MONROE CAPITAL Corp
Form 497
April 16, 2015

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# PROSPECTUS SUPPLEMENT
# (To Prospectus dated May 9, 2014)

# Monroe Capital Corporation

# 2,450,000 Shares

# Common Stock

We are a specialty finance company focused on providing financing primarily to lower middle-market companies in the United States and Canada. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants. We use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies.

We invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities are often referred to as high yield or junk. In addition, many of the debt securities we hold do not fully amortize prior to maturity, which heightens the risk that we may lose all or a part of our investment.

Monroe Capital BDC Advisors, LLC serves as our investment advisor. Monroe Capital Management Advisors, LLC serves as our administrator. Each of Monroe Capital BDC Advisors, LLC and Monroe Capital Management Advisors, LLC is affiliated with Monroe Capital, LLC, a leading lender to middle-market companies.

We are offering for sale 2,450,000 shares of our common stock, par value $0.001 per share. We have granted the underwriters a 30-day option to purchase up to an additional 367,500 shares of our common stock at the public offering price, less underwriting discounts and commissions (sales load). If the over-allotment option is exercised in full, the total public offering price will be $41.8 million, the total underwriting discounts and commissions (sales load) will be $1.7 million and the proceeds to us before expenses will be approximately $40.1 million.

Our common stock is listed on The Nasdaq Global Market under the symbol MRCC. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering. On April 14, 2015, the last reported sale price of our stock on The Nasdaq Global Market was $15.25 per share. Our net asset value as of December 31, 2014 was $14.05 per share.

**An investment in our securities is subject to risks, including a risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. We are an emerging growth company under the federal securities laws and will be subject to reduced public company reporting requirements. Substantially all of the debt instruments in which we invest (i) will have variable interest rate provisions that may make it more difficult for borrowers to make debt repayments to us in a rising interest rate environment and (ii) will likely have a principal amount outstanding at maturity, that may lead to a substantial loss to us if the borrower is unable to refinance or repay. See Risk Factors beginning on page 11 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our securities.**

This prospectus supplement and the accompanying prospectus contain important information you should know before investing. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Attention: Investor Relations, by calling us collect at (312) 258-8300, or on our website at *www.monroebdc.com*. The SEC also maintains a website at *www.sec.gov* that contains such information.

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $14.85 | $36,382,500 |
| Underwriting discounts and commissions (sales load) | $0.60 | $1,470,000 |
| Proceeds, to us, before expenses | $14.25 | $34,912,500 |

(1) We estimate that we will incur offering expenses of approximately $285,000 in connection with this offering. Offering expenses will be borne by investors in this offering and will immediately reduce the net asset value of each investor s shares. For all fees and expenses paid to the underwriters in this offering, see Underwriting in this prospectus supplement.

The underwriters are offering the common stock as set forth in Underwriting in this prospectus supplement. Delivery of the shares will be made on or about April 20, 2015.

*Joint Book-Running Managers*

**Baird** **William Blair** **Janney Montgomery Scott** **Oppenheimer & Co.**

*Co-Managers*

**Ladenburg Thalmann** **BB&T Capital Markets** **Wunderlich**

**MLV & Co.** **National Securities Corporation**

Prospectus supplement dated April 15, 2015

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# PROSPECTUS SUPPLEMENT



# PROSPECTUS

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# ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of the common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosures. For information about our common stock see Description of Our Capital Stock in the accompanying prospectus.

To the extent information differs between this prospectus supplement and the accompanying prospectus, you should rely only on such information in this prospectus supplement. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading Available Information before investing in our common stock.

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sales of the securities. Our business, financial condition, results of operations and prospects may have changed since those dates.**

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# SUMMARY

*This summary highlights some of the information in this prospectus supplement. This summary is not complete and may not contain all of the information that you may want to consider before investing in our common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including, in particular, the more detailed information set forth under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.*

**As used in this prospectus supplement, except as otherwise indicated, the terms:**

*we, us and our refer to Monroe Capital Corporation, a Maryland corporation;*
*MC Advisors refers to Monroe Capital BDC Advisors, LLC, our investment advisor and a Delaware limited liability company;*
*MC Management refers to Monroe Capital Management Advisors, LLC, our administrator and a Delaware limited liability company;*
*Monroe Capital refers to Monroe Capital LLC, a Delaware limited liability company, and its subsidiaries and affiliates;*
*MRCC SBIC refers to Monroe Capital Corporation SBIC, LP, a Delaware limited partnership, our wholly-owned subsidiary that operates as a small business investment company pursuant to a license received from the United States Small Business Administration; and*
*LIBOR refers to the one-month, three-month or six-month London Interbank Offered Rate as reported by the British Bankers Association. Unless stated otherwise herein, LIBOR refers to the one-month rate.*

## Monroe Capital Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and that has elected to be treated as a regulated investment company, or RIC, for tax purposes under the U.S. Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2012. We provide customized financing solutions to lower middle-market companies in the United States focused primarily on senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. We believe that our primary focus on lending to lower middle-market companies offers several advantages as compared to lending to larger companies, including more attractive economics, lower leverage, more comprehensive and restrictive covenants, more expansive events of default, relatively small debt facilities that provide us with enhanced influence over our borrowers, direct access to borrower management and improved information flow.

In this prospectus supplement and the accompanying prospectus, the term middle-market generally refers to companies having annual revenue of between $20 million and $500 million and/or annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of between $3 million and $50 million. Within the middle-market, we consider companies having annual revenues of less than $250 million and/or EBITDA of less than $25 million to be in the lower middle-market.

## Our Investment Advisor

Our investment activities are managed by our investment advisor, MC Advisors. MC Advisors is responsible for sourcing potential investments, conducting research and due diligence on prospective investments and their private equity sponsors, analyzing investment opportunities, structuring our investments

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and managing our investments and portfolio companies on an ongoing basis. MC Advisors was organized in February 2011 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act.

Under the investment advisory and management agreement with MC Advisors, or the Investment Advisory Agreement, we pay MC Advisors a base management fee and an incentive fee for its services. See Management and Other Agreements Investment Advisory Agreement Management Fee for a discussion of the base management fee and incentive fee payable by us to MC Advisors. While not expected to review or approve each investment, our independent directors will periodically review MC Advisors services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital s investment professionals. The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to a staffing agreement, or the Staffing Agreement, between MC Management, an affiliate of Monroe Capital, and MC Advisors. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 20 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that constitute our primary focus and have expertise in investing throughout all periods of the economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by experienced investment professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital s core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital s formation in 2004 through December 31, 2014, Monroe Capital s investment professionals invested in over 700 loan and related investments with an aggregate principal value of over $3.3 billion.

In addition to their roles with Monroe Capital and MC Advisors, Messrs. Koenig and Peck serve as our interested directors. Mr. Koenig has more than 25 years of experience in structuring, negotiating and closing transactions on behalf of asset-backed lenders, commercial finance companies, financial institutions and private equity investors at organizations including Monroe Capital, which Mr. Koenig founded in 2004, and Hilco Capital LP, where he led investments in over 30 companies in the lower middle-market. Mr. Peck has more than 20 years of public company management, leveraged finance and commercial lending experience at organizations including Deerfield Capital Management LLC, Black Diamond Capital Management LLC and Salomon Smith Barney Inc.

Messrs. Koenig and Peck are joined on the investment committee of MC Advisors by Michael J. Egan and Jeremy T. VanDerMeid, each of whom is a senior investment professional at Monroe Capital. Mr. Egan has more than 20 years of experience in commercial finance, credit administration and banking at organizations including Hilco Capital, The CIT Group/Business Credit, Inc., The National Community Bank of New Jersey (The Bank of New York) and KeyCorp. Mr. VanDerMeid has more than 15 years of lending and corporate finance experience at organizations including Morgan Stanley Investment Management, Dymas Capital Management Company, LLC and Heller Financial.

## About Monroe Capital

Monroe Capital, a Delaware limited liability company that was founded in 2004, is a leading lender to middle-market companies. As of December 31, 2014, Monroe Capital had approximately $1.9 billion in assets under management. Monroe Capital has maintained a continued lending presence in the lower middle-market throughout the most recent economic downturn. The result is an established lending platform that we believe generates consistent primary and secondary deal flow from a network of proprietary relationships and additional deal flow from a diverse portfolio of over 275 current investments. From Monroe Capital s formation in 2004 through December 31, 2014, Monroe Capital s investment professionals invested in over 700 loans and related investments with an aggregate principal value of over $3.3 billion. The senior investment team of Monroe Capital averages more than 20 years of experience and has developed a proven investment and portfolio management process that has performed through multiple market cycles. In addition,

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Monroe Capital s investment professionals are supported by administrative and back-office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management.

# Market Opportunity

We invest primarily in senior, unitranche and junior secured debt issued to lower middle-market companies in the United States and, to a lesser extent and in accordance with the limitations on foreign investments in the 1940 Act, Canada. We believe that U.S. and Canadian lower middle-market companies comprise a large, growing and fragmented market that offers attractive financing opportunities. We believe that there exists a large number of prospective lending opportunities for lenders, which should allow us to generate substantial investment opportunities and build an attractive portfolio of investments.

# Investment Strategy

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation primarily through investments in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity. We also seek to invest opportunistically in attractively priced, broadly syndicated loans, which should enhance our geographic and industry portfolio diversification and increase our portfolio s liquidity. To achieve our investment objective, we utilize the following investment strategy:

***Attractive Current Yield.*** We believe our sourcing network allows us to enter into transactions with attractive yields and investment structures. Based on current market conditions and our pipeline of new investments, we expect our target senior and unitranche secured debt will have an average maturity of three to five years and interest rates of 8% to 13%, and we expect our target junior secured debt and unsecured subordinated debt will have an average maturity of four to seven years and interest rates of 10% to 15%. In addition, based on current market conditions and our pipeline of new investments, we expect that our target debt investments will typically have a variable coupon (with a LIBOR floor), will typically receive upfront closing fees of 1% to 4% and may include payment-in-kind, or PIK, interest (interest that is not received in cash, but added to the principal balance of the loan). We may also receive warrants or other forms of upside equity participation. Our transactions are generally secured and supported by a lien on all assets and/or a pledge of company stock in order to provide priority of return and to influence any corporate actions. Although we will target investments with the characteristics described in this paragraph, we cannot assure you that our new investments will have these characteristics and we may enter into investments with different characteristics as the market dictates. For a description of the characteristics of our current investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity. Until investment opportunities can be found, we may invest our undeployed capital in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

***Sound Portfolio Construction.*** We strive to exercise discipline in portfolio creation and management and to implement effective governance throughout our business. Monroe Capital has been, and MC Advisors, which is comprised by substantially the same investment professionals who have operated Monroe Capital, is, and we believe will continue to be, conservative in the underwriting and structuring of covenant packages in order to enable early intervention in the event of weak financial performance by a portfolio company. We seek to pursue lending opportunities selectively and to maintain a diversified portfolio. We believe that exercising disciplined portfolio management through continued intensive account monitoring and timely and relevant management reporting allows us to mitigate risks in our debt investments. In addition, we have implemented rigorous governance processes through segregation of duties, documented policies and procedures and independent oversight and review of transactions, which we believe helps us to maintain a low level of non-performing loans. We believe that Monroe Capital s proven process of thorough origination, conservative underwriting, due diligence and structuring, combined with careful account management and diversification, enabled it to protect investor capital, and we believe MC Advisors follows and will follow the same philosophy and processes in originating, structuring and managing our portfolio investments.

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***Predictability of Returns.*** Beyond conservative structuring and protection of capital, we seek a predictable exit from our investments. We seek to invest in situations where there are a number of potential exit options, including rapid amortization and excess cash-flow recapture resulting in full repayment or a modest refinance. We seek to structure the majority of our transactions as secured loans with a covenant package that provides for full or partial repayment upon the completion of asset sales and restructurings. Because we seek to structure these transactions to provide for contractually determined, periodic payments of principal and interest, we are less likely to depend on merger and acquisition activity or public equity markets to exit our debt investments. As a result, we believe that we can achieve our target returns even in a period when public markets are depressed.

# Competitive Strengths

We believe that we represent an attractive investment opportunity for the following reasons:

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital s experienced team comprised of more than 45 professionals, including six senior partners that average more than 20 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. This extensive experience includes the management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital s senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital s formation in 2004 through December 31, 2014, Monroe Capital s investment professionals invested in more than 700 loan and related investments with an aggregate principal value of over $3.3 billion.

***Differentiated Relationship-Based Sourcing Network.*** We believe Monroe Capital s senior investment professionals benefit from extensive relationships with commercial banks, private equity firms, financial intermediaries, management teams and turn-around advisors. We believe that this broad sourcing network differentiates us from our competitors and offers us a diversified origination approach that does not rely on a single channel and offers us consistent deal flow throughout the economic cycle. We also believe that this broad network allows us to originate a substantial number of non-private equity-sponsored investments.

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital s broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 1,600 investment opportunities during 2014. Monroe Capital s over 700 previously executed transactions, over 275 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. As of December 31, 2014, Monroe Capital had a pipeline of approximately 200 transactions for an aggregate potential deal volume of greater than $4.0 billion for all funds under management. We are also positioned to benefit from Monroe Capital s established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital s senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

***Disciplined, Credit-First Underwriting Process.*** Monroe Capital has developed a systematic underwriting process that applies a consistent approach to credit review and approval, with a focus on evaluating credit first and then appropriately assessing the risk-reward profile of each loan. MC Advisors assessment of credit outweighs pricing and other considerations, as we seek to minimize potential credit losses through effective due diligence, structuring and covenant design. MC Advisors seeks to customize each transaction structure and financial covenant to reflect risks identified through the underwriting and due diligence process. We also seek to actively manage our origination and credit underwriting activities through personal visits and calls on all parties involved with an investment, including the management team, private equity sponsor, if any, or other lenders.

***Established Credit Risk Management Framework.*** We seek to manage our credit risk through a well-defined portfolio strategy and credit policy. In terms of credit monitoring, MC Advisors assigns each loan to a particular portfolio management professional and maintains an internal credit rating analysis for all loans. MC Advisors then employs ongoing review and analysis, together with monthly investment committee meetings to review the status of certain complex and challenging loans and a comprehensive quarterly review of all loan transactions. MC Advisors investment professionals also have significant turnaround and work-out experience, which gives them perspective on the risks and possibilities throughout the entire credit cycle. We believe this careful approach to investment and monitoring enables us to identify problems early and gives us an opportunity to assist borrowers before they face difficult liquidity constraints. By anticipating possible negative contingencies and preparing for them, we believe that we diminish the probability of underperforming assets and loan losses.

# Credit Facility

We have a credit facility with ING Capital LLC, or the Lender, as agent, which currently consists of a revolving line of credit equal to $110.0 million, which may be increased to up to $200.0 million pursuant to an accordion feature.

We may make draws under the revolver from time-to-time through December 19, 2016 to make or purchase additional investments or for general working capital purposes until the maturity date of the credit facility, or the earliest to occur of (a) December 19, 2017, subject to extension as mutually agreed by us and the Lender, (b) the termination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and the Lender. Substantially all of our assets are pledged as collateral under the revolving credit facility. The material terms of the credit facility are as follows:

total borrowing capacity currently equal to $110.0 million and up to $200.0 million pursuant to an accordion feature, subject to, among other things, availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as valuation methodologies;
an interest rate equal to, at our election, (a) LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when equity capitalization exceeds $175.0 million or (b) a fluctuating daily rate equal to 2.25% per annum plus the greater of the prime rate, the federal funds rate plus 0.5% or three-month LIBOR plus 1.0%; and
customary financial covenants and negative covenants and events of default.

As of December 31, 2014, we had $82.3 million outstanding under our revolving credit facility and availability of $27.7 million.

# MRCC SBIC

On February 28, 2014, our wholly-owned subsidiary, MRCC SBIC, received a license from the U.S. Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013.

As of December 31, 2014, MRCC SBIC had $20.0 million in regulatory and leveragable capital and $20.0 million in SBA-guaranteed debentures outstanding. Additionally, as of December 31, 2014, MRCC SBIC had received a commitment letter for an additional $20.0 million in SBA-guaranteed debentures.

We have received exemptive relief from the Securities and Exchange Commission to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities for the purposes of the 200% asset coverage ratio we are required to maintain under the 1940 Act, which provides us with increased flexibility, but also increases our risks associated with leverage.

## Operating and Regulatory Structure

Our investment activities are managed by MC Advisors under the direction of our board of directors, a majority of whom are independent of us, MC Advisors and our and its respective affiliates.

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As a business development company, we are required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of notes, other borrowings and shares of preferred stock, our ability to use leverage is limited in significant respects. See Regulation in the accompanying prospectus. Any decision on our part to use leverage will depend upon our assessment of the attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. See Risk Factors Risks Relating to our Business and Structure We maintain a credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to risks typically associated with leverage and increases the risk of investing in us in the accompanying prospectus.

Also, as a business development company, we are generally prohibited from acquiring assets other than qualifying assets unless, after giving effect to any acquisition, at least 70% of our total assets are qualifying assets. Qualifying assets generally include securities of eligible portfolio companies, cash, cash equivalents, U.S. government securities and high-quality debt instruments maturing in one year or less from the time of investment. Under the rules of the 1940 Act, eligible portfolio companies include (a) private domestic operating companies, (b) public domestic operating companies whose securities are not listed on a national securities exchange (*e.g.*, The Nasdaq Global Market) or registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and (c) public domestic operating companies having a market capitalization of less than $250 million. Public domestic operating companies whose securities are quoted on the over-the-counter bulletin board or through Pink Sheets LLC are not listed on a national securities exchange and therefore are eligible portfolio companies. See Regulation in the accompanying prospectus. Additionally, to the extent we invest in the securities of companies domiciled in or with their principal places of business outside of the United States, we seek to limit those investments to companies domiciled or with their principal place of business in Canada. Any investments in Canadian companies will not be qualifying assets, meaning that in accordance with the 1940 Act, we cannot invest more than 30% of our assets in Canadian securities and other non-qualifying assets.

We have elected to be treated for U.S. federal income tax purposes as a RIC under the Code. In order to be treated as a RIC, we must satisfy certain source of income, asset diversification and distribution requirements. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

# Conflicts of Interests

Subject to certain 1940 Act restrictions on co-investments with affiliates, MC Advisors has agreed to offer us the right to participate in all investment opportunities that it determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors. These offers are subject to the exception that, in accordance with MC Advisors conflict of interest and allocation policies, we might not participate in each individual opportunity but are entitled, on an overall basis, to participate equitably with other entities sponsored or managed by MC Advisors and its affiliates.

Affiliates of MC Advisors manage other assets in various structures, including two closed-end funds, two small business investment companies and two private funds that also have an investment strategy focused primarily on senior, unitranche, and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity to lower middle-market companies. In addition, MC Advisors and/or its affiliates may manage other entities in the future with an investment strategy that has the same or similar focus as ours. To the extent we compete with entities managed by MC Advisors or any of its affiliates for a particular investment opportunity, MC Advisors seeks to allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates, (b) the requirements of the Advisers

Act and (c) MC Advisors internal conflict of interest and allocation policies.

MC Advisors and/or its affiliates may in the future sponsor or manage investment funds, accounts or other investment vehicles with similar or overlapping investment strategies, and MC Advisors has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors seeks to ensure an equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. When we invest alongside such other

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accounts as permitted, such investments will be made consistent with MC Advisors allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including a majority of our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors, including a majority of our independent directors. It is our policy to base our determinations as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures, which will generally require that such opportunities be offered to eligible accounts on a basis that is fair and equitable over time, including, for example, through random or rotational methods. We and MC Advisors have received exemptive relief from the SEC to permit greater flexibility to negotiate the terms of co-investments if our board of directors determines that it would be advantageous for us to co-invest with other funds managed by MC Advisors or its affiliates in a manner consistent with our investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors.

# Corporate History and Additional Information

We were incorporated under the laws of Maryland on February 9, 2011. Our principal executive offices are located at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, and our telephone number is (312) 258-8300. We maintain a website at *www.monroebdc.com* and make all of our periodic and current reports, proxy statements and other information available, free of charge, on or through our website. Information on our website is not incorporated into or part of this prospectus supplement or the accompanying prospectus. You may also obtain such information free of charge by contacting us in writing at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, attention: Investor Relations.

We have filed with the SEC a registration statement on Form N-2, of which this prospectus supplement is a part, under the Securities Act of 1933, as amended, or the Securities Act. This registration statement contains additional information about us and the securities being offered by this prospectus supplement. We also file periodic reports, current reports, proxy statements and other information with the SEC. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549 and on the SEC s website at *www.sec.gov*. Information on the operation of the SEC s public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

# Sale of Common Stock Below NAV

We may offer, and have in the past offered, shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on June 27, 2014 and July 9, 2013. Our board of directors has in the past determined that it would be in our and our stockholders best interests to issue shares of our common stock below net asset value. See Risk Factors on page 11 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value on page 96 of the accompanying prospectus.

# Risk Factors

The value of our assets, as well as the market price of our shares will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. See Risk Factors beginning on page 11 of the accompanying prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our common stock.

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# THE OFFERING

Common Stock Offered by Us

2,450,000 shares (or 2,817,500 shares if the underwriters exercise their over-allotment option in full).

Common Stock to be Outstanding after this Offering

12,082,361 shares (or 12,449,861 shares if the underwriters exercise their over-allotment option in full).

Use of Proceeds

Our net proceeds from this offering will be approximately $34.6 million, or approximately $39.9 million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and commissions and estimated offering expenses of approximately $285,000.

We intend to use the net proceeds of this offering to repay indebtedness, to invest in portfolio companies in accordance with our investment objectives and for general corporate purposes. We will also pay operating expenses, including management and administrative fees, and may pay other expenses from the net proceeds of this offering. Pending such investments, we intend to invest the net proceeds of this offering primarily in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

Symbol on The Nasdaq Global Market

MRCC

Distributions

To the extent we have income and cash available, we intend to make quarterly distributions to our stockholders. Our quarterly distributions, if any, will be determined by our board of directors. Any distributions to our stockholders will be declared out of assets legally available for distribution.

Taxation

We have elected and intend to continue to qualify as a RIC under the Code. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gain that we distribute to our stockholders. To obtain and maintain RIC tax status, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any. Because most of our income will not be attributable to dividends, such income will not be taxable at more favorable rates for qualified dividend income. Distributions made to you will generally be taxed as ordinary income or as capital gains.

Leverage

As a business development company, we are permitted under the 1940 Act to borrow funds to finance a portion of our investments. As a result, we may be exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings, also known as leverage, increase the potential for gain and loss on amounts invested and therefore increase the risks associated with investing in our securities. With certain limited exceptions, we are currently only allowed

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to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% immediately after such borrowing. In addition, the costs associated with our borrowings, if any, including any increase in the management fee payable to MC Advisors, will be borne by our common stockholders.

We have received exemptive relief from the Securities and Exchange Commission to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities for the purposes of the 200% asset coverage ratio we are required to maintain under the 1940 Act, which provides us with increased flexibility, but also increases our risks associated with leverage.

As of December 31, 2014, we had debt outstanding under the revolving loan portion of the credit facility of approximately $82.3 million, SBA-guaranteed debentures outstanding of $20.0 million and $4.0 million of secured borrowings at fair value, which arose under the application of Accounting Standards Codification, or ASC, Topic 860 Transfer and Servicing, or ASC Topic 860, due to partial loan sales during the year ended December 31, 2013.

Trading

Shares of closed-end investment companies, including business development companies, frequently trade in the secondary market at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at, or below net asset value.

Sales of common stock below net asset value

Generally, the offering price per share of our common stock, exclusive of any underwriting commissions or discounts, may not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors, including the approval of a majority of our independent directors, or (3) under such circumstances as the SEC may permit.

On June 27, 2014, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of twelve months subject to approval by our board of directors. Sales or other issuances by us of our common stock at a discount from our net asset value pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

Risk Factors

An investment in our common stock is subject to risks. See Risk Factors beginning on page 11 of the accompanying prospectus to read about factors you should consider before deciding to invest in shares of our common stock.

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# FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and actual amounts and percentages may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contain a reference to fees or expenses paid by you, us or Monroe Capital Corporation, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Monroe Capital Corporation.

| | | |
|---|---|---|
| Stockholder transaction expenses: | | |
| Sales load (as a percentage of offering price) | 4.04 | %(1) |
| Offering expenses (as a percentage of offering price) | 0.78 | %(2) |
| Dividend reinvestment plan expenses | | %(3) |
| Total stockholder transaction expenses (as a percentage of offering price) | 4.82 | % |
| Estimated annual expenses (as a percentage of net assets attributable to common stock): | | |
| Base management fee | 3.15 | %(4) |
| Incentive fees payable under the Investment Advisory Agreement | 3.24 | %(5) |
| Interest payments on borrowed funds | 3.48 | %(6) |
| Other expenses (estimated) | 2.32 | %(7) |
| Total annual expenses (estimated) | 12.19 | %(8) |

(1) The underwriting discount and commission with respect to shares of our common stock sold in this offering, which is a one-time fee paid to the underwriters, is the only sales load paid in connection with this offering.

(2) The percentage reflects estimated offering expenses of approximately $285,000.

(3) The expenses of the dividend reinvestment plan are included in other expenses. See Dividend Reinvestment Plan.

(4) Our base management fee is 1.75% of our total assets (which includes assets purchased with borrowed amounts but does not include cash and cash equivalents). For the purposes of this table, we have assumed that the base management fee will remain at 1.75% as set forth in the Investment Advisory Agreement. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to the Investment Advisory Agreement generally must be submitted to our stockholders for approval. The base management fee percentage in the table above is calculated as a percentage of net assets attributable to common stockholders, rather than total assets, including assets that have been funded with borrowed monies, because common stockholders bear all of this cost. The base management fee in the table above assumes the base management fee remains consistent with fees incurred for the three months ended December 31, 2014 of $1.1 million, based on average total assets (excluding cash) for the period of $238.1 million, as a percentage of our average net assets for the period of $133.3 million. See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

(5) Estimated assuming that annual incentive fees earned by MC Advisors remains consistent with the incentive fees earned for the three months ended December 31, 2014 of $1.1 million, as a percentage of our average net assets of $133.3 million for the period.

The incentive fee consists of two parts:

The first part of the incentive fee, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 2% quarterly (8% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, MC Advisors receives no incentive fee until our net investment income equals the hurdle rate of 2%

but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, MC Advisors will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The first component of the incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. Since the hurdle rate is fixed, as interest rates rise, it will be easier for the MC Advisors to surpass the hurdle rate and receive an incentive fee based on net investment income. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our preincentive fee net investment income will be payable except to the extent that 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20% of the amount by which our preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of our preincentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters.

The second part of the incentive fee, payable annually in arrears, equals 20% of our realized capital gains on a cumulative basis from inception through the end of the fiscal year, if any (or upon the termination of the Investment Advisory Agreement, as of the termination date), computed net of all realized capital losses on a cumulative basis and unrealized capital depreciation, less the aggregate amount of any previously paid capital gain incentive fees. We will accrue (but not pay) an expense for potential payment of capital gain incentive fees with respect to any unrealized appreciation on our portfolio.

See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

(6) We may borrow funds from time to time to make investments to the extent we determine that it is appropriate to do so. The costs associated with any outstanding borrowings are indirectly borne by our investors. The table assumes borrowings are consistent with the average borrowings for the three months ended December 31, 2014 of $108.3 million, no preferred stock issued or outstanding and average net assets of $133.3 million for the three months ended December 31, 2014. For the three months ended December 31, 2014, we had interest expense of $1.2 million. The weighted average interest rate of our revolving credit facility (excluding debt issuance costs) was 3.5% and the weighted average interest rate on our SBA-guaranteed debentures (excluding debt issuance costs) was 2.65% during the three months ended December 31, 2014. Certain of the Company s SBA-guaranteed debentures ($7.1 million of the $20.0 million outstanding as of December 31, 2014) were charged an interim rate of interest of 1.0% per annum for the period until their pooling date in late March 2015, resulting in a lower average interest rate on SBA-guaranteed debentures than can be expected in the future. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

(7) Includes our estimated overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by MC Management. The table above assumes other expenses remain consistent with those incurred during the three months ended December 31, 2014 and average net assets for the period of $133.3 million.

(8) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. We calculate the total annual expenses percentage as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been purchased with borrowed amounts. The terms of our indebtedness may be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Borrowings. If the total annual expenses percentage were calculated

instead as a percentage of consolidated total assets, our total annual expenses would be 6.54% of consolidated total assets. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets after such borrowing. We have included our estimated leverage expenses (consistent with the assumptions in footnote (7)) for the twelve months following this offering in total annual expenses.

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# Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents and that our annual operating expenses would remain at the levels set forth in the table above.

| You would pay the following expenses on a $1,000 investment | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation) | $138 | $317 | $496 | $944 |
| Assuming a 5% annual return (assumes entire return is from realized capital gains and thus subject to the capital gains incentive fee) | $148 | $348 | $551 | $1,069 |

This table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. The example assumes, as required by the SEC, a 5% annual return. Our performance will vary and may result in a return greater or less than 5%. As incentive fees vary based on the character of the 5% return, the example above provides (i) expenses assuming no return from capital gains (therefore not meeting the hurdle rate for the first part of the incentive fee) and (ii) expenses assuming the entire return is from realized capital gains (resulting in a capital gains incentive fee). For the three months ended December 31, 2014, none of our return was comprised of realized and unrealized capital gains. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

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# SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, se estimates, would, should, targets, projects, and variations of these words and similar expressions are intende identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements including:

our inexperience operating a business development company and RIC and the inexperience of MC Advisors managing a business development company and RIC;
our dependence on key personnel;
our ability to maintain or develop referral relationships;
the ability of MC Advisors to identify, invest in and monitor companies that meet our investment criteria;
actual and potential conflicts of interest with MC Advisors and its affiliates;
possession of material nonpublic information;
potential divergent interests of MC Advisors and our stockholders arising from our incentive fee structure;
restrictions on affiliate transactions;
competition for investment opportunities;
our ability to maintain our qualification as a RIC and as a business development company;
the impact of a protracted decline in the liquidity of credit markets on our business and portfolio investments;
the timing, form and amount of any payments, dividends or other distributions from our portfolio companies;
our use of leverage;
changes in interest rates;
SBA regulations affecting MRCC SBIC or any other wholly-owned SBIC subsidiary;
uncertain valuations of our portfolio investments;
fluctuations in our quarterly operating results;
our ability to issue securities at a discount to net asset value per share;
changes in laws or regulations applicable to us; and
general economic conditions and their impact on the industries in which we invest.

We have based the forward-looking statements included in this prospectus supplement and the accompanying prospectus on information available to us on the date of this prospectus supplement. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement. However, we will update this prospectus supplement to reflect any material changes to the information contained herein during the period of this offering.

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You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement or in periodic reports we file under the Exchange Act.

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# USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be approximately $34.6 million (or approximately $39.9 million if the underwriters exercise their over-allotment option in full), after deducting underwriting discounts and commissions and estimated offering expenses of approximately $285,000.

We intend to use the net proceeds from the sale of our common stock to repay indebtedness under our credit facility, to invest in portfolio companies directly in accordance with our investment objectives and strategies and for general corporate purposes. We will also pay operating expenses, including management and administrative fees, and may pay other expenses from the net proceeds of any offering of our securities.

We may use a portion of our net proceeds to repay indebtedness under our credit facility with the Lender. This indebtedness bears an interest rate equal to, at our election, either (a) LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when our equity capitalization exceeds $175.0 million or (b) a fluctuating daily rate equal to 2.25% per annum plus the greater of the prime rate, the federal funds rate plus 0.5% or three-month LIBOR plus 1.0%. The interest rate on our revolving credit facility as of December 31, 2014 was 3.4%. The indebtedness has a maturity date of December 19, 2017 and has been used to make investments in our portfolio companies.

We anticipate that we will use substantially all of the net proceeds from this offering for the above purposes within approximately six months after the completion of this offering, depending on the availability of appropriate investment opportunities consistent with our investment objectives and market conditions. It may take more or less time for us to identify, negotiate and enter into investments and fully deploy any proceeds we raise, and we cannot assure you that we will achieve our targeted investment pace.

Until such appropriate investment opportunities can be found, we will invest the net proceeds of any offering of our securities primarily in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in lower yielding interest-bearing deposits or other short-term instruments. See Regulation Temporary Investments in the accompanying prospectus for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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# CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2014:

on an actual basis; and

on an as adjusted basis to reflect the sale of 2,450,000 shares of our common stock in this offering at a price of $14.13 per share after deducting the underwriting discounts and commissions of approximately $1.5 million and estimated offering expenses of approximately $285,000.

This table should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

| | As of December 31, 2014 | |
|---|---|---|
| | Actual | As Adjusted |
| | (Unaudited) | |
| | (in thousands, except per share data) | |
| Assets: | | |
| Cash | $ 5,737 | $ 40,365 |
| Investments at fair value | 233,535 | 233,535 |
| Other assets | 4,313 | 4,313 |
| Total assets | $ 243,585 | $ 278,213 |
| Liabilities: | | |
| Debt | $ 106,308 | $ 106,308 |
| Other liabilities | 3,539 | 3,539 |
| Total liabilities | 109,847 | 109,847 |
| Net Assets: | | |
| Common stock, $0.001 par value, 100,000 shares authorized, actual; 9,518 shares issued and outstanding, actual; 11,968 shares issued and outstanding, as adjusted | 10 | 12 |
| Capital in excess of par value | 134,803 | 169,428 |
| Accumulated distributions in excess of net investment income | (639 ) | (639 ) |
| Accumulated net realized gain (loss) on investments | | |
| Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings | (436 ) | (436 ) |
| Total net assets | $ 133,738 | $ 168,366 |
| Net asset value per share | $ 14.05 | $ 14.07 |

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# PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock began trading on The Nasdaq Global Market under the ticker symbol MRCC on October 25, 2012. Prior to that date, there was no established trading market for our common stock. Our common stock has historically traded for an amount less than net asset value ( NAV ).

The following table sets forth the high and low closing sales prices of our common stock as reported on The Nasdaq Global Market, the closing sales price as a percentage of our NAV and the dividends declared by us for each fiscal quarter since our shares began trading on The Nasdaq Global Market.

| | NAV(1) | Closing Sales Price High | Closing Sales Price Low | Premium (Discount) of High Sales Price to NAV(2) | Premium (Discount) of Low Sales Price to NAV(2) | Declared Distributions(3) |
|---|---|---|---|---|---|---|
| Year ending December 31, 2015 | | | | | | |
| Second Quarter (through April 14, 2015) | (4) | $15.25 | $14.57 | (4) | (4) | |
| First Quarter | (4) | $15.38 | $13.91 | (4) | (4) | $ 0.35 (3) |
| Year ended December 31, 2014 | | | | | | |
| Fourth Quarter | $14.05 | $14.63 | $13.00 | 4.1 % | (7.5 )% | $ 0.34 (5) |
| Third Quarter | $13.95 | $14.00 | $13.26 | 0.4 % | (4.9 )% | $ 0.34 (5) |
| Second Quarter | $13.93 | $13.92 | $12.70 | (0.1 )% | (8.8 )% | $ 0.34 (5) |
| First Quarter | $13.99 | $13.55 | $12.19 | (3.1 )% | (12.9 )% | $ 0.34 (5) |
| Year ended December 31, 2013 | | | | | | |
| Fourth Quarter | $13.92 | $13.87 | $11.75 | (0.4 )% | (15.6 )% | $ 0.34 (6) |
| Third Quarter | $14.01 | $14.99 | $12.95 | 7.0 % | (7.6 )% | $ 0.34 (6) |
| Second Quarter | $14.78 | $15.46 | $14.60 | 4.6 % | (1.2 )% | $ 0.34 (6) |
| First Quarter | $14.78 | $15.39 | $14.55 | 4.1 % | (1.6 )% | $ 0.34 (6) |
| Year ended December 31, 2012 | | | | | | |
| Fourth Quarter(7) | $14.54 | $15.30 | $14.59 | 5.2 % | 0.3 % | $ 0.34 (8) |

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

(3) Represents the distribution declared in the specified quarter. We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See Dividend Reinvestment Plan in the accompanying prospectus.

Our management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent that our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders. The tax character of distributions will be determined at the end of the fiscal year.

(4) NAV calculation is not yet available.

(5) There was no return of capital for tax purposes for the year ended December 31, 2014.

(6) Includes a return of capital for tax purposes of approximately $0.21 per share for the year ended December 31, 2013.

(7) From October 24, 2012 (initial public offering) to December 31, 2012.

(8) Includes a return of capital for tax purposes of approximately $0.20 per share for the year ended December 31, 2012.

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# SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2014, 2013, 2012 and for the period from February 9, 2011 (date of inception) to December 31, 2011 are derived from our consolidated financial statements that have been audited by McGladrey LLP, independent registered public accounting firm. This consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement.

| | As of and for the year ended December 31, 2014 | As of and for the year ended December 31, 2013 | As of and for the year ended December 31, 2012[1] | As of and for the period from February 9, 2011 (date of inception) to December 31, 2011[1] |
|---|---|---|---|---|
| | (dollars in thousands, except per share data) | | | |
| Statement of operations data: | | | | |
| Total investment income | $29,913 | $18,213 | $1,706 | $ |
| Base management fees | (4,091) | (2,752) | (318) | |
| Incentive fees | (3,512) | (1,544) | (6) | |
| All other expenses | (7,235) | (5,267) | (592) | |
| Net investment income | 15,075 | 8,650 | 790 | |
| Net realized gain (loss) on investments | 299 | 247 | | |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | (1,465) | 869 | 160 | |
| Net increase (decrease) in net assets resulting from operations | $13,909 | $9,766 | $950 | $ |
| Per share data (basic and diluted) | | | | |
| Net asset value | $14.05 | $13.92 | $14.54 | n/a |
| Net investment income | $1.57 | $1.13 | $0.15 | $ |
| Net realized gain (loss) on investments | 0.03 | 0.03 | | |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | (0.15) | 0.12 | 0.03 | |
| Net increase (decrease) in net assets resulting from operations | $1.45 | $1.28 | $0.18 | $ |
| Stockholder distributions net investment income | $(1.33) | $(1.12) | $(0.14) | |
| Stockholder distributions capital gains | (0.03) | (0.03) | | |
| Stockholder distributions return of capital | | (0.21) | (0.20) | |
| Total stockholder distributions | $(1.36) | $(1.36) | $(0.34) | $ |

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| | As of and for the year ended December 31, 2014 | As of and for the year ended December 31, 2013 | As of and for the year ended December 31, 2012[1] | As of and for the period from February 9, 2011 (date of inception) to December 31, 2011[1] |
|---|---|---|---|---|
| | (dollars in thousands, except per share data) | | | |
| Consolidated statements of assets and liabilities data at period end: | | | | |
| Investments, at fair value | $233,535 | $207,920 | $132,752 | $ |
| Cash | 5,737 | 14,603 | 4,060 | 10 |
| Other assets | 4,313 | 3,158 | 2,419 | |
| Total assets | 243,585 | 225,681 | 139,231 | 10 |
| Total debt | 106,308 | 83,943 | 55,000 | |
| Other liabilities | 3,539 | 3,646 | 597 | |
| Total liabilities | 109,847 | 87,589 | 55,597 | |
| Total net assets | $133,738 | $138,092 | $83,634 | $ 10 |
| Other data: | | | | |
| Weighted average annualized effective yield at period end[2] | 11.6 % | 10.7 % | 11.3 % | n/a |
| Number of portfolio company investments at period end | 40 | 42 | 28 | n/a |
| Purchases of investments for the period | $132,183 | $138,781 | $144,482 | n/a |
| Principal payments and sales of investments for the period | $107,073 | $65,165 | $11,898 | n/a |

(1) For historical periods prior to October 24, 2012, we had no operations and therefore information provided does not include financial results prior to October 24, 2012.

(2) The weighted average annualized effective yield at period end is based upon the par value of our debt investments.

n/a not applicable

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# SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial information for each quarter since we commenced operations ending with the quarter ended December 31, 2014. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

| | For the quarter ended | | | |
|---|---|---|---|---|
| | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
| | (unaudited) | | | |
| | (dollars in thousands, except per share data) | | | |
| Total investment income | $8,683 | $7,668 | $7,046 | $6,516 |
| Net investment income | $4,621 | $3,810 | $3,514 | $3,130 |
| Net gain (loss) on investments and secured borrowings | $(419) | $(437) | $(848) | $538 |
| Net increase in net assets resulting from operations | $4,202 | $3,373 | $2,666 | $3,668 |
| Net investment income per share basic and diluted | $0.49 | $0.40 | $0.37 | $0.32 |
| Net increase in net assets resulting from operations per share basic and diluted | $0.44 | $0.35 | $0.28 | $0.38 |
| Net asset value per share at period end | $14.05 | $13.95 | $13.93 | $13.99 |

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012(1) |
| | (unaudited) | | | | |
| | (dollars in thousands, except per share data) | | | | |
| Total investment income | $6,395 | $4,347 | $3,752 | $3,719 | $1,706 |
| Net investment income | $3,184 | $2,413 | $1,550 | $1,503 | $790 |
| Net gain (loss) on investments and secured borrowings | $(672) | $(447) | $438 | $1,797 | $160 |
| Net increase in net assets resulting from operations | $2,512 | $1,966 | $1,988 | $3,300 | $950 |
| Net investment income per share basic and diluted | $0.32 | $0.27 | $0.27 | $0.26 | $0.15 |
| Net increase in net assets resulting from operations per share basic and diluted | $0.25 | $0.22 | $0.34 | $0.57 | $0.18 |
| Net asset value per share at period end | $13.92 | $14.01 | $14.78 | $14.78 | $14.54 |

(1) We had no substantive operations prior to October 24, 2012, the date of our initial public offering.

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

Except as otherwise specified, references to we, us, and our refer to Monroe Capital Corporation and its consolidated subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing in our annual report on Form 10-K (the Annual Report ) for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission ( SEC ) on March 6, 2015. The information contained in this section should also be read in conjunction with our unaudited consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus supplement and accompanying prospectus.

## Overview

Monroe Capital Corporation is an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the 1940 Act. In addition, for tax purposes, we have elected to be treated as a regulated investment company ( RIC ) under the subchapter M of the Internal Revenue Code of 1986, as amended (the Code ). We were incorporated under the Maryland General Corporation Law on February 9, 2011. We are a specialty finance company focused on providing financing solutions primarily to lower middle-market companies in the United States. We provide customized financing solutions focused primarily on senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock, and warrants.

Our shares are currently listed on the NASDAQ Global Market under the symbol MRCC.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, subordinated debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. Our investments in senior, unitranche, junior secured debt and other investments generally will range between $2 million and $15 million each, although this investment size may vary proportionately with the size of our capital base. As of December 31, 2014, our portfolio included approximately 53.2% senior secured debt, 41.4% unitranche secured debt, 4.6% junior secured debt and 0.8% equity securities compared to December 31, 2013, when our portfolio consisted of 42.8% senior secured debt, 46.3% unitranche secured debt, 10.7% junior secured debt and 0.2% equity securities. We expect that the companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies.

While our primary focus is to maximize current income and capital appreciation through debt investments in thinly traded or private U.S. companies, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of middle-market companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As of December 31, 2014, MRCC SBIC had $20.0 million in regulatory and leveragable capital and $20.0 million in SBA-guaranteed debentures outstanding. Additionally, as of December 31, 2014, MRCC SBIC had received a commitment letter for an additional $20.0 million in SBA-guaranteed debentures. See *SBA Debentures* below for more information.

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## Investment income

We generate interest income on the debt investments in portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior, junior or unitranche secured debt, typically have an initial term of three to seven years and bear interest at a fixed or floating rate. In some instances we receive payments on our debt investment based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity date. In some cases, our investments provide for deferred interest of payment-in-kind ( PIK ) interest. In addition, we may generate revenue in the form of commitment, origination, amendment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, original issue discount and market discount or premium are capitalized, and we accrete or amortize such amounts as interest income. We record prepayment premiums and prepayment gains (losses) on loans as interest income. Interest and dividend income is recorded on the accrual basis to the extent we expect to collect such amounts.

## Expenses

Our primary operating expenses include the payment of fees to MC Advisors under the Investment Advisory and Management Agreement (management and incentive fees), and the payment of fees to MC Management for our allocable portion of overhead and other expenses under the Administration Agreement and other operating costs. See Note 6 to our consolidated financial statements and *Related Party Transactions* below for additional information on our Investment Advisory and Management Agreement and Administration Agreement. Our expenses also include interest expense on our revolving credit facility and our secured borrowings. We bear all other out-of-pocket costs and expenses of our operations and transactions.

## Net gain (loss) on investments and secured borrowings

We recognize realized gains or losses on investments based on the difference between the net proceeds from the disposition and the cost basis of the investment or derivative instrument without regard to unrealized gains or losses previously recognized. We record current period changes in fair value of investments and secured borrowings within net change in unrealized appreciation (depreciation) on investments and net change in unrealized (appreciation) depreciation on secured borrowings, respectively, in the consolidated statements of operations.

# Portfolio and Investment Activity

During the year ended December 31, 2014, we invested $120.4 million in twenty five new portfolio companies and $11.8 million in six existing portfolio companies and had $107.1 million in aggregate amount of principal repayments, resulting in net investment acquisitions of $25.1 million for the period.

During the year ended December 31, 2013, we made $131.9 million on investments in new portfolio companies and had $65.2 million in aggregate amount of principal repayments resulting in net investment acquisitions of $73.6 million for the period.

During the year ended December 31, 2012, we made $144.5 million on investments in new portfolio companies and had $11.9 million in aggregate amount of principal repayments resulting in net investment acquisitions of $132.6 million for the period.

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The following table shows the composition of the investment portfolio (in thousands) and associated yield data:

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | Weighted Average Annualized Contractual Coupon Yield(1) | Weighted Average Annualized Effective Yield(1) |
| Senior secured loans | $ 124,161 | 53.2 % | 11.3 % | 11.3 % |
| Unitranche loans | 96,635 | 41.4 | 10.8 | 12.1 |
| Junior secured loans | 10,803 | 4.6 | 10.3 | 10.3 |
| Equity securities | 1,936 | 0.8 | n/a | n/a |
| Total | $ 233,535 | 100.0 % | 11.0 % | 11.6 % |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | Weighted Average Annualized Contractual Coupon Yield(1) | Weighted Average Annualized Effective Yield(1) |
| Senior secured loans | $ 88,963 | 42.8 % | 9.8 % | 9.8 % |
| Unitranche loans | 96,217 | 46.3 | 10.2 | 11.8 |
| Junior secured loans | 22,335 | 10.7 | 9.4 | 9.4 |
| Equity securities | 405 | 0.2 | n/a | n/a |
| Total | $ 207,920 | 100.0 % | 9.9 % | 10.7 % |

(1) Based upon the par value of our debt investments.

n/a not applicable

We were able to increase our effective yield on the portfolio by 0.9% during the year ended December 31, 2014, while also shifting to a more senior portfolio of assets.

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

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Healthcare & Pharmaceuticals | $ 29,929 | 12.8 % | $ 30,639 | 14.7 % |
| Services: Business | 29,618 | 12.7 | 28,692 | 13.8 |
| Consumer Goods: Non-Durable | 27,367 | 11.7 | 23,404 | 11.3 |
| Retail | 22,342 | 9.6 | 21,161 | 10.2 |
| Consumer Goods: Durable | 19,281 | 8.3 | 23,805 | 11.4 |
| Hotels, Gaming & Leisure | 18,655 | 8.0 | 7,198 | 3.4 |
| Banking, Finance, Insurance & Real Estate | 16,815 | 7.2 | 7,566 | 3.6 |

| | | | | |
|---|---|---|---|---|
| Construction & Building | 11,637 | 5.0 | 1,012 | 0.5 |
| Media: Advertising, Printing & Publishing | 10,628 | 4.5 | 17,822 | 8.6 |
| Media: Diversified & Production | 7,747 | 3.3 | | |
| Metals & Mining | 7,180 | 3.1 | | |
| Wholesale | 5,624 | 2.4 | | |
| Automotive | 5,483 | 2.3 | 15,100 | 7.2 |
| Energy: Oil & Gas | 4,698 | 2.0 | 4,875 | 2.3 |
| Containers, Packaging & Glass | 3,979 | 1.7 | 1,980 | 1.0 |
| Capital Equipment | 3,665 | 1.6 | 4,271 | 2.1 |
| Services: Consumer | 3,014 | 1.3 | 3,104 | 1.5 |
| High Tech Industries | 2,973 | 1.3 | 9,530 | 4.6 |
| Beverage, Food & Tobacco | 2,900 | 1.2 | 3,034 | 1.5 |
| Telecommunications | | | 3,714 | 1.8 |
| Chemicals, Plastics & Rubber | | | 1,013 | 0.5 |
| Total | $ 233,535 | 100.0 % | $ 207,920 | 100.0 % |

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# Portfolio Asset Quality

MC Advisors portfolio management staff closely monitors all credits, with senior portfolio managers covering agented and more complex investments. MC Advisors segregates our capital markets investments by industry. The MC Advisors monitoring process and projections developed by Monroe Capital both have daily, weekly, monthly and quarterly components and related reports, each to evaluate performance against historical, budget and underwriting expectations. MC Advisors analysts will monitor performance using standard industry software tools to provide consistent disclosure of performance. MC Advisors also monitors our investment exposure using a proprietary trend analysis tool. When necessary, MC Advisors will update our internal risk ratings, borrowing base criteria and covenant compliance reports.

As part of the monitoring process, MC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on an internal proprietary system that uses the categories listed below, which we refer to as MC Advisors investment performance rating. For any investment rated in grades 3, 4 or 5, MC Advisors will increase its monitoring intensity and prepare regular updates for the investment committee, summarizing current operating results and material impending events and suggesting recommended actions. MC Advisors monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, MC Advisors reviews these investment ratings on a quarterly basis, and our board of directors (the Board ) reviews and affirms such ratings. A definition of the rating system follows:

| Investment Performance Rating | Summary Description |
|---|---|
| Grade 1 | Includes investments exhibiting the least amount of risk in our portfolio. The issuer is performing above expectations or the issuer s operating trends and risk factors are generally positive. |
| Grade 2 | Includes investments exhibiting an acceptable level of risk that is similar to the risk at the time of origination. The issuer is generally performing as expected or the risk factors are neutral to positive. |
| Grade 3 | Includes investments performing below expectations and indicates that the investment s risk has increased somewhat since origination. The issuer may be out of compliance with debt covenants; however, scheduled loan payments are generally not past due. |
| Grade 4 | Includes an issuer performing materially below expectations and indicates that the issuer s risk has increased materially since origination. In addition to the issuer being generally out of compliance with debt covenants, scheduled loan payments may be past due (but generally not more than six months past due). For grade 4 investments, we intend to increase monitoring of the issuer. |
| Grade 5 | Indicates that the issuer is performing substantially below expectations and the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance or payments are substantially delinquent. Investments graded 5 are not anticipated to be repaid in full and we will reduce the fair market value of the loan to the amount we expect to recover. |

Our investment performance ratings do not constitute any rating of investments by a nationally recognized statistical rating organization or reflect or represent any third-party assessment of any of our investments.

In the event of a delinquency or a decision to rate an investment grade 4 or grade 5, the applicable analyst, in consultation with a member of the investment committee, will develop an action plan. Such a plan may require a meeting with the borrower s management or the lender group to discuss reasons for the default and the steps management is undertaking to address the under-performance, as well as required amendments and waivers that may be required. In the event of a dramatic deterioration of a credit, MC Advisors intends to form a team or engage outside advisors to analyze, evaluate and take further steps to preserve its value in the credit. In this regard, we would expect to explore all options, including in a private equity sponsored

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investment, assuming certain responsibilities for the private equity sponsor or a formal sale of the business with oversight of the sale process by us. Several of Monroe Capital s professionals are experienced in running work-out transactions and bankruptcies.

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of December 31, 2014 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ | % |
| 2 | 205,737 | 88.1 |
| 3 | 27,798 | 11.9 |
| 4 | | |
| 5 | | |
| Total | $ 233,535 | 100.0 % |

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of December 31, 2013 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ | % |
| 2 | 189,899 | 91.3 |
| 3 | 18,021 | 8.7 |
| 4 | | |
| 5 | | |
| Total | $ 207,920 | 100.0 % |

# Results of Operations

Operating results are as follows (dollars in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Total investment income | $29,913 | $18,213 | $ 1,706 |
| Total expenses, net | 14,838 | 9,563 | 916 |
| Net investment income | 15,075 | 8,650 | 790 |
| Net realized gain (loss) on investments | 299 | 247 | |
| Net change in unrealized appreciation (depreciation) on investments | (1,537 ) | 815 | 160 |
| Net change in unrealized (appreciation) depreciation on secured borrowings | 72 | 54 | |
| Net increase (decrease) in net assets resulting from operations | $13,909 | $9,766 | $ 950 |

As we had no substantive operating activities prior to the initial public offering on October 24, 2012, the results of the periods prior to the initial public offering are excluded from this discussion.

## Investment Income

For the years ended December 31, 2014, 2013 and 2012, total investment income was $29.9 million, $18.2 million and $1.7 million, of which $26.8 million, $17.1 million, and $1.6 million was attributable to portfolio interest and $3.1 million, $1.1 million and $0.1 million to other income (including amortization of discounts and origination fees, paydown gains (losses) and dividend income), respectively. The increase in interest income of $11.7 million during the year ended December 31, 2014 is primarily due to higher outstanding invested assets and the continued optimization of the portfolio into higher yielding assets.

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## Operating Expenses

The composition of our operating expenses was as follows (dollars in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Interest and other debt financing expenses | $ 4,342 | $ 2,908 | $ 305 |
| Base management fee | 4,091 | 2,752 | 318 |
| Incentive fees | 3,512 | 1,544 | 6 |
| Professional fees | 1,138 | 1,149 | 76 |
| Administrative service fees | 876 | 528 | 133 |
| General and administrative expenses | 879 | 682 | 78 |
| Total expenses | $ 14,838 | $ 9,563 | $ 916 |

The composition of our interest expense and other debt financing expenses was as follows (dollars in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Interest expense credit facility | $ 3,183 | $ 1,978 | $ 219 |
| Amortization of deferred financing costs | 576 | 479 | 86 |
| Interest expense secured borrowings | 374 | 378 | |
| Interest expense SBA debentures | 161 | | |
| Other | 48 | 73 | |
| Total interest and other debt financing expenses | $ 4,342 | $ 2,908 | $ 305 |

The increase in expenses of $5.3 million during the year ended December 31, 2014 is primarily due to an increase in interest expense as a result of additional borrowings required to support the growth of the portfolio, an increase in base management fees due to the growth in invested assets and increased incentive fees resulting from improvement in performance.

## Net Realized Gain (Loss) on Investments

Sales and principal repayments totaled $107.1 million, $65.2 million and $11.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, resulting in net realized gain (loss) on investments of $0.3 million, $0.2 million and zero, respectively.

## Net Change in Unrealized Appreciation (Depreciation) on Investments and Secured Borrowings

For the years ended December 31, 2014, 2013 and 2012, our investments had ($1.5) million, $0.8 million and $0.2 million of unrealized appreciation (depreciation), respectively. For the years ended December 31, 2014, 2013 and 2012 our secured borrowings had $0.1 million, $0.1 million and zero of net unrealized (appreciation) depreciation, respectively.

### Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2014, 2013 and 2012, we recorded a net increase in net assets resulting from operations of $13.9 million, $9.8 million and $1.0 million, respectively. Based on the weighted average shares of common stock outstanding for the year ended December 31, 2014, 2013 and 2012 our per share net increase in net assets resulting from operations was $1.45, $1.28 and $0.18, respectively. The increase of $4.1 million during the year ended December 31, 2014 is primarily the result of increases in net investment income, partially offset by increases in unrealized losses.

## Liquidity and Capital Resources

As of December 31, 2014, we had $5.7 million in cash and cash equivalents, $82.3 million of total debt outstanding on our revolving credit facility and $20.0 million in outstanding SBA-guaranteed debentures. We had $27.7 million available for additional borrowings on our revolving credit facility and $20.0 million in available SBA-guaranteed debentures. See *Borrowings* below for additional information.

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## Cash Flows

For the year ended December 31, 2014, we experienced a net decrease in cash and cash equivalents of $8.9 million. During the same period we used $11.5 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $2.7 million from financing activities, principally from net borrowings on our revolving credit facility and SBA-guaranteed debenture borrowings, partially offset by distributions to stockholders, repurchases of our common stock and decreases in secured borrowings.

For the year ended December 31, 2013, we experienced a net increase in cash and cash equivalents of $10.5 million. During the same period we used $62.9 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $73.4 million from financing activities, principally from proceeds from a public offering and net borrowings on our revolving credit facility.

## Capital Resources

As a BDC, we distribute substantially all of our net income to our stockholders and have an ongoing need to raise additional capital for investment purposes. We intend to generate additional cash primarily from future offerings of securities, future borrowings and cash flows from operations, including income earned from investments in our portfolio companies. On both a short-term and long-term basis, our primary use of funds will be to invest in portfolio companies and make cash distributions to our stockholders.

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our Board, including independent directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale. On June 27, 2014, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of one year, subject to certain limitations. As of December 31, 2014 and 2013, we had 9,517,910 and 9,918,269 shares outstanding, respectively.

## Borrowings

*Revolving Credit Facility:* We entered into our credit facility with ING Capital LLC, as agent, on October 23, 2012 to finance the purchase of our assets. Revolving commitments under the facility were initially $65.0 million with an accordion feature up to $100.0 million. On September 27, 2013, the maximum amount we were able to borrow under the revolving credit facility was increased to $95.0 million, pursuant to this accordion feature.

On December 19, 2013 we entered into an amendment (the Credit Facility Amendment ) to the documents governing our revolving credit facility. The Credit Facility Amendment, among other things, (a) increased the size of the current revolving commitments under the revolving credit facility to $110.0 million from $95.0 million, (b) expanded the accordion feature to $200.0 million from $100.0 million (subject to maintaining 200% asset coverage, as defined in the 1940 Act), (c) reduced pricing by 50 basis points, to LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when our equity capitalization exceeds $175.0 million, (d) extended the expiration of the revolving period from October 23, 2015 to December 19, 2016, during which period we, subject to certain conditions, may make borrowings under the facility and (e) extended the stated maturity date from October 21, 2016 to December 19, 2017. As of December 31, 2014 and 2013, we had $82.3 million and $76.0 million outstanding, respectively, under this revolving credit facility.

The revolving credit facility is secured by a lien on all of our assets, including cash on hand, but excluding the assets of our wholly-owned subsidiary, MRCC SBIC. Our ability to borrow under the credit facility is subject to availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. We may make draws under the revolving credit facility to make or purchase additional investments through December 19, 2016 and for general working capital purposes until the maturity date of the revolving credit facility. Borrowings under the revolving credit facility bear interest, at our election, at an annual rate of LIBOR (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 3.25% (3.75% prior to December 19, 2013) or at a daily rate equal to 2.25% (2.75% prior to December 19, 2013) per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of our revolving credit facility borrowings (excluding debt issuance costs) for the years ended December 31, 2014 and 2013 was 3.4% and 4.1%, respectively. The weighted average fee rate on our unused portion of the revolving credit facility for the years ended December 31, 2014 and 2013 was 0.5% and 0.7%, respectively. As of both December 31, 2014 and 2013, all of the outstanding borrowings were accruing at an interest rate of 3.4% (based on one-month LIBOR).

Our ability to borrow under the revolving credit facility is subject to availability under the borrowing base, which permits us to borrow up to 70% of the fair market value of our portfolio company investments depending on the type of the investment we hold and whether the investment is quoted. Our ability to borrow is also subject to certain concentration limits, and our continued compliance with the representations, warranties and covenants given by us under the facility. The revolving credit facility contains certain financial and restrictive covenants, including, but not limited to, our maintenance of: (1) a minimum consolidated net worth at least equal to the greater of (a) 55% of assets on the last day of each quarter (excluding from such calculation the portion of assets of MRCC SBIC financed with SBA debentures) or (b) 80% of the net proceeds to us from our initial offering plus 50% of the net proceeds of the sales of our securities after the effectiveness of the revolving credit facility; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.15 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The credit facility also requires us to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both Monroe Capital Corporation and MC Advisors, failure to comply with financial and negative covenants, and failure to maintain our relationship with MC Advisors. If we incur an event of default under the revolving credit facility and fail to remedy such default under any applicable grace period, if any, then the entire revolving credit facility could become immediately due and payable, which would materially and adversely affect our liquidity, financial condition, results of operations and cash flows.

Our credit facility also imposes certain conditions that may limit the amount of our distributions to stockholders. Distributions payable in our common stock under our Dividend Reinvestment Plan are not limited by the credit facility. Distributions in cash or property other than common stock are generally limited to 110% (125% in certain instances) of the amount of distributions required to maintain our status as a RIC. The credit facility also specifically allowed for the dividend payments made during the fourth quarter of each of 2013 and 2012.

*SBA Debentures:* On February 28, 2014, our wholly-owned subsidiary, MRCC SBIC, received a license from the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Company Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013.

The SBIC license allows MRCC SBIC to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis (pooling date) at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, has a superior claim to MRCC SBIC s assets over our stockholders in the event we liquidate MRCC SBIC or the SBA exercises its remedies upon an event of default. As of December 31, 2014, MRCC SBIC had $20.0 million in regulatory capital and leveragable capital and $20.0 million in SBA-guaranteed debentures outstanding. Additionally, as of December 31, 2014, MRCC SBIC had received a commitment letter for an additional $20.0 million in SBA-guaranteed debentures. The $12.9 million in SBA-guaranteed debentures outstanding which have already pooled mature in September 2024 and bear interest at a fixed rate of 3.4% per annum and the $7.1 million in SBA-guaranteed debentures outstanding which have not already pooled mature in March 2025 and bear interest at an interim rate of 1.0% until the March 2015 pooling date.

SBA regulations currently limit the amount that an individual SBIC may borrow to a maximum of $150.0 million when it has at least $75.0 million in regulatory capital, receives a leverage commitment from the SBA and has been through an audit examination by the SBA subsequent to licensing. The SBA also limits a related group of SBICs to a maximum of $225.0 million in total borrowings. As we have other affiliated SBICs already in operation, MRCC SBIC is currently limited to a maximum of $40.0 million in borrowings.

On October 15, 2014, we were granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the 200% asset coverage test, but also increases our risks associated with leverage.

*Secured Borrowings:* Certain partial loan sales do not qualify for sale accounting under ASC Topic 860 because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on the accompanying consolidated statements of assets and liabilities and the portion sold is recorded as a secured borrowing in the liabilities section of the consolidated statements of assets and liabilities. For these partial loan sales, the interest earned on the entire loan balance is recorded within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in the accompanying consolidated statements of operations.

As of December 31, 2014, secured borrowings at fair value totaled $4.0 million and the fair value of the loans that are associated with these secured borrowings was $13.1 million. As of December 31, 2013, secured borrowings at fair value totaled $7.9 million and the fair value of the loans that are associated with these secured borrowings was $22.7 million. These secured borrowings were created as a result of our completion of partial loan sales of three unitranche loan assets totaling $10.0 million during the three months ended March 31, 2013, that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings. No other such partial loan sales occurred during the remainder of 2013 or during the year ended December 31, 2014. During the year ended December 31, 2014, repayments on secured borrowings totaled $3.9 million including the full repayment of the secured borrowing for TPP Acquisition, Inc. During the year ended December 31, 2013, repayments on secured borrowings totaled $2.0 million. The weighted average interest rate on our secured borrowings was approximately 5.5% and 4.3% as of December 31, 2014 and 2013, respectively.

## Share Repurchase Plan

On November 11, 2013, our Board approved a share repurchase plan ( Plan ) under which up to $7.5 million of our outstanding common stock may be acquired in the open market at prices below our NAV as reported in our then most recently published consolidated financial statements. The Plan was implemented at the discretion of management and expired on November 10, 2014.

During the year ended December 31, 2014, we repurchased 400,359 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $5.2 million. During the year ended December 31, 2013, we repurchased 84,803 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $1.0 million. During the time the Plan was active, we repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $6.3 million. We are incorporated in Maryland and under the law of that state, shares repurchased are considered retired (repurchased shares become authorized but unissued shares) rather than treasury stock. As a result, the cost of stock repurchases is recorded as a reduction to capital in excess of par value on the consolidated statement of changes in net assets.

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## Distribution Policy

Our Board will determine the timing and amount, if any, of our distributions. We intend to pay distributions on a quarterly basis. In order to avoid corporate-level tax on the income we distribute as a RIC, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis out of the assets legally available for such distributions. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions. Distributions to stockholders for years ended December 31, 2014, 2013 and 2012 totaled $13.0 million ($1.36 per share), $10.7 million ($1.36 per share) and $2.0 million ($0.34 per share), respectively of which zero, $1.6 million and $1.2 million represented return of capital, respectively.

## Related Party Transactions

We have a number of business relationships with affiliated or related parties, including the following:

We have an Investment Advisory and Management Agreement with MC Advisors, an investment advisor registered with the SEC, to manage our day-to-day operating and investing activities. We pay MC Advisors a fee for its services under the Investment Advisory and Management Agreement consisting of two components a base management fee and an incentive fee. See Note 6 to our consolidated financial statements and Significant Accounting Estimates and Critical Accounting Policies *Capital Gains Incentive Fee* for additional information.

We have an Administration Agreement with MC Management to provide us with the office facilities and administrative services necessary to conduct our day-to-day operations. See Note 6 to our consolidated financial statements for additional information.

Theodore L. Koenig, our Chief Executive Officer and Chairman of our Board is also a manager of MC Advisors and the President and Chief Executive Officer of MC Management. Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer, serves as a director on our Board and is also a managing director of MC Management.

We have a license agreement with Monroe Capital, LLC, under which Monroe Capital, LLC has agreed to grant us a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in our business.

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

# Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our significant contractual payment obligations for repayment as of December 31, 2014 (dollars in thousands):

| | Total | Less than 1 year | 1 3 years | 3 5 years | More than 5 years |
|---|---|---|---|---|---|
| Revolving credit facility | $ 82,300 | $ | $ | $ 82,300 | $ |
| SBA debentures payable | 20,000 | | | | 20,000 |
| Unfunded commitments[(1)] | 15,294 | 15,294 | | | |
| Total contractual obligations[(2)] | $ 117,594 | $ 15,294 | $ | $ 82,300 | $ 20,000 |

(1) Unfunded commitments represent all amounts unfunded as of December 31, 2014. These amounts may or may not be funded to the borrowing party now or in the future. The unfunded commitments relate to loans with various maturity dates, but we are showing this amount in the less than one year category as this entire amount was eligible for funding to the borrowers as of December 31, 2014.

(2) Total contractual obligations excludes $4.0 million of secured borrowings.

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We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the consolidated statements of assets and liabilities.

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

# Market Trends

We have identified the following trends that may affect our business:

*Target Market:* We believe that small and middle-market companies in the United States with annual revenues between $10 million and $2.5 billion represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have generated a significant number of investment opportunities for investment funds managed or advised by Monroe Capital, and we believe that this market segment will continue to produce significant investment opportunities for us.

*Specialized Lending Requirements:* We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to U.S. middle-market companies (1) is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (2) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (3) may also require more extensive ongoing monitoring by the lender.

*Demand for Debt Capital:* We believe there is a large pool of uninvested private equity capital for middle-market companies. We expect private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources, such as us.

*Competition from Other Lenders:* We believe that many traditional bank lenders, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital market transactions. In addition, many commercial banks face significant balance sheet constraints as they seek to build capital and meet future regulatory capital requirements. These factors may result in opportunities for alternative funding sources to middle-market companies and therefore drive increased new investment opportunities for us. Conversely, there is increased competitive pressure in the business development company and investment company marketplace for senior and subordinated debt which could result in lower yields for increasingly riskier assets.

*Pricing and Deal Structures:* We believe that the volatility in global markets over the last several years and current macroeconomic issues such as a weakened U.S. economy has reduced access to, and availability of, debt capital to middle-market companies, causing a reduction in competition and generally more favorable capital structures and deal terms. Recent capital raises in the business development company and investment company marketplace have created increased competition; however, we believe that current market conditions may continue to create favorable opportunities to invest at attractive risk-adjusted returns.

# Recent Developments

On February 6, 2015, we entered into an at-the market ( ATM ) program with MLV & Co. LLC and JMP Securities LLC through which we may sell, by means of ATM offerings from time to time, up to $50.0 million of our common stock. As of April 13, 2015, we have sold 114,451 shares of our common stock under the ATM program for gross proceeds of approximately $1.7 million.

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# Significant Accounting Estimates and Critical Accounting Policies

## Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt securities with contractual PIK interest, we do not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium is capitalized, and we then amortize such amounts using the effective interest method as interest income over the life of the investment. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts.

## Valuation of Portfolio Investments

As a business development company, we generally invest in illiquid securities including debt and, to a lesser extent, equity securities of middle-market companies. Under procedures established by our Board, we value investments for which market quotations are readily available and within a recent date at such market quotations. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). When doing so, we determine whether the quote obtained is sufficient in accordance with generally accepted accounting principles in the United States ( GAAP ) to determine the fair value of the security. Debt and equity securities that are not publicly traded or whose market prices are not readily available or whose market prices are not regularly updated will be valued at fair value as determined in good faith by our Board. Such determination of fair values may involve subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted or thinly-traded securities, our Board, together with our independent valuation firms, value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

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

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our Board uses the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by our Board using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available, our Board undertakes a multi-step valuation process each quarter, as described below:

the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of MC Advisors responsible for the credit monitoring of the portfolio investment;

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

our Board engages one or more independent valuation firm(s) to conduct fair value appraisals of material investments for which market quotations are not readily available. These fair value appraisals for material investments are received at least once in every calendar year for each portfolio company investment;

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our audit committee of the Board reviews the preliminary valuations of MC Advisors and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and
our Board discusses these valuations and determines the fair value of each investment in the portfolio in good faith, based on the input of MC Advisors, the independent valuation firm(s) and the audit committee.

## Valuation of Secured Borrowings

We have elected the fair value option under ASC Topic 825 *Financial Instruments* relating to accounting for debt obligations at their fair value for our secured borrowings, which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. Due to the absence of a liquid trading market for these secured borrowings, they are valued by calculating the net present value of the future expected cash flow streams using an appropriate risk-adjusted discount rate model. The discount rate considers projected performance of the related loan investment, applicable market yields and leverage levels, credit quality, prepayment penalties and comparable company analysis. We will consult with an independent valuation firm relative to the fair value of its secured borrowings at least once in every calendar year.

## Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

We measure realized gains or losses by the difference between the net proceeds from the sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized. We report changes in the fair value of secured borrowings that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on secured borrowings in the consolidated statements of operations.

## Capital Gains Incentive Fee

Pursuant to the terms of the Investment Advisory and Management Agreement with MC Advisors, the incentive fee on capital gains earned on liquidated investments of our portfolio is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). Such fee will equal 20.0% of our incentive fee capital gains (i.e., our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While the Investment Advisory and Management Agreement with MC Advisors neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute for Certified Public Accountants Technical Practice Aid for investment companies, we include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to MC Advisors if our entire portfolio was liquidated at its fair value as of the balance sheet date even though MC Advisors is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized.

During the year ended December 31, 2014, we had a reduction in accrued capital gains incentive fees of $206 thousand, primarily as a result of declines in certain portfolio valuations. All of this reduction in accrued capital gains during the year ended December 31, 2014 was the result of unrealized capital losses and this reduced the capital gains incentive fee payable to MC Advisors to zero as of December 31, 2014. During the year ended December 31, 2013, we accrued capital gains incentive fees of $249 thousand, based on the performance of our portfolio, none of which were payable to MC Advisors. Incentive fees for the year ended December 31, 2012 consisted entirely of capital gains incentive fees.

## New Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, *Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 significantly changes the consolidation analysis

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required under GAAP and ends the deferral granted to investment companies from applying the variable interest entity guidance. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact these changes will have on our consolidated financial statements and disclosures.

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# UNDERWRITING

We are offering the shares of our common stock described in this prospectus supplement through the underwriters named below. Robert W. Baird & Co. Incorporated, William Blair & Company, L.L.C., Janney Montgomery Scott LLC and Oppenheimer & Co. Inc. are acting as the joint book-running managers of this offering and as the representatives of the underwriters. We have entered into an underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, each of the underwriters has severally agreed to purchase and we have agreed to sell to the underwriters, the number of shares of common stock listed next to its name in the following table.

| Underwriters | Number of shares |
|---|---|
| Robert W. Baird & Co. Incorporated | 661,500 |
| William Blair & Company, L.L.C. | 294,000 |
| Janney Montgomery Scott LLC | 367,500 |
| Oppenheimer & Co. Inc. | 269,500 |
| Ladenburg Thalmann & Co. Inc. | 245,000 |
| BB&T Capital Markets, a division of BB&T Securities, LLC | 183,750 |
| Wunderlich Securities, Inc. | 183,750 |
| MLV & Co. LLC | 122,500 |
| National Securities Corporation | 122,500 |
| Total | 2,450,000 |

The underwriting agreement provides that the underwriters must buy all of the shares if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

Our common stock is offered subject to a number of conditions, including:

- receipt and acceptance of our common stock by the underwriters; and
- the underwriters right to reject orders in whole or in part.

We have been advised by the representatives that the underwriters intend to make a market in our common stock but that they are not obligated to do so and may discontinue making a market at any time without notice.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

The addresses of the underwriters are: Robert W. Baird & Co. Incorporated, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202; and William Blair & Company, L.L.C., 222 West Adams Street, Chicago, Illinois 60606; Janney Montgomery Scott LLC, 60 State Street, Boston, Massachusetts 02109, Oppenheimer & Co. Inc., 85 Broad Street, New York, New York 10004, Ladenburg Thalmann & Co. Inc., 570 Lexington Avenue, 11th Floor, New York, New York 10022; BB&T Capital Markets, a division of BB&T Securities, LLC, 901 East Byrd Street, Suite 410, Richmond, Virginia 23219; Wunderlich Securities, Inc., 6000 Poplar Avenue, Suite 150, Memphis, Tennessee 38119, MLV & Co. LLC, 1251 Avenue of the Americas, 41st Floor, New York, NY 10020 and National Securities Corporation, 410 Park Avenue, 14th Floor, New York, NY 10022.

## Over-Allotment Option

We have granted the underwriters an option to buy up to an aggregate of 367,500 additional shares of our common stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus supplement to exercise this option. If the underwriters exercise this option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

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# Commissions and Discounts

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $0.10 per share from the offering price. Sales of shares made outside of the United States may be made by affiliates of the underwriters. If all the shares are not sold at the offering price, the representatives may change the offering price and the other selling terms. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms stated therein. The representatives of the underwriters have informed us that they do not expect to sell more than an aggregate of five percent of the total number of shares of common stock offered by them to accounts over which the representatives exercise discretionary authority.

The following table shows the per share and total underwriting discounts and commissions due to the underwriters assuming both no exercise and full exercise of the underwriters option to purchase additional shares of our common stock.

| | Per Share | No Exercise | Full Exercise |
|---|---|---|---|
| Underwriting discounts and commissions | $ 0.60 | $ 1,470,000 | $ 1,690,500 |

In accordance with the rules and regulations of the Financial Industry Regulatory Authority, the total amount of all items of compensation from whatever source, including compensation paid from offering proceeds and in the form of trail commissions, payable to underwriters, broker-dealers or affiliates thereof will not exceed an amount that equals 10% of the gross proceeds of this offering.

# No Sales of Similar Securities

We, our executive officers and directors, MC Advisors and MC Management have entered into lock-up agreements with the underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of Robert W. Baird & Co. Incorporated, offer, sell, contract to sell, pledge, or otherwise dispose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable or exercisable for our common stock, except in the circumstances described below. These restrictions will be in effect for a period of 90 days after the date of this prospectus supplement, which period is subject to extension in the circumstances described in the paragraph below. At any time and without public notice, Robert W. Baird & Co. Incorporated may, in its sole discretion, release some or all the securities from these lock-up agreements.

Notwithstanding the above, if (i) during the period beginning on the date that is 17 calendar days before the last day of the 90-day period described in the paragraph above, or the initial lock-up period, and ends on the last day of the initial lock-up period, we issue an earnings release or material news or a material event relating to us occurs; or (ii) prior to the expiration of the initial lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the initial lock-up period, then the restrictions imposed by these lock-up agreements will continue to apply until the expiration of the date that is 18 calendar days after the date on which the issuance of the earnings release or the material news or material event occurs.

The restrictions set forth above shall not apply to the following types of transfers of shares of our common stock, or securities convertible into or exchangeable or exercisable for our common stock, by any of our directors, executive officers or the holders of our shares or warrants in the following circumstances:

a bona fide gift; provided that the recipient thereof executes a lock-up agreement for the remainder of the lock-up period;

a disposition to any trust for the direct or indirect benefit of the holder and/or the holder s immediate family; provided, that (a) such disposition does not involve a disposition for value and (b) such trust executes a lock-up agreement for the remainder of the lock-up period;

in the case of a corporation, limited liability company or partnership, a transfer to a wholly-owned subsidiary thereof, or to the direct or indirect stockholders, members or partners or other affiliates

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thereof; provided, that (a) such transfer does not involve a disposition for value, (b) the transferee executes a lock-up agreement for the remainder of the lock-up period, and (c) no filing pursuant to Section 16 of the Exchange Act is required as a result of such transfer;

a transfer which occurs by operation of law; provided, that (a) no filing pursuant to Section 16 of the Exchange Act is required as a result of such transfer and (b) such transferee executes a lock-up agreement for the remainder of the lock-up period; and

the disposition of shares of common stock acquired in open market transactions after the offering; provided, that such disposition is not required to be reported pursuant to Section 16 of the Exchange Act.

# Indemnification

We have agreed to indemnify the several underwriters against certain liabilities, including certain liabilities under the Securities Act. If we are unable to provide this indemnification, we have agreed to contribute to payments the underwriters may be required to make in respect of those liabilities.

# NASDAQ Global Market Quotation

Our common stock is listed on The Nasdaq Global Market under the symbol MRCC.

# Price Stabilization; Short Positions

In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involve the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering and purchasing shares of common stock on the open market to cover short positions created by short sales. Short sales may be covered short sales, which are short positions in an amount not greater than the underwriters over-allotment option referred to above, or may be naked short sales, which are short positions in excess of that amount.

The underwriters may close out any covered short position by either exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are short sales made in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. The underwriters may carry out these transactions on The Nasdaq Global Market, in the over-the-counter market or otherwise.

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# Determination of Offering Price

The offering price will be determined by negotiation by us and the representatives of the underwriters. The principal factors to be considered in determining the offering price include:

- the information set forth in this prospectus supplement and accompanying prospectus and otherwise available to the representatives;
- our history and prospects and the history and prospects for the industry in which we compete;
- our past and present financial performance and an assessment of our management;
- our prospects for future earnings and the present state of our development;
- the general condition of the securities market at the time of this offering;
- the recent market prices of, and demand for, our publicly traded common stock; and
- other factors deemed relevant by the underwriters and us.

# Affiliations

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and their affiliates may from time to time in the future engage with us and perform services for us in the ordinary course of their business for which they will receive customary fees and expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of us or our subsidiaries. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of these securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in these securities and instruments.

# Notice to Investors

## Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area, or EEA, which has implemented the Prospectus Directive (each, a Relevant Member State ), with effect from, and including, the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date ), an offer to the public of our securities which are the subject of the offering contemplated by this prospectus supplement may not be made in that Relevant Member State, except that, with effect from, and including, the Relevant Implementation Date, an offer to the public in that Relevant Member State of our securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets, or, if not so authorized or regulated, whose corporate purpose is solely to invest in our securities;
- to any legal entity which has two or more of: (i) an average of at least 250 employees during the last (or, in Sweden, the last two) financial year(s); (ii) a total balance sheet of more than €43 million and (iii) an annual net turnover of more than €50 million, as shown in its last (or, in Sweden, the last two) annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive provided that no such offer of our securities shall result in a requirement for the publication by us or any underwriter or agent of a prospectus pursuant to Article 3 of the Prospectus Directive.

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As used above, the expression offered to the public in relation to any of our securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our securities to be offered so as to enable an investor to decide to purchase or subscribe for our securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out in this prospectus supplement and any accompanying prospectus.

## Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the securities described in this prospectus supplement or the accompanying prospectus has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. Our securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement, the accompanying prospectus nor any other offering material relating to our securities has been or will be:

released, issued, distributed or caused to be released, issued or distributed to the public in France; or
used in connection with any offer for subscription or sale of our securities to the public in France.
Such offer, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1 through D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
to investment services providers authorized to engage in portfolio management on behalf of third parties; or
in a transaction that, in accordance with article L.411-2-II of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*offre au public*).
Our securities may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code monétaire et financier.

## Notice to Prospective Investors in the United Kingdom

This prospectus supplement is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order ); or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons falling within (i)-(iii) together being referred to as relevant persons ). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus supplement, the accompanying prospectus or any of their respective contents.

## Notice to prospective Investors in Switzerland

The prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations ( CO ) and the shares will not be listed on the SIX Swiss Exchange. Therefore, the prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

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## Notice to Prospective Investors in Australia

This prospectus supplement is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001 (Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to the securities.

The securities are not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to the securities has been, or will be, prepared.

This prospectus supplement does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our securities, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus supplement is not a wholesale client, no offer of, or invitation to apply for, our securities shall be deemed to be made to such recipient and no applications for our securities will be accepted from such recipient. Any offer to a recipient in Australia, and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our securities you undertake to us that, for a period of 12 months from the date of issue of the securities, you will not transfer any interest in the securities to any person in Australia other than to a wholesale client.

## Notice to Prospective Investors in Hong Kong

Our securities may not be offered or sold in Hong Kong, by means of this prospectus supplement or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

## Notice to Prospective Investors in Japan

Our securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law ) and our securities will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## Notice to Prospective Investors in Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our securities is made pursuant to exemptions provided in sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore ( SFA ). Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our securities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or

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indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

to an institutional investor, for corporations under Section 274 of the SFA, or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

where no consideration is given for the transfer; or

where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

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# LEGAL MATTERS

Certain legal matters regarding the shares of common stock offered by this prospectus supplement will be passed upon for us by Nelson Mullins Riley & Scarborough LLP, Washington, D.C. Nelson Mullins Riley & Scarborough LLP also represents MC Advisors. Certain legal matters in connection with the offering will be passed upon for the underwriters by Dechert LLP, Washington, D.C.

# INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements and related senior securities table appearing in this prospectus and registration statement have been audited by McGladrey LLP, an independent registered public accounting firm located at One South Wacker Drive, Suite 800, Chicago, IL 60606, as stated in their reports appearing elsewhere therein, and are included in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

# AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. We maintain a website at *www.monroebdc.com* and make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus supplement and accompanying prospectus, and you should not consider information on our website to be part of this prospectus supplement and the accompanying prospectus. You may also obtain such information by contacting us in writing at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Attention: Investor Relations. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

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# INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Monroe Capital Corporation and Subsidiaries

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Monroe Capital Corporation and Subsidiaries (collectively, the Company ) as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments owned as of December 31, 2014, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Monroe Capital Corporation and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladrey LLP

Chicago, Illinois
March 6, 2015

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
# (in thousands, except per share data)

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Investments, at fair value: | | |
| Non-controlled/non-affiliate company investments (amortized cost of: $210,573 and $206,945 respectively) | $ 210,318 | $ 207,920 |
| Non-controlled affiliate company investments (amortized cost of: $16,922 and $0, respectively) | 16,596 | |
| Controlled affiliate company investments (amortized cost of: $6,603 and $0, respectively) | 6,621 | |
| Total investments, at fair value (amortized cost of: $234,098 and $206,945, respectively) | 233,535 | 207,920 |
| Cash | 5,737 | 14,603 |
| Interest receivable | 952 | 638 |
| Deferred financing costs, net | 2,479 | 2,091 |
| Other assets | 882 | 429 |
| Total assets | 243,585 | 225,681 |
| LIABILITIES | | |
| Revolving credit facility | 82,300 | 76,000 |
| SBA debentures payable | 20,000 | |
| Secured borrowings, at fair value (proceeds of: $4,134 and $7,997, respectively) | 4,008 | 7,943 |
| Payable for open trades | | 840 |
| Interest payable | 244 | 239 |
| Management fees payable | 1,050 | 845 |
| Incentive fees payable | 1,140 | 1,067 |
| Accounts payable and accrued expenses | 1,105 | 655 |
| Total liabilities | 109,847 | 87,589 |
| Net assets | $ 133,738 | $ 138,092 |
| Commitments and contingencies (See Note 11) | | |
| ANALYSIS OF NET ASSETS | | |
| Common stock, $0.001 par value, 100,000 shares authorized, 9,518 and 9,918 shares issued and outstanding, respectively | $ 10 | $ 10 |
| Capital in excess of par value | 134,803 | 140,038 |
| Accumulated distributions in excess of net investment income | (639 ) | (2,985 ) |
| Accumulated net realized gain (loss) on investments | | |

| | | |
|---|---|---|
| Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings | (436 ) | 1,029 |
| Total net assets | $ 133,738 | $ 138,092 |
| Net asset value per share | $ 14.05 | $ 13.92 |

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share data)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012[1] |
| Investment income: | | | |
| Interest income | | | |
| Non-controlled/non-affiliate company investments | $28,777 | $18,213 | $ 1,706 |
| Non-controlled affiliate company investments | 925 | | |
| Controlled affiliate company investments | 211 | | |
| Total investment income | 29,913 | 18,213 | 1,706 |
| Operating expenses: | | | |
| Interest and other debt financing expenses | 4,342 | 2,908 | 305 |
| Base management fees | 4,091 | 2,752 | 318 |
| Incentive fees | 3,512 | 1,544 | 6 |
| Professional fees | 1,138 | 1,149 | 76 |
| Administrative service fees | 876 | 528 | 133 |
| General and administrative expenses | 879 | 682 | 78 |
| Total expenses | 14,838 | 9,563 | 916 |
| Net investment income | 15,075 | 8,650 | 790 |
| Net gain (loss) on investments and secured borrowings: | | | |
| Net realized gain (loss) on investments: | | | |
| Non-controlled/non-affiliate company investments | 299 | 247 | |
| Net realized gain (loss) on investments | 299 | 247 | |
| Net change in unrealized appreciation (depreciation) on investments: | | | |
| Non-controlled/non-affiliate company investments | (2,298 ) | 815 | |
| Non-controlled affiliate company investments | 524 | | 160 |
| Controlled affiliate company investments | 237 | | |
| Net change in unrealized appreciation (depreciation) on investments | (1,537 ) | 815 | 160 |
| Net change in unrealized (appreciation) depreciation on secured borrowings | 72 | 54 | |
| Net gain (loss) on investments and secured borrowings | (1,166 ) | 1,116 | 160 |
| Net increase (decrease) in net assets resulting from operations | $13,909 | $9,766 | $ 950 |
| Per common share data: | | | |
| Net investment income per share basic and diluted[2] | $1.57 | $1.13 | $ 0.15 |
| Net increase in net assets resulting from operations per share basic and diluted[2] | $1.45 | $1.28 | $ 0.18 |
| Weighted average common shares outstanding basic and diluted[2] | 9,596 | 7,624 | 5,386 |

(1) The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering.

(2) Net investment income per share, Net increase in net assets resulting from operations per share and Weighted average common shares outstanding for the year ended December 31, 2012 are calculated for the period from October 24, 2012 to December 31, 2012.

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (in thousands, except per share data)

| | Common Stock Number of shares | Par value | Capital in excess of par value | Accumulated distributions in excess of net investment income | Accumulated net realized gain (loss) on investments | Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings | Total net assets |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2011 | | $ | $10 | $ | $ | $ | $10 |
| Net increase (decrease) in net assets resulting from operations | | | | 790 | | 160 | 950 |
| Issuance of common stock, net of offering and underwriting costs[1] | 5,750 | 6 | 84,623 | | | | 84,629 |
| Stockholder distributions paid, including stock issued in connection with dividend reinvestment plan income distributions | | | | (790) | | | (790) |
| Stockholder distributions paid, including stock issued in connection with dividend reinvestment plan return of capital | | | | (1,165) | | | (1,165) |
| Balances at December 31, 2012 | 5,750 | $6 | $84,633 | $(1,165) | $ | $160 | $83,634 |
| Net increase (decrease) in net assets resulting from operations | | | | 8,650 | 247 | 869 | 9,766 |
| Issuance of common stock, net of offering and underwriting costs[2] | 4,225 | 4 | 56,019 | | | | 56,023 |
| Stockholder distributions paid, including stock issued in connection with dividend reinvestment plan income distributions | 28 | | 417 | (8,850) | (247) | | (8,680) |
| Stockholder distributions paid, including stock issued in connection with dividend | | | | (1,620) | | | (1,620) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| reinvestment plan return of capital | | | | | | | |
| Repurchases of common stock | (85 ) | | (1,031 ) | | | | (1,031 ) |
| Balances at December 31, 2013 | 9,918 | $10 | $140,038 | $(2,985 ) | $ | $1,029 | $138,092 |
| Net increase (decrease) in net assets resulting from operations | | | | 15,075 | 299 | (1,465) | 13,909 |
| Stockholder distributions paid, including stock issued in connection with dividend reinvestment plan income distributions | | | | (12,729) | (299) | | (13,028 ) |
| Repurchases of common stock | (400 ) | | (5,235 ) | | | | (5,235 ) |
| Balances at December 31, 2014 | 9,518 | $10 | $134,803 | $(639 ) | $ | $(436 ) | $133,738 |

(1) On October 24, 2012, the Company completed its initial public offering, selling 5,000 shares of its common stock at a public offering price of $15.00 per share. On November 26, 2012, the Company sold an additional 750 shares at $15.00 per share pursuant to the underwriters exercise of the over-allotment option.

(2) On July 22, 2013, the Company completed a public offering of 4,000 shares of its common stock at a public offering price of $14.05 per share. On August 20, 2013 the Company sold an additional 225 shares of its common stock at a public offering price of $14.05 per share pursuant to the underwriters partial exercise of the over-allotment option.

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands, except per share data)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012[1] |
| Cash flows from operating activities: | | | |
| Net increase (decrease) in net assets resulting from operations | $13,909 | $9,766 | $950 |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: | | | |
| Net change in unrealized (appreciation) depreciation on investments | 1,537 | (815) | (160) |
| Net change in unrealized appreciation (depreciation) on secured borrowings | (72) | (54) | |
| Net realized (gain) loss on investments | (299) | (247) | |
| Payment-in-kind interest income | (1,054) | (229) | |
| Net accretion of discounts and amortization of premiums | (689) | (261) | (8) |
| Proceeds from principal payments and sales of investments | 107,073 | 65,165 | 11,898 |
| Purchases of investments | (132,183) | (138,781) | (144,482) |
| Amortization of deferred financing costs | 576 | 479 | 86 |
| Changes in operating assets and liabilities: | | | |
| Interest receivable | (314) | (135) | (503) |
| Other assets | (453) | (263) | (166) |
| Payable for open trades | (281) | 281 | |
| Interest payable | 5 | 188 | 51 |
| Management fees payable | 205 | 527 | 318 |
| Incentive fees payable | 73 | 1,061 | 6 |
| Accounts payable and accrued expenses | 450 | 433 | 222 |
| Net cash provided by (used in) operating activities | (11,517) | (62,885) | (131,788) |
| Cash flows from financing activities | | | |
| Borrowings on credit facility | 90,800 | 109,500 | 58,000 |
| Repayments of credit facility | (84,500) | (88,500) | (3,000) |
| SBA debentures borrowings | 20,000 | | |
| Payments of deferred financing costs | (964) | (820) | (1,836) |
| Proceeds from secured borrowings | | 10,000 | |
| Repayments on secured borrowings | (3,863) | (2,003) | |
| Proceeds from shares sold, net of underwriting costs | | 56,690 | 84,629 |
| Repurchases of common stock | (5,794) | (472) | |
| Offering costs paid | | (667) | |
| Stockholder distributions paid (net of stock issued under dividend reinvestment plan of $0, $417 and $0, | (13,028) | (10,300) | (1,955) |

| | | | |
|---|---|---|---|
| respectively) | | | |
| Net cash provided by (used in) financing activities | 2,651 | 73,428 | 135,838 |
| Net increase (decrease) in cash | (8,866) | 10,543 | 4,050 |
| Cash, beginning of period | 14,603 | 4,060 | 10 |
| Cash, end of period | $5,737 | $14,603 | $4,060 |
| Supplemental disclosure of cash flow information: | | | |
| Cash interest paid during the period | $3,261 | $1,774 | $167 |

(1) The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering.

See Notes to Consolidated Financial Statements.

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MONROE CAPITAL CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands, except p 90

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS
# December 31, 2014
# (in thousands, except for units)

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) December 31, 2014 (in thousands, except for units)

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
# December 31, 2014
# (in thousands, except for units)

| Portfolio Company[(a)] | Industry | Spread Above Index[(b)] | Interest Rate | Maturity | Principal/ Shares | Amortized Cost | Fair Value[(c)] | % of Net Assets[(d)] |
|---|---|---|---|---|---|---|---|---|
| Rocket Dog Brands LLC Common Units (75,502 units)[(g)] | Consumer Goods: Non-Durable | | | | $ | $ | $ | 0.0 % |
| Rocket Dog Brands LLC Preferred Units (10 units)[(g)] | Consumer Goods: Non-Durable | | 15.00% PIK[(s)] | | | 967 | 77 | 0.1 % |
| Summit Container Corporation (warrant to purchase up to 19.50% of the equity)[(g)] | Containers, Packaging & Glass | | | 1/6/2014 | | | 141 | 0.1 % |
| The Tie Bar Operating Company, LLC Class A Preferred Units (1,275 units)[(o)] | Retail | | | | | 87 | 110 | 0.1 % |
| The Tie Bar Operating Company, LLC Class B Preferred Units (1,275 units)[(o)] | Retail | | | | | 1 | | 0.0 % |
| TPP Acquisition, Inc. (829 shares of common stock)[(m)] | Retail | | | | | | 201 | 0.0 % |
| Total Equity Securities | | | | | | 1,329 | 1,936 | 1.4 % |
| TOTAL INVESTMENTS | | | | | | **$234,098** | **$233,535** | **174.4 %** |

(a) All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940. All investments are non-controlled/non-affiliate company investments, unless otherwise noted.

(b) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ( LIBOR or L ) or Prime ( P ) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2014. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)

(d) Percentages are based on net assets of $133,738 as of December 31, 2014.

(e) A portion of this loan (principal of $4,656) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(f) All or a portion of this commitment was unfunded at December 31, 2014. As such, interest is earned only on the funded portion of this commitment.

(g) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of the portfolio company as it owns five percent or more of the portfolio company s voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for transactions during the year ended December 31, 2014 in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to control.)

(h) All of this loan is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(i) A portion of this loan (principal of $2,939) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(j) A portion of this loan (principal of $2,798) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(k) This delayed draw loan requires that certain financial covenants be met by the portfolio company prior to any fundings.

(l) A portion of this loan (principal of $3,238) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) December 31, 2014 (in thousands, except for units)

(m) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and Control this portfolio company as it owns 25% percent or more of the portfolio company s voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for transactions during the year ended December 31, 2014 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.

(n) The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 *Transfers and Servicing*, and therefore, the entire unitranche loan asset remains in the Consolidated Schedule of Investments. (See Note 7 in the accompanying notes to the consolidated financial statements.)

(o) Represents less than 5% ownership of the class and the portfolio company.

(p) The PIK portion of the interest rate for Landpoint, LLC is structured as a guaranteed fee paid upon the termination of the commitment. The fee accrues at 2.25% per annum and is subject to a minimum payment upon termination of $338.

(q) A portion of the PIK interest rate for TRG, LLC is structured as a guaranteed fee paid upon the termination of the commitment. The fee accrues at 5.92% per annum and is subject to an estimated minimum payment upon termination of $891.

(r) The PIK portion of the interest rate for Gracelock Industries, LLC is structured as a fee paid upon the termination of the commitment. The fee accrues at 2.55% per annum.

(s) This position includes a PIK dividend and is currently on non-accrual status.

n/a not applicable

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS
# December 31, 2013
# (in thousands, except for units)

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) December 31, 2013 (in thousands, except for units)

| Portfolio Company[(a)] | Industry | Spread Above Index[(b)] | Interest Rate | Maturity | Principal/ Shares | Amortized Cost | Fair Value[(c)] | % of Net Assets[(d)] |
|---|---|---|---|---|---|---|---|---|
| Junior Secured Loans | | | | | | | | |
| Clondalkin Acquisition B.V. | Containers, Packaging & Glass | L+8.75% | 10.00% | 11/30/2020 | $2,000 | $1,962 | $1,980 | 1.4 % |
| Confie Seguros Holdings II Co. | Banking, Finance, Insurance & Real Estate | L+9.00% | 10.25% | 5/8/2019 | 2,969 | 2,941 | 2,992 | 2.2 % |
| CSM Bakery Supplies LLC | Beverage, Food & Tobacco | L+7.50% | 8.50 % | 7/3/2021 | 3,000 | 2,984 | 3,034 | 2.2 % |
| Genex Services, Inc. | Banking, Finance, Insurance & Real Estate | L+8.25% | 9.25 % | 1/26/2019 | 750 | 743 | 758 | 0.6 % |
| Pre-Paid Legal Services, Inc. (Legal Shield) | Services: Consumer | L+8.50% | 9.75 % | 7/1/2020 | 3,000 | 2,961 | 3,030 | 2.2 % |
| Road Infrastructure Investment, LLC | Chemicals, Plastics & Rubber | L+9.00% | 10.25% | 9/30/2018 | 1,000 | 996 | 1,012 | 0.7 % |
| StoneRiver Group, L.P. | Services: Business | L+7.25% | 8.50 % | 5/30/2020 | 329 | 328 | 333 | 0.2 % |
| SumTotal Systems LLC | High Tech Industries | L+9.00% | 10.25% | 5/16/2019 | 2,750 | 2,718 | 2,716 | 2.0 % |
| TriNet Group Inc. | Services: Business | L+7.75% | 8.75 % | 8/19/2019 | 5,000 | 4,902 | 4,958 | 3.6 % |
| US Renal Care, Inc. | Healthcare & Pharmaceuticals | L+7.50% | 8.50 % | 1/3/2020 | 1,500 | 1,497 | 1,522 | 1.1 % |
| Total Junior Secured Loans | | | | | 22,298 | 22,032 | 22,335 | 16.2 % |
| Equity Securities[(i)] | | | | | | | | |
| Collaborative Neuroscience Network, LLC (warrant to purchase up to 1.67 LLC units) | Healthcare & Pharmaceuticals | | | 12/27/2022 | | | | 0.0 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| onte Nido Residential Center, LLC Class A Units Common Units (1,762 units) | Services: Consumer | | 74 | 74 | 0.1 | % |
| utput Services Group, Inc. warrant to purchase up to 3.89% f the common stock) | Services: Business | 12/17/2022 | | | 0.0 | % |
| laytime, LLC Preferred Units 8,665 units) | Hotels, Gaming & Leisure | | 200 | 200 | 0.1 | % |
| he Tie Bar Operating Company, LLC Class A Preferred Units 1,275 units) | Retail | | 86 | 127 | 0.1 | % |
| he Tie Bar Operating Company, LLC Class B Preferred Units 1,275 units) | Retail | | 1 | 4 | 0.0 | % |
| otal Equity Securities | | | 361 | 405 | 0.3 | % |
| OTAL INVESTMENTS | | | **$206,945** | **$207,920** | **150.6** | **%** |

(a) All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940 except for Clondalkin Acquisition B.V., which is based in the Netherlands, and Willbros Group Inc., which is a public company with aggregate market value of outstanding equity in excess of $250,000. Nonqualified assets totaled $2,992, or 1.3% of the total assets at December 31, 2013. As of December 31, 2013, all investments are non-controlled/non-affiliate company investments.

(b) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ( LIBOR or L ) or Prime ( P ) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2013. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)

(d) Percentages are based on net assets of $138,092 as of December 31, 2013.

(e) A portion of this loan (principal of $4,938) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company s revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(f) The entire commitment was unfunded at December 31, 2013. As such, no interest is being earned on this investment.

(g) The PIK portion of the interest rate for Landpoint, LLC is structured as a guaranteed fee paid upon the termination of the commitment. The fee accrues at 2.25% per annum and is subject to a minimum payment upon termination of $337,500.

(h) The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 *Transfers and Servicing*, and therefore, the entire unitranche loan asset remains in the Schedule of Investments. (See Note 7 in the accompanying notes to the consolidated financial statements.)

(i) All investments are less than 5% ownership of the class and ownership of the portfolio company.

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 1. Organization and Principal Business

Monroe Capital Corporation ( Monroe Capital and together with its subsidiaries, the Company ) was formed in February 2011 to act as an externally-managed nondiversified, closed-end management investment company and has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act ). The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering. Monroe Capital s investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through investment in senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC ( MC Advisors ), a registered investment adviser under the Investment Advisers Act of 1940, as amended. In addition, for U.S. federal income tax purposes, Monroe Capital has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 28, 2014, the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013. As of December 31, 2014, MRCC SBIC had $20,000 in regulatory and leveragable capital and $20,000 in SBA-guaranteed debentures outstanding. Additionally, as of December 31, 2014, MRCC had received a commitment letter for an additional $20,000 in SBA-guaranteed debentures. See Note 7 for additional information.

## Note 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ). The accompanying consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-K and Articles 6 or 10 of Regulation S-X. The Company has determined it meets the definition of an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 946 *Financial Services Investment Companies*.

### Use of Estimates

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

## Consolidation

As permitted under Regulation S-X and ASC Topic 946 *Financial Services Investment Companies*, the Company will generally not consolidate its investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company s wholly-owned subsidiaries, MRCC SBIC and its wholly-owned general partner MRCC SBIC GP, LLC, in its consolidated financial statements beginning with the commencement of their operations in September 2013.

## Fair Value of Financial Instruments

The Company applies fair value to substantially all of its financial instruments in accordance with ASC Topic 820 *Fair Value Measurements and Disclosures* ( ASC Topic 820 ). ASC Topic 820 defines fair

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 2. Summary of Significant Accounting Policies (continued)

value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. See Note 4 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. Fair value of the Company s revolving credit facility is estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if available. The Company believes that the carrying value of its revolving credit facility approximates the fair value.

## Revenue Recognition

The Company s revenue recognition policies are as follows:

*Investments and related investment income*: Interest and dividend income is recorded on the accrual basis to the extent that the Company expects to collect such amounts. Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. All other income is recorded into income when earned. The Company records prepayment fees and amendment fees on loans as interest income in the period earned. For the years ended December 31, 2014 and 2013, interest income included $1,505 and $375 of prepayment and amendment fees. Dividend income is recorded as dividends when declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is income or a return of capital.

Loan origination fees, original issue discount and market discount or premiums are capitalized, and the Company then amortizes such amounts using the effective interest method as interest income over the life of the investment. Unamortized discounts and loan origination fees totaled $4,002 and $3,151 as of December 31, 2014 and 2013, respectively. Upfront loan origination and closing fees received for the years ended December 31, 2014 and 2013 totaled $3,310 and $2,752, respectively. For the years ended December 31, 2014, 2013 and 2012, interest income included $689, $261 and $8 of accretion of loan origination fees, original issue discounts and market discounts or premiums. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. For the years ended December 31, 2014, 2013 and 2012, interest income included $952, $426 and zero of unamortized discount or loan origination fees recorded as interest income upon prepayment of a loan or debt security.

The Company has certain investments in its portfolio that contain a payment-in-kind ( PIK ) interest provision, which represents contractual interest or dividends that are added to the principal balance and recorded as income. For the years ended December 31, 2014, 2013 and 2012, interest income included $1,054, $229 and zero of PIK interest, respectively. The Company stops accruing payment-in-kind income when it is determined that payment-in-kind income is no longer collectible. To maintain RIC tax treatment, and to avoid corporate tax, substantially all of this income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

Investment transactions are recorded on a trade-date basis. Realized gains or losses on portfolio investments are calculated based upon the difference between the net proceeds from the disposition and the amortized cost basis of the investment, without regard to unrealized gains and losses previously recognized. Realized gains and loss are recorded within net realized gain (loss) on investments in the consolidated statements of operations. Changes in the fair value of investments from the prior period, as determined by the

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 2. Summary of Significant Accounting Policies (continued)

Company s board of directors (the Board ) through the application of the Company s valuation policy, are included within net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

*Non-accrual*: Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal, interest or dividends are paid and, in management s judgment, are likely to remain current. During the years ended December 31, 2014, 2013 and 2012, no loans were on non-accrual status. During the year ended December 31, 2014, the Company s investments in one portfolio company were restructured and as part of the restructuring the Company received preferred units with a stated PIK dividend rate. These preferred units were placed on non-accrual status at the time of the restructuring. There were no other portfolio company investments on non-accrual status for the years ended December 31, 2014, 2013 and 2012.

*Partial loan sales:* The Company follows the guidance in ASC Topic 860 *Transfers and Servicing* ( ASC Topic 860 ), when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on the Company s consolidated statements of assets and liabilities and the proceeds are recorded as a secured borrowing until the definition is met. For these partial loan sales, the interest earned on the entire loan balance is recorded within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in the accompanying consolidated statements of operations. Changes in the fair value of secured borrowings from the prior period, as determined by the Board through the application of the Company s valuation policy, are included as changes in unrealized appreciation (depreciation) on secured borrowings in the consolidated statements of operations. See Note 7 *Secured Borrowings* for additional information.

## Distributions

Distributions to common stockholders are recorded on the record date. The amount, if any, to be distributed, is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment.

The determination of the tax attributes for the Company s distributions is made annually, based upon its taxable income for the full year and distributions paid for the full year. Ordinary dividend distributions from a RIC do not qualify for the preferential tax rate on qualified dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains, but may also include qualified dividends or return of capital.

The Company has adopted a dividend reinvestment plan ( DRIP ) that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if the Company declares a cash dividend, the Company s stockholders who have not opted out of the DRIP at least three days prior to the dividend payment date will have their cash dividend automatically reinvested into additional shares of the Company s common stock. The Company has the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued shares are valued based upon the final closing price of the Company s common stock on a date determined by the Board. Shares purchased in

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 2. Summary of Significant Accounting Policies (continued)

the open market to satisfy the DRIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. See Note 9 regarding distributions.

## Earnings per Share

In accordance with the provisions of ASC Topic 260 *Earnings per Share* ( ASC Topic 260 ), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. The weighted-average shares outstanding utilized in the calculation of earnings per share for the years ended December 31, 2014 and 2013 take into account the Company s repurchases of its common stock on the repurchase date. There were no stock repurchases during the year ended December 31, 2012. See Note 10 for additional information on the Company s share repurchase plan. For the years presented in these consolidated financial statements, there were no potentially dilutive common shares issued.

## Segments

In accordance with ASC Topic 280 *Segment Reporting*, the Company has determined that it has a single reporting segment and operating unit structure.

## Cash

The Company deposits its cash in a financial institution and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits.

## Deferred Financing Costs

Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company s borrowings. As of December 31, 2014 and 2013, the Company had deferred financing costs of $2,479, and $2,091, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the estimated average life of the borrowings. Amortization of deferred financing costs for the years ended December 31, 2014, 2013 and 2012 was $576, $479 and $86, respectively.

## Offering Costs

Offering costs include, among other things, fees paid in relation to legal, accounting, regulatory and printing work completed in preparation of equity offerings. Offering costs are charged against the proceeds from equity offerings within the consolidated statements of changes in net assets. As of December 31, 2014 and 2013, other assets on the consolidated statements of assets and liabilities included $341 and zero, respectively, of deferred offering costs which will be charged against the proceeds from further equity offerings when received.

## Income Taxes

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment available to RICs. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to shareholders, for each taxable year, at least 90% of the Company s investment company taxable income, which is generally the Company s net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company will not have to pay corporate-level federal income taxes on any income that the Company distributes to its shareholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 2. Summary of Significant Accounting Policies (continued)

on income. The Company will also be subject to nondeductible federal excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which it paid no federal income taxes. To the extent that the Company determines that its estimated current year annual taxable income may exceed estimated current year dividend distributions, the Company accrues excise tax, if any, calculated as 4% of the estimated excess taxable income as taxable income is earned. For the years ended December 31, 2014, 2013 and 2012, $70, zero and zero was recorded within general and administrative expenses for U.S. federal excise tax.

The Company accounts for income taxes in conformity with ASC Topic 740 *Income Taxes* ( ASC Topic 740 ). ASC Topic 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company s policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain income tax positions through December 31, 2014. The 2014, 2013 and 2012 tax years remain subject to examination by U.S. federal and state tax authorities.

## Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, *Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis* ( ASU 2015-02 ). ASU 2015-02 significantly changes the consolidation analysis required under GAAP and ends the deferral granted to investment companies from applying the variable interest entity guidance. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact these changes will have on the Company s consolidated financial statements and disclosures.

## Note 3. Investments

The following table shows the composition of the investment portfolio, at amortized cost and fair value (with corresponding percentage of total portfolio investments):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Amortized Cost: | | | | |
| Senior secured loans | $ 122,213 | 52.2 % | $ 89,039 | 43.0 % |
| Unitranche loans | 99,580 | 42.5 | 95,513 | 46.2 |
| Junior secured loans | 10,976 | 4.7 | 22,032 | 10.6 |
| Equity securities | 1,329 | 0.6 | 361 | 0.2 |
| Total | $ 234,098 | 100.0 % | $ 206,945 | 100.0 % |
| Fair Value: | | | | |
| Senior secured loans | $ 124,161 | 53.2 % | $ 88,963 | 42.8 % |
| Unitranche loans | 96,635 | 41.4 | 96,217 | 46.3 |
| Junior secured loans | 10,803 | 4.6 | 22,335 | 10.7 |
| Equity securities | 1,936 | 0.8 | 405 | 0.2 |
| Total | $ 233,535 | 100.0 % | $ 207,920 | 100.0 % |

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 3. Investments (continued)

The following table shows the composition of the investment portfolio by geographic region, at amortized cost and fair value (with corresponding percentage of total portfolio investments). The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company s business:

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Amortized Cost: | | | | |
| West | $ 76,642 | 32.7 % | $ 73,674 | 35.6 % |
| Southeast | 55,136 | 23.6 | 45,455 | 22.0 |
| Midwest | 45,434 | 19.4 | 23,043 | 11.1 |
| Northeast | 26,077 | 11.1 | 21,268 | 10.3 |
| Southwest | 23,566 | 10.1 | 24,819 | 8.1 |
| Mid-Atlantic | 7,243 | 3.1 | 16,724 | 12.0 |
| International | | | 1,962 | 0.9 |
| Total | $ 234,098 | 100.0 % | $ 206,945 | 100.0 % |
| Fair Value: | | | | |
| West | $ 73,055 | 31.3 % | $ 73,185 | 35.2 % |
| Southeast | 56,164 | 24.1 | 45,904 | 22.1 |
| Midwest | 46,348 | 19.8 | 23,507 | 12.2 |
| Northeast | 27,178 | 11.6 | 21,175 | 11.2 |
| Southwest | 23,838 | 10.2 | 25,428 | 10.2 |
| Mid-Atlantic | 6,952 | 3.0 | 16,741 | 8.1 |
| International | | | 1,980 | 1.0 |
| Total | $ 233,535 | 100.0 % | $ 207,920 | 100.0 % |

The following table shows the composition of the investment portfolio by industry, at amortized cost and fair value (with corresponding percentage of total portfolio investments):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Amortized Cost: | | | | |
| Healthcare & Pharmaceuticals | $ 29,814 | 12.7 % | $ 30,263 | 14.6 % |
| Services: Business | 29,502 | 12.6 | 28,580 | 13.8 |
| Consumer Goods: Non-Durable | 28,170 | 12.0 | 23,852 | 11.5 |
| Retail | 22,017 | 9.4 | 20,811 | 10.1 |
| Consumer Goods: Durable | 19,020 | 8.1 | 23,301 | 11.3 |
| Hotels, Gaming & Leisure | 18,936 | 8.1 | 7,063 | 3.4 |

| | | | | |
|---|---|---|---|---|
| Banking, Finance, Insurance & Real Estate | 16,361 | 7.0 | 7,428 | 3.6 |
| Construction & Building | 11,409 | 4.9 | 964 | 0.4 |
| Media: Advertising, Printing & Publishing | 10,412 | 4.5 | 17,336 | 8.4 |
| Automotive | 8,005 | 3.4 | 15,814 | 7.6 |
| Media: Diversified & Production | 7,599 | 3.3 | | |
| Metals & Mining | 6,420 | 2.7 | | |
| Wholesale | 5,466 | 2.3 | | |
| Energy: Oil & Gas | 4,650 | 2.0 | 4,875 | 2.4 |
| Containers, Packaging & Glass | 3,712 | 1.6 | 1,962 | 0.9 |

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 3. Investments (continued)

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Capital Equipment | 3,645 | 1.6 | 4,487 | 2.2 |
| Services: Consumer | 3,048 | 1.3 | 3,036 | 1.5 |
| Beverage, Food & Tobacco | 2,990 | 1.3 | 2,984 | 1.4 |
| High Tech Industries | 2,922 | 1.2 | 9,479 | 4.6 |
| Telecommunications | | | 3,714 | 1.8 |
| Chemicals, Plastics & Rubber | | | 996 | 0.5 |
| Total | $ 234,098 | 100.0 % | $ 206,945 | 100.0 % |
| Fair Value: | | | | |
| Healthcare & Pharmaceuticals | $ 29,929 | 12.8 % | $ 30,639 | 14.7 % |
| Services: Business | 29,618 | 12.7 | 28,692 | 13.8 |
| Consumer Goods: Non-Durable | 27,367 | 11.7 | 23,404 | 11.3 |
| Retail | 22,342 | 9.6 | 21,161 | 10.2 |
| Consumer Goods: Durable | 19,281 | 8.3 | 23,805 | 11.4 |
| Hotels, Gaming & Leisure | 18,655 | 8.0 | 7,198 | 3.4 |
| Banking, Finance, Insurance & Real Estate | 16,815 | 7.2 | 7,566 | 3.6 |
| Construction & Building | 11,637 | 5.0 | 1,012 | 0.5 |
| Media: Advertising, Printing & Publishing | 10,628 | 4.5 | 17,822 | 8.6 |
| Media: Diversified & Production | 7,747 | 3.3 | | |
| Metals & Mining | 7,180 | 3.1 | | |
| Wholesale | 5,624 | 2.4 | | |
| Automotive | 5,483 | 2.3 | 15,100 | 7.2 |
| Energy: Oil & Gas | 4,698 | 2.0 | 4,875 | 2.3 |
| Containers, Packaging & Glass | 3,979 | 1.7 | 1,980 | 1.0 |
| Capital Equipment | 3,665 | 1.6 | 4,271 | 2.1 |
| Services: Consumer | 3,014 | 1.3 | 3,104 | 1.5 |
| High Tech Industries | 2,973 | 1.3 | 9,530 | 4.6 |
| Beverage, Food & Tobacco | 2,900 | 1.2 | 3,034 | 1.5 |
| Telecommunications | | | 3,714 | 1.8 |
| Chemicals, Plastics & Rubber | | | 1,013 | 0.5 |
| Total | $ 233,535 | 100.0 % | $ 207,920 | 100.0 % |

## Note 4. Fair Value Measurements

The Company values all investments in accordance with ASC Topic 820. ASC Topic 820 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC Topic 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide disclosures on fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the observability of the inputs used to determine fair values. Investments carried at fair value are classified and disclosed in one of the following three categories:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value may require significant management judgment or estimation. Such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

With respect to investments for which market quotations are not readily available, the Company s Board undertakes a multi-step valuation process each quarter, as described below:

- the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of MC Advisors responsible for the portfolio investment;
- preliminary valuation conclusions are then documented and discussed with the investment committee of the Company;
- the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;
- the audit committee of the Board reviews the preliminary valuations of MC Advisors and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and
- the Board discusses these valuations and determines the fair value of each investment in the portfolio in good faith, based on the input of MC Advisors, the independent valuation firm(s) and the audit committee.

The availability of valuation techniques and observable inputs can vary from investment to investment and is affected by a wide variety of factors including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions utilized in the valuation are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause an investment to be reclassified to a lower level within the fair value hierarchy.

The accompanying consolidated schedules of investments held by the Company consist primarily of private debt instruments ( Level 3 debt ). Management generally uses the yield approach to determine fair value, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other factors in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is remitting payments in a timely manner; the loan is in covenant compliance or is otherwise not deemed to be impaired. In determining the fair value of the performing Level 3 debt, the Company considers fluctuations in current interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the borrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a Level 3 debt instrument is not performing, as defined above, the Company will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the Level 3 debt instrument.

Senior, unitranche and junior secured loans are collateralized by tangible and intangible assets of the borrowers. These investments include loans to entities that have some level of challenge in obtaining financing from other, more conventional institutions, such as a bank. Interest rates on these loans are either fixed or floating, and are based on current market conditions and credit ratings of the borrower. The contractual interest rates on the loans range from 7.00% to 18.92% at December 31, 2014 and 4.66% to 15.00% at December 31, 2013. The maturity dates on the loans outstanding at December 31, 2014 range between April 2017 and July 2021. Management evaluates the collectability of the loans on an ongoing basis based upon various factors including, but not limited to, the credit history of the borrower, its financial status and its available collateral.

Under the yield approach, the Company uses discounted cash flow models to determine the present value of the future cash flow streams of its debt investments, based on future interest and principal payments as set forth in the associated loan agreements. In determining fair value under the yield approach, the Company also considers the following factors: applicable market yields and leverage levels, credit quality, prepayment penalties, the nature and realizable value of any collateral, the portfolio company s ability to make payments, and changes in the interest rate environment and the credit markets that generally may affect the price at which similar investments may be made. This evaluation will be updated quarterly for Level 3 debt instruments that are performing and are not performing, respectively, and more frequently for time periods where there are significant changes in the investor base or significant changes in the perceived value of the underlying collateral. The collateral value will be analyzed on an ongoing basis using internal metrics, appraisals, third-party valuation agents and other data as may be acquired and analyzed by the Company.

Under the market approach, the Company typically uses the enterprise value methodology to determine the fair value of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values, from which the Company derives a single estimate of enterprise value. In estimating the enterprise value of a portfolio

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

company, the Company analyzes various factors consistent with industry practice, including but not limited to original transaction multiples, the portfolio company s historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public. Typically, the enterprise values of private companies are based on multiples of earnings before interest, income taxes, depreciation and amortization ( EBITDA ), cash flows, net income, revenues, or in limited cases, book value.

Under the income approach, the Company prepares and analyzes discounted cash flow models based on projections of the future free cash flows (or earnings) of the portfolio company. In determining the fair value under the income approach, the Company considers various factors including, but not limited to, the portfolio company s projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public.

## Secured Borrowings

The Company has elected the fair value option under ASC Topic 825 *Financial Instruments* ( ASC Topic 825 ) relating to accounting for debt obligations at their fair value for its secured borrowings which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. The Company reports changes in the fair value of its secured borrowings within net change in unrealized (appreciation) depreciation on secured borrowings in the consolidated statements of operations. The net gain or loss reflects the difference between the fair value and the principal amount due on maturity.

Due to the absence of a liquid trading market for these secured borrowings, they are valued by calculating the net present value of the future expected cash flow streams using an appropriate risk-adjusted discount rate model. The discount rate considers projected performance of the related loan investment, applicable market yields and leverage levels, credit quality, prepayment penalties and comparable company analysis. The Company consults with an independent valuation firm relative to the fair value of its secured borrowings at least once in every calendar year.

## Fair Value Disclosures

The following table presents fair value measurements of investments and secured borrowings, by major class, as of December 31, 2014, according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Senior secured loans | $ | $ | $ 124,161 | $ 124,161 |
| Unitranche loans | | | 96,635 | 96,635 |
| Junior secured loans | | | 10,803 | 10,803 |
| Equity securities | | | 1,936 | 1,936 |
| Total Investments | $ | $ | $ 233,535 | $ 233,535 |
| Secured borrowings | $ | $ | $ 4,008 | $ 4,008 |

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

The following table presents fair value measurements of investments and secured borrowings, by major class, as of December 31, 2013, according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Senior secured loans | $ | $ | $ 88,963 | $ 88,963 |
| Unitranche loans | | | 96,217 | 96,217 |
| Junior secured loans | | | 22,335 | 22,335 |
| Equity securities | | | 405 | 405 |
| Total Investments | $ | $ | $ 207,920 | $ 207,920 |
| Secured borrowings | $ | $ | $ 7,943 | $ 7,943 |

The following table provides a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the years ended December 31, 2014 and 2013:

| | Investments | | | | | |
|---|---|---|---|---|---|---|
| | Senior secured loans | Unitranche loans | Junior secured loans | Equity securities | Total Investments | Secured borrowings |
| Balance as of December 31, 2013 | $88,963 | $96,217 | $22,335 | $405 | $207,920 | $7,943 |
| Reclassifications(1) | (9,879) | 7,603 | 1,309 | 967 | | |
| Net change in unrealized appreciation (depreciation) on investments | 2,007 | (3,629) | (479) | 564 | (1,537) | |
| Net realized gain (loss) on investments | 169 | | 130 | | 299 | |
| Purchases of investments and other adjustments to cost(2) | 102,499 | 18,254 | 13,173 | | 133,926 | |
| Proceeds from principal payments and sales on investments(3) | (59,598) | (21,810) | (25,665) | | (107,073) | |
| Net change in unrealized appreciation (depreciation) on secured borrowings | | | | | | (72) |
| Proceeds from secured borrowings | | | | | | |
| Repayments on secured borrowings | | | | | | (3,863) |
| Balance as of December 31, 2014 | $124,161 | $96,635 | $10,803 | $1,936 | $233,535 | $4,008 |

| | Investments Senior secured loans | Unitranche loans | Junior secured loans | Equity securities | Total Investments | Secured borrowings |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2012 | $45,332 | $75,487 | $11,662 | $271 | $132,752 | $ |
| Net change in unrealized appreciation (depreciation) on investments | 154 | 415 | 203 | 43 | 815 | |
| Net realized gain (loss) on investments | 196 | 38 | 13 | | 247 | |
| Purchases of investments and other adjustments to cost(2) | 83,290 | 37,296 | 18,554 | 131 | 139,271 | |
| Proceeds from principal payments and sales on investments(3) | (40,009) | (17,019) | (8,097 ) | (40 ) | (65,165 ) | |
| Net change in unrealized appreciation (depreciation) on secured borrowings | | | | | | (54 ) |
| Proceeds from secured borrowings | | | | | | 10,000 |
| Repayments on secured borrowings | | | | | | (2,003 ) |
| Balance as of December 31, 2013 | $88,963 | $96,217 | $22,335 | $405 | $207,920 | $7,943 |

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

(1) Represents non-cash reclassifications of investment type due to restructuring of the investments in portfolio companies.

(2) Includes purchases of new investments, effects of refinancing and restructurings, premium and discount accretion and amortization and PIK interest.

(3) Represent net proceeds from investments sold and principal paydowns received.

The total change in unrealized appreciation (depreciation) included in the consolidated statements of operations within net change in unrealized appreciation (depreciation) on investments for the year ended December 31, 2014, attributable to Level 3 investments still held at December 31, 2014 was ($1,409). The total change in unrealized appreciation (depreciation) included in the consolidated statements of operations within net change in unrealized appreciation (depreciation) on investments for the year ended December 31, 2013, attributable to Level 3 investments still held at December 31, 2013 was $848. The total change in unrealized (appreciation) depreciation included in the consolidated statements of operations within net change in unrealized (appreciation) depreciation on secured borrowings for the year ended December 31, 2014, attributable to Level 3 investments still held at December 31, 2014 was $68. The total change in unrealized (appreciation) depreciation included in the consolidated statements of operations within net change in unrealized (appreciation) depreciation on secured borrowings for the year ended December 31, 2013, attributable to Level 3 investments still held at December 31, 2013 was $54. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of Level 3 as of the beginning of the period which the reclassifications occur. There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2014 and 2013.

## Significant Unobservable Inputs

ASC Topic 820 requires disclosure of quantitative information about the significant unobservable inputs used in the valuation of assets and liabilities classified as Level 3 within the fair value hierarchy. Disclosure of this information is not required in circumstances where a valuation (unadjusted) is obtained from a third-party pricing service and the information regarding the unobservable inputs is not reasonably available to the Company and as such, the disclosures provided below exclude those investments valued in that manner. The tables below are not intended to be all-inclusive, but rather to provide information on significant unobservable inputs and valuation techniques used by the Company.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of December 31, 2014 were as follows:

| | Fair Value | Valuation Technique | Unobservable Input | Mean | Range Minimum | Maximum |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Senior secured loans | $120,204 | Discounted cash flow | EBITDA multiples | 6.8x | 3.5x | 11.0x |
| | | | Market yields | 12.2% | 7.4 % | 18.0 % |
| Senior secured loans | $1,007 | Enterprise value | Revenue multiples | 0.5x | 0.5x | 0.5x |
| Unitranche loans | $79,370 | Discounted cash flow | EBITDA multiples | 7.0x | 5.0x | 10.0x |
| | | | Market yields | 13.5% | 9.0 % | 19.1 % |
| Unitranche loans | $6,420 | Enterprise value | EBITDA multiples | 3.8x | 3.5x | 4.0x |
| Unitranche loans | $5,483 | Combination of discounted cash flow and enterprise value | EBITDA multiples | 5.3x | 5.0x | 5.5x |
| | | | Market yields | 25.5% | 22.8% | 28.3 % |
| Junior secured loans | $1,370 | Enterprise value | Revenue multiples | 0.5x | 0.5x | 0.5x |
| Equity securities | $1,862 | Enterprise value | EBITDA multiples | 6.3x | 3.5x | 10.0x |
| Total Level 3 Assets | **$215,716** (1) | | | | | |
| Liabilities: | | | | | | |
| Secured borrowings | $4,008 | Discounted cash flow | Market yields | 6.6 % | 3.5 % | 9.9 % |

(1) Excludes loans of $17,819 at fair value where a valuation is obtained from a third-party pricing service for which such disclosure is not required.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of December 31, 2013 were as follows:

| | Fair Value | Valuation Technique | Unobservable Input | Mean | Range Minimum | Maximum |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Senior secured loans | $43,066 | Discounted cash flow | EBITDA multiples | 7.7x | 5.0x | 10.5x |
| | | | Market yields | 10.2% | 6.2 % | 14.3 % |
| Senior secured loans | 2,572 | Enterprise value | EBITDA multiples | 6.6x | 6.2x | 6.9x |
| Unitranche loans | 96,217 | Discounted cash flow | EBITDA multiples | 7.3x | 3.5x | 12.3x |
| | | | Market yields | 13.3% | 8.8 % | 21.6 % |
| Equity securities | $405 | Market comparable companies | EBITDA multiples | 9.3x | 7.8x | 10.0x |
| Total Level 3 Assets | **$142,260** (1) | | | | | |
| Liabilities: | | | | | | |
| Secured borrowings | $7,943 | Discounted cash flow | Market yields | 4.4 % | 3.3 % | 6.2 % |

(1) Excludes loans of $65,660 at fair value where a valuation is obtained from a third-party pricing service for which such disclosure is not required.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 4. Fair Value Measurements (continued)

The significant unobservable inputs used in the market approach of fair value measurement of our investments are the market multiples of EBITDA of the comparable guideline public companies. The Company selects a population of public companies for each investment with similar operations and attributes of the portfolio company. Using these guideline public companies data, a range of multiples of enterprise value to EBITDA is calculated. The Company selects percentages from the range of multiples for purposes of determining the portfolio company s estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Significant increases (decreases) in the multiple will result in an increase (decrease) in enterprise value, resulting in an increase (decrease) in the fair value estimate of the investment.

The significant unobservable input used in the income approach of fair value measurement of our investments is the discount rate used to discount the estimated future cash flows expected to be received from the underlying investment, which include both future principal and interest payments. Significant increases (decreases) in the discount rate would result in a decrease (increase) in the fair value estimate of the investment. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable investments, and call provisions.

## Other Financial Assets and Liabilities

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. Fair value of the Company s revolving credit facility is estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if applicable. The Company believes that the carrying value of its revolving credit facility approximates fair value. SBA-guaranteed debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date and the ability of market participants to prepay the debentures. As of December 31, 2014, the fair value of the Company s SBA debentures using Level 3 inputs is estimated at $20.0 million, which is the same as the Company s carrying value of the SBA debentures.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 5. Transactions with Affiliated Companies

An affiliated company is a company in which the Company has an ownership of 5% or more of its voting securities. A controlled affiliated company is a company in which the Company has ownership of more than 25% of its voting securities. Transactions related to our investments with affiliates for the year ended December 31, 2014 were as follows:

(1) Includes both loan and equity security investment transactions for these portfolio companies.

(2) The Company s investment in Rocket Dog Brands LLC was restructured on May 2, 2014, resulting in the Company obtaining greater than 5% of the voting securities. For the purpose of this schedule, transfers in due to restructuring represents the fair value on the restructuring date and all activity presented is subsequent to the restructuring.

(3) The Company s investment in TPP Acquisition, Inc. was restructured on December 22, 2014, resulting in the Company obtaining 40% of the voting securities. For the purpose of this schedule, transfers in due to restructuring represents the fair value on the restructuring date and all activity presented is subsequent to the restructuring.

## Note 6. Transactions with Related Parties

The Company has entered into the Investment Advisory and Management Agreement with MC Advisors, under which MC Advisors, subject to the overall supervision of the Board, provides investment advisory services to the Company. The Company pays MC Advisors a fee for its services under the Investment Advisory and Management Agreement consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate equal to 1.75% of invested assets (calculated as total assets excluding cash) and is payable in arrears. Base management fees for the years ended December 31, 2014, 2013 and 2012 were $4,091, $2,752 and $318, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of pre-incentive fee net investment income for the immediately preceding quarter, subject to a 2% (8% annualized) preferred return, or hurdle, and a catch up feature. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of preincentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative

# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 6. Transactions with Related Parties (continued)

incentive fees accrued and/or paid for the 11 preceding calendar quarters. Therefore, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (1) 20% of the amount by which preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (2) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of preincentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year in an amount equal to 20% of realized capital gains, if any, on a cumulative basis from inception through the end of the year, computed net of all realized capital losses on a cumulative basis and unrealized depreciation, less the aggregate amount of any previously paid capital gain incentive fees.

Incentive fees for the years ended December 31, 2014, 2013 and 2012 were $3,512, $1,544 and $6, respectively. Incentive fees for the year ended December 31, 2014, consisted of part one incentive fees (based on net investment income) of $3,718, reduced by the part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of ($206). Incentive fees for the year ended December 31, 2013 consisted of part one incentive fees of $1,295 and part two incentive fees of $249. Incentive fees for the year ended December 31, 2012 consisted entirely of part two incentive fees. The Company accrues, but does not pay, a capital gains incentive fee (part two incentive fees) in connection with any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20% of the sum of net realized gains (losses) plus net unrealized appreciation (depreciation).

The Company has entered into the Administration Agreement with Monroe Capital Management Advisors, LLC, ( MC Management ), under which the Company reimburses MC Management (subject to the review and approval of the Board) for its allocable portion of overhead and other expenses, including the costs of furnishing the Company with office facilities and equipment and providing clerical, bookkeeping, record-keeping and other administrative services at such facilities, and the Company s allocable portion of the cost of the chief financial officer and chief compliance officer and their respective staffs. To the extent that MC Management outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis, without incremental profit to MC Management. Administrative expenses for the years ended, December 31, 2013 and 2012 were limited to the greater of (i) 0.375% of the Company s average invested assets for such quarter and (ii) $375 by the Administration Agreement. For the years ended December 31, 2014, 2013 and 2012, the Company incurred $2,893, $2,359 and $287 in administrative expenses (included within professional fees, administrative service fees and general and administrative expenses on the consolidated statements of operations) under the Administration Agreement, respectively, of which $876, $528 and $133, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. As of December 31, 2014, 2013 and 2012, $208, $111 and $132 of expenses were due to MC

Management under this agreement and are included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

The Company has entered into a license agreement with Monroe Capital, LLC under which Monroe Capital, LLC has agreed to grant the Company a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in its business. Under this agreement, the Company will have a right to use the Monroe Capital name at no cost, subject to certain conditions, for so long as MC Advisors or one of its affiliates remains its investment advisor. Other than with respect to this limited license, the Company has no legal right to the Monroe Capital name.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 6. Transactions with Related Parties (continued)

As of December 31, 2014 and 2013, the Company had accounts payable to members of the Board of zero and $72, respectively, representing accrued and unpaid compensation.

## Note 7. Borrowings

*Revolving Credit Facility:* The Company entered into its credit facility with ING Capital LLC, as agent, on October 23, 2012 to finance the purchase of the Company s assets. Revolving commitments under the facility were initially $65,000 with an accordion feature up to $100,000. On September 27, 2013, the maximum amount the Company was able to borrow under the revolving credit facility was increased to $95,000, pursuant to this accordion feature.

On December 19, 2013, the Company entered into an amendment (the Credit Facility Amendment ) to the documents governing the Company s revolving credit facility. The Credit Facility Amendment, among other things, (a) increased the size of the current revolving commitments under the revolving credit facility to $110,000 from $95,000, (b) expanded the accordion feature to $200,000 from $100,000 (subject to maintaining 200% asset coverage, as defined in the 1940 Act), (c) reduced pricing by 50 basis points, to LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when equity capitalization exceeds $175,000, (d) extended the expiration of the revolving period from October 23, 2015 to December 19, 2016, during which period the Company, subject to certain conditions, may make borrowings under the facility and (e) extended the stated maturity date from October 21, 2016 to December 19, 2017. As of December 31, 2014 and 2013, the Company had $82,300 and $76,000 outstanding, respectively, under this revolving credit facility.

The revolving credit facility is secured by a lien on all of the Company s assets, including cash on hand, but excluding the assets of the Company s wholly-owned subsidiary, MRCC SBIC. The Company s ability to borrow under the credit facility is subject to availability under a defined borrowing base, which varies based on the Company s portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. The Company may make draws under the revolving credit facility to make or purchase additional investments through December 2016 and for general working capital purposes until the maturity date of the revolving credit facility. Borrowings under the revolving credit facility bear interest, at the Company s election, at an annual rate of LIBOR (one-month, two-month, three-month or six-month at the Company s discretion based on the term of the borrowing) plus 3.25% (3.75% prior to December 19, 2013) or at a daily rate equal to 2.25% (2.75% prior to December 19, 2013) per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, the Company is required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of the Company s revolving credit facility borrowings (excluding debt issuance costs) for the years ended December 31, 2014 and 2013 was 3.4% and 4.1%, respectively. The weighted average fee rate on the Company s unused portion of the revolving credit facility for the years ended December 31, 2014 and 2013 was 0.5% and 0.7%, respectively. As of both December 31, 2014 and 2013, all of the outstanding borrowings were accruing at an interest rate of 3.4% (based on one-month LIBOR).

The Company s ability to borrow under the revolving credit facility is subject to availability under the borrowing base, which permits the Company to borrow up to 70% of the fair market value of its portfolio company investments depending on the type of the investment the Company holds and whether the investment is quoted. The Company s ability to borrow is also subject to certain concentration limits, and its continued compliance with the representations, warranties and covenants given by the Company under the facility. The revolving credit facility contains certain financial and restrictive covenants, including, but not limited to, the

# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 7. Borrowings (continued)

Company s maintenance of: (1) a minimum consolidated net worth at least equal to the greater of (a) 55% of assets on the last day of each quarter (excluding from such calculation the portion of assets of MRCC SBIC financed with SBA debentures) or (b) 80% of the net proceeds to the Company from this offering plus 50% of the net proceeds of the sales of the Company s securities after the effectiveness of the revolving credit facility; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.15 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The credit facility also requires the Company to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both the Company and MC Advisors, failure to comply with financial and negative covenants, and failure to maintain the Company s relationship with MC Advisors. If the Company incurs an event of default under the revolving credit facility and fails to remedy such default under any applicable grace period, if any, then the entire revolving credit facility could become immediately due and payable, which would materially and adversely affect the Company s liquidity, financial condition, results of operations and cash flows.

The Company s credit facility also imposes certain conditions that may limit the amount of the Company s distributions to stockholders. Distributions payable in the Company s common stock under the DRIP are not limited by the credit facility. Distributions in cash or property other than common stock are generally limited to 110% (125% in certain instances) of the amount of distributions required to maintain the Company s status as a RIC. The credit facility also specifically allowed for the dividend payments made during the fourth quarters of 2013 and 2012.

*SBA Debentures:* On February 28, 2014, the Company s wholly-owned subsidiary, MRCC SBIC, received a license from the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Company Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013.

The SBIC license allows MRCC SBIC to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis (pooling date) at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, has a superior claim to MRCC SBIC s assets over the Company s stockholders in the event the Company liquidates MRCC SBIC or the SBA exercises its remedies upon an event of default. As of December 31, 2014, MRCC SBIC had $20,000 in regulatory capital and leveragable capital and $20,000 in SBA-guaranteed debentures outstanding. Additionally, as of December 31, 2014, MRCC SBIC had received a commitment letter for an additional $20,000 in SBA-guaranteed debentures. The $12,920 in SBA-guaranteed debentures outstanding which have already pooled mature in September 2024 and bear interest at a fixed rate of 3.4% per annum and the $7,080 in SBA-guaranteed debentures outstanding which have not already pooled, mature in March 2025 and bear interest at an interim rate of 1.0% until the March 2015 pooling date.

SBA regulations currently limit the amount that an individual SBIC may borrow to a maximum of $150,000 when it has at least $75,000 in regulatory capital, receives a leverage commitment from the SBA and has been through an audit examination by the SBA subsequent to licensing. The SBA also limits a related group of SBICs to a maximum of $225,000 in total borrowings. As the Company has other affiliated SBICs already in operation, MRCC SBIC is currently limited to a maximum of $40,000 in borrowings.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 7. Borrowings (continued)

On October 15, 2014, the Company was granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the 200% asset coverage test.

*Secured Borrowings:* Certain partial loan sales do not qualify for sale accounting under ASC Topic 860 because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on the accompanying consolidated statements of assets and liabilities and the portion sold is recorded as a secured borrowing in the liabilities section of the consolidated statements of assets and liabilities. For these partial loan sales, the interest earned on the entire loan balance is recorded within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in the accompanying consolidated statements of operations.

As of December 31, 2014, secured borrowings at fair value totaled $4,008 and the fair value of the loans that are associated with these secured borrowings was $13,142. As of December 31, 2013, secured borrowings at fair value totaled $7,943 and the fair value of the loans that are associated with these secured borrowings was $22,701. These secured borrowings were created as a result of the Company s completion of partial loan sales of three unitranche loan assets totaling $10,000 during the three months ended March 31, 2013, that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings. No other such partial loan sales occurred during the remainder of 2013 or during the year ended December 31, 2014. During the year ended December 31, 2014, repayments on secured borrowings totaled $3,863, including the full repayment of the secured borrowing for TPP Acquisition, Inc. During the year ended December 31, 2013, repayments on secured borrowings totaled $2,003. The weighted average interest rate on secured borrowings was approximately 5.5% and 4.3% as of December 31, 2014 and 2013, respectively.

*Components of interest expense:* The components of the Company s interest expense and other debt financing expenses are as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Interest expense credit facility | $ 3,183 | $ 1,978 | $ 219 |
| Amortization of deferred financing costs | 576 | 479 | 86 |
| Interest expense secured borrowings | 374 | 378 | |
| Interest expense SBA debentures | 161 | | |
| Other | 48 | 73 | |

| | | | |
|---|---|---|---|
| Total interest and other debt financing expenses | $ 4,342 | $ 2,908 | $ 305 |

# Note 8. Income Taxes

The Company has elected to be treated as a RIC under Subchapter M of the Code. As a RIC, the Company is not taxed on any investment company taxable income or capital gains which it distributes to shareholders. The Company intends to distribute all of its investment company taxable income and capital gains annually. Accordingly, no provision for federal income tax has been made in the consolidated financial statements.

Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts in accordance with U.S. GAAP and those differences could be material.

# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 8. Income Taxes (continued)

The following permanent differences were reclassified for tax purposes:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Increase in accumulated distributions in excess of net investment income | $ | $1,620 | $1,165 |
| Decrease in accumulated net realized gains on investments | | | |
| Decrease in capital in excess of par value | $ | $(1,620) | $(1,165) |

Taxable income generally differs from net increase (decrease) in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes unrealized appreciation (depreciation) on investments as investment gains and losses are not included in taxable income until they are realized.

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred after September 30, 2011 will not be subject to expiration. As of December 31, 2014, the Company does not have any capital loss carry forwards.

The following table reconciles net increase in net assets resulting from operations to taxable income:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Net increase in net assets resulting from operations | $13,909 | $9,766 | $950 |
| Net change in unrealized (appreciation) depreciation on investments and secured borrowings | 1,465 | (869) | (160) |
| Other deductions for book in excess of deductions for tax | (206) | 200 | |
| Total taxable income | $15,168 | $9,097 | $790 |

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The following table provides the tax character of distributions paid:

For the years ended December 31,

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Ordinary income | $ 13,028 | $ 9,097 | $ 790 |
| Long-term capital gains | | | |
| Return of capital | | 1,620 | 1,165 |
| Total | $ 13,028 | $ 10,717 | $ 1,955 |

For federal income tax purposes, as of December 31, 2014, 2013 and 2012, the aggregate net unrealized appreciation (depreciation) for all securities is ($1,465), $869 and $160, respectively. As of December 31, 2014, 2013 and 2012, the aggregate cost of securities for federal income tax purposes is $234,098, $206,945, and $132,592, respectively.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 9. Distributions

The Company s distributions are recorded on the record date. The following table summarizes dividends declared during the years ended December 31, 2014, 2013 and 2012, respectively:

| Date Declared | Record Date | Payment Date | Amount Per Share | Cash Distribution | | DRIP Shares Issued | DRIP Shares Value |
|---|---|---|---|---|---|---|---|
| Year ended December 31, 2012: | | | | | | | |
| November 7, 2012 | December 14, 2012 | December 28, 2012 | $0.34 | $1,955 | | 3 | $ |
| Total dividends declared[1] | | | $0.34 | $1,955 | | 3 | $ |
| Year ended December 31, 2013: | | | | | | | |
| March 6, 2013 | March 19, 2013 | March 28, 2013 | $0.34 | $1,955 | | 14,290 | $215 |
| May 31, 2013 | June 14, 2013 | June 28, 2013 | 0.34 | 1,959 | | 13,679 | 202 |
| August 30, 2013 | September 13, 2013 | September 27, 2013 | 0.34 | 3,402 | (2) | | |
| December 2, 2013 | December 13, 2013 | December 27, 2013 | 0.34 | 3,401 | (3) | | |
| Total dividends declared[1] | | | $1.36 | $10,717 | | 27,969 | $417 |
| Year ended December 31, 2014: | | | | | | | |
| March 7, 2014 | March 18, 2014 | March 28, 2014 | $0.34 | $3,304 | (4) | | |
| May 29, 2014 | June 13, 2014 | June 27, 2014 | 0.34 | 3,252 | (5) | | |
| August 27, 2014 | September 15, 2014 | September 30, 2014 | 0.34 | 3,236 | (6) | | |
| December 1, 2014 | December 15, 2014 | December 30, 2014 | 0.34 | 3,236 | (7) | | |
| Total dividends declared[1] | | | $1.36 | $13,028 | | | |

(1) Includes a return of capital for tax purposes for the years ended December 31, 2014, 2013 and 2012 of approximately zero, $0.21 and $0.20 per share, respectively.

(2) For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 23,307 shares of common stock for $308 and no new shares were issued to satisfy the DRIP requirements for this dividend.

(3) For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 24,974 shares of common stock for $308 and no new shares were issued to satisfy the DRIP requirements for this dividend.

(4)

For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 21,787 shares of common stock for $295 and no new shares were issued to satisfy the DRIP requirements for this dividend.

(5) For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 19,208 shares of common stock for $264 and no new shares were issued to satisfy the DRIP requirements for this dividend.

(6) For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 19,095 shares of common stock for $258 and no new shares were issued to satisfy the DRIP requirements for this dividend.

(7) For this dividend payment, the Company instructed the DRIP plan administrator to make open market purchases rather than issuing new shares to satisfy the requirements of the DRIP. The DRIP plan administrator made open market purchases of 17,023 shares of common stock for $244 and no new shares were issued to satisfy the DRIP requirements for this dividend.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 10. Stock Issuances and Repurchases

*Stock Issuances:* On October 24, 2012, the Company completed its IPO of 5,000,000 shares of common stock, priced at $15.00 per share, before underwriting discounts and commissions. On November 26, 2012, the Company s underwriters exercised their over-allotment option of 750,000 shares of common stock, priced at $15.00 per share, before underwriting discounts and commissions. These issuances during the year ended December 31, 2012 provided the Company with proceeds, net of offering and underwriting costs, of $84,629.

On July 22, 2013, the Company completed a public offering of 4,000,000 shares of common stock, priced at $14.05 per share, before underwriting discounts and commissions. On August 20, 2013, the Company s underwriters exercised their over-allotment option of 225,000 shares of its common stock, priced at $14.05 per share, before underwriting discounts and commissions. These issuances during the year ended December 31, 2013 provided the Company with proceeds, net of offering and underwriting costs, of $56,023.

*Stock Repurchases:* On November 11, 2013, the Board approved a share repurchase plan (the Plan ) under which up to $7,500 of the Company s outstanding common stock was allowed to be acquired in the open market at prices below the Company s NAV as reported in its then most recently published consolidated financial statements. The Plan was implemented at the discretion of management and expired on November 10, 2014.

During the year ended December 31, 2014, the Company repurchased 400,359 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $5,235. During the year ended December 31, 2013, the Company repurchased 84,803 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $1,031. During the time the Plan was active, the Company repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $6,267. As of December 31, 2014 and 2013, zero and $559, respectively of these share repurchases were unsettled and included within payable for open trades on the consolidated statements of assets and liabilities. The Company is incorporated in Maryland and under the law of that state, shares repurchased are considered retired (repurchased shares become authorized but unissued shares) rather than treasury stock. As a result, the cost of stock repurchases is recorded as a reduction to capital in excess of par value on the consolidated statement of changes in net assets.

## Note 11. Commitments and Contingencies

*Commitments:* As of December 31, 2014 and 2013, the Company had $15,294 and $1,648, respectively, in outstanding commitments to fund investments under undrawn revolvers.

*Indemnifications:* In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide general indemnifications. The Company s maximum exposure under these agreements is unknown, as these involve future claims that may be made against the Company but that have not occurred. The Company expects the risk of any future obligations under these indemnifications to be remote.

*Concentration of credit and counterparty risk:* Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of the contract. In the event that the counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparties or issuers of the instruments. It is the Company s policy to review, as necessary, the credit standing of each counterparty.

*Market risk:* The Company s investments and borrowings are subject to market risk. Market risk is the potential for changes in the value due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments and borrowings are traded.

*Legal proceedings:* In the normal course of business, the Company may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While there can be no assurance

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 11. Commitments and Contingencies (continued)

of the ultimate disposition of any such proceedings, the Company is not currently aware of any such proceedings or disposition that would have a material adverse effect on the Company s consolidated financial statements.

## Note 12. Financial Highlights

The following is a schedule of financial highlights for the years ended December 31, 2014, 2013 and 2012:

| | December 31, 2014 | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Per share data: | | | |
| Net asset value at beginning of period(1) | $13.92 | $14.54 | $15.00 |
| Net investment income(2) | 1.57 | 1.13 | 0.15 |
| Net gain (loss) on investments and secured borrowings(2) | (0.12) | 0.15 | 0.03 |
| Net increase in net assets from operations(2) | 1.45 | 1.28 | 0.18 |
| Stockholder distributions income | (1.36) | (1.15) | (0.14) |
| Stockholder distributions return of capital | | (0.21) | (0.20) |
| Effect of share issuance below NAV(3) | | (0.57) | (0.30) |
| Effect of share repurchases(3) | 0.04 | 0.03 | |
| Net asset value at end of period | $14.05 | $13.92 | $14.54 |
| Net assets at end of period | $133,738 | $138,092 | $83,634 |
| Shares outstanding at end of period | 9,517,910 | 9,918,269 | 5,750,103 |
| Per share market value at end of period | $14.46 | $12.20 | $14.83 |
| Total return based on market value(4) | 30.67% | (9.29)% | 1.15% |
| Total return based on net asset value(5) | 10.41% | 8.81% | 1.20% |
| Ratio/Supplemental data: | | | |
| Ratio of net investment income to average net assets(6) | 11.20% | 7.71% | 5.00% |
| Ratio of interest and other debt financing expenses to average net assets(7) | 3.23% | 2.59% | 1.93% |
| Ratio of expenses (without incentive fees) to average net assets(7) | 8.42% | 7.15% | 5.76% |
| Ratio of incentive fees to average net assets(8) | 2.61% | 1.38% | 0.01% |
| Ratio of total expenses to average net assets(6) | 11.03% | 8.53% | 5.77% |
| Average debt outstanding | $92,410 | $42,103 | $31,056 |
| Average debt outstanding per weighted average share | $9.63 | $5.52 | $5.40 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Portfolio turnover(7) | 47.03 | % | 39.77 | % | 11.88 | % |

(1) December 31, 2012 data represents the initial public offering price.

(2) Calculated using the weighted average shares outstanding during the years ended December 31, 2014, December 31, 2013 and for the period from October 24, 2012 to December 31, 2012, respectively.

(3) Includes the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of a period end or transaction date.

(4) Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions,

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 12. Financial Highlights (continued)

if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s dividend reinvestment plan. Total return based on market value does not reflect brokerage commissions. Return calculations are not annualized.

(5) Total return based on net asset value is calculated by dividing the net increase in net assets from operations by the net asset value per share at the beginning of the period (adjusted for the effect of share issuances below NAV). Total returns based on net asset value covering less than a full period are not annualized.

(6) Ratios are annualized. Incentive fees included within the ratio are not annualized.

(7) Ratios are annualized.

(8) Ratios are not annualized.

## Note 13. Selected Quarterly Financial Data (unaudited)

| | For the quarter ended | | | |
|---|---|---|---|---|
| | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
| Total investment income | $8,683 | $ 7,668 | $7,046 | $ 6,516 |
| Net investment income | $4,621 | $ 3,810 | $3,514 | $ 3,310 |
| Net gain (loss) on investments and secured borrowings | $(419 ) | $ (437 ) | $(848 ) | $ 538 |
| Net increase in net assets resulting from operations | $4,202 | $ 3,373 | $2,666 | $ 3,668 |
| Net investment income per share basic and diluted | $0.49 | $ 0.40 | $0.37 | $ 0.32 |
| Net increase in net assets resulting from operations per share basic and diluted | $0.44 | $ 0.35 | $0.28 | $ 0.38 |
| Net asset value per share at period end | $14.05 | $ 13.95 | $13.93 | $ 13.99 |

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012(1) |
| Total investment income | $6,395 | $ 4,347 | $ 3,752 | $ 3,719 | $ 1,706 |
| Net investment income | $3,184 | $ 2,413 | $ 1,550 | $ 1,503 | $ 790 |
| Net gain (loss) on investments and secured borrowings | $(672 ) | $ (447 ) | $ 438 | $ 1,797 | $ 160 |

| | | | | | |
|---|---|---|---|---|---|
| Net increase in net assets resulting from operations | $2,512 | $ 1,966 | $ 1,988 | $ 3,300 | $ 950 |
| Net investment income per share basic and diluted | $0.32 | $ 0.27 | $ 0.27 | $ 0.26 | $ 0.15 |
| Net increase in net assets resulting from operations per share basic and diluted | $0.25 | $ 0.22 | $ 0.34 | $ 0.57 | $ 0.18 |
| Net asset value per share at period end | $13.92 | $ 14.01 | $ 14.78 | $ 14.78 | $ 14.54 |

(1) The Company had no substantive operations prior to October 24, 2012, the date of its initial public offering.

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# MONROE CAPITAL CORPORATION

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

## Note 14. Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated subsequent events and transactions for potential recognition and/or disclosure and such disclosure is provided below and in other notes to the consolidated financial statements.

On February 6, 2015, the Company entered into an at-the-market ( ATM ) program with MLV & Co. LLC and JMP Securities LLC through which the Company may sell, by means of ATM offerings from time to time, up to $50,000 of the Company s common stock.

On March 6, 2015, the Board declared a quarterly dividend of $0.35 per share payable on March 31, 2015 to holders of record on March 20, 2015.

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# PROSPECTUS

# $200,000,000

# Monroe Capital Corporation

# Common Stock
# Preferred Stock
# Warrants
# Subscription Rights
# Debt Securities

We are a specialty finance company focused on providing financing primarily to lower middle-market companies in the United States and Canada. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity investments. We use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies.

We invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities are often referred to as high yield or junk. In addition, many of the debt securities we hold do not fully amortize prior to maturity, which heightens the risk that we may lose all or a part of our investment.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $200,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities (consisting of debentures, notes or other evidence of indebtedness), subscription rights or debt securities, which we refer to, collectively, as the securities. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On July 9, 2013, our common stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of twelve months subject to certain conditions. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Risk Factors and Sales of Common Stock Below Net Asset Value.

Monroe Capital BDC Advisors, LLC serves as our investment advisor. Monroe Capital Management Advisors, LLC serves as our administrator. Each of Monroe Capital BDC Advisors, LLC and Monroe Capital Management Advisors, LLC is affiliated with Monroe Capital, LLC, a leading lender to middle-market companies.

Our common stock is listed on The Nasdaq Global Market under the symbol MRCC. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering. On May 8, 2014, the last reported sale price of our stock on The Nasdaq Global Market was $12.97 per share. Our net asset value as of December 31, 2013 was $13.92 per share.

**An investment in our securities is subject to risks, including a risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. We are an emerging growth company under the federal securities laws and will be subject to reduced public company reporting requirements. Substantially all of the debt instruments in which we invest (i) will have variable interest rate provisions that may make it more difficult for borrowers to make debt repayments to us in a rising interest rate environment and (ii) will likely have a principal amount outstanding at maturity, that may lead to a substantial loss to us if the borrower is unable to refinance or repay. See Risk Factors beginning on page 11 to read about factors you should consider, including the risk of leverage, before investing in our securities.**

This prospectus and the accompanying prospectus supplement, if any, contain important information you should know before investing. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Attention: Investor Relations, by calling us collect at (312) 258-8300, or on our website at *www.monroebdc.com*. The SEC also maintains a website at *http://www.sec.gov* that contains such information.

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

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

The date of this prospectus is May 9, 2014

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# ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to $200,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities (consisting of debentures, notes or other evidence of indebtedness) on the terms to be determined at the time of the offering. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations, cash flows and prospects may have changed since that date. We will update these documents to reflect material changes only as required by law.

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# SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read this entire prospectus carefully, including, in particular, the more detailed information set forth under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.*

*As used in this prospectus, except as otherwise indicated, the terms:*

*we, us and our refer to Monroe Capital Corporation, a Maryland corporation;*
*MC Advisors refers to Monroe Capital BDC Advisors, LLC, our investment advisor and a Delaware limited liability company;*
*MC Management refers to Monroe Capital Management Advisors, LLC, our administrator and a Delaware limited liability company;*
*Monroe Capital refers to Monroe Capital LLC, a Delaware limited liability company, and its subsidiaries and affiliates;*
*MCC SBIC refers to Monroe Capital Corporation SBIC, LP, our wholly-owned subsidiary that operates as a small business investment company pursuant to a license received from the United States Small Business Administration; and*
*LIBOR refers to the one-month, three-month or six-month London Interbank Offered Rate as reported by the British Bankers Association. Unless stated otherwise herein, LIBOR refers to the one-month rate.*

## Monroe Capital Corporation

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and that has elected to be treated as a regulated investment company, or RIC, for tax purposes under the U.S. Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2012. We provide customized financing solutions to lower middle-market companies in the United States and Canada focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. We believe that our primary focus on lending to lower middle-market companies offers several advantages as compared to lending to larger companies, including more attractive economics, lower leverage, more comprehensive and restrictive covenants, more expansive events of default, relatively small debt facilities that provide us with enhanced influence over our borrowers, direct access to borrower management and improved information flow.

In this prospectus, the term middle-market generally refers to companies having annual revenue of between $20 million and $500 million and/or annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of between $3 million and $50 million. Within the middle-market, we consider companies having annual revenues of less than $250 million and/or EBITDA of less than $25 million to be in the lower middle-market.

# Our Investment Advisor

Our investment activities are managed by our investment advisor, MC Advisors. MC Advisors is responsible for sourcing potential investments, conducting research and due diligence on prospective investments and their private equity sponsors, analyzing investment opportunities, structuring our investments

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and managing our investments and portfolio companies on an ongoing basis. MC Advisors was organized in February 2011 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act.

Under the investment advisory and management agreement with MC Advisors, or the Investment Advisory Agreement, we pay MC Advisors a base management fee and an incentive fee for its services. See Management and Other Agreements Investment Advisory Agreement Management Fee for a discussion of the base management fee and incentive fee payable by us to MC Advisors. While not expected to review or approve each investment, our independent directors will periodically review MC Advisors services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital s investment professionals. The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to a staffing agreement, or the Staffing Agreement, between MC Management, an affiliate of Monroe Capital, and MC Advisors. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 20 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that constitute our primary focus and have expertise in investing throughout all periods of the economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by experienced investment professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital s core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital s formation in 2004 through December 31, 2013, Monroe Capital s investment professionals invested in over 550 loan and related investments with an aggregate principal value of over $2.3 billion.

In addition to their roles with Monroe Capital and MC Advisors, Messrs. Koenig and Peck serve as our interested directors. Mr. Koenig has more than 25 years of experience in structuring, negotiating and closing transactions on behalf of asset-backed lenders, commercial finance companies, financial institutions and private equity investors at organizations including Monroe Capital, which Mr. Koenig founded in 2004, and Hilco Capital LP, where he led investments in over 30 companies in the lower middle-market. Mr. Peck has more than 19 years of public company management, leveraged finance and commercial lending experience at organizations including Deerfield Capital Management LLC, Black Diamond Capital Management LLC and Salomon Smith Barney Inc. See Management Biographical Information Interested Directors.

Messrs. Koenig and Peck are joined on the investment committee of MC Advisors by Michael J. Egan and Jeremy T. VanDerMeid, each of whom is a senior investment professional at Monroe Capital. Mr. Egan has more than 20 years of experience in commercial finance, credit administration and banking at organizations including Hilco Capital, The CIT Group/Business Credit, Inc., The National Community Bank of New Jersey (The Bank of New York) and KeyCorp. Mr. VanDerMeid has more than 15 years of lending and corporate finance experience at organizations including Morgan Stanley Investment Management, Dymas Capital Management Company, LLC and Heller Financial. See Management Biographical Information Investment Committee.

## About Monroe Capital

Monroe Capital, a Delaware limited liability company that was founded in 2004, is a leading lender to middle-market companies. As of January 1, 2014, Monroe Capital had approximately $1.5 billion in assets under management.

Monroe Capital has maintained a continued lending presence in the lower middle-market throughout the most recent economic downturn. The result is an established lending platform that we believe generates consistent primary and secondary deal flow from a network of proprietary relationships and additional deal flow from a diverse portfolio of over 200 current investments. From Monroe Capital s formation in 2004 through December 31, 2013, Monroe Capital s investment professionals invested in over 550 loans and related investments with an aggregate principal value of over $2.3 billion. The senior investment team of Monroe Capital averages more than 20 years of experience and has developed a proven

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investment and portfolio management process that has performed through multiple market cycles. In addition, Monroe Capital s investment professionals are supported by administrative and back-office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management.

# Market Opportunity

We invest primarily in senior, unitranche and junior secured debt issued to lower middle-market companies in the United States and, to a lesser extent and in accordance with the limitations on foreign investments in the 1940 Act, Canada. We believe that U.S. and Canadian lower middle-market companies comprise a large, growing and fragmented market that offers attractive financing opportunities. We believe that there exists a large number of prospective lending opportunities for lenders, which should allow us to generate substantial investment opportunities and build an attractive portfolio of investments. See Business.

# Investment Strategy

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation primarily through investments in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity. We also seek to invest opportunistically in attractively priced, broadly syndicated loans, which should enhance our geographic and industry portfolio diversification and increase our portfolio s liquidity. To achieve our investment objective, we utilize the following investment strategy:

***Attractive Current Yield.*** We believe our sourcing network allows us to enter into transactions with attractive yields and investment structures. Based on current market conditions and our pipeline of new investments, we expect our target senior and unitranche secured debt will have an average maturity of three to five years and interest rates of 9% to 15%, and we expect our target junior secured debt and unsecured subordinated debt will have an average maturity of four to seven years and interest rates of 12% to 17%. In addition, based on current market conditions and our pipeline of new investments, we expect that our target debt investments will typically have a variable coupon (with a LIBOR floor), will typically receive upfront closing fees of 1% to 4% and may include payment-in-kind, or PIK, interest. We may also receive warrants or other forms of upside equity participation. Our transactions are generally secured and supported by a lien on all assets and/or a pledge of company stock in order to provide priority of return and to influence any corporate actions. Although we will target investments with the characteristics described in this paragraph, we cannot assure you that our new investments will have these characteristics and we may enter into investments with different characteristics as the market dictates. For a description of the characteristics of our current investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity. Until investment opportunities can be found, we may invest our undeployed capital in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

***Sound Portfolio Construction.*** We strive to exercise discipline in portfolio creation and management and to implement effective governance throughout our business. Monroe Capital has been, and MC Advisors, which is comprised by substantially the same investment professionals who have operated Monroe Capital, is, and we believe will continue to be, conservative in the underwriting and structuring of covenant packages in order to enable early intervention in the event of weak financial performance by a portfolio company. We seek to pursue lending opportunities selectively and to maintain a diversified portfolio. We believe that exercising disciplined portfolio management through continued intensive account monitoring and timely and relevant management reporting allows us to mitigate risks in our debt investments. In addition, we have implemented rigorous governance processes through segregation of duties, documented policies and procedures and independent oversight and review of transactions, which we believe helps us to maintain a low level of non-performing loans. We believe that Monroe Capital s proven process of thorough origination, conservative underwriting, due diligence and structuring, combined with careful account management and diversification, enabled it to protect investor capital, and we believe MC Advisors follows and will follow the same philosophy and processes in originating, structuring and managing our portfolio investments.

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***Predictability of Returns.*** Beyond conservative structuring and protection of capital, we seek a predictable exit from our investments. We seek to invest in situations where there are a number of potential exit options, including rapid amortization and excess cash-flow recapture resulting in full repayment or a modest refinance. We seek to structure the majority of our transactions as secured loans with a covenant package that provides for full or partial repayment upon the completion of asset sales and restructurings. Because we seek to structure these transactions to provide for contractually determined, periodic payments of principal and interest, we are less likely to depend on merger and acquisition activity or public equity markets to exit our debt investments. As a result, we believe that we can achieve our target returns even in a period when public markets are depressed.

# Competitive Strengths

We believe that we represent an attractive investment opportunity for the following reasons:

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital s experienced team comprised of approximately 40 professionals, including six senior partners that average more than 20 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. This extensive experience includes the management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital s senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital s formation in 2004 through December 31, 2013, Monroe Capital s investment professionals invested in more than 550 loan and related investments with an aggregate principal value of over $2.3 billion.

***Differentiated Relationship-Based Sourcing Network.*** We believe Monroe Capital s senior investment professionals benefit from extensive relationships with commercial banks, private equity firms, financial intermediaries, management teams and turn-around advisors. We believe that this broad sourcing network differentiates us from our competitors and offers us a diversified origination approach that does not rely on a single channel and offers us consistent deal flow throughout the economic cycle. We also believe that this broad network allows us to originate a substantial number of non-private equity-sponsored investments.

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital s broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 1,600 investment opportunities during 2013. Monroe Capital s over 550 previously executed transactions, over 200 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. As of December 31, 2013, Monroe Capital had a pipeline of over 200 transactions for an aggregate potential deal volume of greater than $4.0 billion for all funds under management. We are also positioned to benefit from Monroe Capital s established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital s senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

***Disciplined, Credit-First Underwriting Process.*** Monroe Capital has developed a systematic underwriting process that applies a consistent approach to credit review and approval, with a focus on evaluating credit first and then appropriately assessing the risk-reward profile of each loan. MC Advisors assessment of credit outweighs pricing and other considerations, as we seek to minimize potential credit losses through effective due diligence, structuring and covenant design. MC Advisors seeks to customize each transaction structure and financial covenant to reflect risks identified through the underwriting and due diligence process. We also seek to actively manage our origination and credit underwriting activities through personal visits and calls on all parties involved with an investment, including the management team, private equity sponsor, if any, or other lenders.

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***Established Credit Risk Management Framework.*** We seek to manage our credit risk through a well-defined portfolio strategy and credit policy. In terms of credit monitoring, MC Advisors assigns each loan to a particular portfolio management professional and maintains an internal credit rating analysis for all loans. MC Advisors then employs ongoing review and analysis, together with monthly investment committee meetings to review the status of certain complex and challenging loans and a comprehensive quarterly review of all loan transactions. MC Advisors investment professionals also have significant turnaround and work-out experience, which gives them perspective on the risks and possibilities throughout the entire credit cycle. We believe this careful approach to investment and monitoring enables us to identify problems early and gives us an opportunity to assist borrowers before they face difficult liquidity constraints. By anticipating possible negative contingencies and preparing for them, we believe that we diminish the probability of underperforming assets and loan losses.

# Credit Facility

On October 23, 2012, we entered into a credit facility with ING Capital LLC, or the Lender, as agent, which we amended on December 19, 2013. The credit facility currently consists of a revolving line of credit equal to $110.0 million, which may be increased to up to $200.0 million pursuant to an accordion feature.

We may make draws under the revolver from time-to-time through December 2016 to make or purchase additional investments or for general working capital purposes until the maturity date of the credit facility, or the earliest to occur of (a) December 19, 2017, subject to extension as mutually agreed by us and the Lender, (b) the termination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and the Lender. Substantially all of our assets are pledged as collateral under the revolving credit facility. The material terms of the credit facility are as follows:

- total borrowing capacity currently equal to $110.0 million and up to $200.0 million pursuant to an accordion feature, subject to, among other things, availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as valuation methodologies;
- an interest rate equal to, at our election, (a) LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when equity capitalization exceeds $175.0 million or (b) a fluctuating daily rate equal to 2.25% per annum plus the greater of the prime rate, the federal funds rate plus 0.5% or three-month LIBOR plus 1.0%; and
- customary financial covenants and negative covenants and events of default.

As of December 31, 2013, we had $76.0 million outstanding under our revolving credit facility and availability of $34.0 million.

# MCC SBIC

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MCC SBIC ), a Delaware limited partnership, received a license from the U.S. Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958. MCC SBIC commenced operations on September 16, 2013.

We have applied for exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities for the purposes of the 200% asset coverage ratio we are required to maintain under the 1940 Act.

## Operating and Regulatory Structure

Our investment activities are managed by MC Advisors under the direction of our board of directors, a majority of whom are independent of us, MC Advisors and our and its respective affiliates.

As a business development company, we are required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of notes, other borrowings and shares of preferred stock, our ability to use leverage is limited in significant respects. See Regulation. Any decision on our part to use leverage will depend upon our assessment of the

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attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. See Risk Factors Risks Relating to our Business and Structure We maintain a credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to risks typically associated with leverage and increases the risk of investing in us.

Also, as a business development company, we are generally prohibited from acquiring assets other than qualifying assets unless, after giving effect to any acquisition, at least 70% of our total assets are qualifying assets. Qualifying assets generally include securities of eligible portfolio companies, cash, cash equivalents, U.S. government securities and high-quality debt instruments maturing in one year or less from the time of investment. Under the rules of the 1940 Act, eligible portfolio companies include (a) private domestic operating companies, (b) public domestic operating companies whose securities are not listed on a national securities exchange (*e.g.*, The Nasdaq Global Market) or registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and (c) public domestic operating companies having a market capitalization of less than $250 million. Public domestic operating companies whose securities are quoted on the over-the-counter bulletin board or through Pink Sheets LLC are not listed on a national securities exchange and therefore are eligible portfolio companies. See Regulation. Additionally, to the extent we invest in the securities of companies domiciled in or with their principal places of business outside of the United States, we seek to limit those investments to companies domiciled or with their principal place of business in Canada. Any investments in Canadian companies will not be qualifying assets, meaning that in accordance with the 1940 Act, we cannot invest more than 30% of our assets in Canadian securities and other non-qualifying assets.

We have elected to be treated for U.S. federal income tax purposes as a RIC under the Code. In order to be treated as a RIC, we must satisfy certain source of income, asset diversification and distribution requirements. See Material U.S. Federal Income Tax Considerations.

# Conflicts of Interests

Subject to certain 1940 Act restrictions on co-investments with affiliates, MC Advisors has agreed to offer us the right to participate in all investment opportunities that it determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors. These offers are subject to the exception that, in accordance with MC Advisors conflict of interest and allocation policies, we might not participate in each individual opportunity but are entitled, on an overall basis, to participate equitably with other entities sponsored or managed by MC Advisors and its affiliates.

Affiliates of MC Advisors manage other assets in various structures, including a closed-end fund, a small business investment company and two private funds that also have an investment strategy focused primarily on senior, unitranche, and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity to lower middle-market companies. In addition, MC Advisors and/or its affiliates may manage other entities in the future with an investment strategy that has the same or similar focus as ours. To the extent we compete with entities managed by MC Advisors or any of its affiliates for a particular investment opportunity, MC Advisors seeks to allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates, (b) the requirements of the Advisers Act and (c) MC Advisors internal conflict of interest and allocation policies.

MC Advisors and/or its affiliates may in the future sponsor or manage investment funds, accounts or other investment vehicles with similar or overlapping investment strategies, and MC Advisors has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors seeks to ensure an equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. When we invest alongside such other accounts as permitted, such investments will be made consistent with MC Advisors allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including a majority of our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each

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account s capital available for investment, as determined, in our case, by our board of directors, including a majority of our independent directors. It is our policy to base our determinations as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures, which will generally require that such opportunities be offered to eligible accounts on a basis that is fair and equitable over time, including, for example, through random or rotational methods. We and MC Advisors have submitted an exemptive application to the SEC to permit greater flexibility to negotiate the terms of co-investments if our board of directors determines that it would be advantageous for us to co-invest with other funds managed by MC Advisors or its affiliates in a manner consistent with our investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. We cannot assure you that this application for exemptive relief will be granted by the SEC, or that, if granted, it would be on the same terms requested by us. See Related-Party Transactions and Certain Relationships.

# Corporate History and Additional Information

We were incorporated under the laws of Maryland on February 9, 2011. Our principal executive offices are located at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, and our telephone number is (312) 258-8300. We maintain a website at *www.monroebdc.com* and make all of our periodic and current reports, proxy statements and other information available, free of charge, on or through our website. Information on our website is not incorporated into or part of this prospectus. You may also obtain such information free of charge by contacting us in writing at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, attention: Investor Relations.

We have filed with the SEC a registration statement on Form N-2, of which this prospectus is a part, under the Securities Act of 1933, as amended, or the Securities Act. This registration statement contains additional information about us and the securities being offered by this prospectus. We also file periodic reports, current reports, proxy statements and other information with the SEC. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549 and on the SEC s website at *http://www.sec.gov*. Information on the operation of the SEC s public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

# Implications of Being an Emerging Growth Company

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an emerging growth company as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

we will present only two years of audited financial statements and only two years of related Management s Discussion & Analysis of Financial Condition and Results of Operations;
we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;
we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and

we have elected to use an extended transition period for complying with new or revised accounting standards. We may take advantage of these provisions until December 31, 2017 or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more

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than $1.0 billion in annual revenues, have more than $700 million in market value of our common stock held by non-affiliates or issue more than $1.0 billion of non-convertible debt over a three-year period.

## Risk Factors

The value of our assets, as well as the market price of our shares will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. See Risk Factors beginning on page 11 of this prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our common stock.

# FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and actual amounts and percentages may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you, us, the Company or Monroe Capital Corporation, that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Monroe Capital Corporation.

| | | |
|---|---|---|
| Stockholder transaction expenses: | | |
| Sales load (as a percentage of offering price) | | %(1) |
| Offering expenses (as a percentage of offering price) | | %(2) |
| Dividend reinvestment plan expenses | | %(3) |
| Total stockholder transaction expenses (as a percentage of offering price) | | % |
| Estimated annual expenses (as a percentage of net assets attributable to common stock): | | |
| Base management fee | 2.43 | %(4) |
| Incentive fees payable under the Investment Advisory Agreement | 1.95 | %(5) |
| Interest payments on borrowed funds | 2.70 | %(6) |
| Other expenses (estimated) | 2.44 | %(7) |
| Total annual expenses (estimated) | 9.52 | %(8) |

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

(2) The related prospectus supplement will disclose the estimated amount of total offering expenses (which may include offering expenses borne by third parties on our behalf), the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses of the dividend reinvestment plan are included in other expenses. See Dividend Reinvestment Plan.

(4) Our base management fee is 1.75% of our total assets (which includes assets purchased with borrowed amounts but does not include cash and cash equivalents). For the purposes of this table, we have assumed that the base management fee will remain at 1.75% as set forth in the Investment Advisory Agreement. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to the Investment Advisory Agreement generally must be submitted to our stockholders for approval. The base management fee percentage is calculated as a percentage of net assets attributable to common stockholders, rather than total assets, including assets that have been funded with borrowed monies, because common stockholders bear all of this cost. The base management fee in the table above assumes the base management fee remains consistent with fees incurred for the three months ended December 31, 2013 of $0.8

million, based on average total assets (excluding cash) for the period of $191.6 million, as a percentage of our average net assets for the period of $139.1 million. See Management and Other Agreements Investment Advisory Agreement.

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(5) Estimated assuming that annual incentive fees earned by MC Advisors remains consistent with the incentive fees earned for the three months ended December 31, 2013 of $0.7 million, as a percentage of our average net assets of $139.1 million for the period, adjusted for a reduction in incentive fees associated with the removal of the cap on administrative expenses set forth in footnote (7), below.

The incentive fee consists of two parts:

The first part of the incentive fee, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 2% quarterly (8% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, MC Advisors receives no incentive fee until our net investment income equals the hurdle rate of 2% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, MC Advisors will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The first component of the incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. Since the hurdle rate is fixed, as interest rates rise, it will be easier for the MC Advisors to surpass the hurdle rate and receive an incentive fee based on net investment income. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our preincentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20% of the amount by which our preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of our preincentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters.

The second part of the incentive fee, payable annually in arrears, equals 20% of our realized capital gains on a cumulative basis from inception through the end of the fiscal year, if any (or upon the termination of the Investment Advisory Agreement, as of the termination date), computed net of all realized capital losses on a cumulative basis and unrealized capital depreciation, less the aggregate amount of any previously paid capital gain incentive fees. We will accrue (but not pay) an expense for potential payment of capital gain incentive fees with respect to any unrealized appreciation on our portfolio.

See Management and Other Agreements Investment Advisory Agreement.

(6) We may borrow funds from time to time to make investments to the extent we determine that it is appropriate to do so. The costs associated with any outstanding borrowings are indirectly borne by our investors. The table assumes borrowings are consistent with the average borrowings for the three months ended December 31, 2013 of $73.0 million, no preferred stock issued or outstanding and average net assets of $139.1 million. For the three months ended December 31, 2013, we had interest expense of $0.9 million. As of December 31, 2013, the weighted average interest rate of our revolving credit facility (excluding debt issuance costs) was 4.1%. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

(7) Includes our estimated overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by MC Management. The table above assumes other expenses remain consistent with those incurred during the three months ended December 31, 2013 and average net

assets for the period of $139.1 million. While such expenses were capped in each quarter through the quarter ended December 31, 2013 at the greater of (i) 0.375% of average invested assets (calculated as total assets less cash and cash equivalents) for such quarter and (ii) $375,000, this calculation did not take into account this cap, as the cap will no longer apply after December 31, 2013. See Management and Other Agreements Administration Agreement.

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(8) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. We calculate the total annual expenses percentage as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been purchased with borrowed amounts. The terms of our indebtedness may be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Borrowings. If the total annual expenses percentage were calculated instead as a percentage of consolidated total assets, our total annual expenses would be 5.98% of consolidated total assets. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets after such borrowing. We have included our estimated leverage expenses (consistent with the assumptions in footnote (7)) for the twelve months following this offering in total annual expenses.

# Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents and that our annual operating expenses would remain at the levels set forth in the table above. Transaction expenses are not included in the following example.

| You would pay the following expenses on a $1,000 investment | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation) | $ 76 | $ 227 | $ 379 | $ 757 |
| Assuming a 5% annual return (assumes entire return is from realized capital gains and thus subject to the capital gains incentive fee) | $ 86 | $ 259 | $ 434 | $ 883 |

This table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. The example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. As incentive fees vary based on the character of the 5% return, the example above provides (i) expenses assuming no return from capital gains (therefore not meeting the hurdle rate for the first part of the incentive fee) and (ii) expenses assuming the entire return is from realized capital gains (resulting in a capital gains incentive fee). For the year ended December 31, 2013, 11.4% of our return was comprised of realized and unrealized capital gains. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

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# RISK FACTORS

*Investing in our common stock involves a number of significant risks. Before you invest in our common stock, you should be aware of various risks associated with the investment, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus and any applicable prospectus supplement, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.*

## Risks Relating to Our Business and Structure

### We have a limited operating history as a business development company and a RIC, and MC Advisors has limited experience managing a business development company or a RIC; we may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.

We were incorporated in February 2011 and have a limited operating history as a stand-alone entity. Because of our limited operating history, we have limited historical results of operations on which you might otherwise rely for evaluating our business, results of operations and prospects. You should evaluate our business, results of operations and prospects in light of the risks and difficulties we may encounter, including the risk that we will not achieve our investment objective.

Prior to our initial public offering in October 2012, we had not operated as a business development company or qualified to be treated as a RIC, and MC Advisors had not previously managed us or any business development company or RIC. As a result, we have limited operating results under these regulatory frameworks that can demonstrate to you either their effect on our business or our ability to manage our business under these frameworks. We are subject to the business risks and uncertainties associated with recently formed entities of these types, including the risk that we will not achieve our investment objective, or that we will not maintain our qualification to be treated as a RIC, and that the value of your investment could decline substantially.

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to other investment vehicles managed by affiliates of MC Advisors. Business development companies are required, for example, to invest at least 70% of their total assets in qualifying assets, which generally include securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Any failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a business development company. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a business development company, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business. Moreover, qualification for treatment as a RIC requires satisfaction of source-of-income, asset diversification and distribution requirements. None of us, MC Advisors or any of our or their respective affiliates has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective.

## We depend upon MC Advisors senior management for our success, and upon its access to the investment professionals of Monroe Capital and its affiliates.

We do not have any internal management capacity or employees. We depend on the investment expertise, skill and network of business contacts of the senior investment professionals of MC Advisors, who evaluate, negotiate, structure, execute, monitor and service our investments in accordance with the terms of the Investment Advisory Agreement. Our success depends to a significant extent on the continued service and

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coordination of the senior investment professionals of MC Advisors, particularly Messrs. Koenig, Peck, Egan and VanDerMeid. Messrs. Koenig, Peck, Egan and VanDerMeid may have other demands on their time now and in the future, and we cannot assure you that they will continue to be actively involved in our management. Each of these individuals is an employee of MC Management and is not subject to an employment contract. The departure of any of these individuals or competing demands on their time in the future could have a material adverse effect on our ability to achieve our investment objective.

MC Advisors evaluates, negotiates, structures, closes and monitors our investments in accordance with the terms of the Investment Advisory Agreement. We can offer no assurance, however, that MC Advisors senior investment professionals will continue to provide investment advice to us. If these individuals do not maintain their existing relationships with Monroe Capital and its affiliates and do not develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio or achieve our investment objective. In addition, individuals with whom Monroe Capital s senior investment professionals have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

MC Advisors, an affiliate of Monroe Capital, provides us with access to Monroe Capital s investment professionals. MC Advisors also depends upon Monroe Capital to obtain access to deal flow generated by the investment professionals of Monroe Capital and its affiliates. The Staffing Agreement provides that MC Management will make available to MC Advisors experienced investment professionals and access to the senior investment personnel of Monroe Capital for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to this Staffing Agreement and cannot assure you that MC Management will fulfill its obligations under the agreement. Furthermore, the Staffing Agreement may be terminated by either party without penalty upon 60 days written notice to the other party. If MC Management fails to perform or terminates the agreement, we cannot assure you that MC Advisors will enforce the Staffing Agreement or that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of Monroe Capital and its affiliates or their information and deal flow.

The investment committee that oversees our investment activities is provided by MC Advisors under the Investment Advisory Agreement. MC Advisors investment committee consists of Messrs. Koenig, Peck, Egan and VanDerMeid. The loss of any member of MC Advisors investment committee or of other Monroe Capital senior investment professionals would limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition and results of operations.

## Our business model depends to a significant extent upon strong referral relationships with financial institutions, sponsors and investment professionals. Any inability of MC Advisors to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We depend upon the senior investment professionals of MC Advisors to maintain their relationships with financial institutions, sponsors and investment professionals, and we rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the senior investment professionals of MC Advisors fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the senior investment professionals of MC Advisors have relationships are not obligated to provide us with investment opportunities, and, therefore, we can offer no assurance that these relationships will generate investment opportunities for us in the future.

### Our financial condition and results of operation depend on our ability to manage our business effectively.

Our ability to achieve our investment objective and grow depends on our ability to manage our business. This depends, in turn, on MC Advisors ability to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives depends upon MC Advisors execution of our investment process, its ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. MC Advisors has substantial responsibilities under the Investment Advisory Agreement. The senior origination professionals and other personnel of MC Advisors and its affiliates may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. Our results of operations depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies, it could negatively impact our ability to pay dividends or other distributions and you may lose all or part of your investment.

## There may be conflicts related to obligations that MC Advisors senior investment professionals and members of its investment committee have to other clients.

The senior investment professionals and members of the investment committee of MC Advisors serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds, accounts or other investment vehicles sponsored or managed by MC Advisors or its affiliates. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in our best interests or in the best interest of our stockholders. For example, Messrs. Koenig, Egan and VanDerMeid have and will continue to have, and Mr. Peck may have, management responsibilities for other investment funds, accounts or other investment vehicles sponsored or managed by affiliates of MC Advisors. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our stockholders. MC Advisors seeks to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy.

Affiliates of MC Advisors manage other assets in a closed-end fund, a small business investment company and two private funds that also have an investment strategy focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt to lower middle-market companies. None of these funds is registered with the SEC. In addition, although we are currently the only entity managed by MC Advisors, MC Advisors and/or its affiliates may manage other entities in the future with an investment strategy that has the same or similar focus as ours.

Monroe Capital and its affiliates seek to allocate investment opportunities among eligible accounts made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors, including our independent directors. It is the policy of Monroe Capital and its affiliates to base the determinations as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures which require that such opportunities be offered to eligible accounts on a basis that is fair and equitable over time, including, for example, through random or rotational methods. However, there can be no assurance that we will be able to participate in all investment opportunities that are suitable to us.

## MC Advisors or its investment committee may, from time to time, possess material nonpublic information, limiting our investment discretion.

The managing members and the senior origination professionals of MC Advisors and the senior professionals and members of MC Advisors investment committee may serve as directors of, or in a similar capacity with, companies in which we invest, the securities of which are purchased or sold on our behalf. In the event that material nonpublic information is obtained with respect to such companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have a material adverse effect on us.

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## Our incentive fee structure may create incentives for MC Advisors that are not fully aligned with the interests of our stockholders.

In the course of our investing activities, we pay management and incentive fees to MC Advisors. Management fees are based on our total assets (which include assets purchased with borrowed amounts but exclude cash and cash equivalents). As a result, investors in our common stock invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than one might achieve through direct investments. Because these fees are based on our total assets, including assets purchased with borrowed amounts but excluding cash and cash equivalents, MC Advisors benefits when we incur debt or otherwise use leverage. This fee structure may encourage MC Advisors to cause us to borrow money to finance additional investments or to maintain leverage when it would otherwise be appropriate to pay off our indebtedness. Under certain circumstances, the use of borrowed money may increase the likelihood of default, which would disfavor our stockholders. Our board of directors is charged with protecting our interests by monitoring how MC Advisors addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each investment, our independent directors periodically review MC Advisors services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors consider whether our fees and expenses (including those related to leverage) remain appropriate. As a result of this arrangement, MC Advisors or its affiliates may from time to time have interests that differ from those of our stockholders, giving rise to a conflict.

The part of the incentive fee payable to MC Advisors that relates to our net investment income is computed and paid on income that may include interest income that has been accrued but not yet received in cash. This fee structure may be considered to involve a conflict of interest for MC Advisors to the extent that it may encourage MC Advisors to favor debt financings that provide for deferred interest, rather than current cash payments of interest. MC Advisors may have an incentive to invest in PIK interest securities in circumstances where it would not have done so but for the opportunity to continue to earn the incentive fee even when the issuers of the deferred interest securities would not be able to make actual cash payments to us on such securities. This risk could be increased because MC Advisors is not obligated to reimburse us for any incentive fees received even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. In addition, the part of the incentive fee payable to MC Advisors that relates to our net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Any net investment income incentive fee would not be subject to repayment.

## Our incentive fee may induce MC Advisors to make certain investments, including speculative investments.

MC Advisors receives an incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, MC Advisors may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

## The Investment Advisory Agreement with MC Advisors and the Administration Agreement with MC Management were not negotiated on an arm s length basis and may not be as favorable to us as if they had been negotiated with an unaffiliated third-party.

We negotiated the Investment Advisory Agreement and the Administration Agreement with related parties. Consequently, their terms, including fees payable to MC Advisors, may not be as favorable to us as if they had been negotiated with an unaffiliated third-party. In addition, we may choose not to enforce, or to enforce less vigorously, our rights and remedies under these agreements because of our desire to maintain our ongoing relationship with MC Advisors and MC Management. Any such decision, however, would breach our fiduciary obligations to our stockholders.

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## Our ability to enter into transactions with our affiliates is restricted, which may limit the scope of investments available to us.

We are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain joint transactions with certain of our affiliates, which could include investments in the same portfolio company, without prior approval of our independent directors and, in some cases, of the SEC. We are prohibited from buying or selling any security from or to any person who owns more than 25% of our voting securities or certain of that person s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. As a result of these restrictions, we may be prohibited from buying or selling any security (other than any security of which we are the issuer) from or to any portfolio company of a private equity fund managed by MC Advisors or its affiliates without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

We may, however, co-invest with MC Advisors and its affiliates other clients in certain circumstances where doing so is consistent with applicable law and SEC staff interpretations. For example, we may co-invest with such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that MC Advisors, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also co-invest with MC Advisors other clients as otherwise permissible under regulatory guidance, applicable regulations and MC Advisors allocation policy, which the investment committee of MC Advisors maintains in writing. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, is offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including our independent directors. The allocation policy further provides that allocations among us and these other accounts are generally made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors. It is our policy to base our determinations as to the amount of capital available for investment based on such factors as: the amount of cash on-hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. However, we can offer no assurance that investment opportunities will be allocated to us fairly or equitably in the short-term or over time.

In situations where co-investment with other funds managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between our interests and those of other MC Advisors clients, MC Advisors must decide which client will proceed with the investment. MC Advisors makes these determinations based on its policies and procedures, which generally require that such opportunities be offered to eligible accounts on an alternating basis that will be fair and equitable over time. Moreover, except in certain circumstances, we are unable to invest in any issuer in which a fund managed by MC Advisors or its affiliates has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of the majority of the members of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the business development company regulations governing transactions with affiliates to prohibit certain joint transactions between entities that share a common investment adviser.

We and MC Advisors have submitted an application for exemptive relief from the SEC to permit us to negotiate the terms of co-investments if our board of directors determines that it would be advantageous for us to co-invest with other funds managed by MC Advisors or its affiliates in a manner consistent with our

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investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. We believe that co-investment by us and other funds managed by MC Advisors and its affiliates may afford us additional investment opportunities and an ability to achieve greater diversification. Accordingly, our application for exemptive relief seeks an exemptive order permitting us to invest with funds managed by MC Advisors or its affiliates in the same portfolio companies under circumstances in which such investments would otherwise not be permitted by the 1940 Act. There can be no assurance that we will obtain exemptive relief or that if we do obtain such relief it will be obtained on the terms we have outlined in our request. We expect that such exemptive relief permitting co-investments, if granted, would apply only if our independent directors review and approve each co-investment.

## We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.

We compete with a number of specialty and commercial finance companies to make the types of investments that we make in middle-market companies, including business development companies, traditional commercial banks, private investment funds, regional banking institutions, small business investment companies, investment banks and insurance companies. Additionally, with increased competition for investment opportunities, alternative investment vehicles such as hedge funds may seek to invest in areas they have not traditionally invested in or from which they had withdrawn during the economic downturn, including investing in middle-market companies. As a result, competition for investments in lower middle-market companies has intensified, and we expect that trend to continue. Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we offer. We may lose investment opportunities if we do not match our competitors pricing, terms and structure. If we are forced to match our competitors pricing, terms and structure, however, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the lower middle-market is underserved by traditional commercial and investment banks, and generally has less access to capital. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms.

Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company or the source of income, asset diversification and distribution requirements we must satisfy to maintain our RIC status. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objective.

## We will be subject to corporate-level federal income tax if we are unable to qualify or maintain qualification as a RIC under Subchapter M of the Code.

We have elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ending December 31, 2012 and for succeeding tax years; however, no assurance can be given that we will be able to qualify for and maintain RIC status. To qualify as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to our stockholders, we must meet certain requirements, including source-of-income, asset diversification and distribution requirements. The annual distribution requirement applicable to RICs is satisfied if we distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. In addition, we will be subject to a 4% nondeductible federal excise tax to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar year basis. To the extent we use debt financing, we will be subject to certain asset coverage ratio requirements under the 1940 Act and may be subject to financial covenants under loan and credit agreements, each of which could, under certain

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circumstances, restrict us from making annual distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify and maintain our qualification for the tax benefits available to RICs and, thus, may be subject to corporate-level federal income tax on our entire taxable income without regard to any distributions made by us. To qualify and maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify as a RIC for any reason and become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distributions to stockholders and the amount of our distributions and the amount of funds available for new investments. Such a failure would have a material adverse effect on us and our stockholders. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

## An extended continuation of the disruption in the capital markets and the credit markets could negatively affect our business.

As a business development company, it will be necessary for us to maintain our ability to raise additional capital for investment purposes. Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new business opportunities. Since the middle of 2007, the capital markets and the credit markets have experienced periods of extreme volatility and disruption and, accordingly, there has been and will continue to be uncertainty in the financial markets in general. Ongoing disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and could adversely impact our results of operations and financial condition.

We access the capital markets periodically to issue debt or equity securities or borrow from financial institutions in order to obtain such additional capital. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. A reduction in the availability of new capital could limit our ability to pursue new business opportunities and grow our business. In addition, we are required to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders to qualify for the tax benefits available to RICs. As a result, these earnings will not be available to fund new investments. An inability to access the capital markets successfully could limit our ability to grow our business and execute our business strategy fully and could decrease our earnings, if any, which may have an adverse effect on the value of our securities.

## We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, or through contracted PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Original issue discount, which could be significant relative to our overall investment activities, or increases in loan balances as a result of contracted PIK arrangements, will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as original issue discount and PIK interest. If we pay a net investment income incentive fee on interest that has been accrued, but not yet received in cash, it will increase the basis of our investment in that loan, which will reduce the capital gain incentive fee that we would otherwise pay in the future. Nevertheless, if we pay a net investment income incentive fee on interest that has been accrued but not yet received, and if that portfolio company defaults on such a loan, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible.

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Because we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirements applicable to RICs. In such a case, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations and sourcings to meet these distribution requirements. If we are not able to obtain such cash from other sources, we may fail to qualify for the tax benefits available to RICs and thus be subject to corporate-level income tax. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a business development company to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets less all liabilities and indebtedness not represented by senior securities, immediately 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. In addition, issuance of securities could dilute the percentage ownership of our current stockholders in us.

No person or entity from which we borrow money will have a veto power or a vote in approving or changing any of our fundamental policies. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights on certain matters and might have other rights, preferences or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest. Holders of our common stock will directly or indirectly bear all of the costs associated with offering and servicing any preferred stock that we issue. In addition, any interests of preferred stockholders may not necessarily align with the interests of holders of our common stock and the rights of holders of shares of preferred stock to receive dividends would be senior to those of holders of shares of our common stock.

As a business development company, we generally are not able to issue our common stock at a price below net asset value per share without first obtaining the approval of our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then percentage ownership of our stockholders at that time would decrease, and you might experience dilution. We have stockholder approval to sell our common stock below net asset value through July 9, 2014. We may seek further stockholder approval to sell shares below net asset value in the future.

## We maintain a credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to risks typically associated with leverage and increases the risk of investing in us.

We maintain a credit facility and may borrow money, including through the issuance of debt securities or preferred stock, to leverage our capital structure, which is generally considered a speculative investment technique. As a result:

our common stock is exposed to an increased risk of loss because a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use leverage;
if we do not appropriately match the assets and liabilities of our business, adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;
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our ability to pay distributions on our common stock may be restricted if our asset coverage ratio, as provided in the 1940 Act, is not at least 200% and any amounts used to service indebtedness or preferred stock would not be available for such distributions;

any credit facility is subject to periodic renewal by its lenders, whose continued participation cannot be guaranteed;

our credit facility with ING Capital LLC, as agent, is, and any other credit facility we may enter into would be, subject to various financial and operating covenants, including that our portfolio of investments satisfies certain eligibility and concentration limits as well as valuation methodologies;

such securities would be governed by an indenture or other instrument containing covenants restricting our operating flexibility;

we bear the cost of issuing and paying interest or distributions on such securities, which costs are entirely borne by our common stockholders; and

any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock.

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

| | Assumed Return on Our Portfolio (Net of Expenses)(1) | | | | |
|---|---|---|---|---|---|
| | -10% | -5% | 0% | 5% | 10% |
| Corresponding return to common stockholder(2) | -20.07 % | -11.50 % | -2.93 % | 5.64 % | 14.21 % |

(1) The assumed return on our portfolio is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) Assumes $240.0 million in total assets, $100.0 million in debt outstanding, $140.0 million in net assets and an average cost of funds of 4.1%, which was the weighted average interest rate of our revolving credit facility as of December 31, 2013. The interest rate on our revolving credit facility is a variable rate. See Summary Credit Facility.

## Pending legislation may allow us to incur additional leverage.

Under the 1940 Act, as a business development company we are generally not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200%. On April 26, 2013, legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to business development companies. On November 14, 2013 the U.S. House of Representatives Financial Services Committee favorably reported a version of the legislation for consideration by the full U.S. House of Representatives. This legislation, among other things, provides for increasing the amount business development companies may borrow by reducing the asset-to-debt limitation from 200% to 150%. As a result, if this or similar legislation were to pass, we may be able to incur additional indebtedness in the future and therefore risks related to incurring indebtedness may increase.

## We are subject to risks associated with our credit facility.

Our credit facility, as amended, imposes certain conditions that may limit the amount of our distributions to stockholders. Distributions payable in our common stock under our Dividend Reinvestment Plan are not limited by the credit facility. Distributions in cash or property other than our common stock are generally limited to 110% (125% in certain instances) of the amount of distributions required to maintain our status as a RIC. We are required under the credit facility to maintain our status as a RIC.

The credit facility requires us to comply with certain financial and operational covenants, including asset and interest coverage ratios, a minimum net worth and minimum number of portfolio investments. For example, the credit facility requires that we maintain an asset coverage ratio of at least 2.15 to 1 at all times and a consolidated interest coverage ratio of at least 2.50 to 1 as of the last day of any fiscal quarter. We may

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divert cash to pay the lenders in amounts sufficient to cause these tests to be satisfied. Our compliance with these covenants depends on many factors, some of which, such as market conditions, are beyond our control.

Our ability to sell our investments is also limited under the credit facility. The sale of any portfolio investment may not cause our covered debt amount to exceed our borrowing base. As a result, there may be times or circumstances during which we are unable to sell investments, pay distributions or take other actions that might be in our best interests.

## To the extent we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income.

To the extent we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with issuances of equity and long-term debt securities. 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.

You should also be aware that a rise in the general level of interest rates typically leads to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates may result in an increase of the amount of incentive fees payable to MC Advisors.

## We will be exposed to risks associated with changes in interest rates.

Interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could have an adverse impact on our net investment income while an increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates and increase our interest expense, thereby decreasing our net income. An increase in interest rates available to investors could also make investment in our common stock less attractive unless we are able to increase our dividend rate. In addition, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations.

## MCC SBIC will be subject to SBA regulations.

Under current SBA regulations, a licensed SBIC can invest in entities that have a tangible net worth not exceeding $18.0 million and an average annual net income after U.S. federal income taxes not exceeding $6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must invest 25.0% of its capital in those entities that have a tangible net worth not exceeding $6.0 million and an average annual net income after U.S. federal income taxes not exceeding $2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on either the number of employees or the gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in certain prohibited industries. Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA staff to determine its compliance with the relevant SBA regulations. Compliance with these SBA requirements may cause MCC SBIC to forego attractive investment opportunities that are not permitted under the SBA regulations, and may cause MCC SBIC to make investments it otherwise would not make in order to remain in compliance with these regulations.

Failure to comply with the SBA regulations could result in the loss of the SBIC license and the resulting inability to participate in the SBA debenture program. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. Current SBA regulations provide the SBA with certain rights and remedies if an SBIC violates their terms. Remedies for regulatory violations are graduated in severity depending on the seriousness of capital impairment or other regulatory violations. For minor regulatory infractions, the SBA issues a warning. For more serious infractions, the use of SBA debentures may be limited or prohibited, outstanding debentures can be declared to be immediately due and payable, restrictions on distributions and making new investments may be imposed and management fees may be required to be reduced. In severe cases, the SBA may require the removal of a general partner of an SBIC or its officers, directors, managers or partners, or the SBA may obtain appointment of a receiver for the SBIC.

## SBA regulations limit the amount that may be borrowed from the SBA by an SBIC.

The SBA regulations currently limit the amount that is available to be borrowed by any SBIC and guaranteed by the SBA to 300.0% of an SBIC s regulatory capital or $150.0 million, whichever is less. For two or more SBICs under common control, the maximum amount of outstanding SBA debentures cannot exceed $225.0 million. As we have an affiliated SBIC already in operations with $150.0 million in SBA debentures as of December 31, 2013, the maximum available for our affiliate group is $75.0 million. In addition to the MCC SBIC license, another non-subsidiary affiliate has also received a license which could further reduce the maximum borrowing capacity of MCC SBIC in SBA debentures. If MCC SBIC borrows the maximum amount from the SBA and thereafter requires additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, there can be no assurance that MCC SBIC will continue to receive SBA debenture funding. Receipt of SBA debenture funding is dependent upon an SBIC s continued compliance with SBA regulations and policies and the availability of funding. The amount of SBA debenture funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient SBA debenture funding available at the times desired by MCC SBIC.

The debentures issued by MCC SBIC to the SBA would have a maturity of ten years and bear interest semi-annually at fixed rates. MCC SBIC would need to generate sufficient cash flow to make required debt payments to the SBA. If MCC SBIC is unable to generate such cash flow, the SBA, as a debt holder, will have a superior claim to our assets over our stockholders in the event it liquidates or the SBA exercises its remedies under such debentures as the result of a default by MCC SBIC.

## MCC SBIC, as an SBIC, will be limited in its ability to make distributions to us, which could result in us being unable to meet the minimum distribution requirements to maintain our status as a RIC.

In order to maintain our status as a RIC, we are required to distribute to our stockholders on an annual basis 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses. For this purpose, our taxable income will include the income of MCC SBIC (and any other entities that are disregarded as separate from us for U.S. federal income tax purposes). MCC SBIC s ability to make distributions to us may be limited by the Small Business Investment Act of 1958. As a result, in order to maintain our status as a RIC, we may be required to make distributions attributable to MCC SBIC s income without receiving any corresponding cash distributions from it with respect to such income. We can make no assurances that MCC SBIC will be able to make, or not be limited in making, distributions to us. If we are unable to satisfy the annual distribution requirements, we may fail to maintain our status as a RIC, which would result in the imposition of corporate-level U.S. federal income tax on our entire taxable income without regard to any distributions made by us. See We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code.

## If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a business development company, which would have a material adverse effect on our business, financial condition and results of operations.

As a business development company, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying

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assets. See Regulation Qualifying Assets. We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to business development companies and possibly lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations.

## Many of our portfolio investments will be recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.

Under the 1940 Act, we are required to carry our portfolio investments at market value or if there is no readily available market value, at fair value as determined by our board of directors. Many of our portfolio investments may take the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable, and we value these securities at fair value as determined in good faith by our board of directors, including to reflect significant events affecting the value of our securities. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

- a comparison of the portfolio company s securities to publicly traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company s ability to make payments and its earnings and discounted cash flow;
- the markets in which the portfolio company does business; and
- changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

We expect that most of our investments (other than cash and cash equivalents) will be classified as Level 3 in the fair value hierarchy and require disclosures about the level of disaggregation along with the inputs and valuation techniques we use to measure fair value. This means that our portfolio valuations are based on unobservable inputs and our own assumptions about how market participants would price the asset or liability in question. Inputs into the determination of fair value of our portfolio investments require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimers materially reduces the reliability of such information. We employ the services of one or more independent service providers to review the valuation of these securities. The types of factors that the board of directors may take into account in determining the fair value of our investments generally include, as appropriate, comparison to publicly traded securities including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty in the value of our portfolio investments, a fair value determination may cause net asset value on a given date to materially understate or overstate the value that we may ultimately realize upon one or more of our investments. As a result, investors purchasing shares of our common stock based on an overstated net asset value would pay a higher price than the value of the investments might warrant. Conversely, investors selling shares during a period in which the net asset value understates the value of investments will receive a lower price for their shares than the value the investment portfolio might warrant.

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We adjust quarterly the valuation of our portfolio to reflect the determination of our board of directors of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of income as net change in unrealized appreciation or depreciation.

## We may experience fluctuations in our quarterly operating results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, 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. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

## We have filed applications with the SEC requesting exemptive relief from certain provisions of the 1940 Act.

The 1940 Act prohibits certain transactions between us, Monroe Capital LLC, and our and its affiliates without first obtaining an exemptive order from the SEC. We have filed an application with the SEC requesting an SEC order exempting us, MC Advisors, MC Management and certain other affiliates of Monroe Capital from certain provisions of the 1940 Act restricting our ability to co-invest with our affiliates. In addition, we have applied for an SEC order permitting us to exclude the debt of MCC SBIC guaranteed by the SBA from the definition of senior securities for the purposes of the 200% asset coverage ratio we are required to maintain under the 1940 Act. While the SEC has granted exemptive relief in substantially similar circumstances in the past, no assurance can be given that an exemptive order will be granted for this request. Delays and costs involved in obtaining necessary approvals may make certain transactions impracticable or impossible to consummate, and there is no assurance that any application for exemptive relief will be granted by the SEC.

## Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We and our portfolio companies are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we or our portfolio companies are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In particular, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became law. The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of many implementing regulations over the next several months and years. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them and the approaches taken in implementing regulations. We have begun to assess the impact of the Dodd-Frank Act on our business and operations, but at this time the impact cannot be fully ascertained with any degree of certainty.

Additionally, changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus and may shift our investment focus from the areas of expertise of MC Advisors to other types of investments in which MC Advisors may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

## Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our board of directors has the authority, except as otherwise prohibited by the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. Under Maryland law, we also cannot be dissolved

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without prior stockholder approval except by judicial action. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the price value of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions.

## MC Advisors can resign on 60 days notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

MC Advisors has the right to resign under the Investment Advisory Agreement without penalty at any time upon 60 days written notice to us, whether we have found a replacement or not. If MC Advisors resigns, we may not be able to find a new investment advisor or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by MC Advisors and its affiliates. Even if we were able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

## MC Management can resign on 60 days notice from its role as our administrator under the Administration Agreement, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

MC Management has the right to resign under the Administration Agreement without penalty upon 60 days written notice to us, whether we have found a replacement or not. If MC Management resigns, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by MC Management. Even if we were able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

## We are an emerging growth company, and we do not know if such status will make our common stock less attractive to investors.

We currently are, and expect to remain, an emerging growth company, as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, signed into law on April 5, 2012, until the earliest of:

- the last day of our fiscal year ending December 31, 2017;
- the year in which our total annual gross revenues first exceed $1.0 billion;
- the date on which we have, during the prior three-year period, issued more than $1.0 billion in non-convertible debt; and
- the last day of a fiscal year in which we (1) have an aggregate worldwide market value of our common stock held by non-affiliates of $700 million or more, computed at the end of each fiscal year as of the last business day of our most recently completed second fiscal quarter, and (2) have been an Exchange Act reporting company for at least one year (and filed at least one annual report under the Exchange Act).

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Although we are still evaluating the JOBS Act, we currently intend to take advantage of some or all of the reduced regulatory and disclosure requirements permitted by the JOBS Act and, as a result, some investors may consider our common stock less attractive, which could reduce the market value of our common stock. For example, while we are an emerging growth company, we will take advantage of exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting and the extended transition period available to emerging growth companies to comply with new or revised accounting standards until those standards are applicable to private companies. As a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. This may increase the risk that material weaknesses or other deficiencies in our internal control over financial reporting go undetected.

## Efforts to comply with the Sarbanes-Oxley Act involve significant expenditures, and non-compliance with the Sarbanes-Oxley Act may adversely affect us and the market price of our common stock.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other rules implemented by the SEC.

We are subject to the Sarbanes-Oxley Act, and the related rules and regulations promulgated by the SEC. Under current SEC rules, our management is required to report on its internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal controls over financial reporting, and on a quarterly and annual basis to evaluate and disclose changes in our internal controls over financial reporting. As a result, we expect to continue to incur associated expenses in the near term, which may negatively impact our financial performance and our ability to make distributions. This process also will result in a diversion of our management s time and attention. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations and may not be able to ensure that the process is effective or that the internal controls are or will be effective in a timely manner. There can be no assurance that we successfully identified and resolved all issues required to be disclosed prior to becoming a public company or that our quarterly reviews and annual audits will not identify additional material weaknesses. In the event that we are unable to maintain or achieve compliance with the Sarbanes-Oxley Act and related rules, our value and results or operations may be adversely affected. As a result, we expect to incur significant associated expenses in the near term, which may negatively impact our financial performance and our ability to make distributions.

## As an emerging growth company, we intend to follow certain permitted corporate governance practices instead of the otherwise applicable SEC and Nasdaq requirements, which may result in less protection than is accorded to investors in a non-emerging growth company.

As an emerging growth company, we are permitted and intend to follow certain permitted corporate governance practices instead of those otherwise required by the SEC and under the listing requirements of the Nasdaq Global Market. Following our emerging growth company governance practices as opposed to the requirements that would otherwise apply to a company listed on the Nasdaq Global Market may provide less protection to you than what is accorded to investors under the Listing Rules of the Nasdaq Stock Market applicable to non-emerging growth company issuers.

## We depend on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business depends on the communications and information systems of MC Management. Any failure or interruption of such systems could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

### We may incur lender liability as a result of our lending activities.

In recent years, a number of judicial decisions have upheld the right of borrowers and others to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We may be subject to allegations of lender liability, which could be time-consuming and expensive to defend and result in significant liability.

### We may incur liability as a result of providing managerial assistance to our portfolio companies.

In the course of providing significant managerial assistance to certain portfolio companies, certain of our management and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of investments in these companies, our management and directors may be named as defendants in such litigation, which could result in an expenditure of our funds, through our indemnification of such officers and directors, and the diversion of management time and resources.

### MC Advisors may not be able to achieve the same or similar returns as those achieved by our senior management and investment teams while they were employed at prior positions.

The track record and achievements of the senior investment professionals of Monroe Capital are not necessarily indicative of future results that will be achieved by MC Advisors. As a result, MC Advisors may not be able to achieve the same or similar returns as those achieved by the senior investment professionals of Monroe Capital.

## Risks Related to Our Investments

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

Many of our portfolio companies are susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may decrease the value of collateral securing some of our loans and the value of our equity investments and could lead to financial losses in our portfolio and a corresponding decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our investments and harm our operating results.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of its loans and foreclosure on its assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken if we or MC Advisors render significant managerial assistance to the borrower.

We depend on information systems and systems failures could significantlydisrupt our business, which may, in turn

Furthermore, if one of our portfolio companies were to file for bankruptcy protection, even though we may have structured our investment as senior secured debt, depending on the facts and circumstances, including the extent to which we or MC Advisors provided managerial assistance to that portfolio company or otherwise exercise control over it, a bankruptcy court might re-characterize our debt as a form of equity and subordinate all or a portion of our claim to claims of other creditors.

## Current market conditions have materially and adversely affected debt and equity capital markets in the United States and around the world.

From mid-2007 through mid-2012, the global capital markets experienced periods of disruption resulting in increasing spreads between the yields realized on riskier debt securities and those realized on securities perceived as being risk-free and a lack of liquidity in parts of the debt capital markets, significant write-offs in

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the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broadly syndicated market. These events, along with the deterioration of the housing market, illiquid market conditions, declining business and consumer confidence and the failure of major financial institutions in the United States, led to a general decline in economic conditions. This economic decline has materially and adversely affected the broader financial and credit markets and has reduced the availability of debt and equity capital for the market as a whole and to financial firms in particular. To the extent that we wish to use debt to fund our investments, the debt capital that will be available to us, if at all, may be at a higher cost, and on terms and conditions that may be less favorable, than what we expect, which could negatively affect our financial performance and results. A prolonged period of market illiquidity may cause us to reduce the volume of loans we originate and/or fund below historical levels and adversely affect the value of our portfolio investments, which could have a material and adverse effect on our business, financial condition, and results of operations. Although the spread between the yields realized on riskier debt securities and those realized on securities perceived as being risk-free has narrowed in recent quarters, the further deterioration of current market conditions could materially and adversely affect our business.

## Our investments in leveraged portfolio companies may be risky, and you could lose all or part of your investment.

Investment in leveraged companies involves a number of significant risks. Leveraged companies, including lower middle-market companies, in which we invest may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold. Such developments may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees that we may have obtained in connection with our investment. In addition, our junior secured loans are generally subordinated to senior loans. As such, other creditors may rank senior to us in the event of an insolvency.

## Our portfolio companies will likely consist primarily of lower middle-market, privately owned companies, which may present a greater risk of loss than loans to larger companies.

Our portfolio consists, and will most likely continue to consist, primarily of loans to lower middle-market, privately owned companies. Compared to larger, publicly traded firms, these companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position and may need more capital to expand, compete and operate their business. In addition, many of these companies may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Accordingly, loans made to these types of borrowers may entail higher risks than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources on more attractive terms.

Investing in lower middle-market companies involves a number of significant risks, including that lower middle-market companies:

may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;
are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
typically have more limited access to the capital markets, which may hinder their ability to refinance borrowings;

will be unable to refinance or repay at maturity the unamortized loan balance as we structure our loans such that a significant balance remains due at maturity;

- generally have less predictable operating results, may be particularly vulnerable to changes in customer preferences or market conditions, depend on one or a limited number of major customers,

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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, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

Any of these factors or changes thereto could impair a portfolio company s financial condition, results of operation, cash flow or result in other adverse events, such as bankruptcy, any of which could limit a portfolio company s ability to make scheduled payments on loans from us. This, in turn, may lead to their inability to make payments on outstanding borrowings, which could result in losses in our loan portfolio and a decrease in our net interest income and book value.

## Loans may become nonperforming for a variety of reasons.

A nonperforming loan may require substantial workout negotiations or restructuring that may entail a substantial reduction in the interest rate and/or a substantial write-down of the principal of such loan. Because of the unique and customized nature of a loan agreement and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays due to their unique and customized nature, and transfers of interests in loans may require the consent of an agent or borrower.

## The lack of liquidity in our investments may adversely affect our business.

All of our assets may be invested in illiquid securities, and a substantial portion of our investments in leveraged companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than more broadly traded public securities. The illiquidity of these investments may make it difficult for us to sell such investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain the election to be regulated as a business development company and qualify as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or MC Advisors have material nonpublic information regarding such portfolio company.

## Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our board of directors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. We record decreases in the market values or fair values of our investments as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets may result in significant net unrealized depreciation in our portfolio. The effect of all of these factors on our portfolio may reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse effect on our business, financial condition and results of operations.

### Our portfolio companies may prepay loans, which prepayment may reduce stated yields if capital returned cannot be invested in transactions with equal or greater expected yields.

The loans underlying our portfolio may be callable at any time, and many of them can be repaid with no premium to par. It is not clear at this time when or if any loan might be called. Whether a loan is called will depend both on the continued positive performance of the portfolio company and the existence of favorable financing market conditions that allow such company the ability to replace existing financing with less expensive capital. As market conditions change frequently, it is unknown when, and if, this may be possible for each portfolio company. Risks associated with owning loans include the fact that prepayments may occur at any time, sometimes without premium or penalty, and that the exercise of prepayment rights during periods of declining spreads could cause us to reinvest prepayment proceeds in lower-yielding instruments. In the case of some of these loans, having the loan called early may reduce the achievable yield for our company below the stated yield to maturity described elsewhere in this prospectus if the capital returned cannot be invested in transactions with equal or greater expected yields.

## To the extent original issue discount and paid-in-kind interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments include original issue discount, or OID, components and may include PIK interest components. For the year ended December 31, 2013, PIK interest comprised approximately 1.3% of our interest income. To the extent original issue discount constitutes a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

We must include in income each year a portion of the OID that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any OID or other amounts accrued will be included in investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy our annual distribution requirements, even though we will not have received any corresponding cash amount. As a result, we may have to sell some of our investments at times or at prices that would not be advantageous to us, raise additional debt or equity capital or forgo new investment opportunities.

The higher yield of OID instruments reflect the payment deferral and credit risk associated with these instruments. Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

OID instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of the collateral.

OID instruments generally represent a significantly higher credit risk than coupon loans.

OID income received by us may create uncertainty about the source of our cash distributions to stockholders. For accounting purposes, any cash distributions to stockholders representing OID or market discount income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. Thus, although a distribution of OID or market discount interest comes from the cash invested by the stockholders, Section 19(a) of the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.

The deferral of paid-in-kind, or PIK, interest has a negative impact on liquidity, as it represents non-cash income that may require distribution of cash dividends to stockholders in order to maintain our RIC status. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate, thus, increasing the risk that we will absorb a loss in the event of foreclosure.

OID and market discount instruments create the risk of non-refundable incentive fee payments to MC Advisors based on non-cash accruals that we may not ultimately realize.

## We have not yet identified the portfolio company investments we will acquire using the proceeds of an offering.

We have not yet identified potential investments for our portfolio that we may acquire with the proceeds of an offering. Privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring, and we cannot assure you that we will achieve our

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anticipated investment pace. You will be unable to evaluate any future portfolio company investments prior to purchasing our securities. Additionally, MC Advisors will select our investments subsequent to the closing of an offering, and our stockholders will have no input with respect to such investment decisions. These factors increase the uncertainty, and thus the risk, of investing in our securities.

Pending investment in portfolio companies, we will invest the net proceeds of offerings in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. We expect these temporary investments to earn yields substantially lower than the income that we expect to receive in respect of investments. As a result, any distributions we make during this period may be substantially smaller than the distributions that we would expect to pay when our portfolio is fully invested.

## We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. Our portfolio is and may in the future be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we do not have fixed guidelines for diversification. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market s assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, while we are not targeting any specific industries, our investments may be concentrated in relatively few industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

## We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings.

Leveraged companies may experience bankruptcy or similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by a portfolio company may adversely and permanently affect the portfolio company. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor s return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor s estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

We may hold the debt securities of leveraged companies that may, due to thesignificant volatility of such companies

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## Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in seeking to:

increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;
exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
preserve or enhance the value of our investment.

We have discretion to make follow-on investments, subject to the availability of capital resources and the provisions of the 1940 Act. Failure on our part to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our level of risk, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements or the desire to maintain our RIC status. Our ability to make follow-on investments may also be limited by MC Advisors allocation policy.

## Because we do not hold controlling equity interests in our portfolio companies, we may not be able to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

Although we may do so in the future, we do not currently hold controlling equity positions in our portfolio companies. When we do not acquire a controlling equity position in a portfolio company, we may be subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

## Defaults by our portfolio companies will harm our operating results.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such portfolio company s ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

In addition, many of our investments will likely have a principal amount outstanding at maturity, which could result in a substantial loss to us if the borrower is unable to refinance or repay.

## Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We generally seek to invest a portion of our capital in senior, unitranche and junior secured loans and, to a lesser extent, unsecured subordinated debt and equity. The portfolio companies in which we invest usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments 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 debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Additionally, certain loans that we make to portfolio companies may be secured on a second-priority basis by the same collateral securing senior secured debt of such companies. The first-priority liens on the collateral will secure the portfolio company s obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the portfolio company under the agreements governing the loans. The holders of obligations secured by first-priority liens on the collateral will generally control the liquidation of, and be entitled to receive proceeds from, any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second-priority liens after payment in full of all obligations secured by the first-priority liens on the collateral. If such proceeds were not sufficient to repay amounts outstanding under the loan obligations secured by the second-priority liens, then, to the extent not repaid from the proceeds of the sale of the collateral, we will only have an unsecured claim against the portfolio company s remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of such senior debt. Under a typical intercreditor agreement, at any time that obligations that have the benefit of the first-priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first-priority liens:

- the ability to cause the commencement of enforcement proceedings against the collateral;
- the ability to control the conduct of such proceedings;
- the approval of amendments to collateral documents;
- releases of liens on the collateral; and
- waivers of past defaults under collateral documents.

We may not have the ability to control or direct such actions, even if our rights are adversely affected.

We may also make unsecured loans to portfolio companies, meaning that such loans will not benefit from any interest in collateral of such companies. Liens on such portfolio companies collateral, if any, will secure the portfolio company s obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the portfolio company under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before us. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy our unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors claims against the portfolio company s remaining assets, if any.

We may also make subordinated investments that rank below other obligations of the obligor in right of payment. Subordinated investments are generally more volatile than secured loans and are subject to greater risk of default than senior obligations as a result of adverse changes in the financial condition of the obligor or in general economic conditions. If we make a subordinated investment in a portfolio company, the portfolio company may be highly leveraged, and its relatively high LTV ratio may create increased risks that its operations might not generate sufficient

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

cash flow to service all of its debt obligations.



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## Investments in securities of foreign companies, if any, may involve significant risks in addition to the risks inherent in U.S. investments.

We may make investments in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies, including changes in exchange control regulations, political and social instability, expropriation and imposition of foreign taxes. In addition, any investments that we make that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Factors such as trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments may affect currency values. We may employ hedging techniques to minimize these risks, but we cannot assure you that we will, in fact, hedge currency risk, or, that if we do, such strategies will be effective.

## We may be subject to risks associated with syndicated loans.

From time to time, our investments may consist of syndicated loans. Under the documentation for such loans, a financial institution or other entity typically is designated as the administrative agent and/or collateral agent. This agent is granted a lien on any collateral on behalf of the other lenders and distributes payments on the indebtedness as they are received. The agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two-thirds in commitments and/or principal amount of the associated indebtedness. In most cases, we do not expect to hold a sufficient amount of the indebtedness to be able to compel any actions by the agent. Accordingly, we may be precluded from directing such actions unless we act together with other holders of the indebtedness. If we are unable to direct such actions, we cannot assure you that the actions taken will be in our best interests.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the associated indebtedness and/or direct the agent to take actions against the related obligor or the collateral securing the associated indebtedness and actions to realize on proceeds of payments made by obligors that are in the possession or control of any other financial institution. In addition, we may be unable to remove the agent in circumstances in which removal would be in our best interests. Moreover, agented loans typically allow for the agent to resign with certain advance notice.

## The disposition of our investments may result in contingent liabilities.

A significant portion of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

## We may be subject to additional risks if we engage in hedging transactions and/or invest in foreign securities.

The 1940 Act generally requires that 70% of our investments be in issuers each of whom, in addition to other requirements, is organized under the laws of, and has its principal place of business in, any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the United States. Our investment strategy does not contemplate a significant number of investments in securities of non-U.S. companies other than Canadian companies. We expect that these investments would focus on the same investments that we intend to make in U.S. middle-market companies and, accordingly, would be complementary to our overall strategy and enhance the diversity of our holdings.

Engaging in either hedging transactions or investing in foreign securities would entail additional risks to our stockholders. We could, for example, use instruments such as interest rate swaps, caps, collars and floors and, if we were to invest in foreign securities, we could use instruments such as forward contracts or currency options and borrow under a credit facility in currencies selected to minimize our foreign currency exposure. In



We may be subject to additional risks if we engage in hedging transactionsand/or invest in foreign securities.

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each such case, we generally would seek to hedge against fluctuations of the relative values of our portfolio positions from changes in market interest rates or currency exchange rates. Hedging against a decline in the values of our portfolio positions would not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of the positions declined. However, such hedging could establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions could also limit the opportunity for gain if the values of the underlying portfolio positions increased. Moreover, it might not be possible to hedge against an exchange rate or interest rate fluctuation that was so generally anticipated that we would not be able to enter into a hedging transaction at an acceptable price. Our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the U.S. Commodity Futures Trading Commission.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

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

We may make investments in the future that include warrants or other equity or equity-related securities. In addition, we may, from time to time, make non-control, equity co-investments in companies in conjunction with private equity sponsors. Our goal is ultimately to realize gains upon our disposition of such equity interests.

However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. 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. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these put rights for the consideration provided in our investment documents if the issuer is in financial distress.

## Risks Relating to Offerings Pursuant to this Prospectus

### Investing in our securities may involve an above average degree of risk.

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

## Shares of closed-end investment companies, including business development companies, often trade at a discount to their net asset value.

Shares of closed-end investment companies, including business development companies, may trade at a discount from net asset value. This characteristic of closed-end investment companies and business development companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade at, above or below net asset value.

## Investors in our equity securities may not receive distributions or our distributions may not grow over time and a portion of our distributions may be a return of capital.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a

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specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this prospectus. For example, due to the asset coverage test applicable to us under the 1940 Act as a business development company, we may be limited in our ability to make distributions. To the extent that we make distributions to stockholders that include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders investment. Although such return of capital may not be taxable, such distribution may decrease the investor s basis in our common stock and increase an investor s tax liability for capital gains upon the future sale of the stock.

## If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

The issuance or sale by us of shares of our common stock at a price per share, after offering expenses and commission, that is a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades.

## We may not be able to pay distributions, our distributions may not grow over time and/or a portion of our distributions may be a return of capital.

We intend to pay distributions to our stockholders out of assets legally available for distribution. We cannot assure that we will achieve investment results that will allow us to sustain a specified level of cash distributions or make periodic increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company could limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure that we will continue to pay distributions to our stockholders.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor s basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain.

## We may choose to pay a portion of our dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash pursuant to such plan. See Dividend Reinvestment Plan. We may distribute taxable dividends that are payable in part in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain or qualified dividend income to the extent such distribution is properly reported as such) to the extent of our current and accumulated earnings and profits for federal income tax purposes. The tax rate for ordinary income will vary depending on a stockholder s particular characteristics. For individuals, the top marginal federal ordinary income tax rate is 39.6%. To the extent distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions generally will be eligible for a maximum qualified dividend federal tax rate of 20%. However, in this regard, it is anticipated that distributions paid by us will generally not be attributable to such dividends and, therefore, generally will not qualify for the preferential federal tax rate. Distributions of our net capital gains (which is generally our

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realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains currently at a maximum federal tax rate of 20%. See Material U.S. Federal Income Tax Consequences for a more detailed discussion.

As a result of receiving dividends in the form of our common stock, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold federal tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares of our common stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of shares of our common stock.

In addition, as discussed above, our loans may contain a PIK interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To avoid the imposition of corporate-level tax, we will need to make sufficient distributions, a portion of which may be paid in shares of our common stock, regardless of whether our recognition of income is accompanied by a corresponding receipt of cash.

## Provisions of the Maryland General Corporation Law and our charter and bylaws could deter takeover attempts and have an adverse effect on the price of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. See Description of Our Capital Stock Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Maryland Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board of directors, including approval by a majority of our independent directors. If the resolution exempting business combinations is repealed or our board of directors does not approve a business combination, the Maryland Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt acquisitions of our stock by any person from the Maryland Control Share Acquisition Act. If we amend our bylaws to subject the acquisition of our stock to the Maryland Control Share Acquisition Act, we would only do so to the extent consistent with the provisions of Section 18(i) of the 1940 Act and related SEC staff guidance.

We have adopted certain measures that may make it difficult for a third-party to obtain control of us, including provisions of our charter classifying our board of directors in three staggered terms and authorizing our board of directors to classify or reclassify shares of our capital stock in one or more classes or series and to cause the issuance of additional shares of our stock. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

## The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

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- loss of RIC or business development company status;
- the ability of MCC SBIC, or any other SBIC subsidiary we may form, to obtain and maintain an SBIC license;
- changes or perceived changes in earnings or variations in operating results;
- changes or perceived changes in the value of our portfolio of investments;
- changes in accounting guidelines governing valuation of our investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of MC Advisors key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

## We may allocate the net proceeds from our offerings in ways with which you may disagree.

We will have significant flexibility in investing the proceeds of offerings pursuant to this prospectus and may use the proceeds from such offerings in ways with which you may disagree or for purposes other than those contemplated at the time of the offering. We will also pay operating expenses, and may pay other expenses such as due diligence expenses of potential new investments, from net proceeds.

## Our stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that do not participate in our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

## Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

## Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a

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result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

These dilutive effects may be exacerbated if we were to conduct multiple subscription rights offerings, particularly if such offerings were to occur over a short period of time. In addition, subscription rights offerings and the prospect of future subscription rights offerings may create downward pressure on the secondary market price of our common stock due to the potential for the issuance of shares at a price below our net asset value, without a corresponding change to our net asset value.

## If we issue preferred stock, debt securities or convertible debt securities, the net asset value and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

## The trading market or market value of our publicly issued debt securities may fluctuate.

If we issue publicly issued debt securities, they may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

the time remaining to the maturity of these debt securities;
the outstanding principal amount of debt securities with terms identical to these debt securities;
the ratings assigned by national statistical ratings agencies;
the general economic environment;
the supply of debt securities trading in the secondary market, if any;
the redemption or repayment features, if any, of these debt securities;

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- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

## Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

## Our credit ratings, if any, may not reflect all risks of an investment in our debt securities or any convertible debt securities.

Our credit ratings, if any, will be an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of any publicly issued debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed herein about the market value of, or trading market for, any publicly issued debt securities.

## Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

As of May 8, 2014 we had 9,567,101 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

## The issuance of subscription rights, warrants or convertible debt that are exchangeable for our common stock, will cause your interest in us to be diluted as a result of any such rights, warrants or convertible debt offering.

Stockholders who do not fully exercise rights, warrants or convertible debt issued to them in any offering of subscription rights, warrants or convertible debt to purchase our common stock should expect that they will, at the completion of the offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights, warrants or convertible debt. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price, warrant price or convertible debt price is less than our net asset value per share of common stock at the time of such offering, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any such decrease in net asset value is not predictable because it is not known at this time what the subscription price, warrant price, convertible debt price or net asset value per share will be on the expiration date of such offering or what proportion of our common stock will be purchased as a result of any such offering. The risk of dilution is greater if there are multiple rights offerings. However, our board of directors will make a good faith determination that any offering of subscription rights, warrants or convertible debt would result in a net benefit to existing stockholders.

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# SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, would, should, tar variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements including:

- our inexperience operating a business development company and RIC and the inexperience of MC Advisors managing a business development company and RIC;
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- the ability of MC Advisors to identify, invest in and monitor companies that meet our investment criteria;
- actual and potential conflicts of interest with MC Advisors and its affiliates;
- possession of material nonpublic information;
- potential divergent interests of MC Advisors and our stockholders arising from our incentive fee structure;
- restrictions on affiliate transactions;
- competition for investment opportunities;
- our ability to maintain our qualification as a RIC and as a business development company;
- the impact of a protracted decline in the liquidity of credit markets on our business and portfolio investments;
- the timing, form and amount of any payments, dividends or other distributions from our portfolio companies;
- our use of leverage;
- changes in interest rates;
- SBA regulations affecting MCC SBIC or any other wholly-owned SBIC subsidiary;
- uncertain valuations of our portfolio investments;
- fluctuations in our quarterly operating results;
- our receipt of exemptive relief from the SEC;
- our ability to issue securities at a discount to net asset value per share;
- changes in laws or regulations applicable to us; and
- general economic conditions and their impact on the industries in which we invest.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. However, we will update this prospectus to reflect any material changes to the information contained herein during the period of this offering.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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# USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use all or substantially all of the net proceeds from the sale of our securities to invest in portfolio companies directly in accordance with our investment objective and strategies and for general corporate purposes. We will also pay operating expenses, including management and administrative fees, and may pay other expenses from the net proceeds of any offering of our securities.

We anticipate that we will use substantially all of the net proceeds of an offering for the above purposes within approximately six months after the completion of any offering of our securities, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. It may take more or less time for us to identify, negotiate and enter into investments and fully deploy any proceeds we raise, and we cannot assure you that we will achieve our targeted investment pace.

Until such appropriate investment opportunities can be found, we will invest the net proceeds of any offering of our securities primarily in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in lower yielding interest-bearing deposits or other short-term instruments. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

The prospectus supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

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# DISTRIBUTIONS

To the extent we have income available, we intend to make quarterly distributions to our stockholders. Our quarterly distributions, if any, will be determined by our board of directors. Any distributions to our stockholders will be declared out of assets legally available for distribution.

The following table reflects the cash distributions, including dividends and returns of capital, per share that we have paid on our common stock since completion of our initial public offering.

| Record Date | Payment Date | Distributions Declared Per Share |
|---|---|---|
| Fiscal Year Ended December 31, 2012 | | |
| December 14, 2012 | December 28, 2012 | $ 0.34 |
| Total | | $ 0.34 (1) |
| Fiscal Year Ended December 31, 2013 | | |
| March 19, 2013 | March 28, 2013 | $ 0.34 |
| June 14, 2013 | June 28, 2013 | 0.34 |
| September 13, 2013 | September 27, 2013 | 0.34 |
| December 13, 2013 | December 27, 2013 | 0.34 |
| Total | | $ 1.36 (2) |
| Fiscal Year Ended December 31, 2014 | | |
| March 18, 2014 | March 28, 2014 | $ 0.34 |
| Total | | $ 0.34 (3) |

(1) Includes a return of capital for tax purposes of approximately $0.20 per share.

(2) Includes a return of capital for tax purposes of approximately $0.21 per share.

(3) Management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders. The tax character of distributions will be determined at the end of the fiscal year. We expect that a portion of this distribution may include a return of capital for tax purposes, however, we are not yet able to estimate this amount as of March 31, 2014.

We have elected to be treated as a RIC under the Code, beginning with the taxable year ending December 31, 2012, and intend to qualify annually thereafter. To obtain and maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our net capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

We currently intend to distribute net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually out of the assets legally available for such distributions. However, we may decide in the future to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated for U.S. federal income tax purposes as if you had received an actual distribution of the capital gains that we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations. We cannot assure you that we will achieve results that will permit us to pay any cash distributions, and if we issue senior securities, we will be prohibited from making distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if such distributions are limited by the terms of any of our borrowings.

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Our management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent that our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders. The tax character of distributions will be determined at the end of the fiscal year. A return of capital distribution is not a distribution from earnings and profits, but is rather a return of the money initially invested and while it may not be currently taxable, it lowers the stockholder s basis in the stock, which may result in higher capital gains when the stockholder s investment in us is ultimately sold.

Unless you elect to receive your dividends in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash in lieu of shares of our common stock. Any dividends reinvested through the issuance of shares through our dividend reinvestment plan will increase our assets on which the base management fee and the incentive fee are determined and paid to MC Advisors. See Dividend Reinvestment Plan.

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# PRICE RANGE OF COMMON STOCK

Our common stock began trading on The Nasdaq Global Market under the ticker symbol MRCC on October 25, 2012. Prior to that date, there was no established trading market for our common stock. Our common stock has historically traded for an amount less than net asset value ( NAV ). On November 12, 2013, we announced a new $7.5 million stock repurchase program, pursuant to which we may repurchase shares at management s discretion from time to time at prevailing market prices in the open market for a period of twelve months.

The following table sets forth the high and low sales prices of our common stock as reported on The Nasdaq Global Market, the sales price as a percentage of our NAV and the dividends declared by us for each fiscal quarter since our shares began trading on the Nasdaq Global Market.

| | NAV(1) | Closing Sales Price High | Closing Sales Price Low | Premium (Discount) of High Sales Price to NAV(2) | Premium (Discount) of Low Sales Price to NAV(2) | Declared Distributions(3) |
|---|---|---|---|---|---|---|
| Year ended December 31, 2014 | | | | | | |
| Second Quarter (through May 8, 2014) | (4) | $13.50 | $12.90 | (4) | (4) | None |
| First Quarter | (4) | $13.55 | $12.19 | (4) | (4) | $ 0.34 (5) |
| Year ended December 31, 2013 | | | | | | |
| Fourth Quarter | $13.92 | $13.87 | $11.75 | (0.4 )% | (15.6 )% | $ 0.34 (6) |
| Third Quarter | $14.01 | $14.99 | $12.95 | 7.0 % | (7.6 )% | $ 0.34 (6) |
| Second Quarter | $14.78 | $15.46 | $14.60 | 4.6 % | (1.2 )% | $ 0.34 (6) |
| First Quarter | $14.78 | $15.39 | $14.55 | 4.1 % | (1.6 )% | $ 0.34 (6) |
| Year ended December 31, 2012 | | | | | | |
| Fourth Quarter(7) | $14.54 | $15.30 | $14.59 | 5.2 % | 0.3 % | $ 0.34 (8) |

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

(3) Represents the distribution declared in the specified quarter. We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See Dividend Reinvestment Plan in the accompanying prospectus.

(4) NAV calculation is not yet available for the quarter ended March 31, 2014.

(5) We expect that a portion of this distribution may include a return of capital for tax purposes. We will be unable to calculate the estimated amount of this distribution that would be characterized as a tax return of capital to our stockholders until our financial results for the year ended December 31, 2014 are finalized. We expect that a portion of this distribution may include a return of capital for tax purposes, however, we are not yet able to estimate this amount as of March 31, 2014.

(6) Includes a return of capital for tax purposes of approximately $0.21 per share for the year ended December 31, 2013. Our management monitors available taxable earnings, including net investment income and realized capital

gains, to determine if a tax return of capital may occur for the year. To the extent that our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders. The tax character of distributions will be determined at the end of the fiscal year.

(7) From October 24, 2012 (initial public offering) to December 31, 2012.

(8) Includes a return of capital for tax purposes of approximately $0.20 per share for the year ended December 31, 2012.

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# SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2013, 2012 and for the period from February 9, 2011 (date of inception) to December 31, 2011 are derived from our financial statements that have been audited by McGladrey LLP, independent registered public accounting firm. The consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

| | As of and for the year ended December 31, 2013 | As of and for the year ended December 31, 2012[1] | As of and for the period from February 9, 2011 (date of inception) to December 31, 2011[1] |
|---|---|---|---|
| | (dollars in thousands, except share and per share data) | | |
| Statement of operations data: | | | |
| Total investment income | $18,213 | $1,706 | $ |
| Base management fees | 2,752 | 318 | |
| Incentive fees | 1,544 | 6 | |
| All other expenses | 5,267 | 592 | |
| Net investment income | 8,650 | 790 | |
| Net realized gain (loss) on investments | 247 | | |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | 869 | 160 | |
| Net increase (decrease) in net assets resulting from operations | $9,766 | $950 | $ |
| Per share data (basic and diluted): | | | |
| Net asset value | $13.92 | $14.54 | n/a |
| Net investment income | $1.13 | 0.15 | $ |
| Net realized gain (loss) on investments | 0.03 | | |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | 0.12 | 0.03 | |
| Net increase (decrease) in net assets resulting from operations | $1.28 | $0.18 | $ |
| Stockholder distributions net investment income | (1.12 ) | (0.14 ) | |
| Stockholder distributions capital gains | (0.03 ) | | |
| Stockholder distributions return of capital | (0.21 ) | (0.20 ) | |
| Total stockholder distributions | (1.36 ) | (0.34 ) | |
| Balance sheet data at period end: | | | |
| Investments, at fair value | $207,920 | $132,752 | $ |

| | | | |
|---|---|---|---|
| Cash | 14,603 | 4,060 | 10 |
| Other assets | 3,158 | 2,419 | |
| Total assets | 225,681 | 139,231 | 10 |
| Total debt | 83,943 | 55,000 | |
| Other liabilities | 3,646 | 597 | |
| Total liabilities | 87,589 | 55,597 | |
| Total net assets | $138,092 | $83,634 | $ 10 |
| Other data: | | | |
| Weighted average annualized effective yield at period end[3] | 10.7 % | 11.3 % | n/a |
| Number of portfolio company investments at period end | 42 | 28 | n/a |
| Purchases of investments for the period | $138,781 | $144,482 | n/a |
| Principal payments and sales of investments for the period | $65,165 | $11,898 | n/a |

(1) For historical periods prior to October 24, 2012, we had no operations and therefore information provided does not include financial results prior to October 24, 2012.

(2) Includes a return of capital for tax purposes of $0.21 and $0.20 for the years ended December 31, 2013 and 2012, respectively.

(3) The weighted average annualized effective yield at period end is based upon the par value of our debt investments.

n/a not applicable

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# SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial information for each quarter since we commenced operations ending with the quarter ended December 31, 2013. This information was derived from our consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012[1] |
| | (dollars in thousands, except per share data) | | | | |
| Total investment income | $6,395 | $4,347 | $3,752 | $3,719 | $1,706 |
| Net investment income | $3,184 | $2,413 | $1,550 | $1,503 | $790 |
| Net gain (loss) on investments and secured borrowings | $(672) | $(447) | $438 | $1,797 | $160 |
| Net increase in net assets resulting from operations | $2,512 | $1,966 | $1,988 | $3,300 | $950 |
| Net investment income per share basic and diluted | $0.32 | $0.27 | $0.27 | $0.26 | $0.18 |
| Net increase in net assets resulting from operations per share basic and diluted | $0.25 | $0.22 | $0.34 | $0.57 | $0.15 |
| Net asset value per share at period end | $13.92 | $14.01 | $14.78 | $14.78 | $14.54 |

(1) We had no substantive operations prior to October 24, 2012, the date of our initial public offering.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes thereto. The following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under Risk Factors and Special Note Regarding Forward-Looking Statements appearing elsewhere in the prospectus.*

## Overview

Monroe Capital Corporation is an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the 1940 Act. In addition for tax purposes, we intend to be treated as a RIC under the Code. We were incorporated under the Maryland General Corporation Law on February 9, 2011. We are a specialty finance company focused on providing financing solutions primarily to lower middle-market companies in the United States and Canada. We provide customized financing solutions focused primarily on senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants.

Our shares are currently listed on the Nasdaq Global Market under the symbol MRCC.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. Our investments in senior, unitranche, junior secured debt and other investments generally will range between $2.0 million and $15.0 million each, although this investment size may vary proportionately with the size of our capital base. As of December 31, 2013, our portfolio included approximately 42.8% senior secured debt, 46.3% unitranche secured debt, 10.7% junior secured debt and 0.2% equity securities. We expect that the companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies.

While our primary focus is to maximize current income and capital appreciation through debt investments in thinly traded or private U.S. and Canadian companies, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of middle-market companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

On February 28, 2014, our wholly-owned subsidiary, MCC SBIC, a Delaware limited partnership, received a license from the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Company Act of 1958.

MCC SBIC commenced operations on September 16, 2013. See Liquidity and Capital Resources SBIC Subsidiary below for more information.

## Investment income

We generate interest income on the debt investments in portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior, junior or unitranche secured debt, typically have an initial term of three to seven years and bear interest at a fixed or floating rate. In some instances we receive payments on our debt investment based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity date. In some cases, our investments provide for deferred interest or payment-in-kind ( PIK ) interest. In addition, we may generate revenue in the form of commitment, origination, amendment, structuring or due diligence fees,

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fees for providing managerial assistance and consulting fees. Loan origination fees, original issue discount and market discount or premium are capitalized, and we accrete or amortize such amounts as interest income. We record prepayment premiums and prepayment gains (losses) on loans as interest income. Interest and dividend income is recorded on the accrual basis to the extent we expect to collect such amounts.

### Expenses

Our primary operating expenses include the payment of fees to MC Advisors under the Investment Advisory Agreement (management and incentive fees) and the payment of fees to MC Management for our allocable portion of overhead and other expenses under the Administration Agreement and other operating costs. Our expenses also include interest expense on our revolving credit facility and our secured borrowings. We bear all other out-of-pocket costs and expenses of our operations and transactions.

### Net gain (loss) on investments and secured borrowings

We recognize realized gains or losses on investments based on the difference between the net proceeds from the disposition and the cost basis of the investment or derivative instrument without regard to unrealized gains or losses previously recognized. We record current period changes in fair value of investments and secured borrowings as a component of the net change in unrealized appreciation (depreciation) on investments and secured borrowings in the consolidated statements of operations.

## Portfolio and Investment Activity

During the year ended December 31, 2013, we invested $131.9 million in thirty new portfolio companies and $6.9 million in ten existing portfolio companies and had $65.2 million in aggregate amount of principal repayments, resulting in net investment acquisitions of $73.6 million for the period.

During the year ended December 31, 2012, we made $144.5 million on investments in new portfolio companies and had $11.9 million in aggregate amount of principal repayments, resulting in net investment acquisitions of $132.6 million for the period.

The following table shows the composition of the investment portfolio (in thousands) and associated yield data:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | Weighted Average Annualized Contractual Coupon Yield(1) | Weighted Average Annualized Effective Yield(1) |
| Unitranche loans | $ 96,217 | 46.3 % | 10.2 % | 11.8 % |
| Senior secured loans | 88,963 | 42.8 | 9.8 | 9.8 |
| Junior secured loans | 22,335 | 10.7 | 9.4 | 9.4 |
| Equity securities | 405 | 0.2 | n/a | n/a |
| Total | $ 207,920 | 100.0 % | 9.9 % | 10.7 % |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | Weighted Average Annualized Contractual Coupon Yield(1) | Weighted Average Annualized Effective Yield(1) |
| Unitranche loans | $ 75,487 | 56.9 % | 10.7 % | 13.1 % |
| Senior secured loans | 45,332 | 34.1 | 8.0 | 8.3 |
| Junior secured loans | 11,662 | 8.8 | 10.2 | 10.6 |
| Equity securities | 271 | 0.2 | n/a | n/a |
| Total | $ 132,752 | 100.0 % | 9.8 % | 11.3 % |

(1) Based upon the par value of our debt investments.
n/a not applicable

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

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Healthcare & Pharmaceuticals | $ 30,639 | 14.7 % | $ 17,407 | 13.1 % |
| Services: Business | 28,692 | 13.8 | 4,040 | 3.0 |
| Consumer Goods: Durable | 23,805 | 11.4 | 6,864 | 5.2 |
| Consumer Goods: Non-durable | 23,404 | 11.3 | 7,554 | 5.9 |
| Retail | 21,161 | 10.2 | 6,633 | 5.0 |
| Media: Advertising, Printing & Publishing | 17,822 | 8.6 | 14,273 | 10.8 |
| Automotive | 15,100 | 7.2 | 14,783 | 11.0 |
| High Tech Industries | 9,530 | 4.6 | 9,158 | 6.9 |
| Banking, Finance, Insurance & Real Estate | 7,566 | 3.6 | 5,997 | 4.5 |
| Hotels, Gaming & Leisure | 7,198 | 3.4 | 8,434 | 6.4 |
| Energy: Oil & Gas | 4,875 | 2.3 | 3,500 | 2.6 |
| Capital Equipment | 4,271 | 2.1 | 7,978 | 6.0 |
| Telecommunications | 3,714 | 1.8 | 3,840 | 2.9 |
| Services: Consumer | 3,104 | 1.5 | 14,937 | 11.2 |
| Beverage, Food & Tobacco | 3,034 | 1.5 | | |
| Containers, Packaging & Glass | 1,980 | 1.0 | 2,940 | 2.2 |
| Chemicals, Plastics and Rubber | 1,013 | 0.5 | 4,414 | 3.3 |
| Construction and Building | 1,012 | 0.5 | | |
| Total | $ 207,920 | 100.0 % | $ 132,752 | 100.0 % |

# Portfolio Asset Quality

MC Advisors portfolio management staff closely monitors all credits, with senior portfolio managers covering agented and more complex investments. MC Advisors segregates our capital markets investments by industry. MC Advisors monitoring process and projections developed by Monroe Capital both have daily, weekly, monthly and quarterly components and related reports, each to evaluate performance against historical, budget and underwriting expectations. MC Advisors analysts will monitor performance using standard industry software tools to provide consistent disclosure of performance. MC Advisors also monitors our investment exposure using a proprietary trend analysis tool. When necessary, MC Advisors will update our internal risk ratings, borrowing base criteria and covenant compliance reports.

As part of the monitoring process, MC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on an internal proprietary system that uses the categories listed below, which we refer to as MC Advisors investment performance rating. For any investment rated in grades 3, 4 or 5, MC Advisors will increase its monitoring intensity and prepare regular updates for the investment committee, summarizing current operating results and material impending events and suggesting recommended actions. MC Advisors monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, MC Advisors reviews these investment ratings on a quarterly basis, and our board of directors reviews and affirms such ratings.

Portfolio Asset Quality

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# Rating Definition

| Investment Performance Risk Rating | Summary Description |
|---|---|
| Grade 1 | Includes investments exhibiting the least amount of risk in our portfolio. The issuer is performing above expectations or the issuer s operating trends and risk factors are generally positive. |
| Grade 2 | Includes investments exhibiting an acceptable level of risk that is similar to the risk at the time of origination. The issuer is generally performing as expected or the risk factors are neutral to positive. |
| Grade 3 | Includes investments performing below expectations and indicates that the investment s risk has increased somewhat since origination. The issuer may be out of compliance with debt covenants; however, scheduled loan payments are generally not past due. |
| Grade 4 | Includes an issuer performing materially below expectations and indicates that the issuer s risk has increased materially since origination. In addition to the issuer being generally out of compliance with debt covenants, scheduled loan payments may be past due (but generally not more than six months past due). For grade 4 investments, we intend to increase monitoring of the issuer. |
| Grade 5 | Indicates that the issuer is performing substantially below expectations and the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance or payments are substantially delinquent. Investments graded 5 are not anticipated to be repaid in full and we will reduce the fair market value of the loan to the amount we expect to recover. |

Our investment performance ratings do not constitute any ratings of investments by a nationally recognized statistical rating organization or reflect any third-party assessment of any of our investments.

In the event of a delinquency or a decision to rate an investment grade 4 or grade 5, the applicable analyst, in consultation with a member of the investment committee, will develop an action plan. Such a plan may require a meeting with the borrower s management or the lender group to discuss reasons for the default and the steps management is undertaking to address the under-performance, as well as required amendments and waivers that may be required. In the event of a dramatic deterioration of a credit, MC Advisors intends to form a team or engage outside advisors to analyze, evaluate and take further steps to preserve its value in the credit. In this regard, we would expect to explore all options, including in a private equity sponsored investment, assuming certain responsibilities for the private equity sponsor or a formal sale of the business with oversight of the sale process by us. Several of Monroe Capital s professionals are experienced in running work-out transactions and bankruptcies.

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of December 31, 2013 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ | % |

| | | | |
|---|---|---|---|
| 2 | 189,899 | 91.3 | |
| 3 | 18,021 | 8.7 | |
| 4 | | | |
| 5 | | | |
| Total | $ 207,920 | 100.0 | % |

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The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of December 31, 2012 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ 4,414 | 3.3 % |
| 2 | 125,301 | 94.4 |
| 3 | 3,037 | 2.3 |
| 4 | | |
| 5 | | |
| Total | $ 132,752 | 100.0 % |

# Results of Operations

Operating results are as follows (dollars in thousands):

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Total investment income | $ 18,213 | 1,706 |
| Total expenses, net | 9,563 | 916 |
| Net investment income | 8,650 | 790 |
| Net realized gain (loss) on investments | 247 | |
| Net change in unrealized appreciation (depreciation) on investments | 869 | 160 |
| Net increase (decrease) in net assets resulting from operations | $ 9,766 | $ 950 |

As we had no substantive operating activities prior to the initial public offering on October 24, 2012, the results of the periods prior to the initial public offering are excluded from this discussion.

## Investment Income

For the years ended December 31, 2013 and 2012, total investment income was $18.2 million and $1.7 million, of which $17.5 million and $1.6 million was attributable to portfolio interest and $0.7 million and $0.1 million to other income (including amortization of discounts and origination fees, paydown gains (losses) and dividend income), respectively.

## Operating Expenses

The composition of our operating expenses was as follows (dollars in thousands):

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Interest and other debt financing expenses | $ 2,908 | $ 305 |

| | | |
|---|---|---|
| Base management fees | 2,752 | 318 |
| Incentive fees | 1,544 | 6 |
| Professional fees | 1,149 | 76 |
| Administrative service fees | 528 | 133 |
| General and administrative expenses | 682 | 78 |
| Total expenses | $ 9,563 | $ 916 |

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The composition of our interest expense and other debt financing expenses was as follows (dollars in thousands):

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Interest expense credit facility | $ 1,978 | $ 218 |
| Amortization of deferred financing costs | 479 | 87 |
| Interest expense secured borrowings | 378 | |
| Other | 73 | |
| Total interest and other debt financing expenses | $ 2,908 | $ 305 |

### Net Realized Gain (Loss) on Investments

Sales and principal repayments totaled $65.2 million and $11.9 million for the years ended December 31, 2013 and 2012, respectively, resulting in net realized gain (loss) on investments of $0.2 million and zero, respectively.

### Net Change in Unrealized Appreciation (Depreciation) on Investments and Secured Borrowings

For the years ended December 31, 2013 and 2012, our investments had $0.9 million and $0.2 million of unrealized appreciation, respectively.

### Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2013 and 2012, we recorded a net increase in net assets resulting from operations of $9.8 million and $1.0 million, respectively. Based on the weighted average shares of common stock outstanding for the years ended December 31 2013 and 2012, our per share net increase in net assets resulting from operations was $1.28 and $0.18, respectively. During July of 2013, we completed a public offering as described in further detail within *Liquidity and Capital Resources* below. The new capital raised during the third quarter was initially used to repay borrowings under our revolving credit facility, and has since been redeployed into new portfolio investments.

## Liquidity and Capital Resources

As of December 31, 2013, we had $14.6 million in cash and cash equivalents and $76.0 million of total debt outstanding on our revolving credit facility and $34.0 million available for additional borrowings on our revolving credit facility. See *Borrowings Revolving Credit Facility* below for additional information.

### Cash Flows

For the year ended December 31, 2013, we experienced a net increase in cash and cash equivalents of $10.5 million. During the same period we used $62.9 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $73.4 million from financing activities, principally from our secondary offering during July, net borrowings on our revolving credit facility and increases in secured borrowings, partially offset by distributions to stockholders and repurchase of our common stock.

For the year ended December 31, 2012, we experienced a net increase in cash and cash equivalents of $4.0 million. During the same period we used $131.8 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $135.8 million from financing activities, principally from proceeds from our initial public offering and net borrowings on our revolving credit facility.

## Capital Resources

As a BDC, we distribute substantially all of our net income to our stockholders and have an ongoing need to raise additional capital for investment purposes. We intend to generate additional cash primarily from future offerings of securities, future borrowings and cash flows from operations, including income earned from investments in our portfolio companies. On both a short-term and long-term basis, our primary use of funds will be to invest in portfolio companies and make cash distributions to our stockholders. Additionally, we may opportunistically repurchase our own shares below our net asset value ( NAV ) in accordance with our share repurchase plan discussed in further detail below within *Share Repurchase Plan.*

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As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our Board, including independent directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale. On July 9, 2013, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of one year, subject to certain limitations.

Pursuant to the July 9, 2013 stockholder vote to allow us to sell or otherwise issue common stock at a price below net asset value per share, on July 22, 2013, we completed a public offering of 4,000,000 shares of our common stock at a public offering price of $14.05 per share. On August 20, 2013, we also sold an additional 225,000 shares of our common stock at a public offering price of $14.05 per share pursuant to the underwriters partial exercise of the over-allotment option. These issuances provided us with proceeds, net of offering and underwriting costs of $56.0 million. As of December 31, 2013 and 2012, we had 9,918,269 and 5,750,103 shares outstanding, respectively.

## Borrowings

*Credit Facility:* We obtained the proceeds to complete the acquisition of our initial portfolio of loans through the use of the term loan portion of a credit facility with ING Capital LLC, as agent, which we entered into on October 23, 2012. On October 30, 2012, we repaid the secured term loan portion of the credit facility with proceeds from our initial public offering. The credit facility also contains a revolving credit facility which initially included revolving commitments of $65.0 million with an accordion feature up to $100.0 million. On September 27, 2013, the maximum amount we were able to borrow under the revolving credit facility was increased to $95.0 million, pursuant to this accordion feature.

On December 19, 2013 we entered into an amendment (the Credit Facility Amendment ) to the documents governing our revolving credit facility. The Credit Facility Amendment, among other things, (a) increased the size of the current revolving commitments under the revolving credit facility to $110.0 million from $95.0 million, (b) expanded the accordion feature to $200.0 million from $100.0 million (subject to maintaining 200% asset coverage, as defined in the 1940 Act), (c) reduced pricing by 50 basis points, to LIBOR plus 3.25% per annum, with a further step-down to LIBOR plus 3.00% when equity capitalization exceeds $175.0 million, (d) extended the expiration of the revolving period from October 23, 2015 to December 19, 2016, during which period we, subject to certain conditions, may make borrowings under the facility and (e) extended the stated maturity date from October 21, 2016 to December 19, 2017.

As of December 31, 2013 and 2012, we had $76.0 million and $55.0 million outstanding, respectively, under the revolving credit facility. The revolving credit facility is secured by a lien on all of our assets, including cash on hand, but excluding the assets of our wholly-owned subsidiary, MCC SBIC. Our ability to borrow under the credit facility is subject to availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. We may make draws under the revolving credit facility to make or purchase additional investments through December 2016 and for general working capital purposes until the maturity date of the revolving credit facility. Borrowings under the revolving credit facility bear interest, at our election, at an annual rate of LIBOR plus 3.25% (3.75% prior to December 19, 2013) or at a daily rate equal to 2.25% (2.75% prior to December 19, 2013) per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the year ended December 31, 2013 was 4.1%. The weighted average fee rate on the Company s unused portion of the revolving credit facility for the year ended December 31, 2013 was 0.7%.

Our ability to borrow under the revolving credit facility is subject to availability under our borrowing base, which permits us to borrow up to 70% of the fair market value of our portfolio company investments

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depending on the type of the investment we hold and whether the investment is quoted. Our ability to borrow is also subject to certain concentration limits, and our continued compliance with the representations, warranties and covenants given by us under the revolving credit facility. Our revolving credit facility contains certain financial and restrictive covenants, including, but not limited to, the maintenance of: (1) a minimum consolidated net worth at least equal to the greater of (a) 55% of our assets on the last day or each quarter or (b) 80% of the net proceeds to us from our initial offering plus 50% of the net proceeds of the sales of our securities after the effectiveness of the revolving credit facility; (2) a ratio of our total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.15 times; and (3) a ratio of our earnings before interest and taxes to our interest expense of at least 2.5 times. The revolving credit facility also requires us to undertake customary indemnification obligations with respect to ING Capital, LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the revolving credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both Monroe Capital Corporation and MC Advisors, failure to comply with our financial and negative covenants, and failure to maintain our relationship with MC Advisors. If we incur an event of default under our revolving credit facility and fail to remedy such default under any applicable grace period, if any, then our entire revolving credit facility could become immediately due and payable, which would materially and adversely affect our liquidity, financial condition, results of operations and cash flows.

Our credit facility, as amended, imposes certain conditions that may limit the amount of our distributions to stockholders. Distributions payable in our common stock under our dividend reinvestment plan are not limited by the credit facility. Distributions in cash or property other than our common stock are generally limited to 110% (125% in certain instances) of the amount of distributions required to maintain our status as a RIC. The credit facility also specifically allowed for the dividend payments made during the fourth quarter of 2013 and 2012.

*Secured Borrowings:* Certain partial loan sales do not qualify for sale accounting under Accounting Standards Codification ( ASC ) Topic 860 *Transfers and Servicing* ( ASC Topic 860 ), because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on our consolidated statements of assets and liabilities and we record the portion sold as a secured borrowing in the liabilities section of our consolidated statements of assets and liabilities. For these partial loan sales, we record the interest earned on the entire loan balance within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in our consolidated statements of operations.

As of December 31, 2013, secured borrowings at fair value totaled $7.9 million and the fair value of the loans that are associated with these secured borrowings was $22.7 million. These secured borrowings were the result of our completion of partial loan sales of three unitranche loan assets totaling $10.0 million during the three months ended March 31, 2013, that did not met the definition of a participating interest. As a result, sale treatment was not allowed and we treated these partial loan sales as secured borrowings. No such partial loan sales occurred during 2012 or during the remainder of the year ended December 31, 2013. During the year ended December 31, 2013, repayments on secured borrowings totaled $2.0 million. The weighted average interest rate on our secured borrowings was approximately 4.3% as of December 31, 2013.

## Share Repurchase Plan

On November 11, 2013, our Board approved a share repurchase plan ( Plan ) under which up to $7.5 million of our outstanding common stock may be acquired in the open market at prices below our NAV as reported in our then most recently published consolidated financial statements. The Plan may be implemented over the twelve months following the approval, at the discretion of management.

The shares may be purchased from time to time at prevailing market prices, through open market, including block transactions. Our Board has authorized the repurchase plan because it believes that our common stock may be undervalued from time to time. We have no obligation to repurchase shares, and we may discontinue purchases at any time that management determines additional purchases are not warranted.

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During the year ended December 31, 2013, we repurchased 84,803 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $1.0 million.

## Distribution Policy

Our board of directors will determine the timing and amount, if any, of our distributions. We intend to pay distributions on a quarterly basis. In order to avoid corporate-level tax on the income we distribute as a RIC, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis out of the assets legally available for such distributions. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions. Dividend payments to stockholders for years ended December 31, 2013 and 2012 totaled $10.7 million ($1.36 per share) and $2.0 million ($0.34 per share), respectively of which $1.6 million and $1.2 million represented return of capital, respectively.

## SBIC Subsidiary

On February 28, 2014, our wholly-owned subsidiary, MCC SBIC, a Delaware limited partnership, received a license from the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Company Act of 1958. MCC SBIC commenced operations on September 16, 2013.

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

SBA regulations currently limit the amount that MCC SBIC may borrow to a maximum of $150.0 million when it has at least $75.0 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. However, because we have an affiliated SBIC already in operation, MCC SBIC will be limited to a maximum of $75.0 million in borrowings. The SBA limits a related group of SBICs to a maximum of $225.0 million in total borrowings, and our affiliate has already obtained the maximum $150.0 million in SBA debentures. Monroe Capital has received an additional SBIC license that will not be a subsidiary of ours, which could further reduce the maximum borrowing capacity of MCC SBIC in SBA debentures.

On November 21, 2013, we filed an application for exemptive relief from the SEC to permit us to exclude the debt of MCC SBIC guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief, if granted, would provide us with increased flexibility under the 200% asset coverage test by permitting us to borrow, through MCC SBIC, more than we would otherwise be able to absent the receipt of this exemptive relief.

## Related Party Transactions

We have a number of business relationships with affiliated or related parties, including the following:

We have an Investment Advisory Agreement with MC Advisors, an investment advisor registered with the SEC, to manage our day-to-day operating and investing activities. We pay MC Advisors a fee for its services under the Investment Advisory Agreement consisting of two components a base management fee and an incentive fee.

We have an Administration Agreement with MC Management to provide us with the office facilities and administrative services necessary to conduct our day-to-day operations.

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Theodore L. Koenig, our Chief Executive Officer and Chairman of our Board is also a manager of MC Advisors and the President and Chief Executive Officer of MC Management. Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer, serves as a director on our Board and is also a managing director of MC Management.

We have a license agreement with Monroe Capital, LLC, under which Monroe Capital, LLC has agreed to grant us a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in our business.

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

# Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our significant contractual payment obligations as of December 31, 2013 (dollars in thousands):

| Contractual obligations | Total | Less than 1 year | 1 3 years | 3 5 years | More than 5 years |
|---|---|---|---|---|---|
| Revolving credit facility | $ 76,000 | $ | $ | $ 76,000 | $ |
| Unfunded commitments[(1)] | 1,648 | 1,648 | | | |
| Total contractual obligations[(2)] | $ 77,648 | $ 1,648 | $ | $ 76,000 | $ |

(1) Unfunded commitments represent all amounts unfunded as of December 31, 2013. These amounts may or may not be funded to the borrowing party now or in the future. The unfunded commitments relate to loans with various maturity dates, but we are showing this amount in the less than one year category as this entire amount was eligible for funding to the borrowers as of December 31, 2013.

(2) Total contractual obligations excludes $7.9 million of secured borrowings.

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of December, 2013 and 2012, we had outstanding commitments to fund investments totaling $1.6 million and $3.2 million, respectively.

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

# Market Trends

We have identified the following trends that may affect our business:

*Target Market.* We believe that small and middle-market companies in the United States with annual revenues between $10 million and $2.5 billion represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have generated a significant number of investment opportunities for investment funds managed or advised by Monroe Capital, and we believe that this market segment will continue to produce significant investment opportunities for us.

*Specialized Lending Requirements.* We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to U.S. middle-market companies (1) is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (2) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (3) may also require more extensive ongoing monitoring by the lender.

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*Demand for Debt Capital.* We believe there is a large pool of uninvested private equity capital for middle-market companies. We expect private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources, such as us.

*Competition from other Lenders.* We believe that many traditional bank lenders, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital market transactions. In addition, many commercial banks face significant balance sheet constraints as they seek to build capital and meet future regulatory capital requirements. These factors may result in opportunities for alternative funding sources to middle-market companies and therefore drive increased new investment opportunities for us. Conversely, there is increased competitive pressure in the business development company and investment company marketplace for senior and subordinated debt which could result in lower yields for increasingly riskier assets.

*Pricing and Deal Structures.* We believe that the volatility in global markets over the last several years and current macroeconomic issues such as a weakened U.S. economy has reduced access to, and availability of, debt capital to middle-market companies, causing a reduction in competition and generally more favorable capital structures and deal terms. Recent capital raises in the business development company and investment company marketplace have created increased competition, however, we believe that current market conditions may continue to create favorable opportunities to invest at attractive risk-adjusted returns.

# Recent Developments

On March 7, 2014, the Board declared a quarterly dividend of $0.34 per share payable on March 28, 2014 to holders of record on March 18, 2014.

From January 1, 2014 through May 7, 2014, we repurchased 351,168 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $4.6 million under our share repurchase plan.

# Significant Accounting Estimates and Critical Accounting Policies

## Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt securities with contractual PIK interest, we do not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium is capitalized, and we then amortize such amounts using the effective interest method as interest income over the life of the investment. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts.

## Valuation of Portfolio Investments

As a business development company, we generally invest in illiquid securities including debt and, to a lesser extent, equity securities of middle-market companies. Under procedures established by our board of directors, we value investments for which market quotations are readily available and within a recent date at such market quotations. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). When doing so, we determine whether the quote obtained is sufficient according to generally accepted accounting principles in the United States ( GAAP ) to determine the fair value of the security. Debt and equity securities that are not publicly traded or whose market prices are not readily available or whose market prices are not regularly updated will be valued at fair value as determined in good faith by our board of directors. Such determination of fair values may involve subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted or thinly-traded securities, our board of directors, together with our independent valuation firms, value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

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

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our board of directors uses the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

- the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of MC Advisors responsible for the portfolio investment;
- preliminary valuation conclusions are then documented and discussed with the investment committee;
- the board of directors also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of our investments for which market quotations are not readily available. We will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;
- the audit committee of the board of directors reviews the preliminary valuations of MC Advisors and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and
- the board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of MC Advisors, the independent valuation firm(s) and the audit committee.

## Valuation of Secured Borrowings

We have elected the fair value option under ASC Topic 825 *Financial Instruments* relating to accounting for debt obligations at their fair value for our secured borrowings, which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. Due to the absence of a liquid trading market for these secured borrowings, they are valued by calculating the net present value of the future expected cash flow streams using an appropriate risk-adjusted discount rate model. The discount rate considers projected performance of the related loan investment, applicable market yields and leverage levels, credit quality, prepayment penalties and comparable company analysis. We will consult with an independent valuation firm relative to the fair value of its secured borrowings at least once in every calendar year.

## Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

We measure realized gains or losses by the difference between the net proceeds from the sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized. We report changes in the fair value of secured borrowings that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on secured borrowings in the consolidated statements of operations.

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## Capital Gains Incentive Fee

Pursuant to the terms of the Investment Advisory Agreement with MC Advisors, the incentive fee on capital gains earned on liquidated investments of our portfolio is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and administrative services agreement). Such fee will equal 20.0% of our incentive fee capital gains (i.e., our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

While the Investment Advisory Agreement with MC Advisors neither includes nor contemplates the inclusion of unrealized gains in the calculation of the capital gains incentive fee, pursuant to an interpretation of an American Institute for Certified Public Accountants Technical Practice Aid for investment companies, we include unrealized gains in the calculation of the capital gains incentive fee expense and related accrued capital gains incentive fee. This accrual reflects the incentive fees that would be payable to MC Advisors if our entire portfolio was liquidated at its fair value as of the balance sheet date even though MC Advisors is not entitled to an incentive fee with respect to unrealized gains unless and until such gains are actually realized. During the year ended December 31, 2013, we accrued capital gains incentive fees of $0.2 million, based on the performance of our portfolio, of which only $0.1 million was related to realized capital gains and was therefore payable to MC Advisors.

## New Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies (ASC Topic 946)* ( ASU 2013-08 ), which affects the scope, measurement and disclosure requirements for investment companies under GAAP. ASU 2013-08 contains new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interest in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2013. We do not expect ASU 2013-08 to have a material impact on our financial position or disclosures.

# Senior Securities

Information about our senior securities is shown in the following table as of December 31, 2012 and December 31, 2013 (dollars in thousands). We have derived the information from our consolidated financial statements, which have been audited by our independent registered public accounting firm and are included elsewhere in this prospectus.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities | Asset Coverage per Unit(1) | Involuntary Liquidating Preference per Unit(2) | Average Market Value per Unit(3) |
|---|---|---|---|---|
| Revolving Credit Facility | | | | |
| 2012 | $ 55,000 | $ 2,521 | | N/A |
| 2013 | $ 76,000 | $ 2,922 | | N/A |

| | | | |
|---|---|---|---|
| Secured Borrowings[4] | | | |
| 2012 | $ | N/A | N/A |
| 2013 | $ 7,997 | $ 27,765 | N/A |
| Total Debt | | | |
| 2012 | $ 55,000 | $ 2,521 | N/A |
| 2013 | $ 83,997 | $ 2,643 | N/A |

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

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(2) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.

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

(4) Secured borrowings represent partial loan sales which do not meet the definition of a participating interest as defined in ASC Topic 860 *Transfers and Servicing*. Participations or other partial loan sales which do not meet the definition of a participating interest remain on our consolidated statements of assets and liabilities as an asset and the proceeds are recorded as a secured borrowing.

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# BUSINESS

## General

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the 1940 Act and has elected to be treated as a RIC for tax purposes under Subchapter M of the Code commencing with our taxable year ended December 31, 2012. We provide customized financing solutions to lower middle-market companies in the United States and Canada focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants.

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured debt and equity investments. Unitranche debt is an instrument that combines both senior and junior secured debt into one facility. Unitranche debt is often used to finance leveraged buyouts and generally has an interest rate higher than that of typical senior debt, but lower than typical junior debt. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. We believe that our primary focus on lending to lower middle-market companies offers several advantages as compared to lending to larger companies, including more attractive economics, lower leverage, more comprehensive and restrictive covenants, relatively more expansive events of default, small debt facilities that provide us with enhanced influence over our borrower, direct access to borrower management and improved information flow. We anticipate that a significant portion of our new investments will be in non-private equity-sponsored transactions, which we believe offers more attractive economics in terms of interest rate, upfront fees and prepayment penalties than deals led by private equity sponsors. We may also invest opportunistically in attractively priced, loans to larger companies, which, we believe will enhance our geographic and industry portfolio diversification and increase our portfolio liquidity. We also have substantial strategic relationships with commercial banks across the United States through which we may source and opportunistically invest in distressed assets.

As of December 31, 2013, we had debt and equity investments in 42 portfolio companies with an aggregate fair value of $207.9 million. At December 31, 2013, our portfolio at fair value was comprised of 46.3% unitranche loans, 42.8% senior secured loans, 10.7% junior secured loans and 0.2% equity securities.

## Our Advisor

Our investment activities are managed by our investment advisor, MC Advisors. MC Advisors is responsible for sourcing potential investments, conducting research and due diligence on prospective investments and their private equity sponsors, analyzing investment opportunities, structuring our investments and managing our investments and portfolio companies on an ongoing basis. MC Advisors was organized in February 2011 and is a registered investment adviser under the Advisers Act.

Under the Investment Advisory Agreement, we pay MC Advisors a base management fee and an incentive fee for its services. See Management and Other Agreements Investment Advisory Agreement Management Fee for a discussion of the base management fee and incentive fee payable by us to MC Advisors. While not expected to review or approve each investment, our independent directors will periodically review MC Advisors services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital s investment professionals. The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to the Staffing Agreement. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 20 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that will constitute our

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primary focus and have expertise in investing throughout all periods of the current economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by approximately 40 experienced professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital s core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital s formation in 2004 through December 31, 2013, Monroe Capital s investment professionals invested in over 550 loan and related investments with an aggregate principal value of over $2.3 billion.

In addition to their roles with Monroe Capital and MC Advisors, Messrs. Koenig and Peck serve as our interested directors. Mr. Koenig has more than 25 years of experience in structuring, negotiating and closing transactions on behalf of asset-backed lenders, commercial finance companies, financial institutions and private equity investors at organizations including Monroe Capital, which Mr. Koenig founded in 2004, and Hilco Capital LP, where he led investments in over 30 companies in the lower middle-market. Mr. Peck has more than 19 years of public company management, leveraged finance and commercial lending experience at organizations, including Deerfield Capital Management LLC, Black Diamond Capital Management LLC and Salomon Smith Barney Inc. See Management Biographical Information Interested Directors.

Messrs. Koenig and Peck are joined on the investment committee of MC Advisors by Michael J. Egan and Jeremy T. VanDerMeid, each of whom is a senior investment professional at Monroe Capital. Mr. Egan has more than 20 years of experience in commercial finance, credit administration and banking at organizations including Hilco Capital, The CIT Group/Business Credit, Inc., The National Community Bank of New Jersey (The Bank of New York) and KeyCorp. Mr. VanDerMeid has more than 15 years of credit and lending experience at organizations including Morgan Stanley Investment Management, Dymas Capital Management Company and Heller Financial. See Management Biographical Information Investment Committee.

## About Monroe Capital

Monroe Capital, a Delaware limited liability that was founded in 2004, is a leading lender to middle-market companies. As of January 1, 2014, Monroe Capital had approximately $1.5 billion in assets under management.

Monroe Capital has maintained a continued lending presence in the lower middle-market throughout the most recent economic downturn. The result is an established lending platform that we believe generates consistent primary and secondary deal flow from a network of proprietary relationships and additional deal flow from a diverse portfolio of over 200 current investments. From Monroe Capital s formation in 2004 through December 31, 2013, Monroe Capital s investment professionals invested in more than 550 loan and related investments with an aggregate principal value of over $2.3 billion. The senior investment team of Monroe Capital averages more than 20 years of experience and has developed a proven investment and portfolio management process that has performed through multiple market cycles. In addition, Monroe Capital s investment professionals are supported by administrative and back-office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management.

## Portfolio Composition

Our investments generally range in size from $2.0 million to $15.0 million. We may also selectively invest in or purchase larger positions, and we generally expect that the size of our larger positions will increase in proportion to the size of our capital base. Pending such investments, we may reduce debt or invest in cash, cash equivalents, U.S. government securities and other high-quality debt investments with a maturity of one year or less. In the future, we may adjust opportunistically the percentage of our assets held in various types of loans, our principal loan sources and the industries to which we have greatest exposure, based on market conditions, the credit cycle, available financing and our desired risk/return profile. The companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national ratings agencies. See Portfolio Companies for a description of our current portfolio of investments.

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While our primary focus is to maximize current income and capital appreciation through debt investments in thinly traded or private U.S. and Canadian companies, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of middle-market companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

# Market Opportunity

We invest primarily in senior, unitranche and junior secured debt issued to lower middle-market companies in the United States and, to a lesser extent and in accordance with the limitations on foreign investments in the 1940 Act, Canada. We believe that U.S. and Canadian lower middle-market companies comprise a large, growing and fragmented market that offers attractive financing opportunities. In addition, each of the factors set forth below suggests a large number of prospective lending opportunities for lenders, which should allow us to generate substantial investment opportunities and build an attractive portfolio of investments.

***Significant Universe of Potential Borrowers.*** According to the U.S. Census Bureau in its 2007 economic census, the most recent figures published by the U.S. Census Bureau, there were approximately 196,000 companies in the United States with annual revenues between $10 million and $2.5 billion, compared with 1,200 companies with revenues greater than $2.5 billion. In addition, we have substantial relationships with commercial banks across the United States. We will have the opportunity to provide debt financing to their networks of middle-market clients while the banks can maintain their client relationships by providing deposit and cash management services. We believe that these relationships, coupled with an extensive network of financial intermediaries, will generate substantial originations in non-private equity-sponsored investments.

***Reduced Competition Driven by Depressed Credit Cycle.*** We believe that the dislocation in the financial markets over the last several years has reduced the amount of credit available to middle-market companies. Many significant participants in the senior, unitranche and junior secured debt market over the past five years, such as hedge funds and managers of collateralized loan obligations, have contracted or eliminated their origination activities as investors credit concerns have reduced available funding. Moreover, many regional commercial banks face significant balance sheet constraints and increased regulatory scrutiny, which we believe restrict their ability to provide loans to middle-market companies. In addition, since 2007, the Federal Deposit Insurance Corporation has been appointed receiver or conservator for over 500 failed banks. We believe that the relative decline in competition will drive higher quality deal flow to us and allow for us to exercise greater selectivity throughout the investment process.

***Robust Demand for Debt Capital.*** Private equity firms raised record amounts of equity commitments from 2006 to 2008, far in excess of the amount of equity they subsequently invested from this capital raised. We expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us. In addition, we believe there is a large pool of uninvested private equity capital available to acquire or recapitalize middle-market companies. We expect that private equity firms will be active investors in middle-market companies and that these private equity firms will seek to supplement their investments with senior secured and junior debt and equity co-investments from other sources, such as us. Although not our primary deal source, private equity firms are one of the many origination channels through which we may source our new loan originations.

We also expect a large number of companies to seek to refinance as the debt associated with a large number of middle-market leveraged mergers and acquisitions completed from 2005 to 2008 comes due in the near term. When combined with the decreased availability of debt financing for middle-market companies described above, these factors should increase lending opportunities for us.

***Middle-Market Lending Requirements.*** We believe that several factors render many U.S. financial institutions ill-suited to lend to lower middle-market companies. For example, based on the experience of our management team, lending to lower middle-market companies (a) is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information regarding such companies, (b) requires due diligence and underwriting practices, including greater

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and more sustained interaction with management and more detailed and tailored financial analysis, consistent with the demands and economic limitations of the middle-market and (c) may also require more extensive ongoing monitoring by the lender. This dynamic is particularly true with respect to non-private equity-sponsored companies because many middle-market focused business development companies and other finance companies rely substantially on private equity-backed companies for deal flow. As a result, middle-market companies, and non-private equity-sponsored and lower middle-market companies in particular, have historically been served by a limited segment of the lending community.

***Attractive Deal Structure and Terms.*** In general, based on the experiences of our management team, we believe that lower middle-market companies have less leverage on their balance sheets than large companies. Due to their smaller size, such companies also typically utilize less complicated financing arrangements, leaving them with simpler capital structures than larger companies. These loans also typically involve a small lending group, or club, which facilitates communication among the group, information flow, heightened oversight and monitoring and direct access to borrowers management teams as well as opportunities to obtain board seats or board observation rights with borrowers. Club transactions allow lenders in this market to customize covenant and default provisions in loan documents tailored to suit the individual borrowers. We believe this results in a better fit for borrowers, easier monitoring and improved overall performance for these investments. Also, we believe that as a percentage of financing transactions into which they enter, lower middle-market companies generally offer more attractive economics than large companies in terms of interest rate, upfront fees and prepayment penalties.

# Investment Strategy

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation primarily through investments in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity. We also seek to invest opportunistically in attractively-priced broadly syndicated loans, which should enhance our geographic and industry portfolio diversification and increase our portfolio s liquidity. To achieve our investment objective, we utilize the following investment strategy:

***Attractive Current Yield.*** We believe our sourcing network allows us to enter into transactions with attractive yields and investment structures. Based on current market conditions and our pipeline of new investments, we expect our target senior and unitranche secured debt will have an average maturity of three to five years and interest rates of 9% to 15%, and we expect our target junior secured debt and unsecured subordinated debt will have an average maturity of four to seven years and interest rates of 12% to 17%. In addition, based on current market conditions and our pipeline of new investments, we expect that our target debt investments will typically have a variable coupon (with a LIBOR floor), will typically include upfront closing fees of 1% to 4% and may include PIK interest. We may also receive warrants or other forms of upside equity participation. Our transactions will generally be secured and supported by a lien on all assets and/or a pledge of company stock in order to provide priority of return and to influence any corporate actions. Although we will target investments with the characteristics described in this paragraph, we cannot assure you that our new investments will have these characteristics and we may enter into investments with different characteristics as the market dictates. For a description of the characteristics of our current investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity. Until investment opportunities can be found, we may invest our undeployed capital in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

***Sound Portfolio Construction.*** We strive to exercise discipline in portfolio creation and management and to implement effective governance throughout our business. Monroe Capital has been, and we believe that MC Advisors, which is comprised by substantially the same investment professionals who have operated Monroe Capital, is and will be, conservative in the underwriting and structuring of covenant packages in order to enable early intervention in the event of weak financial performance by a portfolio company. We seek to pursue lending opportunities selectively and to maintain a diversified portfolio. We believe that exercising disciplined portfolio management through continued intensive account monitoring and timely and relevant management reporting allows us to mitigate risks in our debt investments. In addition, we have implemented rigorous governance processes through segregation of duties, documented policies and procedures and independent oversight and review of transactions, which we believe helps us to maintain a low level of non-performing loans. We believe that Monroe Capital s proven process of thorough origination, conservative underwriting, due diligence and structuring, combined with careful account monitoring and diversification, enables it to protect investor capital and we believe MC Advisors follows and will follow the same philosophy and processes in originating, structuring and managing our portfolio investments.

***Predictability of Returns.*** Beyond conservative structuring and protection of capital, we seek a predictable exit from our investments. We seek to invest in situations where there are a number of potential exit options, including rapid amortization and excess cash-flow recapture resulting in full repayment or a modest refinance. We seek to structure the majority of our transactions as secured loans with a covenant package that provides for full or partial repayment upon the completion of asset sales and restructurings. Because we seek to structure these transactions to provide for contractually determined, periodic payments of principal and interest, we are less likely to depend on mergers and acquisition activity or public equity markets to exit our debt investments. As a result, we believe that we can achieve our target returns even in a period when public markets are depressed.

# Competitive Strengths

We believe that we represent an attractive investment opportunity for the following reasons:

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital s experienced team comprised of approximately 40 professionals, including six senior partners that average more than 20 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. This extensive experience includes management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital s senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital s formation through December 31, 2013, Monroe Capital s investment professionals invested in more than 550 loan and related investments with an aggregate principal value of over $2.3 billion.

***Differentiated Relationship-Based Sourcing Network.*** We believe Monroe Capital s senior investment professionals benefit from extensive relationships with commercial banks, private equity firms, financial intermediaries, management teams and turn-around advisors. We believe that this broad sourcing network differentiates us from our competitors and offers us a diversified origination approach that does not rely on a single origination channel and offers us consistent deal flow throughout in the economic cycle. We also believe that this broad network allows us to originate a substantial number of non-private equity-sponsored investments.

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital s broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 1,600 investment opportunities during 2013. Monroe Capital s over 550 previously executed transactions, over 200 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. As of December 31, 2013, Monroe Capital had a pipeline of over

200 transactions for an aggregate potential deal volume of greater than $4.0 billion for all funds under management. We are also positioned to benefit from Monroe Capital s established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital s senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

***Disciplined, Credit-First Underwriting Process.*** Monroe Capital has developed a systematic underwriting process that applies a consistent approach to credit review and approval, with a focus on

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evaluating credit first and then appropriately assessing the risk-reward profile of each loan. MC Advisors assessment of credit will outweigh pricing and other considerations, as we seek to minimize potential credit losses through effective due diligence, structuring and covenant design. MC Advisors seeks to customize each transaction structure and financial covenant to reflect risks identified through the underwriting and due diligence process. We also seek to actively manage our origination and credit underwriting activities through personal visits and calls on all parties involved with an investment, including the management team, private equity sponsors, if any, or other lenders.

***Established Credit Risk Management Framework.*** We seek to manage our credit risk through a well-defined portfolio strategy and credit policy. In terms of credit monitoring, MC Advisors assigns each loan to a particular portfolio management professional and maintain an internal credit rating analysis for all loans. MC Advisors then employs ongoing review and analysis, together with monthly investment committee meetings to review the status of certain complex and challenging loans and a comprehensive quarterly review of all loan transactions. MC Advisors investment professionals also have significant turnaround and work-out experience, which gives them perspective on the risks and possibilities throughout the entire credit cycle. We believe this careful approach to investment and monitoring enables us to identify problems early and gives us an opportunity to assist borrowers before they face difficult liquidity constraints. By anticipating possible negative contingencies and preparing for them, we believe that we diminish the probability of underperforming assets and loan losses.

# Investment Process Overview

We view our investment process as consisting of four distinct phases described below:

***Origination.*** MC Advisors seeks to develop investment opportunities through extensive relationships with regional banks, private equity firms, financial intermediaries, management teams and other turn-around advisors. Monroe Capital has developed this network since its formation in 2004. MC Advisors manages these leads through personal visits and calls by its senior deal professionals. It is these professionals responsibility to identify specific opportunities, refine opportunities through due diligence regarding the underlying facts and circumstances and utilize innovative thinking and flexible terms to solve the financing issues of prospective clients. Monroe Capital s origination professionals are located in three regions across the United States, and each originator is responsible for covering a specified target market based on geography. We believe MC Advisors origination professionals experience is vital to enable us to provide our borrowers with innovative financing solutions. We further believe that their strength and breadth of relationships across a wide range of markets will generate numerous financing opportunities and enable us to be highly selective in our lending activities. In sourcing new transactions, MC Advisors seeks opportunities to work with borrowers domiciled in the United States and Canada and typically focuses on industries in which Monroe Capital has previous lending experience.

***Due Diligence.*** For each of our investments, MC Advisors prepares a comprehensive new business presentation, which summarizes the investment opportunity and its due diligence and risk analysis, all from the perspective of strengths, weaknesses, opportunities and threats presented by the opportunity. This presentation assesses the borrower and its management, including products and services offered, market position, sales and marketing capabilities and distribution channels; key contracts, customers and suppliers, meetings with management and facility tours; background checks on key executives; customer calls; and an evaluation of exit strategies. MC Advisors presentation typically evaluates historical financial performance of the borrower and includes projections, including operating trends, an assessment of the quality of financial information, capitalization and liquidity measures and debt service capacity. The financial analysis also includes sensitivity analysis against management projections and an analysis of potential downside scenarios, particularly for cyclical businesses. MC Advisors seeks to also review the dynamics of the borrowers industry and assess the maturity, market size, competition, technology and regulatory issues confronted by the industry. Finally MC Advisors new business presentation includes all relevant third-party reports and assessments, including, as applicable, analyses of the quality of earnings of the prospective borrower, a review of the business by industry experts and third-party valuations. In general, these analyses and reviews are more likely to be completed in agented or club deals in which MC Advisors will have greater access to the borrower and its management team. MC Advisors also includes in this due diligence, if relevant, field exams, collateral appraisals and environmental reviews, as well as a review of comparable private and public transactions.

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***Underwriting.*** MC Advisors uses the systematic, consistent approach to credit evaluation developed in house by Monroe Capital with a particular focus on determining the value of a business in a downside scenario. In this process, the senior investment professionals at MC Advisors bring to bear extensive lending experience with emphasis on lessons learned from the past two credit cycles. We believe that the extensive credit and work-out experience of Monroe Capital s senior management enables us to anticipate problems and minimize risks. Monroe Capital s underwriting professionals work closely with its origination professionals to identify individual deal strengths, risks and any risk mitigants. MC Advisors preliminarily screens transactions based on cash flow, enterprise value and asset-based characteristics, and each of these measures is developed on a proprietary basis using thorough credit analysis focused on sustainability and predictability of cash flow to support enterprise value, barriers to entry, market position, competition, customer and supplier relationships, management strength, private equity sponsor track record and industry dynamics. For asset-based transactions, MC Advisors seeks to understand current and future collateral value, opening availability and ongoing liquidity. MC Advisors documents this analysis through a new business presentation thoroughly reviewed by at least one member of its investment committee prior to proposing a formal term sheet. We believe this early involvement of the investment committee ensures that our resources and those of third parties are deployed appropriately and efficiently during the investment process and lowers execution risk for our clients. With respect to transactions reviewed by MC Advisors, we expect that only 10% of our sourced deals will reach the formal term sheet stage.

***Credit Approval/Investment Committee Review.*** MC Advisors employs a standardized, structured process developed by Monroe Capital when evaluating and underwriting new investments for our portfolio. MC Advisors investment committee considers its comprehensive new business presentation to approve or decline each investment. This committee includes Messrs. Koenig, Peck, Egan and VanDerMeid. The committee is committed to providing a prompt turnaround on investment decisions. Each meeting to approve an investment requires a quorum of at least three members of the investment committee, and each investment must receive unanimous approval by such members of the investment committee.

The following chart illustrates the stages of MC Advisors evaluation process:

***Execution.*** We believe Monroe Capital has developed a strong reputation for closing deals as proposed, and we intend to continue this tradition. Through MC Advisors consistent approach to credit evaluation and underwriting, we seek to close deals as fast or faster than competitive financing providers while maintaining the discipline with respect to credit, pricing and structure necessary to ensure the ultimate success of the financing. Upon completion of final documentation, a loan will typically be funded upon the initialing of the new business presentation by our appropriate senior officers and confirmation of the flow of funds and wire transfer mechanics.

***Monitoring.*** We benefit from the portfolio management system already in place at Monroe Capital. This monitoring includes meetings on at least a monthly basis between the responsible analyst and our portfolio company to discuss market activity and current events. MC Advisors portfolio management staff closely monitors all credits, with senior portfolio managers covering agented and more complex investments. MC Advisors segregates our capital markets investments by industry. MC Advisors monitoring process and projections developed by Monroe Capital both have daily, weekly, monthly and quarterly components and related reports, each to evaluate performance against historical, budget and underwriting expectations. MC Advisors analysts monitor performance using standard industry software tools to provide consistent disclosure of performance. MC Advisors also monitors our investment exposure daily using a proprietary trend analysis tool. When necessary, MC Advisors updates our internal risk ratings, borrowing base criteria and covenant compliance reports.

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As part of the monitoring process, MC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on an internal proprietary system that uses the following categories, which we refer to as MC Advisors investment performance rating:

| Investment Performance Rating | Summary Description |
|---|---|
| Grade 1 | Includes investments exhibiting the least amount of risk in our portfolio. The issuer is performing above expectations or the issuer s operating trends and risk factors are generally positive. |
| Grade 2 | Includes investments exhibiting an acceptable level of risk that is similar to the risk at the time of origination. The issuer is generally performing as expected or the risk factors are neutral to positive. |
| Grade 3 | Includes investments performing below expectations and indicates that the investment s risk has increased somewhat since origination. The issuer may be out of compliance with debt covenants; however, scheduled loan payments are generally not past due. |
| Grade 4 | Includes an issuer performing materially below expectations and indicates that the issuer s risk has increased materially since origination. In addition to the issuer being generally out of compliance with debt covenants, scheduled loan payments may be past due (but generally not more than six months past due). For grade 4 investments, we intend to increase monitoring of the issuer. |
| Grade 5 | Indicates that the issuer is performing substantially below expectations and the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance or payments are substantially delinquent. Investments graded 5 are not anticipated to be repaid in full, and we will reduce the fair market value of the loan to the amount we expect to recover. |

Our investment performance ratings do not constitute any rating of investments by a nationally recognized statistical rating organization or represent or reflect any third-party assessment of any of our investments.

In the event of a delinquency or a decision to rate a loan grade 4 or grade 5, the applicable analyst, in consultation with a member of the investment committee, develops an action plan. Such a plan may require a meeting with the borrower s management or the lender group to discuss reasons for the default and the steps management is undertaking to address the under-performance, as well as required amendments and waivers that may be required. In the event of a dramatic deterioration of a credit, MC Advisors forms a team or engages outside advisors to analyze, evaluate and take further steps to preserve its value in the credit. In this regard, we would expect to explore all options, including in a private equity sponsored investment, assuming certain responsibilities for the private equity sponsor or a formal sale of the business with oversight of the sale process by us. Several of Monroe Capital s professionals are experienced in running work-out transactions and bankruptcies.

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The following table shows the distribution of our investments on the 1 to 5 investment pe