolio management professionals, operations professionals and administrative staff. Substantially all of these individuals are located in the Purchase, New York office. We believe that our relations with our employees are excellent. All of the individuals (including the Fund's investment professionals) that had been employed by the Fund as of the fiscal year ended October 31, 2006 are now employed by TTG Advisers and are expected to continue to provide services to the Fund. The Fund no longer has any direct employees.

Operating Expenses

During the fiscal year ended October 31, 2006, the Fund bore the costs of obtaining office space, facilities, equipment, personnel and other administrative costs necessary to conduct the Fund's business. The Fund also bears other costs relating to the Fund's operations, including fees and expenses of the Independent Directors; fees of unaffiliated transfer agents, registrars and disbursing agents; legal and accounting expenses; costs of printing and mailing proxy materials and reports to shareholders; NYSE fees; custodian fees; litigation costs; costs of disposing of investments including brokerage fees and commissions; and other extraordinary or nonrecurring expenses and other expenses properly payable by the Fund. For the year ended October 31, 2006, operating expenses including tax expense constituted 6.85% of average net assets.

Under the externalized structure, all investment professionals of TTG Advisers and its staff, when and to the extent engaged in providing services required to be provided by TTG Advisers under the Advisory Agreement, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by TTG Advisers and not by the Fund, except that costs or expenses relating to the following items are borne by the Fund: (i) the cost and expenses of any independent valuation firm; (ii) expenses incurred by TTG Advisers payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Fund and in monitoring the Fund's investments and performing due diligence on its prospective portfolio companies, *provided, however*, the retention by TTG Advisers of any third party to perform such services shall require the advance approval of the board (which approval shall not be unreasonably withheld) if the fees for such services are expected to exceed $30,000; once the third party is approved, any expenditure to such third party will not require additional approval from the board; (iii) interest payable on debt and other direct borrowing costs, if any, incurred to finance the Fund's investments or to maintain its tax status; (iv) offerings of the Fund's common stock and other securities; (v) investment advisory and management fees; (vi) fees and payments due under any administration agreement between the Fund and its administrator; (vii) transfer agent and custodial fees; (viii) federal and state registration fees; (ix) all costs of registration and listing the Fund's shares on any securities exchange; (x) federal, state and local taxes; (xi) independent directors' fees and expenses; (xii) costs of preparing and filing reports or other documents required by governmental bodies (including the SEC); (xiii) costs of any reports, proxy statements or other notices to stockholders, including printing and mailing costs; (xiv) the cost of the Fund's fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; (xv) direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, independent auditors and outside legal costs; (xvi) the costs and expenses associated with the establishment of a special purpose vehicle; (xvii) the allocable portion of the cost (excluding office space) of the Fund's Chief Financial Officer, Chief Compliance Officer and Secretary in an amount not to exceed $100,000, per year, in the aggregate; (xviii) subject to a cap of $150,000 in any fiscal year of the Fund, fifty percent of the unreimbursed travel and other related (*e.g.*, meals) out–of–pocket expenses (subject to item (ii) above) incurred by TTG Advisers in sourcing investments for the Fund; *provided that*, if the investment is sourced for multiple clients of TTG Advisers, then the Fund shall only reimburse fifty percent of its allocable pro rata portion of such expenses; and (xix) all other expenses incurred by the Fund in connection with administering the Fund's business (including travel and other out–of–pocket expenses (subject to item (ii) above) incurred in providing significant managerial assistance to a portfolio company).

Valuation of Portfolio Securities

Pursuant to the requirements of the 1940 Act, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our board of directors. Our board of directors may also hire independent consultants to review our Valuation Procedures or to conduct an independent valuation of one or more of our portfolio investments.

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

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

At October 31, 2006, approximately 79.50% of our total assets represented portfolio investments recorded at fair value.

Initially, Fair Value Investments held by the Fund are valued at cost (absent the existence of circumstances warranting, in management's and the Valuation Committee's view, a different initial value). During the period that a Fair Value Investment is held by the Fund, its original cost may cease to represent an appropriate valuation, and other factors must be considered. No pre–determined formula can be applied to determine fair values. Rather, the Valuation Committee makes fair value assessments based upon the value at which the securities of the portfolio company could be sold in an orderly disposition over a reasonable period of time between willing parties, other than in a forced or liquidation sale ("Fair Value"). The liquidity event whereby the Fund exits an investment is generally the sale, the merger, the recapitalization or, in some cases, the initial public offering of the portfolio company.

Valuation Methodology

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

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

Equity Securities. The Fund's equity interests in portfolio companies for which there is no liquid public market are valued at Fair Value. The Valuation Committee's analysis of fair value may include various factors, such as multiples of EBITDA, cash flow(s), net income, revenues or in limited instances book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Fund's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, or restructuring or related items.

The Valuation Committee may look to private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, or industry practices in determining Fair Value. The Valuation Committee may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, as well as any other factors it deems relevant in assessing the value. The determined Fair Values may be discounted to account for restrictions on resale and minority positions.

Generally, the value of our equity interests in public companies for which market quotations are readily available is based upon the most recent closing public market price. Portfolio securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security.

Loans and Debt Securities. For loans and debt securities, Fair Value generally approximates cost unless there is a reduced value or overall financial condition of the portfolio company or other factors indicate a lower Fair Value for the loan or debt security.

Generally, in arriving at a Fair Value for a debt security or a loan, the Valuation Committee focuses on the portfolio company's ability to service and repay the debt and considers its underlying assets. With respect to a convertible debt security, the Valuation Committee also analyzes the excess of the value of the underlying security over the conversion price as if the security was converted when the conversion feature is "in the money" (appropriately discounted if restricted). If the security is not currently convertible, the use of an appropriate discount in valuing the underlying security is typically considered. If the value of the underlying security is less than the conversion price, the Valuation Committee focuses on the portfolio company's ability to service and repay the debt.

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

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

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

Custodian

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

Transfer Agent and Distribution Agent

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

Risk Factors

In the normal course of its business, the Fund, in an effort to keep its shareholders and the public informed about the Fund's operations and portfolio of investments, may from time–to–time issue certain statements, either in writing or orally, that contain or may contain forward–looking information. Generally, these statements relate to business plans or strategies of the Fund or portfolio companies, projected or anticipated benefits or consequences of such plans or strategies, projected or anticipated benefits of new or follow–on investments made by or to be made by the Fund, or projections involving anticipated purchases or sales of securities or other aspects of the Fund's operating results. Forward–looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially. As noted elsewhere in this report, the Fund's operations and portfolio of investments are subject to a number of uncertainties, risks, and other influences, many of which are outside the control of the Fund, and any one of which, or a combination of which, could materially affect the results of the Fund's operations, or its NAV, the market price of its common stock, and whether forward–looking statements made by the Fund ultimately prove to be accurate.

Investing in MVC Capital involves a number of significant risks relating to our business and investment objective. As a result, there can be no assurance that we will achieve our investment objective. In addition, the following risk factors are applicable to an investment in our common stock.

BUSINESS RISKS

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

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

We depend on the continued services of Mr. Tokarz and certain other key management personnel. If we were to lose access to any of these personnel, particularly Mr. Tokarz, it could negatively impact our operations and we could lose business opportunities. Upon the effectiveness of the Advisory Agreement, the Fund's employment agreement with Mr. Tokarz was terminated. However, Mr. Tokarz has entered into an agreement with TTG Advisers pursuant to which he has agreed to serve as the Fund's Portfolio Manager for the full twenty–four calendar months following November 1, 2006, absent the occurrence of certain extraordinary events. Furthermore, the Advisory Agreement may not be terminated by TTG Advisers during the initial two–year term of the Advisory Agreement. However, there is still a risk that Mr. Tokarz's expertise may be unavailable to the Fund, which could significantly impact the Fund's ability to achieve its investment objective.

Our investment adviser, TTG Advisers, is a newly–formed entity.

Our future success depends to a significant extent on the services of our investment adviser. We are dependent for the final selection, structuring, closing, and monitoring of our investment on the diligence and skill of our newly formed investment adviser. TTG Advisers identifies, evaluates, structures, monitors and disposes of our investments, and the services it provides significantly impact our results of operations. Because TTG Advisers is newly formed, it has a limited operating history and currently has limited equity capital. However, Mr. Tokarz and the Fund's investment professionals that had been employed by the Fund as of the fiscal year ended October 31, 2006 are now employed by TTG Advisers and are expected to continue to provide services to the Fund.

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

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

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

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

Pursuant to the requirements of the 1940 Act, because our portfolio company investments do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our board of directors.

At October 31, 2006, approximately 79.50% of our total assets represented portfolio investments recorded at fair value.

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

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

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of the companies in which we have made or will make investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to engage in a liquidity event. These conditions could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets.

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

We may not realize gains from our equity investments.

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

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

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

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

We have operated to qualify as a RIC. If we meet source of income, diversification and distribution requirements, we will qualify for effective pass–through tax treatment. We would cease to qualify for such pass–through tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting the requirement to make distributions to our shareholders because in certain cases we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate–level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for distribution to our shareholders. Even if we qualify as a RIC, we generally will be subject to a corporate–level income tax on the income we do not distribute. Moreover, if we do not distribute at least 98% of our income, we generally will be subject to a 4% excise tax.

Changes in the law or regulations that govern us could have a material impact on our business.

We are regulated by the SEC. Changes in the laws or regulations that govern business development companies and RICs may significantly affect our business.

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

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

Our common stock price can be volatile.

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long–term equity participation securities, or LEAPs, or short trading positions;
- changes in regulatory policies or tax guidelines with respect to business development companies or RICs;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- general economic conditions and trends;
- loss of a major funding source; or
- departures of key personnel.

We are subject to market discount risk.

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

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

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

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

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

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

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

Changes in interest rates may affect our cost of capital and net operating income.

Because we have borrowed and may continue to borrow money to make investments, our net investment income before net realized and unrealized gains or losses, or net investment income, may be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates would not have a material adverse effect on our net investment income. In periods of declining interest rates, we may have difficulty investing our borrowed capital into investments that offer an appropriate return. In periods of sharply rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use a combination of long–term and short–term borrowings and equity capital to finance our investing activities. We may utilize our short–term credit facilities as a means to bridge to long–term financing. Our long–term fixed–rate investments are financed primarily with equity and long–term fixed–rate debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

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

On October 28, 2004, the Fund entered into a one–year, cash collateralized, $20 million revolving credit facility ("Credit Facility I") with LaSalle Bank National Association (the "Bank"). On July 20, 2005, the Fund amended Credit Facility I. The maximum aggregate loan amount under Credit Facility I was increased from $20 million to $30 million. Additionally, the maturity date was extended from October 31, 2005 to August 31, 2006. Credit Facility I expired on August 31, 2006. On April 27, 2006, the Fund and MVCFS, as co–borrowers entered into a new four–year, $100 million revolving credit facility ("Credit Facility II") with Guggenheim Corporate Funding, LLC "Guggenheim" as administrative agent to the lenders. On April 27, 2006, the Fund borrowed $45 million ($27.5 million drawn from the revolving credit facility and $17.5 million in term debt) under Credit Facility II. The $27.5 million drawn from the revolving credit facility was repaid in full on May 2, 2006. On July 28, 2006, the Fund borrowed $57.5 million ($45 million drawn from the revolving credit facility and $12.5 million in term debt) under Credit Facility II. On August 2, 2006, the Fund repaid the $45.0 million borrowed on the revolving credit facility portion of Credit Facility II. On August 31, 2006, the revolving credit facility with LaSalle Bank National Association, Credit Facility I, expired. The Credit Facility II contains covenants that we may not be able to meet. If we cannot meet these covenants, events of default would arise, which could result in payment of the applicable indebtedness being accelerated. In addition, if we require working capital greater than that provided by Credit Facility II, we may be required either to (i) seek to increase the availability under Credit Facility II or (ii) obtain other sources of financing. As of October 31, 2006, there was $50 million in term debt and $50 million on the revolving note outstanding under Credit Facility II.

We have a limited operating history upon which you can evaluate our new management team.

Although we commenced operations in 2000, we changed our investment objective and strategy in September 2003 from seeking long–term capital appreciation from venture capital investments in information technology companies (primarily in the Internet, e–commerce, telecommunications, networking, software and information services industries) to an objective of seeking to maximize total return from capital appreciation and/or income. We no longer have a strategy seeking to concentrate our investments in the information technology industries and, as a result, our new investments may be in a variety of industries. Therefore, we have only a limited history of operations under our current investment objective and strategy upon which you can evaluate our business.

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

As of October 31, 2006, 2.42% of the Fund's assets are represented by investments made by the Fund's former management team. These investments were made pursuant to the Fund's prior investment objective of seeking long–term capital appreciation from venture capital investments in information technology companies. Generally, a cash return may not be received on these investments until a "liquidity event," *i.e.*, a sale, public offering or merger, occurs. Until then, these legacy investments remain in the Fund's portfolio. We are managing them to try and realize maximum returns. Nevertheless, because they were not made in accordance with the Fund's current investment strategy, their future performance may impact our ability to achieve our current objective.

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

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

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

Our officers and directors, and members of the TTG Advisers investment team, may serve entities that operate in the same or similar lines of business as we do. Accordingly, they may have obligations to those entities, the fulfillment of which might not be in the best interests of us or our shareholders. It is possible that new investment opportunities that meet our investment objectives may come to the attention of one of the management team members or our officers or directors in his or her role as an officer or director of another entity or as an investment professional associated with that entity, and, if so, such opportunity might not be offered, or otherwise made available, to us.

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

The war with Iraq, terrorist attacks, the Middle East crisis and other acts of violence or war may affect any market for our common stock, impact the businesses in which we invest and harm our operations and our profitability.

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

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

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

INVESTMENT RISKS

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

Investing in private companies involves a high degree of risk.

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

Our investments in portfolio companies are generally illiquid.

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

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

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

- *Small and middle–market companies may have limited financial resources and may not be able to repay the loans we make to them.* Our strategy includes providing financing to companies that typically do not have capital sources readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the borrowers to repay their loans to us upon maturity.
- *Small and middle–market companies typically have narrower product lines and smaller market shares than large companies.* Because our target companies are smaller businesses, they may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, smaller companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.
- *There is generally little or no publicly available information about these privately–held companies.* Because we seek to make investments in privately–held companies, there is generally little or no publicly available operating and financial information about them. As a result, we rely on our investment professionals to perform due diligence investigations of these privately–held companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these companies through our investigations.
- *Small and middle–market companies generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, finance expansion or maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders.
- *Small and middle–market businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or middle–market company also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us.
- *Small and middle–market companies are likely to have greater exposure to economic downturns than larger companies.* We expect that our portfolio companies will have fewer resources than larger businesses and an economic downturn may thus more likely have a material adverse effect on them.
- *Small and middle–market companies may have limited operating histories.* We may make debt or equity investments in new companies that meet our investment criteria. Portfolio companies with limited operating histories are exposed to the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

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

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

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

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

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

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

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

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

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

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

Our portfolio investments may be concentrated in a limited number of portfolio companies, which would magnify the effect if one of those companies were to suffer a significant loss. This could negatively impact our ability to pay you dividends and cause you to lose all or part of your investment.

While we aim to have a broad mix of investments in portfolio companies, our investments, at any time, may be concentrated in a limited number of companies. A consequence of this concentration is that the aggregate returns we seek to realize may be adversely affected if a small number of our investments perform poorly or if we need to write down the value of any one such investment. Beyond the applicable federal income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies. These factors could negatively impact our ability to pay dividends and cause you to lose all or part of your investment.

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

Our investment strategy has resulted in some investments in debt or equity of foreign companies (subject to applicable limits prescribed by the 1940 Act). Investing in foreign companies can expose us to additional risks not typically associated with investing in U.S. companies. These risks include exchange rates, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Certain Government Regulations

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

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

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

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

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

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

(c) satisfies any of the following:

- does not have any class of securities with respect to which a broker or dealer may extend margin credit;
- is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or
- is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million.

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

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

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

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

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

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

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

As a business development company, we are entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage ratio of at least 200% immediately after each such issuance. See "Risk Factors." We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Independent Directors and, in some cases, prior approval by the SEC. On July 11, 2000, the SEC granted us an exemptive order permitting us to make co–investments with certain of our affiliates in portfolio companies, subject to various conditions. During the last completed fiscal year, the Fund did not engage in any transactions pursuant to this order.

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

We and TTG Advisers maintain a code of ethics that establishes procedures for personal investment and restricts certain transactions by our personnel. The code of ethics generally does not permit investment by our employees in securities that may be purchased or held by us. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at (202) 942–8090. In addition, the code of ethics is available on the EDGAR Database on the SEC Internet site at http://www.sec.gov. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, 100 F Street, NE, Washington, D.C. 20549. The code of ethics is also posted on our website at http://www.mvccapital.com.

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

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

Item 2. *Properties*

The Fund does not own any real estate or other physical property. Its principal executive office (the "Principal Executive Office") is located at 287 Bowman Avenue, Purchase, New York 10577, pursuant to a sublease which is scheduled to expire on February 28, 2007 (the "Sublease"). Effective November 1, 2006, the Fund subleased its principal executive office to TTG Advisers. Future payments under the Sublease for TTG Advisers total approximately $75,000 in fiscal year 2007. The Fund's previous lease was terminated effective March 1, 2005, without penalty. The building in which the Fund's executive offices are located, 287 Bowman Avenue, is owned by Phoenix Capital Partners, LLC, an entity which is 97% owned by Mr. Tokarz. See Note 4 "Management" for more information on Mr. Tokarz.

Item 3. *Legal Proceedings*

During the year ended October 31, 2003, the Fund paid or accrued $4.0 million for legal and proxy solicitation fees and expenses, which included $2.2 million accrued and paid at the direction of the Board of Directors, to reimburse the legal and proxy solicitation fees and expenses of two major Fund shareholders, Millenco, L.P. and Karpus Investment Management, including their costs of obtaining a judgment against the Fund in the Delaware Chancery Court and costs associated with the proxy process and the election of the current Board of Directors. The Fund made a claim against its insurance carrier, Federal Insurance Company ("Federal") for its right to reimbursement of such expenses. On June 13, 2005, the Fund reached a settlement with Federal in the amount of $473,968 which has been recorded as Other Income in the Consolidated Statement of Operations. Legal fees and expenses associated with reaching this settlement were $47,171.

Item 4. *Submission of Matters to a Vote of Security Holders*

The annual meeting of shareholders was held on September 7, 2006, for which a Definitive Proxy Statement on Schedule 14A was filed with the SEC on August 3, 2006. At the meeting, the Board of Directors was re–elected in its entirety. In addition, shareholders voted on the proposal to approve the Advisory Agreement. 92% of shareholder votes cast on the Advisory Agreement voted to approve the Advisory Agreement. 7% of shareholder votes cast on the Advisory Agreement voted against the approval of the Advisory Agreement. 1% of shareholder votes cast abstained from voting on the proposal to approve the Advisory Agreement.

Part II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Fund's shares of common stock began to trade on the NYSE on June 26, 2000, under the symbol "MVC." The Fund had approximately 7,000 shareholders on December 1, 2006.

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

Quarter Ended	High	Low
FISCAL YEAR 2006		
10/31/06	$ 13.87	$ 12.61
07/31/06	$ 13.49	$ 11.98
04/30/06	$ 12.75	$ 11.66
01/31/06	$ 12.22	$ 10.50
FISCAL YEAR 2005		
10/31/05	$ 12.22	$ 10.30
07/31/05	$ 11.34	$ 9.41
04/30/05	$ 9.50	$ 9.17
01/31/05	$ 9.55	$ 8.95

Dividends

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

Dividends and capital gain distributions, if any, are recorded on the ex–dividend date. Dividends and capital gain distributions are generally declared and paid quarterly according to the Fund's policy established on July 11, 2005. An additional distribution may be paid by the Fund to avoid imposition of federal income tax on any remaining undistributed net investment income and capital gains. Distributions can be made payable by the Fund either in the form of a cash distribution or a stock dividend. The amount and character of income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are due primarily to differing treatments of income and gain on various investment securities held by the Fund, timing differences and differing characterizations of distributions made by the Fund. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications and may affect the allocation between net operating income, net realized gain (loss) and paid in capital.

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

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

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

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

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

For the Quarter Ended July 31, 2005

On July 11, 2005, our board of directors announced that it approved the establishment of a policy of seeking to pay quarterly dividends to shareholders. For the quarter, the board of directors declared a dividend of $.12 per share payable on July 29, 2005 to shareholders of record on July 22, 2005. The total distribution amounted to $2,290,289 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 826 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Quarter Ended October 31, 2005

On October 10, 2005, our board of directors declared a dividend of $.12 per share payable on October 31, 2005 to shareholders of record on October 21, 2005. The total distribution amounted to $2,290,387 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,904 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Quarter Ended January 31, 2006

On December 20, 2005, the Fund's board of directors declared a dividend of $.12 per share payable on January 31, 2006 to shareholders of record on December 30, 2005. The ex–dividend date was December 28, 2005. The total distribution amounted to $2,290,616 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,824 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Quarter Ended April 30, 2006

On April 11, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on April 28, 2006 to shareholders of record on April 21, 2006. The ex–dividend date was April 19, 2006. The total distribution amounted to $2,290,835 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,734 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Quarter Ended July 31, 2006

On July 14, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on July 31, 2006 to shareholders of record on July 24, 2006. The ex–dividend date was July 20, 2006. The total distribution amounted to $2,291,043 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,901 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Quarter Ended October 31, 2006

On October 13, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on October 31, 2006 to shareholders of record on October 24, 2006. The ex–dividend date was October 20, 2006. The total distribution amounted to $2,291,271 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 2,327 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

The Fund designated 7%* or a maximum amount of $621,193 of dividends declared and paid during the year ending October 31, 2006 from net operating income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003.

Corporate shareholders may be eligible for a dividend received deduction for certain ordinary income distributions paid by the Fund. The Fund designated 7%* or a maximum amount of $621,193 of dividends declared and paid during the year ending October 31, 2006 from net operating income as qualifying for the dividends received deduction. The information necessary to prepare and complete shareholder's tax returns for the 2006 calendar year will be reported separately on form 1099–DIV, if applicable, in January 2007.

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

* Unaudited

Item 6. ***Selected Consolidated Financial Data***

Financial information for the fiscal years ended October 31, 2006, 2005, 2004 and 2003 are derived from the consolidated financial statements, which have been audited by Ernst & Young LLP, the Fund's current independent registered public accounting firm. The following selected financial data for the fiscal year ended October 31, 2002 are derived from the financial statements, which were audited by the Fund's former independent public accountants. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments), which are necessary to present fairly the results for such interim periods. **See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 28 for more information.**

Selected Consolidated Financial Data

	Year Ended October 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
Operating Data:					
Interest and related portfolio income:					
Interest and dividend income	$ 13,909	$ 9,457	$ 2,996	$ 2,833	$ 3,740
Fee income	3,828	1,809	926	62	—
Other income	771	933	64	—	—
Total operating income	18,508	12,199	3,986	2,895	3,740
Expenses:					
Employee	3,499	2,336	1,366	2,476	696
Incentive compensation (Note 5)	6,055	1,117	—	—	—
Administrative	3,420	3,021	2,891	8,911 (2)	2,573
Interest and other borrowing costs	1,594	31	2	—	—
Management fee	—	—	—	—	3,593
Total operating expenses	14,568	6,505	4,259	11,387	6,862
Litigation recovery of management fees (Note 12, 13)	—	—	370	—	—
Net operating income (loss) before taxes	3,940	5,694	97	(8,492)	(3,122)
Tax expense (benefit), net	159	(101)	79	—	—
Net operating income (loss)	3,781	5,795	18	(8,492)	(3,122)
Net realized and unrealized gains (losses):					
Net realized gains (losses)	5,221	(3,295)	(37,795)	(4,220)	(33,469)
Net change in unrealized appreciation (depreciation)	38,334	23,768	49,382	(42,771)	(21,765)
Net realized and unrealized gains (losses) on investments	43,555	20,473	11,587	(46,991)	(55,234)
Net increase (decrease) in net assets resulting from operations	$ 47,336	$ 26,268	$ 11,605	$ (55,483)	$ (58,356)
Per Share:					
Net increase (decrease) in net assets per share resulting from operations	$ 2.48	$ 1.45	$ 0.91	$ (3.42)	$ (3.54)
Dividends per share	$ 0.48	$ 0.24	$ 0.12	$ —	$ 0.04
Balance Sheet Data:					
Portfolio at value	$ 275,892	$ 122,298	$ 78,520	$ 24,071	$ 54,194
Portfolio at cost	286,851	171,591	151,582	146,515	133,864
Total assets	347,047	201,379	126,577	137,880	196,511
Shareholders' equity	236,993	198,707	115,567	137,008	195,386
Shareholders' equity per share (net asset value)	$ 12.41	$ 10.41	$ 9.40	$ 8.48	$ 11.84
Common shares outstanding at period end	19,094	19,087	12,293	16,153	16,500
Other Data:					
Number of Investments funded in period	24	9	7	5	10
Investments funded ($) in period	$ 166,300	$ 53,836	$ 60,710	$ 21,955	$ 26,577

	2006				2005				2004			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3(1)	Qtr 2	Qtr 1
	(In thousands except per share data)											
Quarterly Data (Unaudited):												
Total operating income	6,104	4,607	3,915	3,882	3,361	4,404	2,439	1,995	1,811	951	508	716
Net operating income (loss) before net realized and unrealized gains	1,723	1,072	156	830	1,612	2,480	821	882	665	281	(498)	(430)
Net increase (decrease) in net assets resulting from operations	15,866	8,046	11,117	12,307	8,933	10,310	4,360	2,665	3,274	4,922	1,104	2,305
Net increase (decrease) in net assets resulting from operations per share	0.83	0.42	0.58	0.65	0.46	0.58	0.23	0.18	0.27	0.41	0.09	0.14
Net asset value per share	12.41	11.70	11.40	10.94	10.41	10.06	9.64	9.41	9.40	9.25	8.85	8.76

(1) Data for 2004 differs from that which was filed on Form 10–Q on September 9, 2004, due to a reclassification of investment income and related expenses which had previously been accrued for.

(2) The administrative expenses for the year ended October 31, 2003 included approximately $4.0 million of proxy/litigation fees and expenses. These are non–recurring expenses.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

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

Overview

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

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

The investments can include senior or subordinated loans, convertible debt and convertible preferred securities, common or preferred stock, equity interests, warrants or rights to acquire equity interests, and other private equity transactions. In the year ended October 31, 2005, we made six new investments and three additional investments in existing portfolio companies, committing capital totaling $53.8 million. In the year ended October 31, 2006, we made sixteen new investments and eight additional investments in existing portfolio companies, committing capital totaling $166.3 million.

Prior to the adoption of our current investment objective, the Fund's investment objective had been to achieve long–term capital appreciation from venture capital investments in information technology companies. The Fund's investments had thus previously focused on investments in equity and debt securities of information technology companies. As of October 31, 2006, 2.42% of the current fair value of our assets consisted of portfolio investments made by the Fund's former management team pursuant to the prior investment objective. We are, however, seeking to manage these legacy investments to try and realize maximum returns. We generally seek to capitalize on opportunities to realize cash returns on these investments when presented with a potential "liquidity event," *i.e.*, a sale, public offering, merger or other reorganization.

Our new portfolio investments are made pursuant to our new objective and strategy. We are concentrating our investment efforts on small and middle–market companies that, in our view, provide opportunities to maximize total return from capital appreciation and/or income. Under our investment approach, we are permitted to invest, without limit, in any one portfolio company, subject to any diversification limits required in order for us to continue to qualify as a regulated investment company under Subchapter M of the Code.

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

We may also seek to achieve our investment objective by establishing a subsidiary or subsidiaries that would serve as general partner or investment adviser to a private equity or other investment fund(s). In fact, during 2006, we established MVC Partners, LLC for this purpose. Additionally, we may also acquire a portfolio of existing private equity or debt investments held by financial institutions or other investment funds.

Operating Income

For the Years Ended October 31, 2006, 2005 and 2004. Total operating income was $18.5 million for the fiscal year ended October 31, 2006 and $12.2 million for the fiscal year ended October 31, 2005, an increase of $6.3 million. For fiscal year 2005, operating income increased $8.2 million over 2004 operating income of $4.0 million.

For the Year Ended October 31, 2006

Total operating income was $18.5 million for the year ended October 31, 2006. The increase in operating income over last year was primarily due to the increase in the number of investments that provide the Fund with current income. For the years ended October 31, 2006 and 2005, the Fund made 24 and 9 investments in portfolio companies, respectively. The main components of operating income were the interest and dividend income earned on loans to portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Fund and MVCFS. During 2006, the Fund earned approximately $13.9 million in interest and dividend income from investments in portfolio companies. Of the $13.9 million recorded in interest/dividend income, approximately $2.2 million was payment in kind interest/dividends. The payment in kind interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. During the year ended October 31, 2006, the Fund reclassified dividend income received from Vitality totaling approximately $900,000 to return of capital. The reclassification occurred due to the determination that Vitality did not have sufficient taxable earnings and profits for their fiscal year 2006. This reclassification to return of capital had limited impact on the Fund's net asset value. The Fund's investments yielded rates from 7% to 17%. Also, the Fund earned approximately $2.3 million in interest income on its cash equivalents and short–term investments. The Fund received fee income and other income from portfolio companies and other entities totaling approximately $3.8 million and $771,405, respectively. Included in other income is flow through income from limited liability companies and cash received from the Mentor Graphics Corp. ("Mentor Graphics") multi–year earnout.

For the Year Ended October 31, 2005

Total operating income was $12.2 million for the year ended October 31, 2005. The increase in operating income over 2004 was primarily due to the increase in the number of investments that provide the Fund with current income. The main components of investment income were the interest and dividend income earned on loans to portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Fund and MVCFS. The Fund earned approximately $7.53 million in interest and dividend income from investments in portfolio companies. Of the $7.53 million recorded in interest/dividend income, approximately $1.37 million was "payment in kind" interest/dividends. The "payment in kind" interest/dividends are computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Fund's yielding investments were paying interest to the Fund at various rates from 7% to 17%. Also, the Fund earned approximately $1.93 million in interest income on its cash equivalents and short–term investments. The Fund received fee income and other income from portfolio companies and other entities totaling approximately $1.81 million and $900,000 respectively. Included in other income is flow through income from limited liability companies, cash received from the Mentor Graphics multi–year earnout and a legal settlement of $473,968. See Note 12 "Legal Proceedings" for more information. Without the receipt of this settlement, other income earned for the year ended October 31, 2005, would have been $428,855.

For the Year Ended October 31, 2004

Total operating income was $4.0 million for the year ended October 31, 2004. The main components of operating income were the interest income earned on loans to portfolio companies and the receipt of closing and monitoring fees from certain portfolio companies by the Fund and MVCFS. The Fund earned approximately $2.3 million in interest income from investments in portfolio companies. Of the $2.3 million recorded in interest income, approximately $100,000 was "payment in kind" interest. The "payment in kind" interest is computed at the contractual rate specified in each investment agreement and added to the principal balance of each investment. The Fund's yielding investments were paying interest to the Fund at various rates from 10% to 17%. Also, the Fund earned approximately $700,000 in interest income on its cash equivalents and short–term investments. The Fund received fee income and other income from portfolio companies totaling approximately $900,000 and $64,000 respectively.

Operating Expenses

For the Years Ended October 31, 2006, 2005 and 2004. Operating expenses were $14.6 million for the fiscal year ended October 31, 2006 and $6.5 million for the fiscal year ended 2005, an increase of $8.1 million. For fiscal year ended October 31, 2005, operating expenses increased $2.2 million from $4.3 million for the fiscal year ended 2004.

For the Year Ended October 31, 2006

Operating expenses were $14.6 million or 6.78% of the Fund's average net assets for the year ended October 31, 2006. Significant components of operating expenses for the year ended October 31, 2006, included an estimated provision for incentive compensation expense of approximately $6.1 million, salaries and benefits of approximately $3.5 million, interest and other borrowing costs of $1.6 million, legal fees of $685,396, facilities–related expenses of $603,328, and insurance premium expenses of $471,711,. The estimated provision for incentive compensation expense is a non–cash, not yet payable, provisional expense relating to Mr. Tokarz's employment agreement with the Fund.

The $8.1 million increase in the Fund's operating expenses for the year ended October 31, 2006 compared to the year ended October 31, 2005, was primarily due to: the $4.9 million increase in the provision for estimated incentive compensation; an increase in the number of employees needed to service the larger portfolio, which resulted in an increase of $1.2 million in salaries and benefits; and the Fund's rent and other facility related expenses increased approximately $118,908 primarily due to the Fund's procurement of larger office space to accommodate the Fund's increased number of employees. See Note 10 "Commitments and Contingencies" for more information.

Finally, the increase of approximately $1.6 million compared to the year ended October 31, 2005 in the Fund's interest expense and other borrowing costs was due to borrowings under the new Credit Facility II.

In February 2006, the Fund renewed its Directors & Officers/Professional Liability Insurance policies at an expense of approximately $459,000 which is amortized over the twelve month life of the policy. The prior policy premium was $517,000.

Pursuant to the terms of the Fund's employment agreement with Mr. Tokarz, during the year ended October 31, 2006, the provision for estimated incentive compensation was increased by $6,055,024. The increase in the provision for incentive compensation resulted from the determination of the Valuation Committee to increase the fair value of six of the Fund's portfolio investments: Baltic, Dakota, Ohio, Octagon, Turf, and Vitality, which are subject to the Fund's employment agreement with Mr. Tokarz, by a total of $30,275,120. This reserve balance of $7,172,352 will remain unpaid until net capital gains are realized, if ever, by the Fund. Without this reserve for incentive compensation, operating expenses would have been approximately $8.51 million or 3.96% of average net assets when annualized as compared to 6.78% which is reported on the Consolidated Per Share Data and Ratios, for the year ended October 31, 2006. Pursuant to Mr. Tokarz's employment agreement with the Fund, only after a realization event, may the incentive compensation be paid to him. Mr. Tokarz has determined to allocate a portion of his incentive compensation to certain employees of the Fund. During the years ended October 31, 2006 and October 31, 2005, Mr. Tokarz was paid no cash or other compensation. However, on October 2, 2006 and as discussed in "Realized Gains and Losses on Portfolio Securities," the Fund realized a gain of $551,092 from the sale of a portion of the Fund's LLC member interest in Octagon. This transaction triggered an incentive compensation payment obligation to Mr. Tokarz, which payment is not required to be made until the precise amount of the payment obligation is confirmed based on the Fund's completed audited financials for the fiscal year 2006. Subject to confirmation following the audit, the payment obligation to Mr. Tokarz from this transaction is approximately $110,000 (which is expected to be paid during the first quarter of the Fund's fiscal year 2007). Please see Note 5 "Incentive Compensation" for more information.

For the Year Ended October 31, 2005

Operating expenses were $6.5 million or 3.75% of average net assets for the year ended October 31, 2005. Significant components of operating expenses for the year ended October 31, 2005 included salaries and benefits of $2,336,242, estimated incentive compensation expense of $1,117,328, insurance premium expenses of $590,493, legal fees of $529,541 and facilities related expenses of $484,420. Estimated incentive compensation expense is a non–cash, not yet payable, provisional expense relating to Mr. Tokarz's compensation arrangement with the Fund.

The increase in the Fund's operating expenses in 2005 compared to 2004 was primarily due to an increase in employees needed to service the larger portfolio and work to continue to grow the Fund. Also, the Fund's rent and other facility related expenses increased primarily due to the Fund's procurement of larger office space to accommodate the Fund's increased number of employees. See Note 10 "Commitments and Contingencies" for more information.

Pursuant to the terms of the Fund's agreement with Mr. Tokarz, during the year ended October 31, 2005, the Fund created a provision for $1,117,328 of incentive compensation. This provision for incentive compensation resulted from the determination of the Valuation Committee to increase the fair value of five of the Fund's portfolio investments: Baltic, Dakota, Octagon, Vestal and Vitality which are subject to the Fund's agreement with Mr. Tokarz, by an aggregate amount of $5,586,638. This reserve balance of $1,117,328 will remain unpaid and not finally determined until net capital gains are realized, if ever, by the Fund. Pursuant to Mr. Tokarz's agreement with the Fund, only after a realization event, will the incentive compensation be paid to him. Mr. Tokarz has determined to allocate a portion of his incentive compensation to certain employees of the Fund. During the year ended October 31, 2005, Mr. Tokarz was paid no cash or other compensation. Without this reserve for incentive compensation, operating expenses would have been approximately $5.4 million or 3.10% of average net assets. Please see Note 5 "Incentive Compensation" for more information.

In February 2005, the Fund renewed its Directors & Officers/Professional Liability Insurance policies at an expense of approximately $517,000 which is amortized over the twelve month life of the policy. The prior policy premium was $719,000.

During the year ended October 31, 2005, the Fund paid or accrued $529,541 in legal fees. This amount includes legal fees of $47,171 which were incurred while pursuing a claim against Federal Insurance Company. See Note 12 "Legal Proceedings" for more information. The Fund received $473,964 from the settlement of the legal action which was recorded as "other income." After fees and expenses the cash received from the settlement was $426,797. Without the legal fees related to the legal action, the Fund would have paid or accrued $482,370 in legal fees.

For the Year Ended October 31, 2004

Operating expenses were $4.3 million or 3.68% of average net assets for the year ended October 31, 2004. Significant components of operating expenses for the year ended October 31, 2004 included insurance premium expenses of $959,570, salaries and benefits of $1,365,913, legal fees of $810,848, and facilities expense of $90,828.

In February 2003, the former management of the Fund ("Former Management") entered into new Directors & Officers/Professional Liability Insurance policies with total premiums of approximately $1.4 million. The cost was amortized over the life of the policy, through February 2004, at which time at new policy was entered into with a premium of approximately $719,000. For the year ended October 31, 2004, the Fund expensed $959,570 in insurance premiums.

During the year ended October 31, 2004, the Fund paid or accrued $810,848 in legal fees (compared to $1.5 million in 2003). Legal expenses included fees of $124,787 incurred while pursuing action against the Fund's former advisor, meVC Advisers, Inc. (the "Former Adviser") for the reimbursement of management fees which were alleged to be excessive. See Note 12 "Legal Proceedings" for more information. The Fund received $370,000 from the settlement of the legal action which was recorded as other income. After fees and expenses the cash received from the settlement was $245,213. Without the legal fees related to this litigation, the Fund would have paid or accrued $686,061 in legal fees. The legal expenses for the year ended October 31, 2004, were reflective of a decreased need for legal counsel due to the redefinition of the Fund's direction by Management.

On January 21, 2004, the Fund reached an agreement with the property manager at 3000 Sand Hill Road, Menlo Park, California to terminate its lease at such location. Under the terms of the agreement, the Fund bought–out its lease directly from the property manager, for an amount equal to $232,835. As a result, the Fund recovered approximately $250,000 of the remaining reserve established at October 31, 2003. Without the recovery of the reserve, the gross facilities expense for the year ended October 31, 2004 would have been approximately $340,828.

Realized Gains and Losses On Portfolio Securities

For the Years Ended October 31, 2006, 2005 and 2004. Net realized gains for the year ended October 31, 2006 were $5.2 million and net realized losses for the year ended October 31, 2005 were $3.3 million, an increase of $8.5 million. Net realized losses for the year ended October 31, 2004 were $37.8 million which was $34.5 million more compared to fiscal year 2005.

For the Year Ended October 31, 2006

Net realized gains for the year ended October 31, 2006 were $5.2 million. The significant component of the Fund's net realized gain for the year ended October 31, 2006 was primarily due to the gain on the sale of ProcessClaims Inc. ("Process Claims"), the escrow distribution from Sygate Technologies, Inc. ("Sygate"), and the sale of a portion of the Octagon equity interest, an investment made during Mr. Tokarz's tenure as portfolio manager.

During the year ended October 31, 2006, the Fund sold its investment in ProcessClaims and realized a gain of approximately $5.5 million. The Fund was entitled to receive approximately $8.3 million in gross proceeds, of which approximately $400,000 or 5% of the proceeds will be deposited into a reserve account for one year. Due to the contingencies associated with the escrow, the Fund has not presently placed any value on the proceeds deposited in escrow and has therefore not factored such proceeds into the Fund's increased NAV. The Fund received net proceeds of approximately $7.9 million.

On October 2, 2006, Octagon bought-back a total of 15% equity interest from non-service members. This resulted in a sale of a portion of the Fund's LLC member interest to Octagon for proceeds of $1,020,018. The Fund realized a gain of $551,092 from this sale.

On October 17, 2006, the Fund received a $1.6 million escrow disbursement from the sale of Sygate on October 10, 2005. Due to the contingencies associated with the escrow, the Fund had not placed any value on the proceeds deposited in escrow. This resulted in an increase in NAV of $1.6 million.

The Fund received notification of the final dissolution of Yaga Inc. ("Yaga"). The Fund received no proceeds from the dissolution of this company and the investment has been removed from the Fund's books. The Fund realized a loss of $2.3 million as a result of this dissolution. The fair value of Yaga was previously written down to zero and therefore, the net effect of the removal of Yaga from the Fund's books on the Fund's consolidated statement of operations and NAV was zero.

On April 7, 2006, the Fund sold its investment in Lumeta Corporation ("Lumeta") for its then carrying value of $200,000. The Fund realized a loss on Lumeta of approximately $200,000. However, the Valuation Committee previously decreased the fair value of the Fund's investment in this company to $200,000 and as a result, the realized loss was offset by a reduction in unrealized losses. Therefore, the net effect of the Fund's sale of its investment in Lumeta on the Fund's consolidated statement of operations and NAV was zero.

The Fund also received a payout related to a former portfolio company, Annuncio, of approximately $70,000.

For the Year Ended October 31, 2005

Net realized losses for the year ended October 31, 2005 were $3.3 million. The significant components of the Fund's net realized loss for the year ended October 31, 2005 were realized gains on the Fund's investments in Sygate, Mentor Graphics and BlueStar Solutions, Inc. ("BlueStar") which were offset by realized losses on CBCA, Inc. ("CBCA"), Phosistor Technologies, Inc. ("Phosistor") and ShopEaze Systems, Inc. ("ShopEaze").

During the year ended October 31, 2005, the Fund sold its entire investment in Sygate and received net proceeds of $14.4 million. In addition, approximately $1.6 million or 10% of proceeds from the sale were deposited in an escrow account for approximately one year. Due to the contingencies associated with the escrow, the Fund did not place any value on the proceeds deposited in escrow and did not factor such proceeds into the Fund's NAV. The realized gain from the $14.4 million in net proceeds received was $10.4 million. The Fund also sold 685,679 shares of Mentor Graphics receiving net proceeds of approximately $9.0 million and a realized gain on the shares sold of approximately $5.0 million. The Fund also received approximately $300,000 from the release of money held in escrow in connection with the Fund's sale of its investment in BlueStar in 2004 (see below).

The Fund realized losses on CBCA of approximately $12.0 million, Phosistor of approximately $1.0 million and ShopEaze of approximately $6.0 million. The Fund received no proceeds from these companies and they have been removed from the Fund's portfolio. The Valuation Committee previously decreased the fair value of the Fund's investment in these companies to zero and as a result, the realized losses were offset by reductions in unrealized losses. Therefore, the net effect of the transactions on the Fund's consolidated statement of operations and NAV was zero for the fiscal year ended October 31, 2005.

For the Year Ended October 31, 2004

Net realized losses for the year ended October 31, 2004 were $37.8 million. The significant components of the Fund's realized losses for the year ended October 31, 2004 were transactions with PTS Messaging, Inc. ("PTS Messaging"), Ishoni Networks, Inc. ("Ishoni"), Synhrgy HR Technologies, Inc. ("Synhrgy"), BlueStar and DataPlay, Inc. ("DataPlay").

The Fund had a return of capital from PTS Messaging with proceeds totaling approximately $102,000 from the initial and final disbursement of assets and a realized loss totaling approximately $11.6 million. As of October 31, 2004 the Fund no longer held an investment in PTS Messaging. The Valuation Committee previously decreased the fair value of the Fund's investment in PTS Messaging to zero.

The Fund also realized a loss on Ishoni of approximately $10.0 million. The Fund received no proceeds from the dissolution of this company and the investment has been removed from the Fund's portfolio. The Valuation Committee previously decreased the fair value of the Fund's investment in Ishoni to zero.

There was a gain of $39,630 representing proceeds received from the cashless exercise of the Fund's warrants of Synhrgy in conjunction with the early repayment by Synhrgy of the balance of Synhrgy's credit facility.

On August 26, 2004, Affiliated Computer Services, Inc. ("ACS") acquired the Fund's portfolio company BlueStar in a cash transaction. The Fund received approximately $4.5 million for its investment in BlueStar. The amount received included up to $459,000 in contingent payments that were held in escrow. The carrying value of the BlueStar investment was $3.0 million. The Fund realized a loss of approximately $8.8 million, which was offset by a decrease in unrealized loss by the same amount. The effect of the transaction on the Fund was an increase in assets by $1.1 million. After the sale, the Fund no longer held an investment in BlueStar.

On August 29, 2004, the Fund entered into a transaction pursuant to which it received 602,131 Series A-1 preferred shares of DPHI, Inc. ("DPHI"), which purchased the assets of DataPlay out of bankruptcy in late 2003. The Fund's legal fees in connection with the transaction were approximately $20,000. The shares of DPHI were received in exchange for the Fund's seven promissory notes in DataPlay. The 2,500,000 shares of DataPlay Series D Preferred Stock were removed from the books of the Fund for a realized loss of $7.5 million. The unrealized loss had previously been recorded; therefore, the net effect of the transaction was zero.

Unrealized Appreciation and Depreciation of Portfolio Securities

For the Years Ended October 31, 2006, 2005 and 2004. The Fund had a net change in unrealized appreciation on portfolio investments of $38.3 million for the year ended October 31, 2006. The Fund had a net change in unrealized appreciation on portfolio investments of $23.8 million and $49.4 million for the years ended October 31, 2005 and 2004, respectively.

For the Year Ended October 31, 2006

The Fund had a net change in unrealized appreciation on portfolio investments of $38.3 million for the year ended October 31, 2006. The change in unrealized appreciation on investment transactions for the year ended October 31, 2006 primarily resulted from the Valuation Committee's decision to increase the fair value of the Fund's investments in Baltic common stock by $11.6 million, Dakota common stock by approximately $2.6 million, Turf's membership interest by approximately $2.0 million, Octagon's membership interest by approximately $562,000, Ohio common stock by $9.2 million, ProcessClaims preferred stock by $4.8 million, Foliofn preferred stock by $5.0 million, Vendio Services, Inc. ("Vendio") preferred stock by $700,000, and Vitality common stock and warrants by $3.5 million and $400,000, respectively. The Valuation Committee also decided to decrease the fair value of the Fund's investment in Timberland common stock by $1.0 million. Other key components of the net change in unrealized appreciation were the $2.5 million depreciation reclassification from unrealized to realized caused by the removal of Yaga and Lumeta and the $4.8 million appreciation reclassification from the sale of ProcessClaims from the Fund's books.

For the Year Ended October 31, 2005

The Fund had a net change in unrealized appreciation on portfolio investments of $23.8 million for the year ended October 31, 2005. The change in unrealized appreciation on investment transactions for the year ended October 31, 2005 primarily resulted from the Valuation Committee's determinations to increase the fair value of the Fund's investments in Baltic by $1.5 million, Dakota by $514,000, Octagon by $1,022,638, Sygate by $7.5 million, Vendio Services, Inc. ("Vendio") by $1,565,999, Vestal by $1.85 million and Vitality by $700,000. The increase in the fair value of these portfolio investments resulted in a change in unrealized appreciation of approximately $14.7 million. Other key components were the realization of a $10.4 million gain on the sale of the Fund's investment in Sygate, a $5.0 million gain on the sale of the Fund's investment in Mentor Graphics, the $19.0 million depreciation reclassification from unrealized to realized caused by the removal of CBCA, Phosistor and ShopEaze from the Fund's books and the $500,000 decrease in unrealized caused by repayment in full of the Arcot Systems, Inc. ("Arcot") loan which was being carried below cost.

For the Year Ended October 31, 2004

Net change in unrealized appreciation for the year ended October 31, 2004 was $49.38 million. The net change in unrealized appreciation on investment transactions for the year ended October 31, 2004 resulted mainly from the $37.8 million reclassification from unrealized depreciation to realized loss caused by the sale or disbursement of assets from PTS Messaging, Ishoni, Synhrgy, BlueStar and DataPlay (See Realized Gains and Losses on Portfolio Securities). This net decrease also resulted from the determinations of the Valuation Committee to (i) increase the fair value of the Fund's investments in 0–In Design Automation, Inc. ("0–In") by $5 million, Sygate by $1.5 million, BlueStar by $1.5 million, Vendio by $634,000 and Integral Development Corp. ("Integral") by $989,000 and (ii) decrease the fair value of the Fund's investments in Actelis Networks, Inc. ("Actelis") by $1,000,000, CBCA by $500,000, and Sonexis, Inc. ("Sonexis") by $500,000.

The Fund also sold its investment in 0–In for 685,679 shares of Mentor Graphics in a tax–free exchange. Of these shares, 603,396 are freely tradable and valued daily at market price. As of October 31, 2004 these shares had an unrealized gain of approximately $3.0 million above the Fund's cost basis in 0–In and $6.0 million above 0–In's carrying value at October 31, 2003.

Portfolio Investments

For the Years Ended October 31, 2006 and 2005. The cost of the portfolio investments held by the Fund at October 31, 2006 and at October 31, 2005 was $286.9 million and $171.6 million, respectively, an increase of $115.3 million. The aggregate fair value of portfolio investments at October 31, 2006 and at October 31, 2005 was $275.9 million and $122.3 million, respectively, an increase of $153.6 million. The cost and aggregated market value of short–term securities held by the Fund at October 31, 2006 and at October 31, 2005 was $0 and $51 million, respectively, a decrease of $51 million. The cost and aggregate market value of cash and cash equivalents held by the Fund at October 31, 2006 and at October 31, 2005 was $66.2 million and $26.3 million, respectively, an increase of approximately $39.9 million.

For the Year Ended October 31, 2006

During the year ended October 31, 2006, the Fund made sixteen new investments, committing capital totaling approximately $142.1 million. The investments were made in Turf ($11.6 million), SOI ($5.0 million), Henry ($5.0 million), BM Auto ($15.0 million), Storage Canada ($6.0 million), Phoenix ($8.0 million), Harmony ($200,000), Total Safety ($6.0 million), PreVisor ($6.0 million), Marine ($14.0 million), BP ($15.0 million), Velocitius ($66,290), Summit ($16.2 million), Octagon ($17.0 million), BENI ($2.0 million), and Innovative Brands ($15.0 million).

The Fund also made eight follow–on investments in existing portfolio companies committing capital totaling approximately $24.2 million. During the year ended October 31, 2006, the Fund invested approximately $879,000 in Dakota by purchasing an additional 172,104 shares of common stock at an average price of $5.11 per share. On December 22, 2005, the Fund made a follow–on investment in Baltic in the form of a $1.8 million revolving bridge note. Baltic immediately drew down $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on January 31, 2006 and has been removed from the Fund's books. On January 12, 2006, the Fund provided SGDA a $300,000 bridge loan. On March 28, 2006, the Fund provided Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on April 30, 2006 and has been removed from the Fund's books. On April 6, 2006, the Fund invested an additional $2.0 million in SGDA in the form of a preferred equity security. On April 25, 2006, the Fund purchased an additional common equity security in SGDA for $23,000. On June 30, 2006, the Fund invested $2.5 million in Amersham in the form of a second lien loan. On August 4, 2006, the Fund invested $750,000 in Harmony in the form of common stock. On September 28, 2006, the Fund made another follow–on investment in Baltic in the form of a $1.0 million bridge loan and $2.0 million equity investment. On October 13, 2006, the Fund made a $10 million follow–on investment in SP. The $10 million was invested in the form of an additional $4.0 million in term loan B and $6.0 million in a mezzanine loan. On October 20, 2006, the Fund then assigned $5.0 million of SP's $8.0 million term loan B to Citigroup Global Markets Realty Corp. On

October 24, 2006, the Fund invested an additional $3.0 million in SGDA in the form of a preferred equity security. On October 26, 2006, the Fund invested an additional $2.9 million in Velocitius in the form of common equity. The Fund also provided Velocitius a $260,000 revolving note on October 31, 2006. Velocitius immediately drew down $143,614 from the note.

At the beginning of the 2006 fiscal year, the revolving credit facility provided to SGDA had an outstanding balance of approximately $1.2 million. During December 2005, SGDA drew down an additional $70,600 from the credit facility. On April 28, 2006, the Fund increased the availability under the revolving credit facility by $300,000. The balance of the bridge loan mentioned above, which would have matured on April 30, 2006, was added to the revolving credit facility and the bridge loan was eliminated from the Fund's books as a part of the refinancing.

On December 21, 2005, Integral prepaid its senior credit facility from the Fund in full. The Fund received approximately $850,000 from the prepayment. This amount included all outstanding principal and accrued interest. The Fund recorded no gain or loss as a result of the prepayment. Under the terms of the prepayment, the Fund returned its warrants to Integral for no consideration.

Effective December 27, 2005, the Fund exchanged $286,200, of the $3.25 million outstanding, of the Timberland junior revolving line of credit into 28.62 shares of common stock at a price of $10,000 per share. As a result, as of July 31, 2006, the Fund owned 478.62 common shares of Timberland and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.96 million.

Effective December 31, 2005, the Fund received 373,362 shares of Series E preferred stock of ProcessClaims, Inc. in exchange for its rights under a warrant issued by ProcessClaims that has been held by the Fund since May 2002. On January 5, 2006, the Valuation Committee increased the fair value of the Fund's entire investment in ProcessClaims by $3.3 million to $5.7 million. Please see the paragraph below for more information on ProcessClaims.

On January 3, 2006, the Fund exercised its warrant ownership in Octagon which increased its existing membership interest. As a result, Octagon is now considered an affiliate of the Fund.

Due to the dissolution of Yaga, one of the Fund's legacy portfolio companies, the Fund realized losses on its investment in Yaga totaling $2.3 million during the year ended October 31, 2006. The Fund received no proceeds from the dissolution of Yaga and the Fund's investment in Yaga has been removed from the Fund's books. The Valuation Committee previously decreased the fair value of the Fund's investment in Yaga to zero and as a result, the Fund's realized losses were offset by reductions in unrealized losses. Therefore, the net effect of the removal of Yaga from the Fund's books on the Fund's consolidated statement of operations and NAV at October 31, 2006, was zero.

On February 24, 2006, BP repaid its second lien loan from the Fund in full. The amount of the proceeds received from the prepayment was approximately $8.7 million. This amount included all outstanding principal, accrued interest, accrued monitoring fees and an early prepayment fee. The Fund recorded no gain or loss as a result of the repayment.

On April 7, 2006, the Fund sold its investment in Lumeta for its then carrying value of $200,000. The Fund realized a loss on Lumeta of approximately $200,000. However, the Valuation Committee previously decreased the fair value of the Fund's investment in Lumeta to $200,000 and, as a result, the realized loss was offset by a reduction in unrealized losses. Therefore, the net effect of the Fund's sale of its investment in Lumeta on the Fund's consolidated statement of operations and NAV was zero.

On April 21, 2006, BM Auto repaid its bridge loan from the Fund in full. The amount of the proceeds received from the repayment was approximately $7.2 million. This amount included all outstanding principal, accrued interest and was net of foreign taxes withheld. The Fund recorded no gain or loss as a result of the repayment.

On May 4, 2006, the Fund received a working capital adjustment of approximately $250,000 related to the Fund's purchase of a membership interest in Turf. As a result, the Fund's cost basis in the investment was reduced.

On May 30, 2006, ProcessClaims, one of the Fund's legacy portfolio companies, entered into a definitive agreement to be acquired by CCC Information Services Inc. ("CCC"). The acquisition by CCC closed on

June 9, 2006. As of June 9, 2006, the Fund received net proceeds of approximately $7.9 million. The gross proceeds were approximately $8.3 million of which approximately $400,000 or 5% of the gross proceeds were deposited into a reserve account for one year. Due to the contingencies associated with the escrow, the Fund has not presently placed any value on the proceeds deposited in escrow and has therefore not factored such proceeds into the Fund's increased NAV. The Fund's total investment in ProcessClaims was $2.4 million which resulted in a capital gain of approximately $5.5 million.

On July 27, 2006, SOI repaid their loan from the Fund in full. The amount of the proceeds received from the prepayment was approximately $4.5 million. This amount included all outstanding principal, accrued interest, and an early prepayment fee. The Fund recorded no gain or loss as a result of the prepayment.

On August 25, 2006, Harmony repaid their loan from the Fund in full. The amount of the proceeds received from the prepayment was $207,444. This amount included all outstanding principal and accrued interest. The Fund recorded no gain or loss as a result of the prepayment.

On August 25, 2006, SGDA's revolving credit facility was added to the term loan, increasing the balance of the term loan by $1.6 million. The revolving credit facility was eliminated from the Fund's books as a result of this refinancing.

Effective September 12, 2006, the Fund exchanged $409,091, of the $2.96 million outstanding, of the Timberland junior revolving line of credit into 40.91 shares of common stock at a price of $10,000 per share. Effective September 22, 2006, the Fund exchanged $225,000, of the $2.55 million outstanding, of the Timberland junior revolving line of credit into 22.5 shares of common stock at a price of $10,000 per share. On September 22, 2006, Timberland drew down $500,000 from the junior revolving line of credit. As a result of these transactions, as of October 31, 2006, the Fund owned 542.03 common shares of Timberland and the funded debt under the junior revolving line of credit was reduced from $2.96 million to approximately $2.83 million.

On October 2, 2006, Octagon bought–back a total of 15% equity interest from non–service members. This resulted in a sale of a portion of the Fund's LLC member interest to Octagon for proceeds of $1,020,018. The Fund realized a gain of $551,092 from this sale.

On October 2, 2006, Octagon repaid their loan and revolving credit facility from the Fund in full. The amount of the proceeds received from the prepayment of the loan was approximately $5.4 million. This amount included all outstanding principal, accrued interest, and an unused fee on the revolving credit facility. The Fund recorded a gain as a result of these prepayments of approximately $429,000 from the acceleration of amortization of original issue discount.

On October 20, 2006, the Fund assigned $5.0 million of SP's $8.0 million term loan B to Citigroup Global Markets Realty Corp.

On October 30, 2006, JDC repaid $160,116 of principal on the senior subordinated debt.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's investments in Baltic common stock by $11.6 million, Dakota common stock by approximately $2.6 million, Turf's membership interest by $2.0 million, Octagon's membership interest by approximately $562,000, Ohio common stock by $9.2 million, Foliofn preferred stock by $5.0 million, Vendio preferred stock by $700,000, ProcessClaims preferred stock by $4.8 million and Vitality common stock and warrants by $3.5 million and $400,000, respectively. In addition, increases recorded to the cost basis and fair value of the loans to Amersham, BP, Impact, JDC, Phoenix, SP, Timberland, Turf, Marine, Summit and the Vitality and Marine preferred stock were due to the receipt of payment in kind interest/dividends totaling approximately $2.2 million. Also during the year ended October 31, 2006, the undistributed allocation of flow through income from the Fund's equity investment in Octagon increased the cost basis and fair value of the Fund's investment by approximately $279,000. During the year ended October 31, 2006, the Valuation Committee also decreased the fair value of the Fund's equity investment in Timberland by $1 million. The increase in fair value from payment in kind interest/dividends and flow through income has been approved by the Fund's Valuation Committee.

At October 31, 2006, the fair value of all portfolio investments, exclusive of short–term securities, was $275.9 million with a cost basis of $286.9 million. At October 31, 2005, the fair value of all portfolio investments, exclusive of short–term securities, was $122.3 million with a cost basis of $171.6 million.

For the Year Ended October 31, 2005

During the year ended October 31, 2005, the Fund made six new investments, committing capital totaling approximately $48.8 million. The investments were made in JDC, SGDA, SP, BP, Ohio and Amersham. The amounts invested were $3.0 million, $5.8 million, $10.5 million, $10 million, $17 million and $2.5 million respectively.

The Fund also made three follow–on investments in existing portfolio companies committing capital totaling approximately $5.0 million. In December 2004 and January 2005, the Fund invested a total of $1.25 million in Timberland in the form of subordinated bridge notes. On April 15, 2005, the Fund re–issued 146,750 shares of its treasury stock at the Fund's NAV per share of $9.54 in exchange for 40,500 shares of common stock of Vestal. On July 8, 2005 the Fund extended Timberland a $3.25 million junior revolving note. According to the terms of the note, Timberland immediately drew $1.3 million from the revolving note and used the proceeds to repay the subordinated bridge notes in full. The repayment included all outstanding principal and accrued interest. On July 29, 2005, the Fund invested an additional $325,000 in Impact in the form of a secured promissory note.

In April 2005, Octagon drew $1.5 million from the senior secured credit facility provided to it by the Fund and repaid it in full during June 2005.

During 2005, SGDA drew approximately $1.2 million from the revolving credit facility provided to it by the Fund. As of October 31, 2005, all amounts drawn from the facility remained outstanding.

On July 14, 2005 and September 28, 2005, Timberland drew an additional $1.5 million and $425,000, respectively, from the revolving note mentioned above. As of October 31, 2005, the note was drawn in full and the balance of $3.25 million remained outstanding.

Also, during the year ended October 31, 2005, the Fund sold its entire investment in Sygate and received $14.4 million in net proceeds. In addition, approximately $1.6 million or 10% of proceeds from the sale were deposited in an escrow account for approximately one year. Due to the contingencies associated with the escrow, the Fund did not place any value on the proceeds deposited in escrow and did not factor such proceeds into the Fund's NAV. The realized gain from the $14.4 million in net proceeds received was $10.4 million. The Fund also sold 685,679 shares of Mentor Graphics receiving net proceeds of approximately $9.0 million and a realized gain on the shares sold of approximately $5.0 million. The Fund also received approximately $300,000 from the escrow related to the 2004 sale of BlueStar.

The Fund realized losses on CBCA of approximately $12.0 million, Phosistor of approximately $1.0 million and ShopEaze of approximately $6.0 million. The Fund received no proceeds from these companies and they have been removed from the Fund's portfolio. The Valuation Committee previously decreased the fair value of the Fund's investments in these companies to zero. Therefore, the net effect of the transactions on the Fund's consolidated statement of operations and NAV for the fiscal year ended October 31, 2005, was zero.

On December 21, 2004, Determine Software, Inc. ("Determine") prepaid its senior credit facility from the Fund in full. The amount of proceeds the Fund received from the repayment was approximately $1.64 million. This amount included all outstanding principal and accrued interest. Under the terms of the early repayment, the Fund returned its 2,229,955 Series C warrants for no consideration.

On July 5, 2005, Arcot prepaid its senior credit facility from the Fund in full. The amount of proceeds the Fund received from the repayment was approximately $2.55 million. This amount included all outstanding principal and accrued interest. Under the terms of the early repayment, the Fund returned its warrants to Arcot for no consideration.

The Fund continued to receive principal repayments on the debt securities of Integral and BP. Integral made payments during the year ended October 31, 2005, according to its credit facility agreement totaling $1,683,336. BP made two quarterly payments during the year ended totaling $833,333. Also, the Fund received a one time, early repayment on Vestal's debt securities totaling $100,000.

During the year ended October 31, 2005, the Valuation Committee increased the fair value of the Fund's investments in Baltic by $1.5 million, Dakota by $514,000, Octagon by $1,022,638, Sygate by $7.5 million (which was later realized), Vendio by $1,565,999, Vestal by $1,850,000 and Vitality by $700,000. In addition, increases in the cost basis and fair value of the Octagon loan, Impact loan, Timberland loan, Vitality Series A preferred stock, JDC loan and SP loans were due to the receipt of "payment in kind" interest/dividends totaling $1,370,777. Also during the year ended October 31, 2005, the undistributed allocation of flow through income from the Fund's equity investment in Octagon increased the cost basis and fair value of the investment by $114,845.

At October 31, 2005, the fair value of all portfolio investments, exclusive of short–term securities, was $122.3 million with a cost of $171.6 million. At October 31, 2004, the fair value of all portfolio investments, exclusive of short–term securities, was $78.5 million with a cost of $151.6 million.

Portfolio Companies

During the year ended October 31, 2006, the Fund had investments in the following portfolio companies:

Actelis Networks, Inc.

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

At October 31, 2005 and October 31, 2006, the Fund's investment in Actelis consisted of 150,602 shares of Series C preferred stock at a cost of $5.0 million. The investment has been assigned a fair value of $0.

Amersham Corp.

Amersham Corp. ("Amersham"), Louisville, Colorado, is a manufacturer of precision machined components for the automotive, furniture, security and medical device markets.

During fiscal year 2005 the Fund made an investment in Amersham. The Fund's investment in Amersham consists of $2.5 million in purchased notes, bearing annual interest at 10%. The notes have a maturity date of June 29, 2010. The notes have a principal face amount and cost basis of $2.5 million.

On June 30, 2006, the Fund made an additional investment in Amersham consisting of an additional $2.5 million note bearing annual interest at 16% from June 30, 2006 to June 30, 2008. The interest rate then steps down to 14% for the period July 1, 2008 to June 30, 2010, steps down to 13% for the period July 1, 2010 to June 30, 2012 and steps down again to 12% for the period July 1, 2012 to June 30, 2013. The note has a maturity date of June 30, 2013. The note has a principal face amount and cost basis of $2.6 million. The increase in the outstanding balance, cost and fair value of the loan, is due to the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

At October 31, 2006, the notes had a combined outstanding balance, cost and fair value of $5.1 million.

Auto MOTOL BENI

Auto MOTOL BENI ("BENI"), consists of two leased Ford sales and service dealerships located in the western side of Prague, in the Czech Republic.

On October 10, 2006 the Fund made an investment in BENI by purchasing 200 shares of common stock at a cost of $2.0 million.

At October 31, 2006, the Fund's investment in BENI was assigned a cost and fair value of $2.0 million.

Christopher Sullivan, a representative of the Fund, serves as a director for BENI.

Baltic Motors Corporation

Baltic Motors Corporation ("Baltic"), Purchase, New York, is a U.S. company focused on the importation and sale of Ford and Land Rover vehicles and parts throughout Latvia, a member of the European Union.

At October 31, 2005, the Fund's investment in Baltic consisted of 54,947 shares of common stock at a cost of $6.0 million and a mezzanine loan with a cost basis of $4.5 million. The loan has a maturity date of June 24, 2007 and earns interest at 10% per annum.

At October 31, 2005, the investment in Baltic was assigned a fair value of $12.0 million.

On December 22, 2005, the Fund extended to Baltic a $1.8 million revolving bridge note. Baltic immediately drew down $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note ended on January 31, 2006 and has been removed from the Fund's books.

On March 28, 2006, the Fund extended to Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note ended on April 30, 2006 and has been removed from the Fund's books.

On September 28, 2006, the Fund purchased an additional 5,737 shares of common stock at a cost of $2.0 million. The Fund also extended to Baltic a $1.0 million bridge loan. The loan bears annual interest at 12% with a maturity date of December 27, 2006.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's equity investment in Baltic by $11.6 million. The fair value of the Fund's equity investment at October 31, 2006 was $21.2 million.

At October 31, 2006, the Fund's investment in Baltic was assigned a fair value of $26.7 million. Michael Tokarz, Chairman of the Fund, and Christopher Sullivan, a representative of the Fund, serve as directors for Baltic.

BP Clothing, LLC

BP Clothing, LLC ("BP"), Pico Rivera, California, is a company which designs, manufactures, markets and distributes, Baby Phat(R), a line of women's clothing.

On June 3, 2005, the Fund made an initial investment in BP consisting of a $10 million second lien loan bearing annual interest at LIBOR plus 8% for the first year and variable interest rates for the remainder of the four year term. The loan has a $10.0 million principal face amount and was issued at a cost basis of $10.0 million. The loan's cost basis was subsequently discounted to reflect loan origination fees received. The Fund is scheduled to receive quarterly principal repayments totaling $625,000 per quarter with the remaining principal balance due upon maturity.

On February 24, 2006, BP repaid its initial second lien loan from the Fund in full. The amount of the proceeds received from the prepayment was approximately $8.7 million. This amount included all outstanding principal, accrued interest, accrued monitoring fees and an early prepayment fee.

On July 19, 2006, the Fund extended to BP a subsequent $10 million second lien loan bearing annual interest at 14%. The loan has a $10.0 million principal face amount and was issued at a cost basis of $10.0 million. The loan's cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the loan is July 18, 2012. The principal balance is due upon maturity.

On July 20, 2006, the Fund purchased at a discount $5 million in loan assignments in BP. The $3 million term loan A bears annual interest at LIBOR plus 4.25% or Prime Rate plus 3.25%. The $2 million term loan B bears annual interest at LIBOR plus 6.40% or Prime Rate plus 5.40%. The interest rate option on the loan assignments is at the borrower's discretion. Both loans mature on July 18, 2011.

On September 29, 2006, the Fund received a quarterly principal payment for term loan A of $90,000. The increase in the outstanding balance, cost and fair value of the loans is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

At October 31, 2006, the loans had a combined outstanding balance and cost basis of $14.7 million. The loan and loan assignments had a combined fair value of $14.9 million.

Dakota Growers Pasta Company, Inc.

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

At October 31, 2005, the Fund's investment in Dakota consisted of 909,091 shares of common stock with a cost of $5.0 million and assigned fair value of $5.5 million.

During the year ended October 31, 2006, the Fund purchased an additional 172,104 shares of common stock at an average price of $5.11 per share or approximately $879,000.

Effective January 31, 2006 and April 30, 2006, the Valuation Committee increased the fair value of the newly purchased shares to the carrying value of the original shares or approximately $6.07. The increase in the fair value of the newly purchased shares over their cost was approximately $164,000.

Effective July 31, 2006, the Valuation Committee increased the fair value of the investment by approximately $900,000.

Effective October 31, 2006, the Valuation Committee increased the fair value of the investment by approximately $1.5 million.

At October 31, 2006, the Fund's investment in Dakota consisted of 1,081,195 shares of common stock with a cost of $5.9 million and assigned fair value of $9 million.

Michael Tokarz, Chairman of the Fund, serves as a director of Dakota.

DPHI, Inc. (formerly DataPlay, Inc.)

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

At October 31, 2005 and October 31, 2006, the Fund's investment in DPHI consisted of 602,131 shares of Series A–1 preferred stock with a cost of $4.5 million. This investment has been assigned a fair value of $0.

Endymion Systems, Inc.

Endymion Systems, Inc. ("Endymion"), Oakland, California, a legacy investment, is a single source supplier for strategic, web–enabled, end–to–end business solutions designed to help its customers leverage Internet technologies to drive growth and increase productivity.

At October 31, 2005 and October 31, 2006, the Fund's investment in Endymion consisted of 7,156,760 shares of Series A preferred stock with a cost of $7.0 million. The investment has been assigned a fair value of $0.

Foliofn, Inc.

Folio*fn*, Inc. ("Folio*fn*"), Vienna, Virginia, a legacy investment, is a financial services technology company that offers investment solutions to financial services firms and investors.

At October 31, 2005 and October 31, 2006, the Fund's investment in Folio*fn* consisted of 5,802,259 shares of Series C preferred stock with a cost of $15.0 million. During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's equity investment in Foliofn by $5.0 million. The fair value of the Fund's equity investment at October 31, 2006 was $5.0 million.

Bruce Shewmaker, an officer of the Fund, serves as a director of Folio*fn*.

Harmony Pharmacy & Health Center, Inc.

Harmony Pharmacy & Health Center, Inc. ("Harmony Pharmacy"), Purchase, NY, plans to operate pharmacy and healthcare centers primarily in airports in the United States.

The Fund invested $200,000 in Harmony Pharmacy in the form of a demand note. The note bears annual interest at 10% and is callable anytime at the Fund's discretion.

On August 4, 2006 the Fund purchased 750,000 shares of common stock at a cost of $750,000.

On August 25, 2006, Harmony repaid its demand note in full. The amount of the proceeds received from the prepayment was $207,444.44. This amount included all outstanding principal and accrued interest. There was no gain or loss as a result of the prepayment.

At October 31, 2006, the Fund's investment in Harmony consisted of 2 million shares of common stock with a cost of $750,000 and was assigned a fair value of $750,000.

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

Henry Company

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

In January 2006, The Fund purchased the $5 million in loan assignments in Henry Company. The $3 million term loan A bears annual interest at LIBOR plus 3.5% and matures on April 6, 2011. The $2 million term loan B bears annual interest at LIBOR plus 7.75% and also matures on April 6, 2011.

At October 31, 2006, the loans had a combined outstanding balance, cost basis, and fair value of $5.0 million.

Impact Confections, Inc.

Impact Confections, Inc. ("Impact"), Roswell, New Mexico founded in 1981, is a manufacturer and distributor of children's candies.

The Fund's investment in Impact consists of 252 shares of common stock at a cost of $10,714.28 per share or $2.7 million and a loan to Impact in the form of a senior subordinated note with an outstanding balance of $5.0 million. The Fund's common stock has a preferred status if there is a liquidation of the company. The loan bears annual interest at 17.0% and matures on July 30, 2009. The loan was issued at a cost basis of $5.0 million. The loan's cost basis was then discounted to reflect loan origination fees received.

On July 29, 2005, the Fund made a $325,000 follow–on investment in Impact in the form of a secured promissory note which bears annual interest at LIBOR plus 4%. The promissory note has a three year term. The note has a $325,000 principal face amount and was issued at a cost basis of $325,000. The note's cost basis was then discounted to reflect loan origination fees received.

At October 31, 2005, the Fund's investment in Impact consisted of 252 shares of common stock at a cost of $2.7 million, the loan to Impact with an outstanding balance of $5.23 million and the secured promissory note with an outstanding balance of $325,000. The cost basis of the loan and promissory note at October 31, 2005 was approximately $5.13 million and $319,000, respectively. At October 31, 2005, the equity investment, loan and secured promissory note were assigned fair values of $2.7 million, $5.23 million and $325,000 respectively.

At October 31, 2006, the Fund's investment in Impact consisted of 252 shares of common stock at a cost of $2.7 million, the loan to Impact with an outstanding balance of $5.5 million and the secured promissory note with a balance of $325,000. The cost basis of the loan and promissory note at October 31, 2006 were approximately $5.39 million and $321,000 respectively. At October 31, 2006, the equity investment, loan and secured promissory note were assigned fair values of $2.7 million, $5.5 million and $325,000, respectively. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

Puneet Sanan and Shivani Khurana, representatives of the Fund, serve as directors of Impact.

Innovative Brands, LLC

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

The Fund purchased a $15 million loan assignment in Innovative Brands. The $15 million term loan bears annual interest at 11.125% and matures on September 25, 2011.

At October 31, 2006, the loan had an outstanding balance, cost basis, and was assigned a fair value of $15.0 million.

Integral Development Corporation

Integral Development Corporation ("Integral"), Mountain View, California, a legacy investment, is a developer of technology for financial institutions to expand, integrate and automate their capital markets businesses and operations.

At October 31, 2005, the Fund's investment in Integral consisted of an outstanding balance on the loan of $1.12 million with a cost of $1.12 million. The investment had been assigned a fair value of $1.12 million.

During the year ended October 31, 2006, Integral prepaid its outstanding loan balance in full including all accrued interest. The Fund recorded no gain or loss as a result of the prepayment. Under the terms of the prepayment, the Fund returned its warrants to Integral for no consideration.

As of October 31, 2006, the Fund no longer held any investment in Integral.

JDC Lighting, LLC

JDC Lighting, LLC ("JDC"), New York, New York, is a distributor of commercial lighting and electrical products.

The Fund's investment in JDC consists of a $3.0 million senior subordinated loan, bearing annual interest at 17% over a four year term. The loan has a $3.0 million principal face amount and was issued at a cost basis of $3.0 million. The loan's cost basis was discounted to reflect loan origination fees received.

At October 31, 2005, the loan had an outstanding balance of $3.09 million with a cost of $3.03 million. The loan was assigned a fair value of $3.09 million.

On October 30, 2006, JDC repaid $160,116 of principal.

At October 31, 2006, the loan had an outstanding balance of $3.04 million with a cost of $2.99 million. The loan was assigned a fair value of $3.04 million. The increase in the outstanding balance, cost and fair value of the loan, is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

Lumeta Corporation

Lumeta Corporation ("Lumeta"), Somerset, New Jersey, a legacy investment, is a developer of network management, security, and auditing solutions. The company provides businesses with an analysis of their network security that is designed to reveal the vulnerabilities and inefficiencies of their corporate intranets.

At October 31, 2005 and January 31, 2006, the Fund's investment in Lumeta consisted of 384,615 shares of Series A preferred stock and 266,846 shares of Series B preferred stock with a combined cost of approximately $406,000.

At October 31, 2005 the investments were assigned a fair value of $200,000, or approximately $0.11 per share of Series A preferred stock and approximately $0.59 per share of Series B preferred stock.

On April 7, 2006, the Fund sold its investment in Lumeta for its carrying value of $200,000. The Fund realized a loss on Lumeta of approximately $200,000. However, the Valuation Committee previously decreased the fair value of the Fund's investment in this company to $200,000 and as a result, the realized loss was offset by a reduction in unrealized losses. Therefore, the net effect of the Fund's sale of its investment in Lumeta on the Fund's consolidated statement of operations and NAV was zero.

As of October 31, 2006, the Fund no longer held any investment in Lumeta.

Mainstream Data, Inc.

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

At October 31, 2005 and October 31, 2006, the Fund's investment in Mainstream consisted of 5,786 shares of common stock with a cost of $3.75 million. The investment has been assigned a fair value of $0.

Marine Exhibition Corporation

Marine Exhibition Corporation ("Marine"), Miami, Florida, owns and operates the Miami Seaquarium. The Seaquarium is a family–oriented entertainment park.

On July 11, 2006, the Fund extended to Marine a $10 million senior secured loan bearing annual interest at 11%. The senior secured loan has a $10.0 million principal face amount and was issued at a cost basis of $10.0 million. The loan's cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the loan is June 30, 2013. The Fund also extended a secured revolving note bearing interest at LIBOR plus 1%. The amount available to draw down at any time on the note is $2.0 million. The Fund also invested $2.0 million into Marine in the form of preferred stock, purchasing 2,000 shares. The dividend rate on the preferred stock is 12% per annum.

At October 31, 2006, the Fund's senior secured loan had an outstanding balance of $10.1 million with a cost of $9.9 million. The senior secured loan was assigned a fair value of $10.1 million. The secured revolving note was not drawn upon. The preferred stock had been assigned a fair value of $2.0 million. The increase in the outstanding balance, cost and fair value of the loan and preferred stock, is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest/dividends. These increases were approved by the Fund's Valuation Committee.

Octagon Credit Investors, LLC

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

The Fund's initial investment in Octagon consisted of a $5,000,000 senior subordinated loan, bearing annual interest at 15% over a seven year term. The loan has a $5,000,000 principal face amount and was issued at a discounted cost basis of $4,450,000. The loan included detachable warrants with a cost basis of $550,000. The Fund also provided a $5,000,000 senior secured credit facility to Octagon. This credit facility expires on May 7, 2009 and bears annual interest at LIBOR plus 4%. The Fund receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. The Fund also made a $560,000 equity investment in Octagon which provides the Fund a membership interest in Octagon.

At October 31, 2005, the loan had an outstanding balance of $5.15 million with a cost of $4.56 million. The loan was carried at a fair value of $4.66 million.

At October 31, 2005, the equity investment and detachable warrants had a cost basis of $724,857 and $550,000 respectively. The equity investment and detachable warrants were assigned a fair value of $1,228,083 and $1,069,457, respectively.

On January 3, 2006, the Fund exercised its warrant ownership in Octagon for no additional cost which increased its existing membership interest in Octagon. As a result, Octagon is now considered an affiliate under the definition of the 1940 Act.

Effective January 31, 2006, the Valuation Committee determined to increase the fair value of the Fund's equity investment in Octagon by $562,291.

The cost basis and fair value of the equity investment was also increased by approximately $200,000 to account for the Fund's allocated portion of the flow–through income, from its membership interest in Octagon, which was not distributed to members. This flow–through income is recorded by the Fund as "other income."

On October 2, 2006, Octagon repaid the loan and credit facility in full. The amount of the proceeds received from the prepayment was approximately $5.4 million. This amount included all outstanding principal, accrued interest, and unused fee on the credit facility. The Fund recorded a gain as a result of these prepayments of approximately $429,000 from the acceleration of amortization of original issue discount. After this repayment, the Fund extended a $5 million term loan, cost discounted for loan fees, and a $12 million revolving line of credit to Octagon. Octagon immediately drew down $3.75 million from the revolving line of credit. The Fund received two distributions from Octagon on October 2, 2006, a return of capital of $191,258 and a one time incentive fee of $100,411. Also on October 2, 2006, Octagon repurchased a portion of the LLC membership interest for approximately $1.02 million. The Fund realized a capital gain of approximately $550,000 from this sale.

On October 30, 2006, Octagon repaid $500,000 of the outstanding balance on the revolving line of credit.

At October 31, 2006, the term loan had an outstanding balance of $5 million with a cost of $4.9 million. The loan was assigned a fair value of $5.0 million. The revolving line of credit had an outstanding balance of $3.25 million with a cost and fair value of $3.25 million.

At October 31, 2006, the equity investment had a cost basis of approximately $900,000 and was assigned a fair value of $1.93 million.

Ohio Medical Corporation

Ohio Medical Corporation ("Ohio"), Gurnee, Illinois, is a manufacturer and supplier of suction and oxygen therapy products, as well as medical gas equipment.

During fiscal year 2005, the Fund invested $17 million and sponsored the acquisition of General Electric's Ohmeda Brand Suction and Oxygen Therapy business unit ("GE–SOT"), a leading global supplier of suction and oxygen therapy products. On July 14, 2005, in conjunction with this transaction, the Fund acquired GE–SOT's largest supplier, Squire Cogswell/Aeros Instruments, Inc. and merged both businesses creating Ohio Medical Corporation.

The Fund's investment in Ohio consists of 5,620 shares of common stock with a cost basis of $17 million.

As of October 31, 2005, the Fund's investment was assigned a fair value of $17 million.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's equity investment in Ohio by $9.2 million from $17.0 million to approximately $26.2 million.

As of October 31, 2006, the cost basis and fair value of the Fund's investment in Ohio was $17.0 million and $26.2 million, respectively.

Michael Tokarz, Chairman of the Fund, Peter Seidenberg, Chief Financial Officer of the Fund and David Hadani, a representative of the Fund, serve as directors of Ohio.

Phoenix Coal Corporation

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

On April 4, 2006, the Fund purchased 1 million shares of common stock of Phoenix for a purchase price of $500,000. On June 8, 2006, the Fund purchased an additional 666,667 shares of common stock of Phoenix for a purchase price of approximately $500,000.

Also, on June 8, 2006, the Fund committed to Phoenix $7.0 million in debt. The first $3.5 million second lien loan bears annual interest at 15%. The loan was discounted for the loan origination fees received.

On July 26, 2006 the Fund extended to Phoenix the remaining portion of the $7.0 million commitment. This $3.5 million second lien loan also bears annual interest at 15%. The maturity date for both loans is June 8, 2011.

At October 31, 2006, the second lien loan had an outstanding balance of $7.1 million with a cost of $7.0 million. The loan was assigned a fair value of $7.1 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

At October 31, 2006, the equity investment had a cost basis of approximately $1.0 million and was assigned a fair value of $1.0 million.

Bruce Shewmaker, an officer of the Fund, serves as a director of Phoenix.

PreVisor, Inc.

PreVisor, Inc. ("PreVisor"), Roswell, Georgia, provides pre–employment testing and assessment solutions and related professional consulting services.

On May 31, 2006, the Fund invested $6 million in PreVisor in the form of common stock. Mr. Tokarz, our Chairman and Portfolio Manager, is a minority non–controlling shareholder of PreVisor. Our board of directors, including all of our directors who are not "interested persons" of the Fund, as defined by the 1940 Act (the "Independent Directors"), approved the transaction (Mr. Tokarz recused himself from making a determination or recommendation on this matter).

As of October 31, 2006, the common stock had been assigned a fair value of $6.0 million.

ProcessClaims, Inc.

ProcessClaims, Inc. ("ProcessClaims"), a legacy investment, Manhattan Beach, California, provides web–based solutions and value added services that streamline the automobile insurance claims process for the insurance industry and its partners.

At October 31, 2005, the Fund's investments in ProcessClaims consisted of 6,250,000 shares of Series C preferred stock, 849,257 shares of Series D preferred stock, and 873,362 warrants to purchase 873,362 shares of Series E convertible preferred stock with a combined cost of $2.4 million. The investment in the Series C preferred stock was assigned a fair value of $2.0 million, the investment in the Series D preferred stock was assigned a fair value of $400,000, and the investment in the Series E warrants was assigned a fair value of $0.

Effective December 31, 2005, in a cashless transaction, the Fund received 373,362 shares of Series E preferred stock of ProcessClaims in exchange for its rights under a warrant issued by ProcessClaims that has been held by the Fund since May 2002.

On January 5, 2006, the Fund's Valuation Committee determined to increase the fair value of the Fund's entire investment in ProcessClaims by $3.3 million.

During March 2006, the Fund was granted and accepted 50,000 options to purchase shares of ProcessClaims common stock. Bruce Shewmaker, an officer of the Fund, serves as a director of ProcessClaims. The options were granted for Bruce Shewmaker's service on ProcessClaims board of directors. The options vested immediately, have an exercise price of $0.32 per share and have an expiration date of ten years from the date of grant.

Effective April 30, 2006, the Fund's Valuation Committee determined to increase the fair value of the Fund's investment in ProcessClaims by approximately $760,000.

At April 30, 2006, the Fund's investments in ProcessClaims consisted of 6,250,000 shares of Series C preferred stock, 849,257 shares of Series D preferred stock, 373,362 shares of Series E convertible preferred stock and 50,000 common stock options with a combined cost of $2.4 million. The investment in the Series C preferred stock was assigned a fair value of $5.2 million, the investment in the Series D preferred stock was assigned a fair value of $831,000, the investment in the Series E warrants was assigned a fair value of $446,000 and the options were fair valued at $9,000.

On May 30, 2006, ProcessClaims, one of the Fund's legacy portfolio companies, entered into a definitive agreement to be acquired by CCC Information Services Inc. ("CCC"). The acquisition by CCC closed on June 9, 2006. As of June 9, 2006, the Fund received net proceeds of approximately $7.9 million. The gross proceeds were approximately $8.3 million of which approximately $400,000 or 5% of the gross proceeds were deposited into a reserve account for one year. Due to the contingencies associated with the escrow, the Fund has not presently placed any value on the proceeds deposited in escrow and has therefore not factored such proceeds into the Fund's increased NAV. The Fund's total investment in ProcessClaims was $2.4 million which resulted in a capital gain of approximately $5.5 million.

As of October 31, 2006, the Fund no longer held any investment in ProcessClaims.

SafeStone Technologies PLC

SafeStone Technologies PLC ("SafeStone"), Old Amersham, UK, a legacy investment, provides organizations with technology designed to secure access controls across the extended enterprise, enforcing compliance with security policies and enabling effective management of the corporate IT and e–business infrastructure.

At October 31, 2005 and October 31, 2006, the Fund's investments in SafeStone consisted of 2,106,378 shares of Series A ordinary stock with a cost of $4.0 million. The investment has been assigned a fair value of $0 by the Fund's Valuation Committee.

SGDA Sanierungsgesellschaft fur Deponien und Altasten mbH

SGDA Sanierungsgesellschaft fur Deponien und Altasten mbH ("SGDA"), Zella–Mehlis, Germany, is a company that is in the business of landfill remediation and revitalization of contaminated soil.

The Fund's investment in SGDA consists of a $4.6 million term loan, bearing annual interest at 7% over a four and a half year term. The term loan has a $4.6 million principal face amount and was issued at a discounted cost basis of $4.3 million. The loan included a common equity ownership interest in SGDA with a cost basis of $315,000. The Fund also made available to SGDA a $1.3 million revolving credit facility that bears annual interest at 7%. The credit facility expires on August 25, 2006.

At October 31, 2005, the term loan had an outstanding balance of $4.58 million with a cost of $4.3 million. The term loan was carried at a fair value of $4.3 million. The increase in the cost and fair value of the loan is due to the accretion of the market discount of the term loan. The ownership interest in SGDA has been assigned a fair value of $315,000 which is its cost basis. As of October 31, 2005, SGDA had drawn $1,237,700 upon the revolving credit facility.

During December 2005, SGDA drew an additional $70,600 on the revolving line of credit. This brought the amount drawn under the line of credit to $1.3 million, the maximum available under the line of credit.

Also during December 2005, the Fund did not accrue, and therefore was not paid, approximately $23,000 in implied interest owed from the SGDA loan and revolving credit facility. This was due to a contractual agreement (based on German tax provisions) to cap the interest paid by SGDA to Fund, in the aggregate, at 240,000 Euro in any given calendar year. Despite forgoing this interest management believes there is no credit risk associated with this portfolio company.

On January 12, 2006, the Fund extended to SGDA a $300,000 bridge loan. The loan bore annual interest at 7% and had a maturity date of April 30, 2006.

On April 6, 2006, the Fund invested an additional $2.0 million into SGDA in the form of a preferred equity interest. On April 25, 2006 the Fund purchased an additional common equity interest in SGDA for $23,551.

On April 28, 2006, the Fund increased the availability under the revolving credit facility by $300,000. The balance of the bridge loan mentioned above, which would have matured on April 30, 2006, was added to the revolving credit facility and the bridge loan was removed from the Fund's books as a part of the refinancing. As of July 31, 2006, the entire $1.6 million facility was drawn in full.

On August 25, 2006 the revolving credit facility was added to the term loan balance assuming the same terms as the term loan.

On October 24, 2006, the Fund invested an additional $3 million into SGDA in the form of preferred equity interest.

At October 31, 2006, the term loan had an outstanding balance of $6.2 million with a cost of $6 million. The term loan was assigned a fair value of $6 million. The increase in the cost and fair value of the loan is due to the accretion of the market discount of the term loan. These increases were approved by the Fund's Valuation Committee. The ownership interest in SGDA has been assigned a fair value of $338,551 which is its cost basis. The preferred stock has been assigned a fair value of $5.0 million.

Sonexis, Inc.

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

At October 31, 2005 and October 31, 2006, the Fund's investment in Sonexis consisted of 131,615 shares of common stock with a cost of $10.0 million. The investment has been assigned a fair value of $0.

SIA BM Auto

SIA BM Auto ("BM Auto"), Riga, Latvia, is a company focused on the importation and sale of BMW vehicles and parts throughout Latvia, a member of the European Union.

The Fund's investment in BM Auto consisted of 47,300 shares of common stock at a cost of $8 million and a sixty day bridge loan with a cost basis of $7.0 million. The loan was repaid in full, including all principal and accrued interest, on April 21, 2006.

At October 31, 2006, the Fund's investment in BM Auto was assigned a fair value of $8 million.

SP Industries, Inc.

SP Industries, Inc. ("SP"), Warminster, Pennsylvania, is a designer, manufacturer, and marketer of laboratory research and process equipment, glassware and precision glass components, and configured–to–order manufacturing equipment.

The Fund's investment in SP consists of a $6.5 million mezzanine loan and a $4.0 million term loan. The mezzanine loan bears annual interest at 17% over a seven year term. The mezzanine loan has a $6.5 million principal face amount and was issued at a cost basis of $6.5 million. The mezzanine loan's cost basis was discounted to reflect loan origination fees received. The term loan bears annual interest at LIBOR plus 10% over a five year term. The term loan has a $4.0 million principal face amount and was issued at a cost basis of $4.0 million. The term loan's cost basis was discounted to reflect loan origination fees received by the Fund.

At October 31, 2005, the mezzanine loan and the term loan had outstanding balances of $6.65 million and $4.02 million respectively with cost basis of $6.4 million and $3.95 million, respectively. The mezzanine loan and term loan were assigned fair values of $6.65 million and $4.02 million, respectively.

On October 13, 2006 the Fund extended to SP $10 million in the form of an additional $4.0 million of term loan and an additional $6.0 million mezzanine loan. The interest rate and maturity date of the term loan was adjusted to LIBOR plus 8% and March 31, 2011. The interest rate of the mezzanine loan was adjusted to 16% with the maturity date remaining March 31, 2012.

On October 20, 2006 the Fund assigned $5.0 million of term loan to Citigroup Global Markets Realty.

At October 31, 2006, the mezzanine loan and the term loan had outstanding balances of $12.96 million and $3.06 million, respectively, with a cost basis of $12.65 million and $3.01 million, respectively. The mezzanine loan and term loan were assigned fair values of $12.96 million and $3.06 million, respectively. The increase in the outstanding balance, cost and fair value of the loan, is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

Strategic Outsourcing, Inc.

Strategic Outsourcing, Inc. ("SOI"), Charlotte, North Carolina, is a professional employer organization that provides services that enable small businesses to outsource their human resource function.

The Fund purchased a $5 million loan assignment in SOI. The loan has a 5 year term and bears annual interest at LIBOR plus 5.25%

On December 31, 2005, SOI repaid a portion of its outstanding loan. The Fund's prorated share of the repayment was approximately $108,000.

On March 31, 2006, SOI repaid a portion of its outstanding loan. The Fund's prorated share of the repayment was approximately $108,000.

On May 3, 2006, SOI repaid a portion of its outstanding loan. The Fund's prorated share of the repayment was approximately $440,000.

On July 27, 2006, SOI repaid the loan assignment in full. The amount of the proceeds received from the prepayment was approximately $4.5 million. This amount included all outstanding principal, accrued interest, and an early prepayment fee.

As of October 31, 2006, the Fund no longer held any investment in SOI.

Storage Canada, LLC

Storage Canada, LLC ("Storage Canada"), Omaha, NE, is a real estate company that owns and develops self–storage facilities throughout the U.S. and Canada.

On March 30, 2006, the Fund provided a $6 million loan commitment to Storage Canada on which Storage Canada immediately borrowed $1.34 million. The commitment expires after one year, but may be renewed with the consent of both parties. The initial borrowing on the loan bears annual interest at 8.75% and has a maturity date of March 30, 2013. Any additional borrowings will mature seven years from the date of the subsequent borrowing. The Fund receives monthly principal payments. The Fund also receives a fee of 0.25% on the unused portion of the loan.

On October 6, 2006, Storage Canada borrowed $619,000. The borrowing bears annual interest at 8.75% and has a maturity date of October 6, 2013.

At October 31, 2006, the Fund's investment in Storage Canada had an outstanding balance of $1.94 million and a cost basis of $1.95 million and was assigned a fair value of $1.94 million.

Summit Research Labs, Inc.

Summit Research Labs, Inc. ("Summit"), Huguenot, NY, is a specialty chemical company that manufactures antiperspirant actives.

On August 16, 2006, the Fund extended to Summit a $5 million second lien loan bearing annual interest at 14%. The second lien loan has a $5.0 million principal face amount and was issued at a cost basis of $5.0 million. The loan's cost basis was subsequently discounted to reflect loan origination fees received. The maturity date of the loan is August 15, 2012. The Fund also invested $11.2 million into Summit in the form of preferred stock, purchasing 800 shares.

At October 31, 2006, the Fund's second lien loan had an outstanding balance of $5.04 million with a cost of $4.95 million. The second lien loan was assigned a fair value of $5.04 million. The preferred stock had been assigned a fair value of $11.2 million. The increase in cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee.

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

Timberland Machines & Irrigation, Inc.

Timberland Machines & Irrigation, Inc. ("Timberland"), Enfield, Connecticut, is a distributor of landscaping outdoor power equipment and irrigation products.

The Fund's investment in Timberland consists of a $6 million senior subordinated loan, bearing annual interest at 17% over a five year term. The note has a $6 million principal face amount and was issued at a cost basis of $6 million. The loan's cost basis was then discounted to reflect loan origination fees received. The Fund also owns 450 shares of common stock for a $4.5 million equity investment in Timberland. The Fund has an option to purchase an additional 150 shares of common stock at a price of $10,000 per share. The Fund has also extended to Timberland a $3.25 million junior revolving note. The junior revolving note bears interest at 12.5% per annum and matures on July 7, 2007.

Timberland has a floor plan financing program administered by Transamerica Commercial Finance Corporation ("Transamerica"). As is typical in Timberland's industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Fund has agreed to be a co–guarantor of this repurchase commitment, but its maximum potential exposure as a result of the guarantee is contractually limited to $0.5 million.

At October 31, 2005, the Fund's mezzanine loan had an outstanding balance of $6.32 million with a cost of $6.23 million. The mezzanine loan was assigned a fair value of $6.32 million. The junior revolving note was fully drawn upon and assigned a fair value of $3.25 million. The common stock had been assigned a fair value of $4,500,000. The warrant was assigned a fair value of $0.

Effective December 27, 2005, the Fund converted $286,200 of the Timberland junior revolving line of credit into 28.62 shares of common stock at a price of $10,000 per share. As a result, as of July 31, 2006 the Fund owned 478.62 common shares and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.96 million.

During the quarter ended, April 30, 2006, Timberland had repaid an additional $500,000 on the note leaving the total amount outstanding at approximately $2.46 million.

On July 1, 2006, the Fund reduced the interest rate on the mezzanine loan from 17% to 14.426%.

During the quarter ended, July 31, 2006, Timberland repaid an additional $500,000 and drew down $1.0 million on the note leaving the total amount outstanding at approximately $2.96 million.

Effective September 12, 2006, the Fund converted $409,091 of the Timberland junior revolving line of credit into 40.91 shares of common stock at a price of $10,000 per share. Effective September 22, 2006, the Fund converted $225,000 of the Timberland junior revolving line of credit into 22.50 shares of common stock at a price of $10,000 per share. Timberland then borrowed $500,000 from the junior revolving line of credit. As a result of these transactions, as of October 31, 2006 the Fund owned 542.03 common shares and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.83 million.

During the year ended October 31, 2006, the Valuation Committee decreased the fair value of the Fund's equity investment in Timberland by $1 million from $5.42 million to approximately $4.42 million.

At October 31, 2006, the Fund's mezzanine loan had an outstanding balance of $6.61 million with a cost of $6.55 million. The mezzanine loan was assigned a fair value of $6.61 million. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee. The junior revolving note was assigned a fair value of $2.83 million. The common stock was assigned a fair value of $4.42 million. The warrant was assigned a fair value of $0.

Michael Tokarz, Chairman of the Fund, and Puneet Sanan, a representative of the Fund, serve as directors of Timberland.

Total Safety U.S., Inc.

Total Safety U.S., Inc. ("Total Safety"), Houston, Texas, is the leading provider of safety equipment and related services to the refining, petrochemical, and oil exploration and production industries.

The Fund purchased $6 million of loan assignments in Total Safety. The $5 million term loan A bears annual interest at LIBOR plus 4.5% and matures on December 31, 2010. The $1 million term loan B bears annual interest at LIBOR plus 8.5% and also matures on December 31, 2010.

On June 30, 2006, the Fund received a quarterly principal payment for each loan totaling $55,046.

On September 29, 2006, the Fund received a quarterly principal payment for each loan totaling $55,046.

At October 31, 2006, the loans had a combined outstanding balance and cost basis of $5.9 million. The loan assignments were assigned a fair value of $5.9 million.

Turf Products, LLC

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

The Fund's investment in Turf consists of senior subordinated loan, bearing interest at 15% per annum over a five year term. The note has a $7.5 million principal face amount and was issued at a cost basis of $7.5 million. The loan's cost basis was then discounted to reflect loan origination fees received. The Fund also owns a membership interest from a $3.8 million equity investment in Turf. The Fund also has a warrant to purchase an additional 15% of the company.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's equity investment in Turf by $2 million from $3.8 million to approximately $5.8 million.

At October 31, 2006, the Fund's mezzanine loan had an outstanding balance of $7.68 million with a cost of $7.63 million. The loan was assigned a fair value of $7.68 million. The increase in the outstanding balance, cost and fair value of the loan is due to the amortization of loan origination fees and the capitalization of "payment in kind" interest. These increases were approved by the Fund's Valuation Committee. The membership interest has been assigned a fair value of $5.8 million. The option was assigned a fair value of $0.

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

Velocitius B.V.

Velocitius B.V. ("Velocitius"), a Netherlands based company, manages Germany based wind farms through operating subsidiaries.

On May 10, 2006, the Fund made an equity investment of approximately $66,290 in Velocitius.

On October 26, 2006, the Fund made an additional equity investment of approximately $2.9 million.

On October 30, 2006, the Fund provided a $260,000 revolving line of credit to Velocitius on which Velocitius immediately borrowed approximately $143,614. The revolving line of credit expires on October 31, 2009. The note bears annual interest at 8%.

At October 31, 2006, the equity investment in Velocitius had a cost and was assigned a fair value of $2.97 million. The revolving line of credit had a cost and was assigned a fair value of $143,614.

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

Vendio Services, Inc.

Vendio Services, Inc. ("Vendio"), San Bruno, California, a legacy investment, offers small businesses and entrepreneurs resources to build Internet sales channels by providing software solutions designed to help these merchants efficiently market, sell and distribute their products.

At October 31, 2005, the Fund's investments in Vendio consisted of 10,476 shares of common stock and 6,443,188 shares of Series A preferred stock at a total cost of $6.6 million. The investments were assigned a fair value of $2.7 million, $0 for the common stock and $2.7 million for the Series A preferred stock.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's equity investment in Vendio by $700,000 from $2.7 million to $3.4 million.

At October 31, 2006, the Fund's investments in Vendio consisted of 10,476 shares of common stock and 6,443,188 shares of Series A preferred stock at a total cost of $6.6 million. The investments were assigned a fair value of $3.4 million, $0 for the common stock and $3.4 million for the Series A preferred stock.

Bruce Shewmaker, an officer of the Fund, serves as a director of Vendio.

Vestal Manufacturing Enterprises, Inc.

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

The Fund's investment in Vestal consists of 81,000 shares of common stock at a cost of $1.85 million and a loan of $900,000 to Vestal in the form of a senior subordinated promissory note. The loan has a maturity date of April 29, 2011 and earns interest at 12% per annum.

At October 31, 2005, the senior subordinated promissory note had an outstanding balance, cost, and fair value of $900,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.85 million were assigned a fair value of $3.7 million.

On September 1, 2006, the Fund received a principal payment of approximately $100,000.

At October 31, 2006, the senior subordinated promissory note had an outstanding balance, cost, and fair value of $800,000. The 81,000 shares of common stock of Vestal that had a cost basis of $1.85 million were assigned a fair value of $3.7 million.

David Hadani and Ben Harris, representatives of the Fund, serve as directors of Vestal.

Vitality Foodservice, Inc.

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

The Fund's investment in Vitality consists of 500,000 shares of common stock at a cost of $5 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $10 million. The convertible preferred stock has a liquidation date of September 24, 2011 and has a yield of 13% per annum. The convertible preferred stock also has detachable warrants granting the Fund the right to purchase 211,243 shares of common stock at the price of $0.01 per share.

At October 31, 2005, the investment in Vitality consisted of 500,000 shares of common stock at a cost of $5 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $10.52 million. The common stock, Series A convertible preferred stock and warrants were assigned fair values of $5 million, $10.52 million and $700,000, respectively.

Effective January 31, 2006, the Valuation Committee determined to increase the fair value of the common stock and warrants in Vitality by $3.5 million and $400,000, respectively.

During the year ended October 31, 2006, the Fund reclassified dividend income received from Vitality totaling approximately $900,000 to return of capital. The reclassification occurred due to Vitality's determination that it will not have taxable earnings and profits for their fiscal year 2006. This reclassification to return of capital had no impact on the Fund's net asset value.

At October 31, 2006, the investment in Vitality consisted of 500,000 shares of common stock at a cost of $5 million and 1,000,000 shares of Series A convertible preferred stock at a cost of $9.66 million. The increase in the cost and fair value of the Series A convertible preferred stock is due to the capitalization of "payment in kind" dividends. These increases were approved by the Fund's Valuation Committee. The common stock, Series A convertible preferred stock and warrants were assigned fair values of $8.5 million, $11.05 million and $1.1 million, respectively.

David Hadani, a representative of the Fund, serves as a director of Vitality.

Yaga, Inc.

Yaga, Inc. ("Yaga"), San Francisco, California, a legacy investment, provided a hosted application service provider (ASP) platform that is designed to address emerging revenue and payment infrastructure needs of online businesses. Yaga's payment and accounting application supports micropayments, aggregated billing and stored value accounts while also managing royalty/affiliate accounting and split payments.

At October 31, 2005, the Fund's investment in Yaga consisted of 300,000 shares of Series A preferred stock and 1,000,000 shares of Series B with a combined cost of $2.3 million. The investments had been assigned a fair value of $0.

During the quarter ended January 31, 2006, the Fund received notification of the final dissolution of Yaga. The Fund received no proceeds from the dissolution of this company and the investment has been removed from the Fund's books. The fair value of Yaga was previously written down to zero and therefore, the net effect of the removal of Yaga from the Fund's books on the Fund's consolidated statement of operations and NAV was zero.

At October 31, 2006, the Fund no longer held any investment in Yaga.

Liquidity and Capital Resources

At October 31, 2006, the Fund had investments in portfolio companies totaling $275.9 million. Also, at October 31, 2006, the Fund had investments in cash equivalents totaling approximately $66.2 million. The Fund considers all money market and other cash investments purchased with an original maturity of less than three months to be cash equivalents. U.S. government securities and cash equivalents are highly liquid.

During the year ended October 31, 2006, the Fund made sixteen new investments, committing capital totaling approximately $142.1 million. The investments were made in Turf, SOI, Henry, BM Auto, Storage Canada, Phoenix, Harmony Pharmacy, Inc., Total Safety, PreVisor, Marine, BP, Velocitius, Summit, Octagon, BENI, and Innovative Brands. The amounts invested were $11.6 million, $5.0 million, $5.0 million, $15.0 million, $6.0 million, $8.0 million, $200,000, $6.0 million, $6.0 million, $14.0 million, $15.0 million, $66,290, $16.2 million, $17.0 million, $2.0 million and $15.0 million, respectively.

The Fund also made eight follow–on investments in existing portfolio companies committing capital totaling approximately $24.2 million. During the year ended October 31, 2006, the Fund invested approximately $879,000 in Dakota by purchasing an additional 172,104 shares of common stock at an average price of $5.11 per share. On December 22, 2005, the Fund made a follow–on investment in Baltic in the form of a $1.8 million revolving bridge note. Baltic immediately drew down $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on January 31, 2006 and has been removed from the Fund's books. On January 12, 2006, the Fund provided SGDA a $300,000 bridge loan. On March 28, 2006, the Fund provided Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on April 30, 2006 and has been removed from the Fund's books. On April 6, 2006, the Fund invested an additional $2.0 million in SGDA in the form of a preferred equity security. On April 25, 2006, the Fund purchased an additional common equity security in SGDA for $23,000. On June 30, 2006, the Fund invested $2.5 million in Amersham in the form of a second lien loan. On August 4, 2006, the Fund invested $750,000 in Harmony in the form of common stock. On September 28, 2006, the Fund made another follow–on investment in Baltic in the form of a $1.0 million bridge loan and $2.0 million equity investment. On October 13, 2006, the Fund made a $10 million follow–on investment in SP. The $10 million was invested in the form of an additional $4.0 million in term loan B and $6.0 million in a mezzanine loan. On October 20, 2006, the Fund then assigned $5.0 million of SP's $8.0 million term loan B to Citigroup Global Markets Realty Corp. On October 24, 2006, the Fund invested an additional $3.0 million in SGDA in the form of a preferred equity security. On October 26, 2006, the Fund invested an additional $2.9 million in Velocitius in the form of common equity. The Fund also provided Velocitius a $260,000 revolving note on October 31, 2006. Velocitius immediately drew down $143,614 from the note.

Commitments to/for Portfolio Companies:

At October 31, 2006, the Fund's commitments to portfolio companies consisted of the following:

Open Commitments of MVC Capital, Inc.

Portfolio Company	Amount Committed	Amount Funded at October 31, 2006
Marine	$2.0 million	—
Octagon	$12.0 million	$3.25 million
Storage Canada	$6.0 million	$1.95 million
Timberland	$3.25 million	$2.83 million
Velocitius	$260,000	$143,614

On May 7, 2004, the Fund provided a $5,000,000 senior secured credit facility to Octagon. This credit facility expires on May 6, 2007 and can be automatically extended until May 6, 2009. The credit facility bears annual interest at LIBOR plus 4%. The Fund receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On February 1, 2006, Octagon drew $250,000 from the credit facility. The credit facility was repaid in full including, all accrued interest on February 23, 2006. This credit facility was refinanced on October 12, 2006.

During February 2005, the Fund made available to SGDA, a $1,308,300 revolving credit facility that bears annual interest at 7%. The credit facility expired on August 25, 2006. During fiscal year 2006, SGDA drew down

$70,600 from the credit facility. On April 28, 2006, the Fund increased the availability under the revolving credit facility by $300,000. The balance of the Fund's bridge loan to SDGA, which would have matured on April 30, 2006, was added to the revolving credit facility and the bridge loan was removed from the Fund's books.

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

On July 8, 2005 the Fund extended Timberland a $3.25 million junior revolving note that bears interest at 12.5% per annum and expires on July 7, 2007. The Fund also receives a fee of 0.25% on the unused portion of the note. As of October 31, 2005, the total amount outstanding on the note was $3.25 million. On December 27, 2005, the Fund exchanged $286,200 of the Timberland junior revolving line of credit for 28.62 shares of common stock at a price of $10,000 per share. As of January 31, 2006, the Fund owned 478.62 common shares and the funded debt under the junior revolving line of credit has been reduced from $3.25 million to approximately $2.96 million. On April 21, 2006, Timberland repaid $500,000 on the note. On May 18, 2006, Timberland repaid an additional $500,000 on the note. On July 10, 2006, Timberland drew down $1.0 million leaving the total amount on the note outstanding at July 31, 2006 approximately $2.96 million. On September 12, 2006, the Fund converted $409,091 of the Timberland junior revolving line of credit into 40.91 shares of common stock at a price of $10,000 per share. Effective September 22, 2006, the Fund converted $225,000 of the Timberland junior revolving line of credit into 22.50 shares of common stock at a price of $10,000 per share. Timberland then borrowed $500,000 from the junior revolving line of credit. As a result of these transactions, as of October 31, 2006 the Fund owned 542.03 common shares and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.83 million.

On December 22, 2005, the Fund extended to Baltic a $1.8 million revolving bridge note. The note bears interest at 12% per annum and had a maturity date of January 31, 2006. Baltic immediately drew $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The revolver matured on January 31, 2006 and has been removed from the Fund's books.

On March 28, 2006, the Fund extended to Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on April 30, 2006 and has been removed from the Fund's books.

On March 30, 2006, the Fund provided a $6 million loan commitment to Storage Canada and the company immediately borrowed $1.34 million. The commitment expires after one year, but may be renewed with the consent of both parties. The initial borrowing on the loan bears annual interest at 8.75% and has a maturity date of March 30, 2013. Any additional borrowings will mature seven years from the date of the subsequent borrowing. The Fund also receives a fee of 0.25% on the unused portion of the loan. On October 6, 2006, Storage Canada borrowed an additional $619,000. The borrowing bears annual interest at 8.75% and has a maturity date of October 6, 2013.

On July 11, 2006, the Fund extended to Marine a $2.0 million secured revolving note. The note bears annual interest at LIBOR plus 1%. The Fund also receives a fee of 0.50% of the unused portion of the loan. There was no amount drawn on the revolving note as of October 31, 2006.

On August 25, 2006, SGDA's revolving credit facility was added to the term loan, increasing the balance of the term loan by $1.6 million. The revolving credit facility was eliminated from the Fund's books as a result of this refinancing.

On October 12, 2006, the Fund provided a $12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Fund receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On October 12, 2006, Octagon drew $3.75 million from the credit facility. Octagon repaid $500,000 of the credit facility on October 30, 2006. As of October 31, 2006, there was $3.25 million outstanding.

On October 30, 2006, the Fund provided a $260,000 revolving line of credit to Velocitius on which Velocitius immediately borrowed $143,614. The revolving line of credit expires on October 31, 2009. The note bears annual interest at 8%.

Timberland also has a floor plan financing program administered by Transamerica. As is typical in Timberland's industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Fund has agreed to be a limited co–guarantor for up to $500,000 on this repurchase commitment.

Commitments of the Fund:

On October 28, 2004, the Fund entered into a one–year, cash collateralized, $20 million revolving credit facility ("Credit Facility I") with LaSalle Bank National Association (the "Bank"). On July 20, 2005, the Fund amended Credit Facility I. The maximum aggregate loan amount under Credit Facility I was increased from $20 million to $30 million. Additionally, the maturity date was extended from October 31, 2005 to August 31, 2006. All other material terms of Credit Facility I remained unchanged. On January 27, 2006, the Fund borrowed $10 million under Credit Facility I. The $10 million borrowed under Credit Facility I was repaid in full by February 3, 2006. Borrowings under Credit Facility I bear interest, at the Fund's option, at either a fixed rate equal to the LIBOR rate (for one, two, three or six months), plus 1.00% per annum, or at a floating rate equal to the Bank's prime rate in effect from time to time, minus 1.00% per annum. Credit Facility I expired on August 31, 2006.

On February 16, 2005, the Fund entered into a sublease (the "Sublease") for a larger space in the building in which the Fund's current executive offices are located. Effective November 1, 2006, the Fund subleased its principal executive office to TTG Advisers. The Sublease is scheduled to expire on February 28, 2007. Future payments under the Sublease for TTG Advisers total approximately $75,000 in fiscal year 2007. The Fund's previous lease was terminated effective March 1, 2005, without penalty. The building in which the Fund's executive offices are located, 287 Bowman Avenue, is owned by Phoenix Capital Partners, LLC, an entity which is 97% owned by Mr. Tokarz. See Note 4 "Management" for more information on Mr. Tokarz.

On April 27, 2006, the Fund and MVCFS, as co–borrowers entered into a new four–year, $100 million revolving credit facility ("Credit Facility II") with Guggenheim as administrative agent to the lenders. On April 27, 2006, the Fund borrowed $45 million ($27.5 million drawn from the revolving credit facility and $17.5 million in term debt) under Credit Facility II. The $27.5 million drawn from the revolving credit facility was repaid in full on May 2, 2006. On July 28, 2006, the Fund borrowed $57.5 million ($45.0 million drawn from the revolving credit facility and $12.5 million in term debt) under Credit Facility II. On August 2, 2006, the Fund repaid $45.0 million borrowed on the revolving credit facility. On August 31, 2006, the Fund borrowed $5.0 million in term debt under Credit Facility II. On October 27, 2006, the Fund borrowed $4.0 million from the revolving credit under Credit Facility II. On October 30, 2006, the Fund borrowed $61 million under Credit Facility II, $15 million in term debt and $46 million drawn from the revolving credit facility. As of October 31, 2006, there was $50.0 million in term debt and $50.0 million on the revolving credit facility outstanding. The proceeds from borrowings made under Credit Facility II are expected to be used to fund new and existing portfolio investments, pay fees and expenses related to the financing and for general corporate purposes. Credit Facility II will expire on April 27, 2010, at which time all outstanding amounts under Credit Facility II will be due and payable. Borrowings under Credit Facility II will bear interest, at the Fund's option, at a floating rate equal to either (i) the LIBOR rate (for one, two, three or six months), plus a spread of 2.00% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 1.00% per annum. The Fund paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility II will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Fund.

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

Subsequent Events

Effective November 1, 2006, pursuant to the Advisory Agreement, the Fund is externally managed by TTG Advisers, which serves as the Fund's investment adviser. Under the terms of the Advisory Agreement, TTG Advisers will determine, consistent with the Fund's investment strategy, the composition of the Fund's portfolio, the nature and timing of the changes to the Fund's portfolio and the manner of implementing such changes, identify, and negotiate the structure of the Fund's investments (including performing due diligence on prospective portfolio companies), close and monitor the Fund's investments, determine the securities and other assets purchased, retain or sell and oversee the administration, recordkeeping and compliance functions of the Fund and/or third parties performing such functions for the Fund. TTG Advisers' services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Fund is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components — a base management fee and an incentive fee. The base management fee shall be 2.0% per annum of the Fund's total assets excluding cash. The incentive fee will consist of two parts: (i) one part will be based on our pre–incentive fee net operating income; and (ii) the other part will be based on the capital gains realized on our portfolio of securities acquired after November 1, 2003. For a detailed description of the Advisory Agreement, please refer to the Definitive Proxy Statement on Schedule 14A (as filed with the SEC on August 3, 2006).

On November 1, 2006, Timberland borrowed $420,291 from the secured junior revolving note.

On November 2, 2006, the Fund repaid $54.5 million borrowed on the revolving credit facility under Credit Facility II.

On November 7, 2006, the Fund made an additional $100,000 equity investment into SGDA.

On November 7, 2006, the Fund repaid $5.5 million borrowed on the revolving credit facility under Credit Facility II.

On November 21, 2006, consistent with the contemplated spin–off identified in the Advisory Agreement (and which is depicted in the Registration Statement), the Fund formed MVC Partners, a private equity firm. On December 5, 2006, MVC Partners' subsidiary, MVC Europe LLC, arrived at an agreement to co–own BPE Management Ltd. ("BPE") with Parex Asset Management IPAS, a management investment company and subsidiary of the Parex Bank. BPE will pursue investments in businesses throughout the Baltic region.

In addition, on November 21, 2006, MVC Partners established its MVC Global LLC division, which pursues investments in foreign operating companies.

On November 22, 2006, the Fund invested $3.2 million in Westwood Chemical Corporation, a manufacturer of antiperspirant actives and water treatment chemicals, consisting of a $1.6 million bridge loan and $1.6 million in equity.

On November 27, 2006, the Fund increased the amount available to draw down on the Timberland secured junior revolving note from $3.25 million to $4.0 million. Timberland then borrowed $750,000 from the secured junior revolver.

On November 29, 2006, the Fund filed Post–Effective Amendment No. 2 to its Registration Statement on Form N–2 (the "Registration Statement").

On December 6, 2006, the Fund borrowed $10.0 million on the revolving credit facility under Credit Facility II. The revolving credit facility now has a balance of $15.0 million and the term loan has a balance of $35.0 million.

On December 8, 2006, Total Safety repaid term loan A and term loan B in full including all accrued interest and fees. The total amount received in repayment for term loan A was $5,043,775 and for term loan B was $1,009,628.

On December 12, 2006, the Fund invested $10 million in Levlad Arbonne International LLC, a marketer of personal care products, in the form of a $10 million second lien loan. The loan bears annual interest of LIBOR plus 6.5% and the maturity date is December 19, 2013.

On December 13, 2006, the Fund made an investment in Total Safety by extending a $3.5 million second lien loan and a $1.0 million first lien loan. The second lien loan has an annual interest rate of LIBOR plus 6.5% and a maturity date of December 8, 2013. The first lien loan has an annual interest rate of LIBOR plus 3.0% and a maturity date of December 8, 2012.

On December 14, 2006, the Fund's Board of Directors declared a $0.12 per share dividend for the first quarter of fiscal 2007. The Board of Directors also declared an additional cash dividend of $0.06 per share. The dividends are payable on January 5, 2007 to shareholders of record on December 28, 2006. The ex–dividend date is December 26, 2006.

On December 18, 2006, the Fund extended the maturity date on the $1 million Baltic bridge loan from December 22, 2006 to January 5, 2007. This note was then repaid in full on January 5, 2007, including principal and all accrued interest.

On December 22, 2006, the Fund invested $564,716 in Vitality in the form of common stock.

On January 3, 2007, the Fund borrowed $3.0 million on the revolving credit facility under Credit Facility II. The revolving credit facility now has a balance of $18.0 million and the term loan has a balance of $35.0 million.

On January 4, 2007, the Fund's Valuation Committee determined to increase the fair values of the Fund's investments in the following portfolio companies by an aggregate amount of approximately $20.8 million*: SIA BM Auto, Baltic Motors Corporation, Dakota Growers Pasta Company, Inc., Octagon Credit Investors, LLC, SGDA Sanierungsgesellschaft für Deponien und Altlasten mbH, Vendio Services, Inc., and Vitality Foodservice, Inc.

Subject to confirmation following the audit, the payment obligation to Mr. Tokarz resulting from the sale of a portion of the Fund's LLC membership interest in Octagon is expected to be approximately $110,000 (which is expected to be paid during the first quarter of the Fund's fiscal year 2007).

Item 7A. ***Quantitative and Qualitative Disclosure about Market Risk***

Historically the Fund has invested in small companies, and its investments in these companies are considered speculative in nature. The Fund's investments often include securities that are subject to legal or contractual restrictions on resale that adversely affect the liquidity and marketability of such securities. As a result, the Fund is subject to risk of loss which may prevent our shareholders from achieving price appreciation, dividend distributions and return of capital.

Financial instruments that subjected the Fund to concentrations of market risk consisted principally of equity investments, subordinated notes, and debt instruments, which represent approximately 69.34% of the Fund's total assets at July 31, 2006. As discussed in Note 5 "Portfolio Investments," these investments consist of securities in companies with no readily determinable market values and as such are valued in accordance with the Fund's fair value policies and procedures. The Fund's investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be: (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. At this time, the Fund's investments in short–term securities are in 90–day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Fund's cash balances, if not large enough to be invested in 90–day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts.

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

Investing in private companies involves a high degree of risk.

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

Our investments in portfolio companies are generally illiquid.

We generally acquire our investments directly from the issuer in privately negotiated transactions. Most of the investments in our portfolio (other than cash or cash equivalents) are typically subject to restrictions on resale or

* Unaudited.

otherwise have no established trading market. We may exit our investments when the portfolio company has a liquidity event, such as a sale, recapitalization or initial public offering. The illiquidity of our investments may adversely affect our ability to dispose of equity and debt securities at times when it may be otherwise advantageous for us to liquidate such investments. In addition, if we were forced to immediately liquidate some or all of the investments in the portfolio, the proceeds of such liquidation could be significantly less than the current fair value of such investments.

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

Pursuant to the requirements of the 1940 Act, because our portfolio company investments do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our board of directors.

At October 31, 2006, approximately 79.50% of our total assets represented portfolio investments recorded at fair value. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. We specifically value each individual investment and record unrealized depreciation for an investment that we believe has become impaired, including where collection of a loan or realization of an equity security is doubtful. Conversely, we will record unrealized appreciation if we have an indication (based on an objective development) that the underlying portfolio company has appreciated in value and, therefore, our equity security has also appreciated in value, where appropriate. Without a readily ascertainable market value and because of the inherent uncertainty of fair valuations, fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of the companies in which we have made or will make investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to engage in a liquidity event. These conditions could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets.

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

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

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

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

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

We may not realize gains from our equity investments.

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

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

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

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

two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us.

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

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

Our investment strategy may result in some investments in debt or equity of foreign companies (subject to applicable limits prescribed by the 1940 Act). Investing in foreign companies can expose us to additional risks not typically associated with investing in U.S. companies. These risks include exchange rates, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

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

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

Our common stock price can be volatile.

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long–term equity participation securities, or LEAPs, or short trading positions;
- changes in regulatory policies or tax guidelines with respect to business development companies or RICs;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- general economic conditions and trends;

- loss of a major funding source; or
- departures of key personnel.

We are subject to market discount risk.

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

Changes in interest rates may affect our cost of capital and net operating income.

Because we have and may continue to borrow money to make investments, our net operating income before net realized and unrealized gains or losses, or net investment income, may be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net operating income. In periods of sharply rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use a combination of long–term and short–term borrowings and equity capital to finance our investing activities. We may utilize our short–term credit facilities as a means to bridge to long–term financing. Our long–term fixed–rate investments are financed primarily with equity and long–term fixed–rate debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

The war with Iraq, terrorist attacks, the Middle East crisis and other acts of violence or war may affect any market for our common stock, impact the businesses in which we invest and harm our operations and our profitability.

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

Item 8. ***Financial Statements and Supplementary Data***

CONSOLIDATED FINANCIAL STATEMENTS

MVC Capital, Inc.

Consolidated Balance Sheets

	October 31, 2006	October 31, 2005
ASSETS		
Assets		
Cash and cash equivalents	$ 66,217,123	$ 26,297,190
Short term investments at market value (cost $– and $51,026,902)	—	51,026,902
Investments at fair value (cost $286,850,759 and $171,591,242)		
Non–control/Non–affiliated investments (cost $108,557,066 and $74,495,549)	71,848,976	33,685,925
Affiliate investments (cost $71,672,386 and $40,370,059)	75,248,140	32,385,810
Control investments (cost $106,621,307 and $56,725,634)	128,794,436	56,225,944
Total investments at fair value	275,891,552	122,297,679
Dividends, interest and fees receivable	1,617,511	902,498
Prepaid expenses	2,597,547	364,780
Prepaid taxes	—	98,374
Deferred tax	548,120	303,255
Deposits	120,000	—
Other assets	54,796	88,600
Total assets	$ 347,046,649	$ 201,379,278
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Revolving credit facility	$ 50,000,000	$ —
Term loan	50,000,000	—
Provision for incentive compensation (Note 5)	7,172,352	1,117,328
Employee compensation and benefits	1,635,600	807,000
Other accrued expenses and liabilities	774,048	353,606
Professional fees	402,133	276,621
Consulting fees	70,999	3,117
Payable for investment purchased	—	79,708
Taxes payable	33,455	—
Directors' fees	(35,312)	2,898
Total liabilities	110,053,275	2,640,278
Shareholders' equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 19,093,929 and 19,086,566 shares outstanding, respectively	231,459	231,459
Additional paid–in–capital	353,479,871	358,571,795
Accumulated earnings	22,026,261	13,528,526
Dividends paid to stockholders	(21,592,946)	(12,429,181)
Accumulated net realized loss	(73,016,601)	(78,633,248)
Net unrealized depreciation	(10,959,207)	(49,293,563)
Treasury stock, at cost, 4,052,019 and 4,059,382 shares held, respectively	(33,175,463)	(33,236,788)
Total shareholders' equity	236,993,374	198,739,000
Total liabilities and shareholders' equity	$ 347,046,649	$ 201,379,278
Net asset value per share	$ 12.41	$ 10.41

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

MVC Capital, Inc.

Consolidated Schedule of Investments
October 31, 2006

Company	Industry	Investment	Principal	Cost	Fair Value
Non–control/Non–affiliated investments — 30.32% (a, c, g, f)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares)(d)		$ 5,000,003	$ —
Amersham Corp.	Manufacturer of Precision — Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010(h)	$ 2,473,521	2,473,521	2,473,521
		Second Lien Seller Note 16.0000%, 06/30/2013(b, h)	2,627,538	2,627,538	2,627,538
				5,101,059	5,101,059
BP Clothing, LLC	Apparel	Second Lien Loan 14.0000%, 07/18/2012(b, h)	10,041,165	9,862,650	10,041,165
		Term Loan A 9.6500%, 07/18/2011(h)	2,910,000	2,858,549	2,858,549
		Term Loan B 11.8000%, 07/18/2011(h)	2,000,000	1,964,638	1,964,638
				14,685,837	14,864,352
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares)(d)		4,520,350	—
FOLIO*fn*, Inc.	Technology Investments	Preferred Stock (5,802,259 shares)(d)		15,000,000	5,000,000
Henry Company	Building Products/Specialty Chemicals	Term Loan A 8.8244%, 04/06/2011(b)	3,000,000	3,000,000	3,000,000
		Term Loan B 13.0744%, 04/06/2011(h)	2,000,000	2,000,000	2,000,000
				5,000,000	5,000,000
Innovative Brands, LLC	Consumer Products	Term Loan 11.1250%, 09/22/2011(h)	15,000,000	15,000,000	15,000,000
JDC Lighting, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 01/31/2009(b, h)	3,035,844	2,988,002	3,035,844
MainStream Data	Technology Investments	Common Stock (5,786 shares)(d)		3,750,000	—
SafeStone Technologies PLC	Technology Investments	Preferred Stock (2,106,378 shares)(d, e)		4,015,402	—
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares)(d)		10,000,000	—
SP Industries, Inc.	Laboratory Research Equipment	Term Loan B 13.3244%, 03/31/2011(h)	3,059,300	3,007,411	3,059,300
		Senior Subordinated Debt 16.0000%, 03/31/2012(b, h)	12,959,013	12,653,021	12,959,013
				15,660,432	16,018,313
Storage Canada, LLC	Self Storage	Term Loan 8.7500%, 03/30/2013(h)	1,320,500	1,327,073	1,320,500
		Term Loan 8.7500%, 10/06/2013(h)	619,000	619,000	619,000
				1,946,073	1,939,500
Total Safety U.S., Inc.	Engineering Services	Term Loan A 9.8300%, 12/31/2010(h)	4,908,257	4,908,257	4,908,257
		Term Loan B 13.8300%, 12/31/2010(b)	981,651	981,651	981,651
				5,889,908	5,889,908
Sub Total Non–control/Non–affiliated investments				**108,557,066**	**71,848,976**
Affiliate investments — 31.75% (a, c, g, f)					
Dakota Growers Pasta Company, Inc.	Manufacturer of Packaged Foods	Common Stock (1,081,195 shares)		5,879,242	8,957,880
Endymion Systems, Inc.	Technology Investments	Preferred Stock (7,156,760 shares)(d)		7,000,000	—
Harmony Pharmacy & Health Center, Inc.	Healthcare — Retail	Common Stock (2,000,000 shares)(d)		750,000	750,000
Impact Confections, Inc.	Confections Manufacturing and Distribution	Senior Subordinated Debt 17.0000%, 07/30/2009(b, h)	5,468,123	5,390,649	5,468,123
		Senior Subordinated Debt 9.3244%, 07/29/2008(h)	325,000	321,218	325,000
		Common Stock (252 shares)(d)		2,700,000	2,700,000
				8,411,867	8,493,123
Marine Exhibition Corporation	Theme Park	Senior Subordinated Debt 11.0000%, 06/30/2013(b, h)	10,091,111	9,899,988	10,091,111
		Convertible Preferred Stock (20,000 shares)(b)		2,035,652	2,035,652
				11,935,640	12,126,763
Octagon Credit Investors, LLC	Financial Services	Term Loan 9.5744%, 12/31/2011(h)	5,000,000	4,931,096	5,000,000
		Revolving Line of Credit 9.5744%, 12/31/2011(h)	3,250,000	3,250,000	3,250,000
		Limited Liability Company Interest		894,095	1,927,932
				9,075,191	10,177,932
Phoenix Coal Corporation	Coal Processing and Production	Common Stock (1,666,667)(d)		1,000,000	1,000,000
		Second Lien Note 15.0000%, 06/08/2011(b, h)	7,088,615	6,959,809	7,088,615
				7,959,809	8,088,615
PreVisor, Inc.	Human Capital Management	Common Stock (9 shares)(d)		6,000,000	6,000,000
Vitality Foodservice, Inc.	Non–Alcoholic Beverages	Common Stock (500,000 shares)(d)		5,000,000	8,500,000

	Preferred Stock (1,000,000 shares)(b, h)	9,660,637	11,053,827
	Warrants(d)	—	1,100,000
		14,660,637	20,653,827
Sub Total Affiliate investments		**71,672,386**	**75,248,140**

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

MVC Capital, Inc.

Consolidated Schedule of Investments — (Continued)
October 31, 2006

Company	Industry	Investment	Principal	Cost	Fair Value
Control investments — 54.34% (a, c, g, f)					
auto MOTOL BENI	Automotive Dealership	Common Stock (200 shares)(d, e)		$ 2,000,000	$ 2,000,000
Baltic Motors Corporation	Automotive Dealership	Senior Subordinated Debt 10.0000%, 06/24/2007(e, h)	$ 4,500,000	4,500,000	4,500,000
		Bridge Loan 12.0000%, 12/22/2006(e, h)	1,000,000	1,000,000	1,000,000
		Common Stock (60,684 shares)(d, e)		8,000,000	21,155,000
				13,500,000	26,655,000
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 shares)(d)		17,000,000	26,200,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten	Soil Remediation	Term Loan 7.0000%, 08/25/2009(e, h)	6,187,350	5,989,710	5,989,710
		Common Equity Interest(d, e)		338,551	338,551
		Preferred Equity Interest(d, e)		5,000,000	5,000,000
				11,328,261	11,328,261
SIA BM Auto	Automotive Dealership	Common Stock (47,300 shares)(d, e)		8,000,000	8,000,000
Summit Research Labs, Inc.	Specialty Chemicals	Second Lien Loan 14.0000%, 08/15/2012(b, h)	5,044,813	4,948,327	5,044,813
		Preferred Stock (800 shares)(d)		11,200,000	11,200,000
				16,148,327	16,244,813
Timberland Machines & Irrigation, Inc.	Distributor — Landscaping and Irrigation Equipment	Senior Subordinated Debt 14.4260%, 08/04/2009(b, h)	6,607,859	6,551,408	6,607,859
		Junior Revolving Line of Credit 12.5000%, 07/07/2007(h)	2,829,709	2,829,709	2,829,709
		Common Stock (542 shares)(d)		5,420,291	4,420,291
		Warrants(d)		—	—
				14,801,408	13,857,859
Turf Products, LLC	Distributor — Landscaping and Irrigation Equipment	Senior Subordinated Debt 15.0000%, 11/30/2010(b, h)	7,676,330	7,627,137	7,676,330
		Limited Liability Company Interest(d)		3,821,794	5,821,794
		Warrants(d)		—	—
				11,448,931	13,498,124
Velocitius B.V.	Renewable Energy	Common Equity Interest(d, e)		2,966,765	2,966,765
		Revolving Line of Credit 8.0000%, 10/31/2009(e, h)	143,614	143,614	143,614
				3,110,379	3,110,379
Vendio Services, Inc.	Technology Investments	Common Stock (10,476 shares)(d)		5,500,000	—
		Preferred Stock (6,443,188 shares)(d)		1,134,001	3,400,000
				6,634,001	3,400,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011(h)	800,000	800,000	800,000
		Common Stock (81,000 shares)		1,850,000	3,700,000
				2,650,000	4,500,000
Sub Total Control Investments				106,621,307	128,794,436
TOTAL INVESTMENT ASSETS 116.41% (f)				$ 286,850,759	$ 275,891,552

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

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

(c) All of the Fund's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except auto MOTOL BENI, Baltic Motors Corporation, Safestone Technologies PLC, SGDA Sanierungsgesellschaft fur Deponien und Altlasten,SIA BM Auto and Velocitius B.V. The Fund makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non–income producing assets.

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

(f) Percentages are based on net assets of $236,993,374 as of October 31, 2006.

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

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

— Denotes zero cost/fair value.

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

MVC Capital, Inc.

Consolidated Schedule of Investments
October 31, 2005

Company	Industry	Investment	Principal	Cost	Fair Value
Non–control/Non–affiliated investments — 16.95%(a, c, g, h)					
Actelis Networks, Inc.	Technology Investments	Preferred Stock (150,602 shares)(d)		$ 5,000,003	$ —
Amersham Corp.	Manufacturer of Precision–Machined Components	Second Lien Seller Note 10.0000%, 06/29/2010	$ 2,473,521	2,473,521	2,473,521
BP Clothing, LLC	Apparel	Second Lien Loan 11.8406%, 06/02/2009	9,166,667	8,998,430	9,166,667
DPHI, Inc.	Technology Investments	Preferred Stock (602,131 shares)(d)		4,520,350	—
FOLIO*fn*, Inc.	Technology Investments	Preferred Stock (5,802,259 shares)(d)		15,000,000	—
Integral Development Corporation	Technology Investments	Convertible Credit Facility 11.7500%, 12/31/2005(e)	1,122,216	1,121,520	1,122,216
JDC Lighting, LLC	Electrical Distribution	Senior Subordinated Debt 17.0000%, 01/31/2009(b)	3,090,384	3,025,871	3,090,384
Lumeta Corporation	Technology Investments	Preferred Stock (384,615 shares)(d)		250,000	43,511
		Preferred Stock (266,846 shares)(d)		156,489	156,489
				406,489	200,000
MainStream Data	Technology Investments	Common Stock (5,786 shares)(d)		3,750,000	—
Octagon Credit Investors, LLC	Financial Services	Senior Subordinated Debt 15.0000%, 05/07/2011(b)	5,145,912	4,560,740	4,664,794
		Limited Liability Company Interest		724,857	1,228,038
		Warrants(d)		550,000	1,069,457
				5,835,597	6,962,289
SafeStone Technologies PLC	Technology Investments	Preferred Stock (2,106,378 shares)(d, f)		4,015,402	—
Sonexis, Inc.	Technology Investments	Common Stock (131,615 shares)(d)		10,000,000	—
SP Industries, Inc.	Laboratory Research Equipment	Term Loan B 13.8406%, 03/31/2010(b)	4,020,488	3,947,304	4,020,488
		Senior Subordinated Debt 17.0000%, 03/31/2012(b)	6,650,360	6,401,062	6,650,360
				10,348,366	10,670,848
Sub Total Non–control/Non–affiliated investments				74,495,549	33,685,925
Affiliate investments — 16.29%(a, c, g, h)					
Dakota Growers Pasta Company, Inc.	Manufacturer of Packaged Foods	Common Stock (909,091 shares)(d)		5,000,000	5,514,000
Endymion Systems, Inc.	Technology Investments	Preferred Stock (7,156,760 shares)(d)		7,000,000	—
Impact Confections, Inc.	Confections Manufacturing and Distribution	Senior Subordinated Debt 17.0000%, 07/30/2009(b)	5,228,826	5,133,069	5,228,826
		Senior Subordinated Debt 7.8406%, 07/29/2008	325,000	318,986	325,000
		Common Stock (252 shares)(d)		2,700,000	2,700,000
				8,152,055	8,253,826
ProcessClaims, Inc.	Technology Investments	Preferred Stock (6,250,000 shares)(d)		2,000,000	2,000,000
		Preferred Stock (849,257 shares)(d)		400,000	400,000
		Preferred Stock Warrants(d)		20	—
				2,400,020	2,400,000
Vitality Foodservice, Inc.	Non–Alcoholic Beverages	Common Stock (500,000 shares)(d)		5,000,000	5,000,000
		Preferred Stock (1,000,000 shares)(b)		10,517,984	10,517,984
		Warrants(d)		—	700,000
				15,517,984	16,217,984
Yaga, Inc.	Technology Investments	Preferred Stock (300,000 shares)(d)		300,000	—
		Preferred Stock (1,000,000 shares)(d)		2,000,000	—
				2,300,000	—
Sub Total Affiliate investments				40,370,059	32,385,810

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

MVC Capital, Inc.

Consolidated Schedule of Investments — (Continued)
October 31, 2005

Company	Industry	Investment	Principal	Cost	Fair Value
Control investments — 28.30% (a, c, g, h)					
Baltic Motors Corporation	Automotive Dealership	Senior Subordinated Debt 10.0000%, 06/24/2007(f)	$ 4,500,000	$ 4,500,000	$ 4,500,000
		Common Stock (54,947 shares)(d, f)		6,000,000	7,500,000
				10,500,000	12,000,000
Ohio Medical Corporation	Medical Device Manufacturer	Common Stock (5,620 sbares)(d)		17,000,000	17,000,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten	Soil Remediation	Revolving Line of Credit 7.0000%, 08/25/2006(f)	1,237,700	1,237,700	1,237,700
		Term Loan 7.0000%, 08/25/2009(f)	4,579,050	4,304,560	4,304,560
		Equity Interest(f)		315,000	315,000
				5,857,260	5,857,260
Timberland Machines & Irrigation, Inc.	Distributor – Landscaping and Irrigation Equipment	Senior Subordinated Debt 17.0000%, 08/04/2009(b)	6,318,684	6,234,373	6,318,684
		Junior Revolving Line of Credit 12.5000%, 07/07/2007	3,250,000	3,250,000	3,250,000
		Common Stock (450 shares)(d)		4,500,000	4,500,000
		Warrants(d)		—	—
				13,984,373	14,068,684
Vendio Services, Inc.	Technology Investments	Common Stock (10,476 shares)(d)		5,500,000	—
		Preferred Stock (6,443,188 shares)(d)		1,134,001	2,700,000
				6,634,001	2,700,000
Vestal Manufacturing Enterprises, Inc.	Iron Foundries	Senior Subordinated Debt 12.0000%, 04/29/2011	900,000	900,000	900,000
		Common Stock (81,000 shares)(d)		1,850,000	3,700,000
				2,750,000	4,600,000
Sub Total Control Investments				56,725,634	56,225,944
Short Term Investments — 25.67% (g)					
U.S. Treasury Bills	U.S. Government & Agency Securities	3.4400%, 12/01/2005	14,600,000	14,560,162	14,560,162
		3.2200%, 12/29/2005	9,865,000	9,812,368	9,812,368
		3.6300%, 01/12/2006	14,856,000	14,750,225	14,750,225
		3.4300%, 01/19/2006	12,000,000	11,904,147	11,904,147
				51,026,902	51,026,902
Sub Total Short Term Investments				51,026,902	51,026,902
TOTAL INVESTMENT ASSETS — 87.21% (g)				$ 222,618,144	$ 173,324,581

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

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

(c) All of the Fund's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Baltic Motors Corporation, Safestone Technologies PLC and SGDA Sanierungsgesellschaft fur Deponien und Altlasten. The Fund makes available significant managerial assistance to all of the portfolio companies in which it has invested.

(d) Non–income producing assets.

(e) Also received warrants to purchase a number of shares of preferred stock to be determined upon exercise.

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

(g) Percentages are based on net assets of $198,739,000 as of October 31, 2005.

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

— Denotes zero cost/fair value.

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

MVC Capital, Inc.

Consolidated Statements of Operations

	For the Year Ended October 31, 2006	For the Year Ended October 31, 2005	For the Year Ended October 31, 2004
Operating Income:			
Dividend income			
Affiliate investments	$ 89,842	$ 1,346,760	$ —
Control investments	132,545	—	—
Total dividend income	222,387	1,346,760	—
Interest income (net of foreign taxes withheld of $18,433, $0, and $0, respectively)			
Non–control/Non–affiliated investments	6,930,733	5,134,907	2,308,502
Affiliate investments	2,922,372	874,041	218,904
Control investments	3,833,499	2,101,808	469,110
Total interest income	13,686,604	8,110,756	2,996,516
Fee income			
Non–control/Non–affiliated investments	1,187,954	398,520	109,538
Affiliate investments	470,530	232,256	727,595
Control investments	2,169,236	1,178,331	88,631
Total fee income	3,827,720	1,809,107	925,764
Other income	771,405	932,761	64,104
Total operating income	18,508,116	12,199,384	3,986,384
Operating Expenses:			
Employee compensation and benefits	3,498,571	2,336,242	1,365,913
Incentive compensation (Note 5)	6,055,024	1,117,328	—
Insurance	471,711	590,493	959,570
Legal fees	685,396	529,541	810,848
Facilities	603,328	484,420	90,828
Other expenses	334,212	461,769	369,085
Audit fees	381,944	287,797	154,938
Consulting fees	344,576	192,255	—
Directors fees	205,071	148,875	175,956
Administration	194,826	137,191	102,593
Public relations fees	70,316	116,482	146,509
Printing and postage	129,438	71,785	80,278
Interest and other borrowing costs	1,594,009	30,771	2,472
Total operating expenses	14,568,422	6,504,949	4,258,990
Litigation recovery of management fees (Note 12, 13)	—	—	370,000
Net operating income before taxes	3,939,694	5,694,435	97,394
Tax (Benefit) Expenses:			
Deferred tax benefit	(244,865)	(215,977)	(87,278)
Current tax expense	403,937	115,044	166,205
Total tax (benefit) expense	159,072	(100,933)	78,927
Net operating income	3,780,622	5,795,368	18,467
Net Realized and Unrealized Gain (Loss) on Investments:			
Net realized gain (loss) on investments			
Non–control/Non–affiliated investments	(151,877)	(6,684,320)	(17,465,808)
Affiliate investments	5,373,267	3,407,457	(20,329,102)
Foreign currency	—	(18,687)	—
Total net realized gain (loss) on investments	5,221,390	(3,295,550)	(37,794,910)
Net change in unrealized appreciation on investments	38,334,356	23,768,366	49,381,974
Net realized and unrealized gain on investments	43,555,746	20,472,816	11,587,064
Net increase in net assets resulting from operations	$ 47,336,368	$ 26,268,184	$ 11,605,531
Net increase in net assets per share resulting from operations	$ 2.48	$ 1.45	$ 0.91
Dividends declared per share	$ 0.48	$ 0.24	$ 0.12

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

MVC Capital, Inc.

Consolidated Statements of Cash Flows

	For the Year Ended October 31, 2006	For the Year Ended October 31, 2005	For the Year Ended October 31, 2004
Cash flows from Operating Activities:			
Net increase in net assets resulting from operations	$ 47,336,368	$ 26,268,184	$ 11,605,531
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:			
Realized (gain) loss	(5,221,390)	3,295,550	37,794,910
Net change in unrealized (appreciation) depreciation	(38,334,356)	(23,768,366)	(49,381,974)
Amortization of discounts and fees	(505,428)	(235,428)	—
Increase in accrued payment–in–kind dividends and interest	(2,183,786)	(1,370,777)	(101,861)
Increase in allocation of flow through income	(279,422)	(114,845)	—
Changes in assets and liabilities:			
Interest and fees receivable	(715,013)	(474,207)	(275,661)
Prepaid expenses	(2,232,767)	(130,977)	178,200
Prepaid taxes	98,374	(98,374)	—
Deferred tax	(244,865)	(215,977)	(87,278)
Deposits	(120,000)	—	—
Other assets	33,804	(43,155)	(45,445)
Payable for investment purchased	(79,708)	79,708	—
Liabilities	7,492,705	1,576,079	112,361
Purchases of equity investments	(45,913,914)	(17,315,000)	(34,210,000)
Purchases of debt instruments	(111,105,943)	(37,950,271)	(20,848,139)
Purchases of short term investments	(406,066,963)	(313,505,406)	(398,988,675)
Purchases of warrants	—	—	(550,000)
Proceeds from equity investments	10,593,459	23,396,719	4,309,991
Proceeds from debt instruments	37,895,884	10,796,111	8,478,894
Sales/maturities of short term investments	458,554,888	297,482,209	478,170,586
Net cash provided (used) by operating activities	(50,998,073)	(32,328,223)	36,161,440
Cash flows from Financing Activities:			
Issuance of common stock	—	60,478,127	—
Repurchase of common stock	—	—	(31,571,184)
Distributions to shareholders paid	(9,081,994)	(4,572,359)	(1,475,165)
Net borrowings under (repayments on) revolving credit facility	100,000,000	(10,427,296)	10,025,000
Net cash provided (used) for financing activities	90,918,006	45,478,472	(23,021,349)
Net change in cash and cash equivalents for the year	39,919,933	13,150,249	13,140,091
Cash and cash equivalents, beginning of year	26,297,190	13,146,941	6,850
Cash and cash equivalents, end of year	$ 66,217,123	$ 26,297,190	$ 13,146,941

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

During the years ended October 31, 2006, 2005 and 2004, MVC Capital, Inc. paid $1,471,556, $32,185 and $– in interest expense, respectively.

During the years ended October 31, 2006, 2005 and 2004, MVC Capital, Inc. paid $217,204, $379,623 and $– in income taxes, respectively.

Non–cash activity:

During the years ended October 31, 2006, 2005 and 2004, MVC Capital, Inc. recorded payment in kind dividend and interest of $2,183,786, $1,370,777 and $101,861, respectively. This amount was added to the principal balance of the investments and recorded as interest/dividend income.

During the years ended October 31, 2006, 2005 and 2004, MVC Capital, Inc. was allocated $587,273, $244,557 and $–, respectively, in flow–through income from its equity investment in Octagon Credit Investors, LLC. Of this amount, $307,851, $129,712 and $–, respectively, was received in cash and the balance of $279,422, $114,845 and $–, respectively, was undistributed and therefore increased the cost of the investment. The fair value was then retroactively increased by the Fund's Valuation Committee.

On August 3, 2005, MVC Capital, Inc. re–issued 826 shares of treasury stock, in lieu of a cash distribution totaling $8,317, in accordance with the Fund's dividend reinvestment plan.

On November 2, 2005, MVC Capital, Inc. re–issued 1,904 shares of treasury stock, in lieu of a cash distribution totaling $19,818, in accordance with the Fund's dividend reinvestment plan.

On December 27, 2005, MVC Capital, Inc. exchanged $286,200 from the Timberland Machines & Irrigation, Inc.'s junior revolving line of credit for 29 shares of it's common stock.

On December 31, 2005, MVC Capital, Inc. exercised its ProcessClaims, Inc. warrants for 373,362 shares of preferred stock.

On January 3, 2006, MVC Capital, Inc. exercised its warrant in Octagon Credit Investors, LLC. After the warrant was exercised, MVC Capital's ownership increased. As a result, Octagon is now considered an affiliate as defined in the Investment Company Act of 1940. See Note 3 to the financial statements for further information regarding "Investment Classification."

On February 1, 2006, MVC Capital, Inc. re–issued 1,824 shares of treasury stock, in lieu of a cash distribution totaling $19,953, in accordance with the Fund's dividend reinvestment plan.

On April 28, 2006, MVC Capital, Inc. increased the availability under the SGDA Sanierungsgesellschaft fur Deponien und Altlasten ("SGDA") revolving credit facility by $300,000. The SGDA bridge note for $300,000 was added to the revolving credit facility and the bridge loan was removed from MVC Capital's books as apart of the refinancing.

On May 1, 2006, MVC Capital, Inc. re–issued 1,734 shares of treasury stock, in lieu of a cash distribution totaling $19,761, in accordance with the Fund's dividend reinvestment plan.

On August 1, 2006, MVC Capital, Inc. re–issued 1,901 shares of treasury stock, in lieu of a cash distribution totaling $22,240, in accordance with the Fund's dividend reinvestment plan.

On August 25, 2006, MVC Capital, Inc. increased the SGDA Sanierungsgesellschaft fur Deponien und Altlasten ("SGDA") term loan by $1,608,300. The SGDA revolving line of credit for $1,608,300 was added to the term loan and the revolving line of credit was removed from MVC Capital's books as apart of the refinancing.

On September 12, 2006, MVC Capital, Inc. decreased the balance under the Timberland Machines & Irrigation, Inc. junior revolving line of credit by $409,091 in exchange for 41 shares of Timberland Machines & Irrigation, Inc.'s common stock.

On September 22, 2006, MVC Capital, Inc. decreased the balance under the Timberland Machines & Irrigation, Inc. junior revolving line of credit by $225,000 in exchange for 23 shares of Timberland Machines & Irrigation, Inc.'s common stock.

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

MVC Capital, Inc.

Consolidated Statements of Changes in Net Assets

	For the Year Ended October 31, 2006	For the Year Ended October 31, 2005	For the Year Ended October 31, 2004
Operations:			
Net operating income	$ 3,780,622	$ 5,795,368	$ 18,467
Net realized gain (loss)	5,221,390	(3,295,550)	(37,794,910)
Net change in unrealized appreciation	38,334,356	23,768,366	49,381,974
Net increase in net assets from operations	47,336,368	26,268,184	11,605,531
Shareholder Distributions:			
Distributions to shareholders	(9,163,765)	(4,580,676)	(10,072)
Return of capital distributions to shareholders	—	—	(1,465,093)
Net decrease in net assets from shareholder distributions	(9,163,765)	(4,580,676)	(1,475,165)
Capital Share Transactions:			
Issuance of common stock	—	60,478,127	—
Reissuance of treasury stock to purchase investment	—	1,400,000	—
Offering expenses	—	(402,296)	—
Reissuance of treasury stock in lieu of cash dividend	81,771	8,317	—
Repurchase of common stock	—	—	(31,571,184)
Net increase (decrease) in net assets from capital share transactions	81,771	61,484,148	(31,571,184)
Total increase (decrease) in net assets	38,254,374	83,171,656	(21,440,818)
Net assets, beginning of year	198,739,000	115,567,344	137,008,162
Net assets, end of year	$ 236,993,374	$ 198,739,000	$ 115,567,344
Common shares outstanding, end of year	19,093,929	19,086,566	12,293,042

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

MVC Capital, Inc.

Consolidated Selected Per Share Data and Ratios

	For the Year Ended October 31, 2006	For the Year Ended October 31, 2005	For the Year Ended October 31, 2004	For the Year Ended October 31, 2003	For the Year Ended October 31, 2002
Net asset value, beginning of year	$ 10.41	$ 9.40	$ 8.48	$ 11.84	$ 15.42
Gain (loss) from operations:					
Net operating income (loss)	0.20	0.32	—	(0.53)	(0.19)
Net realized and unrealized gain (loss) on investments	2.28	1.13	0.91	(2.89)	(3.35)
Total gain (loss) from investment operations	2.48	1.45	0.91	(3.42)	(3.54)
Less distributions from:					
Income	(0.48)	(0.24)	—	—	(0.04)
Return of capital	—	—	(0.12)	—	—
Total distributions	(0.48)	(0.24)	(0.12)	—	(0.04)
Capital share transactions					
Dilutive effect of share issuance	—	(0.20)	—	—	—
Anti–dilutive effect of share repurchase program	—	—	0.13	0.06	—
Total capital share transactions	—	(0.20)	0.13	0.06	—
Net asset value, end of year	$ 12.41	$ 10.41	$ 9.40	$ 8.48	$ 11.84
Market value, end of year	$ 13.08	$ 11.25	$ 9.24	$ 8.10	$ 7.90
Market premium (discount)	5.40%	8.07%	(1.70)%	(4.48)%	(33.28)%
Total Return — At NAV(a)	24.23%	13.36%	12.26%	(28.38)%	(22.88)%
Total Return — At Market(a)	20.75%	24.38%	15.56%	2.53%	(14.22)%
Ratios and Supplemental Data:					
Net assets, end of year (in thousands)	$ 236,993	$ 198,739	$ 115,567	$ 137,008	$ 195,386
Ratios to average net assets:					
Expenses excluding incentive compensation, interest and other borrowing costs	3.29%	3.03%	3.74%(c)	7.01%(b)	3.02%
Expenses excluding incentive compensation	4.03%	3.05%	3.74%(c)	7.01%(b)	3.02%
Expenses excluding tax expense (benefit)	6.78%	3.75%	3.68%(c)	7.01%(b)	3.02%
Expenses including tax expense (benefit), incentive compensation, interest and other borrowing costs	6.85%	3.69%	3.74%(c)	7.01%(b)	3.02%
Net operating income (loss) before incentive compensation, interest and other borrowing costs	5.32%	4.00%	0.02%	(5.22)%(b)	(1.37)%
Net operating income (loss) before incentive compensation	4.58%	3.98%	0.02%	(5.22)%(b)	(1.37)%
Net operating income (loss) before tax expense (benefit)	1.83%	3.28%	0.08%	(5.22)%(b)	(1.37)%
Net operating income (loss) after tax expense (benefit), incentive compensation, interest and other borrowing costs	1.76%	3.34%	0.02%	(5.22)%(b)	(1.37)%

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

(b) The expense ratio for the year ended October 31, 2003 included approximately $4.0 million of proxy/litigation fees and expenses. When these fees and expenses are excluded, the Fund's expense ratio was 4.52% and the net operating loss was –2.74%.

(c) The expense ratio for the year ended October 31, 2004, included a one–time expense recovery of approximately $250,000 (See Note 13). For the year ended October 31, 2004, without this one–time recovery, the expense ratio, excluding and including tax expense would have been 3.89% and 3.95%, respectively.

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

MVC Capital, Inc.

Notes to Consolidated Financial Statements
October 31, 2006

1. Organization and Business Purpose

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

The Fund has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). The shares of the Fund commenced trading on the New York Stock Exchange, Inc. (the "NYSE") under the symbol MVC on June 26, 2000.

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

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

On November 6, 2003, Michael Tokarz assumed his position as Chairman, Portfolio Manager and Director of the Fund. Mr. Tokarz is compensated by the Fund based upon his positive performance as the Portfolio Manager.

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

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

On July 16, 2004 the Fund commenced the operations of MVC Financial Services, Inc.

On September 7, 2006, the stockholders of MVC Capital approved the adoption of an investment advisory and management agreement with a 92% shareholder approval. The approved investment advisory and management agreement, which was entered into on October 31, 2006, provides for external management of the Fund by The Tokarz Group Advisers LLC ("TTG Advisers") (the "Advisory Agreement"), which is led by Michael Tokarz. The agreement took effect on November 1, 2006. Upon the effectiveness of the Advisory Agreement on November 1, 2006, Mr. Tokarz's employment agreement with the Fund terminated. All of the individuals (including the Fund's investment professionals) that had been previously employed by the Fund as of the fiscal year ended October 31, 2006 are now employed by TTG Advisers and are expected to continue to provide services to the Fund.

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

2. Consolidation

On July 16, 2004, the Fund formed a wholly owned subsidiary company, MVC Financial Services, Inc. ("MVCFS"). MVCFS is incorporated in Delaware and its principal purpose is to provide advisory, administrative and other services to the Fund, the Fund's portfolio companies and other entities. Under regulations governing the content of the Fund's financial statements, the Fund is generally precluded from consolidating any entity other than another investment company; however, an exception to these regulations allows the Fund to consolidate MVCFS since it is a wholly owned operating subsidiary. MVCFS had opening equity of $1 (100 shares at $0.01 per share). The Fund does not hold MVCFS for investment purposes and does not intend to sell MVCFS. All intercompany accounts have been eliminated in consolidation.

3. Significant Accounting Policies

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

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

Valuation of Portfolio Securities — Pursuant to the requirements of the 1940 Act, we value our portfolio securities at their current market values or, if market quotations are not readily available, at their estimates of fair values. Because our portfolio company investments generally do not have readily ascertainable market values, we record these investments at fair value in accordance with Valuation Procedures adopted by our board of directors. Our board of directors may also hire independent consultants to review our Valuation Procedures or to conduct an independent valuation of one or more of our portfolio investments.

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

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

At October 31, 2006, approximately 79.50% of our total assets represented portfolio investments recorded at fair value.

Initially, Fair Value Investments held by the Fund are valued at cost (absent the existence of circumstances warranting, in management's and the Valuation Committee's view, a different initial value). During the period that a Fair Value Investment is held by the Fund, its original cost may cease to represent an appropriate valuation, and other factors must be considered. No pre–determined formula can be applied to determine fair values. Rather, the Valuation Committee makes fair value assessments based upon the value at which the securities of the portfolio company could be sold in an orderly disposition over a reasonable period of time between willing parties, other than in a forced or liquidation sale ("Fair Value"). The liquidity event whereby the Fund exits an investment is generally the sale, the merger, the recapitalization or, in some cases, the initial public offering of the portfolio company.

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

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

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

The Fund's equity interests in portfolio companies for which there is no liquid public market are valued at Fair Value. The Valuation Committee's analysis of fair value may include various factors, such as multiples of EBITDA, cash flow(s), net income, revenues or in limited instances book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Fund's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, or restructuring or related items.

The Valuation Committee may look to private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, or industry practices in determining Fair Value. The Valuation Committee may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, as well as any other factors it deems relevant in assessing the value. The determined Fair Values may be discounted to account for restrictions on resale and minority positions.

Generally, the value of our equity interests in public companies for which market quotations are readily available is based upon the most recent closing public market price. Portfolio securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security.

For loans and debt securities, Fair Value generally approximates cost unless there is a reduced value or overall financial condition of the portfolio company or other factors indicate a lower Fair Value for the loan or debt security.

Generally, in arriving at a Fair Value for a debt security or a loan, the Valuation Committee focuses on the portfolio company's ability to service and repay the debt and considers its underlying assets. With respect to a convertible debt security, the Valuation Committee also analyzes the excess of the value of the underlying security over the conversion price as if the security was converted when the conversion feature is "in the money" (appropriately discounted if restricted). If the security is not currently convertible, the use of an appropriate discount in valuing the underlying security is typically considered. If the value of the underlying security is less than the conversion price, the Valuation Committee focuses on the portfolio company's ability to service and repay the debt.

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

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

For loans, debt securities, and preferred securities with contractual payment–in–kind interest or dividends, which represent contractual interest/dividends accrued and added to the loan balance or liquidation preference that

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

generally becomes due at maturity, the Fund will not accrue payment–in–kind interest/dividends if the portfolio company valuation indicates that the payment–in–kind interest is not collectible. However, the Fund may accrue payment–in–kind interest if the health of the portfolio company and the underlying securities are not in question. All payment–in–kind interest that has been added to the principal balance or capitalized is subject to ratification by the Valuation Committee.

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

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

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

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

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

Distributions to Shareholders — Distributions to shareholder are recorded on the ex–dividend date.

Income Taxes — It is the policy of the Fund to meet the requirements for qualification as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended. The Fund is not subject to income tax to the extent that it distributes all of its investment company taxable income and net realized

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

gains for its taxable year. The Fund is also exempt from excise tax if it distributes most of its ordinary income and/or capital gains during each calendar year.

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

Reclassifications — Certain amounts from prior years have had to be reclassified to conform to the current year presentation.

4. Management

On November 6, 2003, Michael Tokarz assumed his positions as Chairman, Portfolio Manager and Director of the Fund. Under internal management, Mr. Tokarz was entitled to compensation pursuant to his agreement with the Fund, under which the Fund was required to pay Mr. Tokarz incentive compensation in an amount equal to the lesser of (a) 20% of the net income of the Fund for the fiscal year; or (b) the sum of (i) 20% of the net capital gains realized by the Fund in respect of the investments made during his tenure as Portfolio Manager; and (ii) the amount, if any, by which the Fund's total expenses for a fiscal year were less than two percent of the Fund's net assets (determined as of the last day of the period). Mr. Tokarz has determined to allocate a portion of the incentive compensation to certain employees of the Fund. For the year ended October 31, 2006, Mr. Tokarz received no cash or other compensation from the Fund pursuant to his contract. Please see Note 5 "Incentive Compensation" for more information.

On February 20, 2006, Robert Everett resigned from the Fund's board of directors. Mr. Everett's resignation did not involve a disagreement with the Fund on any matter.

On February 23, 2006, in accordance with the recommendation of the Nominating/Corporate Governance/Strategy Committee of the Fund's board of directors, Mr. William E. Taylor was appointed to serve on the Fund's board of directors. Mr. Taylor was also appointed to serve on the Audit Committee and Nominating/Corporate Governance/Strategy Committee of the Fund's board of directors.

On May 30, 2006, the Fund's board of directors, including all of the Independent Directors (Mr. Tokarz recused himself from making a determination on this matter), unanimously approved the Advisory Agreement, which provides for the Fund to be managed externally by TTG Advisers, which is controlled exclusively by Mr. Tokarz. On September 7, 2006, shareholders approved the Advisory Agreement at the annual meeting of shareholders.

On November 1, 2006, Mr. Tokarz's agreement with the Fund was terminated when the Advisory Agreement became effective as of that date. Under the terms of the Advisory Agreement, the Fund will pay TTG Advisers a base management fee and an incentive fee for its provision of investment advisory and management services. Please refer to Exhibit 10.4, Investment Advisory and Management Agreement and Note 17 "Subsequent Events" for more information.

5. Incentive Compensation

Under the terms of the Fund's agreement with Mr. Tokarz, as discussed in Note 4 "Management," during the year ended October 31, 2006, the provision for estimated incentive compensation was increased by $6,055,024. The increase in the provision for incentive compensation resulted from the determination of the Valuation Committee to increase the fair value of six of the Fund's portfolio investments: Baltic, Dakota, Ohio, Octagon, Turf, and Vitality which are subject to the Fund's agreement with Mr. Tokarz, by a total of $30,275,120. This reserve balance of $7,172,352 will remain unpaid until net capital gains are realized, if ever, by the Fund. Pursuant to Mr. Tokarz's

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employment agreement with the Fund, only after a realization event may the incentive compensation be paid to him. Mr. Tokarz has determined to allocate a portion of the incentive compensation to certain employees of the Fund. During the year ended October 31, 2005 and the year ended October 31, 2006, Mr. Tokarz was paid no cash or other compensation. However, on October 2, 2006 and as discussed in "Realized Gains and Losses on Portfolio Securities," the Fund realized a gain of $551,092 from the sale of a portion of the Fund's LLC member interest in Octagon. This transaction triggered an incentive compensation payment obligation to Mr. Tokarz, which payment is not required to be made until the precise amount of the payment obligation is confirmed based on the Fund's completed audited financials for the fiscal year 2006. Subject to confirmation following the audit, the payment obligation to Mr. Tokarz from this transaction is approximately $110,000 (which is expected to be paid during the first quarter of the Fund's fiscal year 2007). Mr. Tokarz's agreement with the Fund terminated on the effective date of the Advisory Agreement and the obligations under Mr. Tokarz's agreement are superseded by those under the Advisory Agreement. TTG Advisers is entitled to incentive compensation on capital gains realized on portfolio securities acquired after November 1, 2003.

6. Dividends and Distributions to Shareholders

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

Dividends and capital gain distributions, if any, are recorded on the ex–dividend date. Dividends and capital gain distributions are generally declared and paid quarterly according to the Fund's policy established on July 11, 2005. An additional distribution may be paid by the Fund to avoid imposition of federal income tax on any remaining undistributed net investment income and capital gains. Distributions can be made payable by the Fund either in the form of a cash distribution or a stock dividend. The amount and character of income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are due primarily to differing treatments of income and gain on various investment securities held by the Fund, timing differences and differing characterizations of distributions made by the Fund. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications and may affect the allocation between net operating income, net realized gain (loss) and paid in capital.

For the Year Ended October 31, 2006

On July 11, 2005, the Fund's board of directors announced that it has approved the Fund's establishment of a policy seeking to pay quarterly dividends to shareholders. On December 20, 2005, the Fund's board of directors declared a dividend of $.12 per share payable on January 31, 2006 to shareholders of record on December 30, 2005. The ex–dividend date was December 28, 2005. The total distribution amounted to $2,290,616 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,824 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

On April 11, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on April 28, 2006 to shareholders of record on April 21, 2006. The ex–dividend date was April 19, 2006. The total distribution amounted to $2,290,835 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,734 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

On July 14, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on July 31, 2006 to shareholders of record on July 24, 2006. The ex–dividend date was July 20, 2006. The total distribution amounted

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

to $2,291,043 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 1,901 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

On October 13, 2006, the Fund's board of directors declared a dividend of $.12 per share payable on October 31, 2006 to shareholders of record on October 24, 2006. The ex–dividend date was October 20, 2006. The total distribution amounted to $2,291,271 including distributions reinvested. In accordance with the Plan, the Plan Agent re–issued 2,327 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Year Ended October 31, 2005

On July 11, 2005, the Fund's board of directors announced that it has approved the Fund's establishment of a policy seeking to pay quarterly dividends to shareholders. For the quarter, the board of directors declared a dividend of $.12 per share payable on July 29, 2005 to shareholders of record on July 22, 2005. The ex–dividend date was July 20, 2005. The total distribution amounted to $2,290,289. In accordance with the Plan, the Plan Agent re–issued 826 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

On October 10, 2005, the Fund's board of directors declared a dividend of $.12 per share payable on October 31, 2005 to shareholders of record on October 21, 2005. The ex–dividend date was October 19, 2005. The total distribution amounted to $2,290,387. In accordance with the Plan, the Plan Agent re–issued 1,904 shares of common stock from the Fund's treasury to shareholders participating in the Plan.

For the Year Ended October 31, 2004

On October 14, 2004, the Fund's Board of Directors declared a nonrecurring dividend of $.12 per share payable to shareholders of record on October 22, 2004 and payable on October 29, 2004. In accordance with the Plan, the Plan Agent purchased shares on the open market of the NYSE for shareholders participating in the Plan. The total distribution amounted to $1,475,165.

7. Transactions with Other Parties

The Fund is permitted to co–invest in certain Portfolio Companies with its affiliates subject to specified conditions set forth in an exemptive order obtained from the SEC. Under the terms of the order, Portfolio Companies purchased by the Fund and its affiliates are required to be approved by the Independent Directors and are required to satisfy certain conditions established by the SEC. During 2004, 2005, and 2006 no transactions were effected pursuant to the exemptive order.

As stated above in Item 2, "Properties", the Fund has sub–leased property at 287 Bowman Avenue, Purchase, NY 10577 a building which is owned by Phoenix Capital Partners, LLC, which is 97% owned by Mr. Tokarz.

In connection with the Fund's investment in Velocitius, we have entered into consulting services arrangements with Jasper Energy, LLC ("Jasper"). Under the terms of the arrangements, Jasper provides management consulting services relating to Velocitius' acquisition of certain wind farms and is to be paid an ongoing monthly service fee of approximately 8,000 euros ($10,000), a fee equal to 9% of the profit distributions attributable to the wind farm projects and a one–time fee equal to 2% of the equity purchase price of the wind farms (estimated currently at 175,000 euros ($220,000)). Mr. Tokarz, our Chairman and Portfolio Manager, has a minority ownership interest in Jasper. Our board of directors, including all of our Independent Directors (Mr. Tokarz recused himself from making a determination on this matter), approved each of the arrangements with Jasper.

8. Concentration of Market and Credit Risk

Financial instruments that subjected the Fund to concentrations of market risk consisted principally of equity investments, subordinated notes, and debt instruments (other than cash equivalents), which represent approximately 79.50% of the Fund's total assets at October 31, 2006. As discussed in Note 9, these investments consist of securities

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Notes to Consolidated Financial Statements — (Continued)

in companies with no readily determinable market values and as such are valued in accordance with the Fund's fair value policies and procedures. The Fund's investment strategy represents a high degree of business and financial risk due to the fact that the investments (other than cash equivalents) are generally illiquid, in small and middle market companies, and include entities with little operating history or entities that possess operations in new or developing industries. These investments, should they become publicly traded, would generally be (i) subject to restrictions on resale, if they were acquired from the issuer in private placement transactions; and (ii) susceptible to market risk. At this time, the Fund's investments in short–term securities are in 90–day Treasury Bills, which are federally guaranteed securities, or other high quality, highly liquid investments. The Fund's cash balances, if not large enough to be invested in 90–day Treasury Bills or other high quality, highly liquid investments, are swept into designated money market accounts.

9. Portfolio Investments

For the Year Ended October 31, 2006

During the year ended October 31, 2006, the Fund made sixteen new investments, committing capital totaling approximately $142.1 million. The investments were made in Turf ($11.6 million), SOI ($5.0 million), Henry ($5.0 million), BM Auto ($15.0 million), Storage Canada ($6.0 million), Phoenix ($8.0 million), Harmony Pharmacy, Inc. ($200,000), Total Safety ($6.0 million), PreVisor ($6.0 million), Marine ($14.0 million), BP ($15.0 million), Velocitius ($66,290), Summit ($16.2 million), Octagon ($17.0 million), BENI ($2.0 million), and Innovative Brands ($15.0 million).

The Fund also made eight follow–on investments in existing portfolio companies committing capital totaling approximately $24.2 million. During the year ended October 31, 2006, the Fund invested approximately $879,000 in Dakota by purchasing an additional 172,104 shares of common stock at an average price of $5.11 per share. On December 22, 2005, the Fund made a follow–on investment in Baltic in the form of a $1.8 million revolving bridge note. Baltic immediately drew down $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on January 31, 2006 and has been removed from the Fund's books. On January 12, 2006, the Fund provided SGDA a $300,000 bridge loan. On March 28, 2006, the Fund provided Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on April 30, 2006 and has been removed from the Fund's books. On April 6, 2006, the Fund invested an additional $2.0 million in SGDA in the form of a preferred equity security. On April 25, 2006, the Fund purchased an additional common equity security in SGDA for $23,000. On June 30, 2006, the Fund invested $2.5 million in Amersham in the form of a second lien loan. On August 4, 2006, the Fund invested $750,000 in Harmony in the form of common stock. On September 28, 2006, the Fund made another follow–on investment in Baltic in the form of a $1.0 million bridge loan and $2.0 million equity investment. On October 13, 2006, the Fund made a $10 million follow–on investment in SP. The $10 million was invested in the form of an additional $4.0 million in term loan B and $6.0 million in a mezzanine loan. On October 20, 2006, the Fund then assigned $5.0 million of SP's $8.0 million term loan B to Citigroup Global Markets Realty Corp. On October 24, 2006, the Fund invested an additional $3.0 million in SGDA in the form of a preferred equity security. On October 26, 2006, the Fund invested an additional $2.9 million in Velocitius in the form of common equity. The Fund also provided Velocitius a $260,000 revolving note on October 31, 2006. Velocitius immediately drew down $143,614 from the note.

At the beginning of the 2006 fiscal year, the revolving credit facility provided to SGDA had an outstanding balance of approximately $1.2 million. During December 2005, SGDA drew down an additional $70,600 from the credit facility. On April 28, 2006, the Fund increased the availability under the revolving credit facility by $300,000. The balance of the bridge loan mentioned above, which would have matured on April 30, 2006, was added to the revolving credit facility and the bridge loan was eliminated from the Fund's books as a part of the refinancing.

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Notes to Consolidated Financial Statements — (Continued)

On December 21, 2005, Integral prepaid its senior credit facility from the Fund in full. The Fund received approximately $850,000 from the prepayment. This amount included all outstanding principal and accrued interest. The Fund recorded no gain or loss as a result of the prepayment. Under the terms of the prepayment, the Fund returned its warrants to Integral for no consideration.

Effective December 27, 2005, the Fund exchanged $286,200, of the $3.25 million outstanding, of the Timberland junior revolving line of credit into 28.62 shares of common stock at a price of $10,000 per share. As a result, as of July 31, 2006, the Fund owned 478.62 common shares of Timberland and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.96 million.

Effective December 31, 2005, the Fund received 373,362 shares of Series E preferred stock of ProcessClaims, Inc. in exchange for its rights under a warrant issued by ProcessClaims that has been held by the Fund since May 2002. On January 5, 2006, the Valuation Committee increased the fair value of the Fund's entire investment in ProcessClaims by $3.3 million to $5.7 million. Please see the paragraph below for more information on ProcessClaims.

On January 3, 2006, the Fund exercised its warrant ownership in Octagon which increased its existing membership interest. As a result, Octagon is now considered an affiliate of the Fund.

Due to the dissolution of Yaga, one of the Fund's legacy portfolio companies, the Fund realized losses on its investment in Yaga totaling $2.3 million during the nine month period ended July 31, 2006. The Fund received no proceeds from the dissolution of Yaga and the Fund's investment in Yaga has been removed from the Fund's books. The Valuation Committee previously decreased the fair value of the Fund's investment in Yaga to zero and as a result, the Fund's realized losses were offset by reductions in unrealized losses. Therefore, the net effect of the removal of Yaga from the Fund's books on the Fund's consolidated statement of operations and NAV at October 31, 2006, was zero.

On February 24, 2006, BP repaid its second lien loan from the Fund in full. The amount of the proceeds received from the prepayment was approximately $8.7 million. This amount included all outstanding principal, accrued interest, accrued monitoring fees and an early prepayment fee. The Fund recorded no gain or loss as a result of the repayment.

On April 7, 2006, the Fund sold its investment in Lumeta for its carrying value of $200,000. The Fund realized a loss on Lumeta of approximately $200,000. However, the Valuation Committee previously decreased the fair value of the Fund's investment in Lumeta to $200,000 and, as a result, the realized loss was offset by a reduction in unrealized losses. Therefore, the net effect of the Fund's sale of its investment in Lumeta on the Fund's consolidated statement of operations and NAV was zero.

On April 21, 2006, BM Auto repaid its bridge loan from the Fund in full. The amount of the proceeds received from the repayment was approximately $7.2 million. This amount included all outstanding principal, accrued interest and was net of foreign taxes withheld. The Fund recorded no gain or loss as a result of the repayment.

On May 4, 2006, the Fund received a working capital adjustment of approximately $250,000 related to the Fund's purchase of a membership interest in Turf. As a result, the Fund's cost basis in the investment was reduced.

On May 30, 2006, ProcessClaims, one of the Fund's legacy portfolio companies, entered into a definitive agreement to be acquired by CCC Information Services Inc. ("CCC"). The acquisition by CCC closed on June 9, 2006. As of June 9, 2006, the Fund received net proceeds of approximately $7.9 million. The gross proceeds were approximately $8.3 million of which approximately $400,000 or 5% of the gross proceeds were deposited into a reserve account for one year. Due to the contingencies associated with the escrow, the Fund has not presently placed any value on the proceeds deposited in escrow and has therefore not factored such proceeds into the Fund's increased NAV. The Fund's total investment in ProcessClaims was $2.4 million which resulted in a capital gain of approximately $5.5 million.

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Notes to Consolidated Financial Statements — (Continued)

On July 27, 2006, SOI repaid their loan from the Fund in full. The amount of the proceeds received from the prepayment was approximately $4.5 million. This amount included all outstanding principal, accrued interest, and an early prepayment fee. The Fund recorded no gain or loss as a result of the prepayment.

On August 25, 2006, Harmony repaid their loan from the Fund in full. The amount of the proceeds received from the prepayment was $207,444. This amount included all outstanding principal and accrued interest. The Fund recorded no gain or loss as a result of the prepayment.

On August 25, 2006, SGDA's revolving credit facility was added to the term loan, increasing the balance of the term loan by $1.6 million. The revolving credit facility was eliminated from the Fund's books as a result of this refinancing.

Effective September 12, 2006, the Fund exchanged $409,091, of the $2.96 million outstanding, of the Timberland junior revolving line of credit into 40.91 shares of common stock at a price of $10,000 per share. Effective September 22, 2006, the Fund exchanged $225,000, of the $2.55 million outstanding, of the Timberland junior revolving line of credit into 22.5 shares of common stock at a price of $10,000 per share. On September 22, 2006, Timberland drew down $500,000 from the junior revolving line of credit. As a result of these transactions, as of October 31, 2006, the Fund owned 542.03 common shares of Timberland and the funded debt under the junior revolving line of credit was reduced from $2.96 million to approximately $2.83 million.

On October 2, 2006, Octagon bought–back a total of 15% equity interest from non–service members. This resulted in a sale of a portion of the Fund's LLC member interest to Octagon for proceeds of $1,020,018. The Fund realized a gain of $551,092 from this sale.

On October 2, 2006, Octagon repaid their loan and revolving credit facility from the Fund in full. The amount of the proceeds received from the prepayment of the loan was approximately $5.4 million. This amount included all outstanding principal, accrued interest, and an unused fee on the revolving credit facility. The Fund recorded a gain as a result of these prepayments of approximately $429,000 from the acceleration of amortization of original issue discount.

On October 20, 2006, the Fund assigned $5.0 million of SP's $8.0 million term loan B to Citigroup Global Markets Realty Corp.

On October 30, 2006, JDC repaid $160,116 of principal on the senior subordinated debt.

During the year ended October 31, 2006, the Valuation Committee increased the fair value of the Fund's investments in Baltic common stock by $11.6 million, Dakota common stock by approximately $2.6 million, Turf's membership interest by $2.0 million, Octagon's membership interest by approximately $562,000, Ohio common stock by $9.2 million, Foliofn preferred stock by $5.0 million, Vendio preferred stock by $700,000, ProcessClaims preferred stock by $4.8 million and Vitality common stock and warrants by $3.5 million and $400,000, respectively. In addition, increases recorded to the cost basis and fair value of the loans to Amersham, BP, Impact, JDC, Phoenix, SP, Timberland, Turf, Marine, Summit and the Vitality and Marine preferred stock were due to the receipt of payment in kind interest/dividends totaling approximately $2.2 million. Also during the year ended October 31, 2006, the undistributed allocation of flow through income from the Fund's equity investment in Octagon increased the cost basis and fair value of the Fund's investment by approximately $279,000. During the year ended October 31, 2006, the Valuation Committee also decreased the fair value of the Fund's equity investment in Timberland by $1 million. The increase in fair value from payment in kind interest/dividends and flow through income has been approved by the Fund's Valuation Committee.

At October 31, 2006, the fair value of all portfolio investments, exclusive of short–term securities, was $275.9 million with a cost basis of $286.9 million. At October 31, 2005, the fair value of all portfolio investments, exclusive of short–term securities, was $122.3 million with a cost basis of $171.6 million.

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Notes to Consolidated Financial Statements — (Continued)

For the Year Ended October 31, 2005

During the year ended October 31, 2005, the Fund made six new investments, committing capital totaling approximately $48.8 million. The investments were made in JDC, SGDA, SP, BP, Ohio and Amersham. The amounts invested were $3.0 million, $5.8 million, $10.5 million, $10 million, $17 million and $2.5 million, respectively.

The Fund also made three follow–on investments in existing portfolio companies committing capital totaling approximately $5.0 million. In December 2004 and January 2005, the Fund invested a total of $1.25 million in Timberland in the form of subordinated bridge notes. On April 15, 2005, the Fund re–issued 146,750 shares of its treasury stock at the Fund's NAV per share of $9.54 in exchange for 40,500 shares of common stock of Vestal. On July 8, 2005 the Fund extended Timberland a $3.25 million junior revolving note. In accordance with the terms of the note, Timberland immediately drew $1.3 million from the revolving note and used the proceeds to repay the subordinated bridge notes in full. The repayment included all outstanding principal and accrued interest. On July 29, 2005, the Fund invested an additional $325,000 in Impact in the form of a secured promissory note.

In April 2005, Octagon drew $1.5 million from the senior secured credit facility provided to it by the Fund and repaid it in full during June 2005.

During 2005, SGDA drew approximately $1.2 million from the revolving credit facility provided to it by the Fund. As of October 31, 2005, the entire $1.2 million drawn from the facility remained outstanding.

On July 14, 2005 and September 28, 2005, Timberland drew an additional $1.5 million and $425,000, from the revolving note mentioned above, respectively. As of October 31, 2005, the note was drawn in full and the balance of $3.25 million remained outstanding.

Also, during the year ended October 31, 2005, the Fund sold its entire investment in Sygate and received $14.4 million in net proceeds. In addition, approximately $1.6 million or 10% of proceeds from the sale were deposited in an escrow account for approximately one year. Due to the contingencies associated with the escrow, the Fund has not presently placed any value on the proceeds deposited in escrow and has therefore not factored such proceeds into the Fund's increased NAV. The realized gain from the $14.4 million in net proceeds received was $10.4 million. The Fund also sold 685,679 shares of Mentor Graphics Corp. ("Mentor Graphics") receiving net proceeds of approximately $9.0 million and realized a gain on the shares sold of approximately $5.0 million. The Fund also received approximately $300,000 from the escrow related to the 2004 sale of BlueStar Solutions, Inc. ("BlueStar").

The Fund realized losses on CBCA, Inc. ("CBCA") of approximately $12.0 million, Phosistor Technologies, Inc. ("Phosistor") of approximately $1.0 million and ShopEaze Systems, Inc. ("ShopEaze") of approximately $6.0 million. The Fund received no proceeds from these companies and they have been removed from the Fund's portfolio. The Valuation Committee previously decreased the fair value of the Fund's investment in these companies to zero and as a result, the realized losses were offset by reductions in unrealized losses. Therefore, the net effect of the transactions on the Fund's consolidated statement of operations and NAV was zero.

On December 21, 2004, Determine Software, Inc. ("Determine") prepaid its senior credit facility from the Fund in full. The amount of proceeds the Fund received from the repayment was approximately $1.64 million. This amount included all outstanding principal and accrued interest. Under the terms of the early repayment, the Fund returned its 2,229,955 Series C warrants for no consideration.

On July 5, 2005, Arcot Systems, Inc. ("Arcot") prepaid its senior credit facility from the Fund in full. The amount of proceeds the Fund received from the repayment was approximately $2.55 million. This amount included all outstanding principal and accrued interest. Under the terms of the early repayment, the Fund returned its warrants to Arcot for no consideration.

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Notes to Consolidated Financial Statements — (Continued)

The Fund continued to receive principal repayments on the debt securities of Integral and BP. Integral made payments during the year ended October 31, 2005, according to its credit facility agreement totaling $1,683,336. BP made two quarterly payments during the year ended totaling $833,333. Also, the Fund received a one time, early repayment on Vestal's debt securities totaling $100,000.

During the year ended October 31, 2005, the Valuation Committee increased the fair value of the Fund's investments in Baltic by $1.5 million, Dakota by $514,000, Octagon by $1,022,638, Sygate by $7.5 million (which was later realized), Vendio by $1,565,999, Vestal by $1,850,000 and Vitality by $700,000. In addition, increases in the cost basis and fair value of the Octagon loan, Impact loan, Timberland loan, Vitality Series A preferred stock, JDC loan and SP loans were due to the receipt of "payment in kind" interest/dividends totaling $1,370,777. Also during the year ended October 31, 2005, the undistributed allocation of flow through income from the Fund's equity investment in Octagon increased the cost basis and fair value of the investment by $114,845.

At October 31, 2005, the fair value of all portfolio investments, exclusive of short–term securities, was $122.3 million with a cost of $171.6 million. At October 31, 2004, the fair value of all portfolio investments, exclusive of short–term securities, was $78.5 million with a cost of $151.6 million.

10. Commitments and Contingencies

Commitments to/for Portfolio Companies:

At October 31, 2006, the Fund's commitments to portfolio companies consisted of the following:

Open Commitments of MVC Capital, Inc.

Portfolio Company	Amount Committed	Amount Funded at October 31, 2006
Marine	$2.0 million	—
Octagon	$12.0 million	$3.25 million
Storage Canada	$6.0 million	$1.95 million
Timberland	$3.25 million	$2.83 million
Velocitius	$260,000	$143,614

On May 7, 2004, the Fund provided a $5,000,000 senior secured credit facility to Octagon. This credit facility expires on May 6, 2007 and can be automatically extended until May 6, 2009. The credit facility bears annual interest at LIBOR plus 4%. The Fund receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On February 1, 2006, Octagon drew $250,000 from the credit facility. The credit facility was repaid in full including, all accrued interest on February 23, 2006. This credit facility was refinanced on October 12, 2006.

During February 2005, the Fund made available to SGDA, a $1,308,300 revolving credit facility that bears annual interest at 7%. The credit facility expired on August 25, 2006. During fiscal year 2006, SGDA drew down $70,600 from the credit facility. On April 28, 2006, the Fund increased the availability under the revolving credit facility by $300,000. The balance of the Fund's bridge loan to SDGA, which would have matured on April 30, 2006, was added to the revolving credit facility and the bridge loan was removed from the Fund's books.

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

On July 8, 2005 the Fund extended Timberland a $3.25 million junior revolving note that bears interest at 12.5% per annum and expires on July 7, 2007. The Fund also receives a fee of 0.25% on the unused portion of the note. As of October 31, 2005, the total amount outstanding on the note was $3.25 million. On December 27, 2005, the Fund exchanged $286,200 of the Timberland junior revolving line of credit for 28.62 shares of common stock at a price of $10,000 per share. As of January 31, 2006, the Fund owned 478.62 common shares and the funded debt

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under the junior revolving line of credit has been reduced from $3.25 million to approximately $2.96 million. On April 21, 2006, Timberland repaid $500,000 on the note. On May 18, 2006, Timberland repaid an additional $500,000 on the note. On July 10, 2006, Timberland drew down $1.0 million leaving the total amount on the note outstanding at July 31, 2006 approximately $2.96 million. On September 12, 2006, the Fund converted $409,091 of the Timberland junior revolving line of credit into 40.91 shares of common stock at a price of $10,000 per share. Effective September 22, 2006, the Fund converted $225,000 of the Timberland junior revolving line of credit into 22.50 shares of common stock at a price of $10,000 per share. Timberland then borrowed $500,000 from the junior revolving line of credit. As a result of these transactions, as of October 31, 2006 the Fund owned 542.03 common shares and the funded debt under the junior revolving line of credit was reduced from $3.25 million to approximately $2.83 million.

On December 22, 2005, the Fund extended to Baltic a $1.8 million revolving bridge note. The note bears interest at 12% per annum and had a maturity date of January 31, 2006. Baltic immediately drew $1.5 million from the note. On January 12, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The revolver matured on January 31, 2006 and has been removed from the Fund's books.

On March 28, 2006, the Fund extended to Baltic a $2.0 million revolving bridge note. Baltic immediately drew down $2.0 million from the note. On April 5, 2006, Baltic repaid the amount drawn from the note in full including all unpaid interest. The note matured on April 30, 2006 and has been removed from the Fund's books.

On March 30, 2006, the Fund provided a $6 million loan commitment to Storage Canada and the company immediately borrowed $1.34 million. The commitment expires after one year, but may be renewed with the consent of both parties. The initial borrowing on the loan bears annual interest at 8.75% and has a maturity date of March 30, 2013. Any additional borrowings will mature seven years from the date of the subsequent borrowing. The Fund also receives a fee of 0.25% on the unused portion of the loan. On October 6, 2006, Storage Canada borrowed an additional $619,000. The borrowing bears annual interest at 8.75% and has a maturity date of October 6, 2013.

On July 11, 2006, the Fund extended to Marine a $2.0 million secured revolving note. The note bears annual interest at LIBOR plus 1%. The Fund also receives a fee of 0.50% of the unused portion of the loan. There was no amount drawn on the revolving note as of October 31, 2006.

On August 25, 2006, SGDA's revolving credit facility was added to the term loan, increasing the balance of the term loan by $1.6 million. The revolving credit facility was eliminated from the Fund's books as a result of this refinancing.

On October 12, 2006, the Fund provided a $12.0 million revolving credit facility to Octagon in replacement of the senior secured credit facility provided on May 7, 2004. This credit facility expires on December 31, 2011. The credit facility bears annual interest at LIBOR plus 4.25%. The Fund receives a 0.50% unused facility fee on an annual basis and a 0.25% servicing fee on an annual basis for maintaining the credit facility. On October 12, 2006, Octagon drew $3.75 from the credit facility. Octagon repaid $500,000 of the credit facility on October 30, 2006. As of October 31, 2006, there was $3.25 million outstanding.

On October 30, 2006, the Fund provided a $260,000 revolving line of credit to Velocitius on which Velocitius immediately borrowed $143,614. The revolving line of credit expires on October 31, 2009. The note bears annual interest at 8%.

Timberland also has a floor plan financing program administered by Transamerica. As is typical in Timberland's industry, under the terms of the dealer financing arrangement, Timberland guarantees the repurchase of product from Transamerica, if a dealer defaults on payment and the underlying assets are repossessed. The Fund has agreed to be a limited co-guarantor for up to $500,000 on this repurchase commitment.

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

Commitments of the Fund:

On October 28, 2004, the Fund entered into a one–year, cash collateralized, $20 million revolving credit facility ("Credit Facility I") with LaSalle Bank National Association (the "Bank"). On July 20, 2005, the Fund amended Credit Facility I. The maximum aggregate loan amount under Credit Facility I was increased from $20 million to $30 million. Additionally, the maturity date was extended from October 31, 2005 to August 31, 2006. All other material terms of Credit Facility I remained unchanged. On January 27, 2006, the Fund borrowed $10 million under Credit Facility I. The $10 million borrowed under Credit Facility I was repaid in full by February 3, 2006. Borrowings under Credit Facility I bear interest, at the Fund's option, at either a fixed rate equal to the LIBOR rate (for one, two, three or six months), plus 1.00% per annum, or at a floating rate equal to the Bank's prime rate in effect from time to time, minus 1.00% per annum. Credit Facility I expired on August 31, 2006.

On February 16, 2005, the Fund entered into a sublease (the "Sublease") for a larger space in the building in which the Fund's current executive offices are located. Effective November 1, 2006, the Fund subleased its principal executive office to TTG Advisers. The Sublease is scheduled to expire on February 28, 2007. Future payments under the Sublease for TTG Advisers total approximately $75,000 in fiscal year 2007. The Fund's previous lease was terminated effective March 1, 2005, without penalty. The building in which the Fund's executive offices are located, 287 Bowman Avenue, is owned by Phoenix Capital Partners, LLC, an entity which is 97% owned by Mr. Tokarz. See Note 4 "Management" for more information on Mr. Tokarz.

On April 27, 2006, the Fund and MVCFS, as co–borrowers entered into a new four–year, $100 million revolving credit facility ("Credit Facility II") with Guggenheim as administrative agent to the lenders. On April 27, 2006, the Fund borrowed $45 million ($27.5 million drawn from the revolving credit facility and $17.5 million in term debt) under Credit Facility II. The $27.5 million drawn from the revolving credit facility was repaid in full on May 2, 2006. On July 28, 2006, the Fund borrowed $57.5 million ($45.0 million drawn from the revolving credit facility and $12.5 million in term debt) under Credit Facility II. On August 2, 2006, the Fund repaid $45.0 million borrowed on the revolving credit facility. On August 31, 2006, the Fund borrowed $5.0 million in term debt under Credit Facility II. On October 27, 2006, the Fund borrowed $4.0 million from the revolving credit under Credit Facility II. On October 30, 2006, the Fund borrowed $61 million under Credit Facility II, $15 million in term debt and $46 million drawn from the revolving credit facility. As of October 31, 2006, there was $50.0 million in term debt and $50.0 million on the revolving credit facility outstanding. The proceeds from borrowings made under Credit Facility II are expected to be used to fund new and existing portfolio investments, pay fees and expenses related to the financing and for general corporate purposes. Credit Facility II will expire on April 27, 2010, at which time all outstanding amounts under Credit Facility II will be due and payable. Borrowings under Credit Facility II will bear interest, at the Fund's option, at a floating rate equal to either (i) the LIBOR rate (for one, two, three or six months), plus a spread of 2.00% per annum, or (ii) the Prime rate in effect from time to time, plus a spread of 1.00% per annum. The Fund paid a closing fee, legal and other costs associated with this transaction. These costs will be amortized evenly over the life of the facility. The prepaid expenses on the Balance Sheet include the unamortized portion of these costs. Borrowings under Credit Facility II will be secured, by among other things, cash, cash equivalents, debt investments, accounts receivable, equipment, instruments, general intangibles, the capital stock of MVCFS, and any proceeds from all the aforementioned items, as well as all other property except for equity investments made by the Fund.

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

11. Certain Issuances of Equity Securities by the Issuer

On December 3, 2004, the Fund commenced a rights offering to its shareholders of non–transferable subscription rights to purchase shares of the Fund's common stock. Pursuant to the terms of the rights offering,

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

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

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

12. Legal Proceedings

On February 20, 2002, Millenco LP ("Millenco"), a stockholder, filed a complaint in the United States District Court for the District of Delaware on behalf of the Fund against the meVC Advisers, Inc. (the "Former Advisor"). The complaint alleged that the fees received by the Former Advisor, beginning one year prior to the filing of the complaint, were excessive, and in violation of Section 36(b) of the 1940 Act. The case was settled for $370,000 from which the Company received net proceeds in July 2004 of $245,213 after payment of legal fees and expenses.

During the year ended October 31, 2003, the Fund paid or accrued $4.0 million for legal and proxy solicitation fees and expenses, which included $2.2 million accrued and paid at the direction of the Board of Directors, to reimburse the legal and proxy solicitation fees and expenses of two major Fund shareholders, Millenco, L.P. and Karpus Investment Management, including their costs of obtaining a judgment against the Fund in the Delaware Chancery Court and costs associated with the proxy process and the election of the current Board of Directors. The Fund made a claim against its insurance carrier, Federal Insurance Company ("Federal") for its right to reimbursement of such expenses. On June 13, 2005, the Fund reached a settlement with Federal in the amount of $473,968 which has been recorded as Other Income in the Consolidated Statement of Operations. Legal fees and expenses associated with reaching this settlement were $47,171.

13. Recovery of Expenses and Unusual Income Items

On January 21, 2004, the Fund reached an agreement with the property manager at 3000 Sand Hill Road, Menlo Park, California to terminate its lease at such location as a result of the property manager's ability to reach an agreement with a new tenant for the space. Under the terms of the agreement, the Fund bought–out its lease directly from the property manager, for an amount equal to $232,835. As a result, the Fund recovered approximately $250,000 of the remaining reserve established at October 31, 2003. Without the recovery of the reserve, the gross facilities expense for the year ended October 31, 2004 would have been approximately $340,828.

On July 13, 2004, the Fund received $370,000 from the settlement of the case Millenco L.P. v. meVC Advisers, Inc. (See Note 12 "Legal Proceedings"). The actual cash received was $245,213, after payment of legal fees and expense. This settlement was the reimbursement of management fees received by the Former Advisor which were alleged to be excessive.

During the year ended October 31, 2003, the Fund paid or accrued $4.0 million for legal and proxy solicitation fees and expenses, which included $2.2 million accrued and paid at the direction of the Board of Directors, to reimburse the legal and proxy solicitation fees and expenses of two major Fund shareholders, Millenco, and Karpus Investment Management, including their costs of obtaining a judgment against the Fund in the Delaware Chancery Court and costs associated with the proxy process and the election of the current Board of Directors. The Fund made a claim against its insurance carrier, Federal for its right to reimbursement of such expenses. On June 13, 2005, the Fund reached a settlement with Federal in the amount of $473,968 which has been recorded as Other Income in the

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

Consolidated Statement of Operations. Legal fees and expenses associated with reaching this settlement were $47,171.

14. Tax Matters

Return of Capital Statement of Position (ROCSOP) Adjustment: During the year ended October 31, 2006, the Fund recorded a reclassification for permanent book to tax differences totaling $4,717,113. These differences were primarily due to book/tax treatment of partnership income and non–deductible excise taxes paid. These differences resulted in a net increase in accumulated earnings of $4,717,113, an increase in accumulated net realized loss of $395,257, and a decrease in additional paid in capital of $5,112,370. This reclassification had no effect on net assets.

Distributions to Shareholders: The table presented below includes MVC Capital, Inc. only. The Fund's wholly–owned subsidiary MVC Financial Services, Inc. ("MVCFS") has not been included. As of October 31, 2006, the components of accumulated earnings/ (deficit) on a tax basis were as follows:

Tax Basis Accumulated Earnings (Deficit)	
Accumulated capital and other losses	$ (73,524,707)
Undistributed net operating income	2,164,435
Gross unrealized appreciation	40,341,227
Gross unrealized depreciation	(51,934,799)
Net unrealized depreciation	$ (11,593,572)
Total tax basis accumulated deficit	(82,953,844)
Tax cost of investments	287,485,124
Current year distributions to shareholders on a tax basis	
Ordinary income	9,163,765
Prior year distributions to shareholders on a tax basis	
Ordinary income	4,580,676

On October 31, 2006, the Fund had a net capital loss carryforward of $73,524,707 of which $28,213,867 will expire in the year 2010, $4,220,380 will expire in the year 2011, $37,794,910 will expire in the year 2012 and $3,295,550 will expire in the year 2013. To the extent future capital gains are offset by capital loss carryforwards, such gains need not be distributed.

Qualified Dividend Income Percentage

The Fund designated 7%* or a maximum amount of $621,193 of dividends declared and paid during the year ending October 31, 2006 from net investment income as qualified dividend income under the Jobs Growth and Tax Relief Reconciliation Act of 2003. The information necessary to prepare and complete shareholder's tax returns for the 2006 calendar year, will be reported separately on form 1099–DIV, if applicable, in January 2007.

Corporate Dividends Received Deduction Percentage

Corporate shareholders may be eligible for a dividends received deduction for certain ordinary income distributions paid by the Fund. The Fund designated 7%* or a maximum amount of $621,193 of dividends declared and paid during the year ending October 31, 2006 from net investment income as qualifying for the dividends received deduction. The deduction is a pass through of dividends paid by domestic corporations (i.e. only equities) subject to taxation.

* Unaudited

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

15. Income Taxes

The Fund's wholly–owned subsidiary MVC Financial Services, Inc. is subject to federal and state income tax. For the year ended October 31, 2006 the Fund recorded a tax provision of $159,072. For the year ended October 31, 2005 the Fund recorded a tax benefit of $100,933. For the year ended October 31, 2004 the Fund recorded a tax provision of $78,927. The provision for income taxes was comprised of the following:

	Year Ended October 31, 2006	Year Ended October 31, 2005	Year Ended October 31, 2004
Current tax expense:			
Federal	$ 314,859	$ 92,892	$ 134,201
State	89,078	22,152	32,004
Total current tax expense	403,937	115,044	166,205
Deferred tax benefit:			
Federal	(203,645)	(174,390)	(70,472)
State	(41,220)	(41,587)	(16,806)
Total deferred tax benefit	(244,865)	(215,977)	(87,278)
Total tax (benefit) provision	$ 159,072	$ (100,933)	$ 78,927

A reconciliation between the taxes computed at the federal statutory rate and our effective tax rate for MVCFS for the fiscal year ended October 31, 2006 is as follows:

	Year Ended October 31, 2006
Federal statutory tax rate	34.00%
Permanent difference	(0.39)%
State taxes, net of federal tax benefit	4.27%
Valuation allowance for deferred tax assets	—
Other, net	—
Effective income tax rate	38.66%

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

Deferred income tax balances for MVCFS reflect the impact of temporary difference between the carrying amount of assets and liabilities and their tax bases and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. The components of our deferred tax assets and liabilities for MVCFS as of October 31, 2006, October 31, 2005 and October 31, 2004 were as follows:

	October 31, 2006	October 31, 2005	October 31, 2004
Deferred tax assets:			
Deferred revenues	$ 548,120	$ 295,307	$ 82,445
Others	2,822	7,948	4,833
Total deferred tax assets	$ 548,120	$ 303,255	$ 87,278
Valuation allowance	—	—	—
Net deferred tax assets	$ 548,120	$ 303,255	$ 87,278
Deferred tax liabilities:			
Deferred tax liabilities	—	—	—
Total deferred tax liabilities	—	—	—
Net deferred taxes	$ 548,120	$ 303,255	$ 87,278

Valuation Allowance

No valuation allowance was deemed necessary since the significant portion of temporary differences resulting in deferred tax assets are considered fully realizable.

16. Segment Data

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

The following table presents book basis segment data for the year ended October 31, 2006:

	MVC	MVCFS	Consolidated
Interest and dividend income	$ 13,756,679	$ 152,312	$ 13,908,991
Fee income	291,764	3,535,956	3,827,720
Other income	770,501	904	771,405
Total operating income	14,818,944	3,689,172	18,508,116
Total operating expenses	14,152,170	416,252	14,568,422
Net operating income before taxes	666,774	3,272,920	3,939,694
Tax expense (benefit)	—	159,072	159,072
Net operating income	666,774	3,113,848	3,780,622
Net realized gain (loss) on investments and foreign currency	5,221,390	—	5,221,390
Net change in unrealized appreciation on investments	38,334,356	—	38,334,356
Net increase in net assets resulting from operations	$ 44,222,520	$ 3,113,848	$ 47,336,368

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

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

17. Subsequent Events

Effective November 1, 2006, pursuant to the Advisory Agreement, the Fund is externally managed by TTG Advisers, which serves as the Fund's investment adviser. Under the terms of the Advisory Agreement, TTG Advisers will determine, consistent with the Fund's investment strategy, the composition of the Fund's portfolio, the nature and timing of the changes to the Fund's portfolio and the manner of implementing such changes, identify, and negotiate the structure of the Fund's investments (including performing due diligence on prospective portfolio companies), close and monitor the Fund's investments, determine the securities and other assets purchased, retain or sell and oversee the administration, recordkeeping and compliance functions of the Fund and/or third parties performing such functions for the Fund. TTG Advisers' services under the Advisory Agreement are not exclusive, and it may furnish similar services to other entities. Pursuant to the Advisory Agreement, the Fund is required to pay TTG Advisers a fee for investment advisory and management services consisting of two components — a base management fee and an incentive fee. The base management fee shall be 2.0% per annum of the Fund's total assets excluding cash. The incentive fee will consist of two parts: (i) one part will be based on our pre–incentive fee net operating income; and (ii) the other part will be based on the capital gains realized on our portfolio of securities acquired after November 1, 2003.

On November 1, 2006, Timberland borrowed $420,291 from the secured junior revolving note.

On November 2, 2006, the Fund repaid $54.5 million borrowed on the revolving credit facility under Credit Facility II.

On November 7, 2006, the Fund made an additional $100,000 equity investment into SGDA .

On November 7, 2006, the Fund repaid $5.5 million borrowed on the revolving credit facility under Credit Facility II.

On November 21, 2006, consistent with the contemplated spin–off identified in the Advisory Agreement (and which is depicted in the Registration Statement), the Fund formed MVC Partners, a private equity firm. On December 5, 2006, MVC Partners' subsidiary, MVC Europe LLC, arrived at an agreement to co–own BPE Management Ltd. ("BPE") with Parex Asset Management IPAS, a management investment company and subsidiary of the Parex Bank. BPE will pursue investments in businesses throughout the Baltic region.

In addition, on November 21, 2006, MVC Partners established its MVC Global LLC division, which pursues investments in foreign operating companies.

On November 22, 2006, the Fund invested $3.2 million in Westwood Chemical Corporation, a manufacturer of antiperspirant actives and water treatment chemicals, consisting of a $1.6 million bridge loan and $1.6 million in equity.

On November 27, 2006, the Fund increased the amount available to draw down on the Timberland secured junior revolving note from $3.25 million to $4.0 million. Timberland then borrowed $750,000 from the secured junior revolver.

On November 29, 2006, the Fund filed Post–Effective Amendment No. 2 to its Registration Statement on Form N–2 (the "Registration Statement").

On December 6, 2006, the Fund borrowed $10.0 million on the revolving credit facility under Credit Facility II. The revolving credit facility now has a balance of $15.0 million and the term loan has a balance of $35.0 million.

On December 8, 2006, Total Safety repaid term loan A and term loan B in full including all accrued interest and fees. The total amount received in the repayment for term loan A was $5,043,775 and for term loan B was $1,009,628.

MVC Capital, Inc.

Notes to Consolidated Financial Statements — (Continued)

On December 12, 2006, the Fund invested $10 million in Levlad Arbonne International LLC, a marketer of personal care products, in the form of a $10 million second lien loan. The annual interest rate is LIBOR plus 6.5% and the maturity date is December 19, 2013.

On December 13, 2006, the Fund made an investment in Total Safety by extending a $3.5 million second lien loan and a $1.0 million first lien loan. The second lien loan has an annual interest rate of LIBOR plus 6.5% and a maturity date of December 8, 2013. The first lien loan has an annual interest rate of LIBOR plus 3.0% and a maturity date of December 8, 2012.

On December 14, 2006, the Fund's Board of Directors declared a $0.12 per share dividend for first quarter of fiscal 2007. The Board of Directors also declared an additional cash dividend of $0.06 per share. The dividends are payable on January 5, 2007 to shareholders of record on December 28, 2006. The ex–dividend date is December 26, 2006.

On December 18, 2006, the Fund extended the maturity date on the $1 million Baltic bridge loan from December 22, 2006 to January 5, 2007. This note was then repaid in full on January 5, 2007, including principal and all accrued interest.

On December 22, 2006, the Fund invested $564,716 in Vitality in the form of common stock.

On January 3, 2007, the Fund borrowed $3.0 million on the revolving credit facility under Credit Facility II. The revolving credit facility now has a balance of $18.0 million and the term loan has a balance of $35.0 million.

On January 4, 2007, the Fund's Valuation Committee determined to increase the fair values of the Fund's investments in the following portfolio companies by an aggregate amount of approximately $20.8 million*: SIA BM Auto, Baltic Motors Corporation, Dakota Growers Pasta Company, Inc., Octagon Credit Investors, LLC, SGDA Sanierungsgesellschaft für Deponien und Altlasten mbH, Vendio Services, Inc., and Vitality Foodservice, Inc.

Subject to confirmation following the audit, the payment obligation to Mr. Tokarz resulting from the sale of a portion of the Fund's LLC membership interest in Octagon is expected to be approximately $110,000 (which is expected to be paid during the first quarter of the Fund's fiscal year 2007).

* Unaudited.

Report of Independent Registered Accounting Firm

To the Board of Directors and Shareholders of MVC Capital, Inc.:

We have audited the accompanying consolidated balance sheets of MVC Capital, Inc. (the "Fund"), including the consolidated schedule of investments, as of October 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years in the period ended October 31, 2006, and the selected per share data and ratios for each of the four years in the period ended October 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements, the selected per share data and ratios and schedule are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements, selected per share data and ratios and schedule based on our audits. The selected per share data and ratios for the year ended October 31, 2002, were audited by other auditors whose report expressed an unqualified opinion on those selected per share data and ratios.

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

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the consolidated financial position of MVC Capital, Inc. at October 31, 2006 and 2005, and the consolidated results of their operations, cash flows and their changes in net assets for each of the three years in the period ended October 31, 2006 and the selected per share data and ratios for each of the indicated periods, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of MVC Capital, Inc.'s internal control over financial reporting as of October 31, 2006, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 5, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
January 5, 2007

Item 9A. ***Controls and Procedures***

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

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

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

Management's Report on Internal Control over Financial Reporting

The management of the Fund is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a–15(f) under the Exchange Act. Under the supervision and with the participation of management, including our CEO and CFO, the Fund conducted an evaluation of the effectiveness of the Fund's internal control over financial reporting based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Fund's evaluation under the framework in *Internal Control — Integrated Framework*, management concluded that the Fund's internal control over financial reporting was effective as of October 31, 2006. Management's assessment of the effectiveness of the Fund's internal control over financial reporting as of October 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control and Financial Reporting, that MVC Capital, Inc. maintained effective internal control over financial reporting as of October 31, 2006 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MVC Capital Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the fund's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that MVC Capital, Inc. maintained effective internal control over financial reporting as of October 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, MVC Capital, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MVC Capital, Inc., including the consolidated schedule of investments, as of October 31, 2006 and 2005, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended October 31, 2006, and the selected per share data and ratios for each of the four years in the period ended October 31, 2006 of MVC Capital, Inc. and our report dated January 5, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
January 5, 2007

Changes in Internal Controls

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

Part III

Item 10. *Directors and Executive Officers of the Registrant*

Reference is made to the information with respect to "directors and executive officers of the Registrant" to be contained in the Fund's proxy statement to be filed with the SEC, in connection with the Fund's annual meeting of shareholders to be held in 2006 (the "2006 Proxy Statement"), which information is incorporated herein by reference.

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

In accordance with the requirements of Section 303A.12(a) of the NYSE's listed company standards, shortly after our 2005 annual meeting of shareholders, Michael Tokarz, our Chairman and Portfolio Manager, certified to the NYSE that he was unaware of any violation of the NYSE's corporate governance listing standards. In addition, our CEO and CFO certify the accuracy of the financial statements contained in our periodic reports, and so certified in this Form 10–K through the filing of Section 302 certifications as exhibits to this Form 10–K.

Item 11. *Executive Compensation*

Reference is made to the information with respect to "executive compensation" to be contained in the 2006 Proxy Statement, which information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Reference is made to the information with respect to "security ownership of certain beneficial owners and management" to be contained in the 2006 Proxy Statement, which information is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

As stated above in Item 2, "Properties", the Fund has sub–leased property at 287 Bowman Avenue, Purchase, NY 10577 a building which is owned by Phoenix Capital Partners, LLC, which is 97% owned by Mr. Tokarz.

In connection with the Fund's investment in Velocitius, which is described above in Note 7, we have entered into consulting services arrangements with Jasper Energy, LLC ("Jasper"). Under the terms of the arrangements, Jasper provides management consulting services relating to Velocitius' acquisition of certain wind farms and is to be paid an ongoing monthly service fee of approximately 8,000 euros ($10,000), a fee equal to 9% of the profit distributions attributable to the wind farm projects and a one–time fee equal to 2% of the equity purchase price of the wind farms (estimated currently at 175,000 euros ($220,000)). Mr. Tokarz, our Chairman and Portfolio Manager, has a minority ownership interest in Jasper. Our board of directors, including all of our Independent Directors (Mr. Tokarz recused himself from making a determination on this matter), approved each of the arrangements with Jasper. As a matter of policy, our board of directors has required that any transactions that would be subject to disclosure under this Item 13 must be subject to the advance consideration and approval of the Independent Directors, in accordance with the procedures set forth in Section 57(f) of the 1940 Act.

Item 14. *Principal Accounting Fees and Services*

Reference is made to the information with respect to "principal accounting fees and services" to be contained in the 2006 Proxy Statement, which information is incorporated herein by reference.

Part IV

Item 15. ***Exhibits, Financial Statements, Schedules***

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

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

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

Exhibit Number	Description
10.1	Dividend Reinvestment Plan, as amended. *(Incorporated by reference to Exhibit 99.e filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.2	Sub–lease for 287 Bowman Avenue, Purchase, NY 10577. *(Incorporated by reference to Exhibit 10 filed with Registrant's Quarterly Report on Form 10–Q (File No. 814–00201) filed on June 8, 2005)*
10.3	Agreement between the Registrant and Michael Tokarz. *(Incorporated by reference to Exhibit 10.2 filed with Annual Report on Form 10–K (File No. 814–00201) filed on January 29, 2004)*
10.4	Investment Advisory and Management Agreement between the Registrant and The Tokarz Group Advisers LLC. *Incorporated by reference to Exhibit 99.g filed with the Registrant's Post–Effective Amendment No. 2 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 29, 2006)*
10.5	Form of Custody Agreement between Registrant and U.S. Bank National Association. *(Incorporated by reference to Exhibit 99.j.1 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.6	Form of Amendment to Custody Agreement between Registrant and U.S. Bank National Association. *(Incorporated by reference to Exhibit 99.j.2 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on February 21, 2006)*
10.7	Form of Custodian Agreement between Registrant and LaSalle Bank National Association. *(Incorporated by reference to Exhibit 99.j.3 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.8	Form of Registrar, Transfer Agency and Service Agreement with Registrant and State Street Bank and Trust Company. *(Incorporated by reference to Exhibit 99.k(1) filed with the Registrant's Pre–Effective Amendment No. 2 to the Registration Statement on Form N–2 (File No. 333–92287) filed on February 11, 2000)*
10.9	Form of Transfer Agency Letter Agreement with Registrant and EquiServe Trust Company, N.A. *(Incorporated by reference to Exhibit 99.k.2 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.10	Form of Loan Agreement with Registrant and LaSalle Bank National Association. *(Incorporated by reference to Exhibit 99.k.3 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.11	Form of Amendment to Loan Agreement with Registrant and LaSalle Bank National Association. *(Incorporated by reference to Exhibit 10.10 filed with Annual Report on Form 10–K (File No. 814–00201) filed on December 22, 2005)*
10.12	Form of Custody Account Pledge Agreement with Registrant and LaSalle Bank National Association. *(Incorporated by reference to Exhibit 99.k.4 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 23, 2004)*
10.13	Form of Fund Administration Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. *(Incorporated by reference to Exhibit 99.k.6 filed with the Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on February 21, 2006)*
10.14	Form of Fund Accounting Servicing Agreement with Registrant and U.S. Bancorp Fund Services, LLC. *(Incorporated by reference to Exhibit 99.k.7 filed with Registrant's Pre–Effective Amendment No. 1 to the Registration Statement on Form N–2 (File No. 333–119625) filed on February 21, 2006)*
10.15	Form of Credit Agreement with Registrant and Guggenheim Corporate Funding, LLC et al. *(Incorporated by reference to Exhibit10 filed with Registrant's Quarterly Report on Form 10Q (File No. 814–00201) filed on June 9, 2006)*
14	Joint Code of Ethics of the Registrant and The Tokarz Group LLC. *(Incorporated by reference to Exhibit 99r filed with the Registrant's Post–Effective Amendment No. 2 to the Registration Statement on Form N–2 (File No. 333–119625) filed on November 29, 2006)*

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

* Filed herewith

(b) Exhibits

Exhibit No.	Exhibit
31	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Rule 13a–14(a) of the Securities Exchange Act of 1934
32	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, 18 U.S.C. Section 1350

(c) Financial Statement Schedules

Schedule 12-14

MVC Capital, Inc. and Subsidiaries

Schedule of Investments in and Advances to Affiliaties

Portfolio Company	Investment(1)	Amount of Interest or Dividends Credited to Income(5)	Other(2)	October 31, 2005 Value	Gross Additions(3)	Gross Reductions(4)	October 31, 2006 Value
Companies More than 25% owned							
auto MOTOL BENI (Automotive Dealership)	Common Stock	—	—	—	2,000,000	—	2,000,000
Baltic Motors Corporation	Loan	456,250	—	4,500,000	—	—	4,500,000
(Automotive Dealership)	Loan	11,333	—	—	1,000,000	—	1,000,000
	Bridge Loan	15,833	—	—	3,500,000	(3,500,000)	—
	Common Stock	—	—	7,500,000	13,655,000	—	21,155,000
Ohio Medical Corporation (Medical Device Manufacturer)	Common Stock	—	—	17,000,000	9,200,000	—	26,200,000
SGDA Sanierungsgesellschaft fur Deponien und Altlasten	Loan	408,895	—	4,304,560	1,685,150	—	5,989,710
(Soil Remediation)	Revolver	74,023	—	1,237,700	370,600	(1,608,300)	—
	Bridge Loan	6,300	—	—	300,000	(300,000)	—
	Common Equity Interest	—	—	315,000	23,551	—	338,551
	Preferred Equity Interest	—	—	—	5,000,000	—	5,000,000
SIA BM Auto	Common Stock	—	—	—	8,000,000	—	8,000,000
(Automotive Dealership)	Loan	165,900	—	—	7,000,000	(7,000,000)	—
Summit Research Labs, Inc.	Loan	150,444	—	—	5,044,813	—	5,044,813
(Specialty Chemical)	Preferred Stock	—	—	—	11,200,000	—	11,200,000
Timberland Machines & Irrigation, Inc.	Loan	1,039,760	—	6,318,684	289,175	—	6,607,859
(Distributer — Landscaping & Irrigation Equipment)	Revolver	347,554	—	3,250,000	500,000	(920,291)	2,829,709
	Common Stock	—	—	4,500,000	920,291	(1,000,000)	4,420,291
	Warrants	—	—	—	—	—	—
Turf Products, LLC	Loan	1,049,262	—	—	7,676,331	—	7,676,331
(Distributer — Landscaping & Irrigation Equipment)	LLC Interest	—	—	—	6,074,750	(252,957)	5,821,793
	Warrant	—	—	—	—	—	—
Vendio Services, Inc.	Common Stock	—	—	—	—	—	—
(Technology)	Preferred Stock	—	—	2,700,000	700,000	—	3,400,000
Vestal Manufacturing Enterprises, Inc.	Loan	107,467	—	900,000	—	(100,000)	800,000
(Iron Foundries)	Common Stock	132,545	—	3,700,000	—	—	3,700,000
Velocitius B.V	Revolver	478	—	—	143,614	—	143,614
(Renewable Energy)	Common Equity Interest	—	—	—	2,966,765	—	2,966,765
Total companies more than 25% owned		**$ 3,966,044**					**$ 128,794,436**

MVC Capital, Inc. and Subsidiaries

Schedule of Investments in and Advances to Affiliates — (Continued)

Portfolio Company	Investment(1)	Amount of Interest or Dividends Credited to Income(5)	Other(2)	October 31, 2005 Value	Gross Additions(3)	Gross Reductions(4)	October 31, 2006 Value
Companies More than 5% owned, but less than 25%							
Dakota Growers Pasta Company, Inc.	Common Stock	36,364	—	5,514,000	3,443,880	—	8,957,880
(Manufacturer of Packged Food)							
Endymion Systems, Inc.	Preferred Stock	—	—	—	—	—	—
(Technology Investments)							
Harmony Pharmacy & Health Center, Inc.	Loan	7,444	—	—	200,000	(200,000)	—
(Healthcase — Retail)	Common Stock	—	—	—	750,000	—	750,000
Impact Confections, Inc.	Loan	907,468	—	5,228,826	239,297	—	5,468,123
(Confections Manufacturing & Distribution)	Loan	28,768	—	325,000	—	—	325,000
	Common Stock	—	—	2,700,000	—	—	2,700,000
Marine Exhibition Corporation	Loan	346,141	—	—	10,091,111	—	10,091,111
(Theme Park)	Preferred Stock*	53,478	—	—	2,035,652	—	2,035,652
ProcessClaims, Inc.	Preferred Stock	—	—	2,000,000	—	(2,000,000)	—
(Technology)	Preferred Stock	—	—	400,000	—	(400,000)	—
	Warrants	—	—	—	—	—	—
Octagon Credit Investors, LLC	Loan	1,244,315	—	4,664,794	5,568,803	(5,233,597)	5,000,000
(Financial Services)	Revolver	30,830	—	—	3,750,000	(500,000)	3,250,000
	LLC Interest	—	—	1,228,038	1,911,171	(1,211,277)	1,927,932
	Warrants	—	—	1,069,457	—	(1,069,457)	—
Phoenix Coal Corporation	Loan	357,407	—	—	7,088,615	—	7,088,615
(Coal Processing and Production)	Common Stock	—	—	—	1,000,000	—	1,000,000
Previsor	Common Stock	—	—	—	6,000,000	—	6,000,000
(Human Capital Management)							
Vitality Foodservice, Inc.	Common Stock	—	—	5,000,000	3,500,000	—	8,500,000
(Non–Alcoholic Beverages)	Preferred Stock	—	—	10,517,984	535,843	—	11,053,827
	Warrants	—	—	700,000	400,000	—	1,100,000
Yaga, Inc.	Preferred Stock	—	—	—	—	—	—
(Technology)	Preferred Stock	—	—	—	—	—	—
Total companies more than 5% owned, but less than 25%		**$ 3,012,214**					**$ 75,248,140**

This schedule should be read in conjunction with the Fund's consolidated statements as of and for the year ended October 31, 2006, including the consolidated schedule of investments.

(1) Common stock, preferred stock, warrants, options and equity interests are generally non–income producing and restricted. The principal amount for loans and debt securities and the number of shares of common and preferred stock is shown in the consolidated schedule of investments as of October 31, 2006.

MVC Capital, Inc. and Subsidiaries

Schedule of Investments in and Advances to Affiliaties — (Continued)

(2) Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.

(3) Gross additions includes increases in the cost basis of investments resulting from new portfolio investments, paid–kind–interest or dividends, the amortization of discounts and closing fees, and the exchange of one or more existing securities for one or more new securities. Gross additions also includes net increases in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions included decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(5) Represents the total amount of interest or dividends credited to income for portion of the year an investment was included in the companies more than 25% owned or companies 5% to 25% owned categories, respectively.

* All or a portion of the dividend income on this investment was or will be paid in the form of additional securities or by increasing the liquidation preference. Dividends paid–in–kind are also included in the Gross Additions for the investment, as applicable.

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

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signature	Title	Date
/s/ Michael Tokarz (Michael Tokarz)	Chairman (Principal Executive Officer) and Director	Date: January 3, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael Tokarz (Michael Tokarz)	Chairman (Principal Executive Officer) and Director	Date: January 3, 2007
/s/ Peter Seidenberg (Peter Seidenberg)	Chief Financial Officer	Date: January 3, 2007
/s/ Gerald Hellerman (Gerald Hellerman)	Director	Date: January 3, 2007
/s/ Robert C. Knapp (Robert C. Knapp)	Director	Date: January 3, 2007
/s/ William E. Taylor (William E. Taylor)	Director	Date: January 3, 2007
/s/ Emilio Dominianni (Emilio Dominianni)	Director	Date: January 3, 2007

EXHIBIT 31

RULE 13a–14(a) CERTIFICATIONS

I, Michael Tokarz, certify that:

1. I have reviewed this annual report on Form 10–K of MVC Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

/s/ Michael Tokarz
Michael Tokarz
In the capacity of the officer who performs the functions of Principal Executive Officer for MVC Capital, Inc.

Dated: January 3, 2007

I, Peter Seidenberg, certify that:

1. I have reviewed this annual report on Form 10–K of MVC Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Peter Seidenberg
Peter Seidenberg
In the capacity of the officer who performs the functions of Principal Financial Officer for MVC Capital, Inc.

Dated: January 3, 2007

EXHIBIT 32

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

Michael Tokarz, in the capacity of the officer who performs the functions of Principal Executive Officer of MVC Capital, Inc., a Delaware corporation (the "Registrant"), certifies that:

1. The Registrant's annual report on Form 10–K for the period ended October 31, 2006 (the "Form 10–K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10–K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

In the capacity of the officer who performs the functions of Principal Executive Officer for MVC Capital, Inc.

/s/ Michael Tokarz
Michael Tokarz

Date: January 3, 2007

Peter Seidenberg, in the capacity of the officer who performs the functions of Principal Financial Officer, of MVC Capital, Inc., a Delaware corporation (the "Registrant"), certifies that:

1. The Registrant's annual report on Form 10–K for the period ended October 31, 2006 (the "Form 10–K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10–K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

In the capacity of the officer who performs the functions of Principal Financial Officer for MVC Capital, Inc.

/s/ Peter Seidenberg
Peter Seidenberg

Date: January 3, 2007