

MONROE CAPITAL Corp  
Form N-2  
December 13, 2013

As filed with the Securities and Exchange Commission on December 13, 2013

Securities Act File No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM N-2**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

Pre-Effective Amendment No. \_\_  
 Post-Effective Amendment No. \_\_

**MONROE CAPITAL CORPORATION**

(Exact Name of Registrant as Specified in Charter)

311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

(Address of Principal Executive Offices)

(312) 258-8300

(Registrant's Telephone Number, including Area Code)

Theodore L. Koenig

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Chief Executive Officer

311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

(Name and Address of Agent for Service)

**WITH COPIES TO:**

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**Approximate date of proposed public offering:** As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c)

Title of Securities Being Registered	Amount	Proposed	Proposed	Amount of Registration Fee
	Being Registered	Maximum Offering Price Per Unit	Maximum Aggregate Offering Price <sup>(1)</sup>	
Common Stock, \$0.001 par value <sup>(2)</sup>	\$	\$	\$	\$
Preferred Stock, \$0.001 par value <sup>(2)</sup>				
Warrants <sup>(2)</sup>				
Subscription Rights <sup>(3)</sup>				
Debt Securities <sup>(4)</sup>				
Total	\$	\$	\$200,000,000 <sup>(5)</sup>	\$25,760

- (1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$200,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$200,000,000.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION**

**PRELIMINARY PROSPECTUS**

**December 13, 2013**

**\$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, 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.

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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 December 12, 2013, the last reported sale price of our stock on The Nasdaq Global Market was \$11.75 per share. Our net asset value as of September 30, 2013 was \$14.01 per share.

**An investment in our common stock 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. See Risk Factors beginning on page 12 to read about factors you should consider, including the risk of leverage, before investing in our common stock.**

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.monroecapitalbdc.com](http://www.monroecapitalbdc.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 \_\_\_\_\_, 2013

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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 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.

## 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;  
and  
Monroe SBIC refers to Monroe Capital Corporation SBIC, LP, our wholly-owned subsidiary that has applied for a small business investment company license from the United States Small Business Administration.*

### **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 (a combination of senior secured debt and junior secured debt under the same facility) 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 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 20 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 September 30, 2013, Monroe Capital's investment professionals invested in over 500 loan and related investments with an aggregate principal value of over \$2.0 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 18 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 12 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 October 1, 2013, Monroe Capital had approximately \$1.3 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 170 current investments. From Monroe Capital's formation in 2004 through September 30, 2013, Monroe Capital's investment professionals invested in over 500 loans and related investments with an aggregate principal value of over \$2.0 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.

### **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 to 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 to 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 expect to enter into transactions with the characteristics described in this paragraph, we cannot assure you that we will be able to enter into transactions on these terms or at all.

**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.

**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 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 September 30, 2013, Monroe Capital's investment professionals invested in more than 500 loan and related investments with an aggregate principal value of over \$2.0 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 will review approximately 1,800 investment opportunities during 2013.

Monroe Capital's over 500 previously executed transactions, over 170 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. As of September 30, 2013, Monroe Capital had a pipeline of over 150 transactions for an aggregate potential deal volume of greater than \$3.0 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**

On October 23, 2012, we entered into a credit facility with ING Capital LLC, or the Lender, as agent. The credit facility currently consists of a revolving line of credit equal to \$95.0 million, which may be increased to up to \$100.0 million pursuant to an accordion feature.

We may make draws under the revolver from time-to-time during the first three years of the loan (through October 2015) 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) October 21, 2016, 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 \$95.0 million and up to \$100.0 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 3.75% per annum or (b) a fluctuating daily rate equal to 2.75% 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 September 30, 2013, we had \$53.5 million outstanding under our revolving credit facility and availability of \$41.5 million.

### **Monroe SBIC**

On September 16, 2013, we commenced operations of a new wholly-owned subsidiary, Monroe SBIC, also managed by the Advisor. We have submitted an application on behalf of Monroe SBIC to the SBA to obtain a license for Monroe SBIC to become a Small Business Investment Company ( SBIC ) subsidiary under Section 301(c) of the Small Business Investment Act of 1958, as amended. On July 2, 2013, we announced the receipt of a green light letter from the SBA inviting Monroe SBIC to continue its application process to obtain a license to operate as an SBIC subsidiary. If approved, the license would provide us with an incremental source of attractive long-term capital through the use of SBA debentures. This would be the second SBIC license held by affiliates of Monroe Capital LLC. However, receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and we have received no assurance or indication from the SBA that Monroe SBIC will receive an SBIC license, or of the timeframe in which Monroe SBIC would receive a license, should one ultimately be granted.

We have applied to apply 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 in the event that our SBIC subsidiary receives an SBIC license from the SBA.

### **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 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 Regulations governing our operation as a business development company will affect our ability to and the way in which we raise additional capital. and Risk Factors Risks Relating to our Business and Structure If we use borrowed funds to make investments or fund our business operations, we will be exposed to risks typically associated with leverage which will increase 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 a private fund 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 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 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. Our corporate website is located at [www.monroecapitalbdc.com](http://www.monroecapitalbdc.com). Information on our website is not incorporated into or a part of this prospectus.

### **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 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 12 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, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Monroe Capital Corporation.

<b>Stockholder transaction expenses:</b>		
Sales load (as a percentage of offering price)	%	(1)
Offering expenses (as a percentage of offering price)	%	(2)
Dividend reinvestment plan expenses	%	(3)
<b>Total stockholder transaction expenses (as a percentage of offering price)</b>	<b>%</b>	
<b>Estimated annual expenses (as a percentage of net assets attributable to common stock):</b>		
Base management fee	2.49%	(4)
Incentive fees payable under the Investment Advisory Agreement (20%)	0.00%	(5)
Interest payments on borrowed funds	2.11%	(6)
Other expenses (estimated)	2.13%	(7)
<b>Total annual expenses (estimated)</b>	<b>6.73%</b>	<b>(8)</b>

- (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 average net assets of \$112.8 million, total assets of \$203.8 million and cash of \$31.8 million as of September 30, 2013. See Management and Other Agreements Investment Advisory Agreement.
- (5) We may have capital gains and interest income that could result in the payment of an incentive fee to our investment advisor. However, the incentive fee payable to our investment advisor is based on our performance and will not be paid unless we achieve certain goals. As we cannot predict whether we will meet the necessary performance targets, we have assumed an incentive fee of 0.0% in this chart. During the three months ended September 30, 2013 we did not accrue an incentive fee based on pre-incentive fee net investment income. The pre-incentive fee net investment income incentive fee is payable





quarterly. During the three months ended September 30, 2013 we accrued capital gains incentive fees of \$37 thousand, including accruals related to unrealized gains. No such fees are actually payable by us with respect to unrealized gains unless and until those gains are actually realized.

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) As of September 30, 2013, we had total borrowings of \$62.2 million and net assets of \$140.1 million. For the quarter ended September 30, 2013, we had interest expense of \$0.6 million. As of September 30, 2013, the weighted average interest rate of our revolving credit facility (excluding debt issuance costs) was 4.2%.
- (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, which is capped in each quarter through the quarter ended December 31, 2013 at the greater of (i) 0.375% of average assets for such quarter and (ii) \$375,000. See Management and Other Agreements Administration Agreement. Other expenses are based on estimated amounts for the current fiscal year.

- (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. If the total annual expenses percentage were calculated instead as a percentage of consolidated total assets, our total annual expenses would be 4.31% 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.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 61	\$ 202	\$ 336	\$ 673

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. While 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%. The incentive fee under the Investment Advisory Agreement is not included in the example as we would not pay an incentive fee if we have a 5% annual return. 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 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.

We expect that MC Advisors will evaluate, negotiate, structure, close and monitor 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 a private fund 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.

***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 will 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.

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***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.

***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 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 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.

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. This requirement does not apply to stock issued upon the exercise of options, warrants or rights that we may issue from time to time. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution. We have stockholder approval to issue our common stock below net asset value, through July 9, 2014. We intend to 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 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;

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 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) <sup>(1)</sup>				
-10%	-5%	0%	5%	10%

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Corresponding return to common stockholder <sup>(2)</sup>	-20.0%	-11.4%	-2.9%	5.7%	14.3%
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- (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 4.0%.

***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 June 8, 2012, 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 reported a revised version of the legislation favorable 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 your risk of an investment in shares of our common stock may increase.

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

Our credit facility 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 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 2.25 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 need to 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 current 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.

***We may not be approved for an SBIC license.***

We have applied to the SBA for a license for our wholly-owned subsidiary, Monroe SBIC, to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958. On July 2, 2013, we announced the receipt of a green light letter from the SBA inviting us to continue our application process to obtain a license to form and operate an SBIC subsidiary. Following the granting of the license, Monroe SBIC will be allowed to issue SBA-guaranteed debentures, subject to the required capitalization of Monroe SBIC. SBA guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Although we have received a green light letter from the SBA inviting us to continue our application process, we cannot assure you that we will be successful in receiving an SBIC license from the SBA. If we do receive an SBIC license, there is no minimum amount of SBA-guaranteed debentures that must be allocated to us.

***Monroe SBIC, if licensed by the SBA, will be subject to SBA regulations.***

We have received no assurance or indication from the SBA that we will receive a license, or the timeframe in which we would receive a license, should one ultimately be granted. If we are granted a license by the SBA, we will be subject to regulation by the SBA.

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 Monroe SBIC to forego attractive investment opportunities that are not permitted under the SBA regulations, and may cause Monroe 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. Monroe SBIC is the second SBIC under common control of Monroe Capital, and Monroe Capital may form or acquire additional SBICs in the future. Monroe Capital's other SBIC has \$150.0 million in outstanding SBIC debentures as of September 30, 2013. If Monroe SBIC is granted an SBIC license and 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, if Monroe SBIC is granted an SBIC license, there can be no assurance that it 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 Monroe SBIC.

The debentures issued by Monroe SBIC to the SBA would have a maturity of ten years and bear interest semi-annually at fixed rates. Monroe SBIC would need to generate sufficient cash flow to make required debt payments to the SBA. If Monroe 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 Monroe SBIC.

***If granted an SBIC license, Monroe 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 Monroe SBIC (and any other entities that are disregarded as separate from us for U.S. federal income tax purposes). If granted an SBIC license, Monroe 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 Monroe SBIC's income without receiving any corresponding cash distributions from it with respect to such income. We can make no assurances that Monroe 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



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.

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 an application 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 Monroe 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.

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***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 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 following the completion of this offering 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).

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 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 additional expenses in the near term, which may negatively impact its 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 cannot be certain if the reduced disclosure requirements and relief from certain other significant obligations that are applicable to emerging growth companies will make our common stock less attractive to investors.***

As an emerging growth company, we take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, less extensive disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved and an extended transition period for complying with new or revised accounting standards. We cannot predict if investors will find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

***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. 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 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, 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.

***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 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.

***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.

***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 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, agent 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 may 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.

***MC Advisors liability is limited under the Investment Advisory Agreement, and we have agreed to indemnify MC Advisors against certain liabilities, which may lead MC Advisors to act in a riskier manner on our behalf than it would when acting for its own account.***

Under the Investment Advisory Agreement, MC Advisors will not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of our board of directors in following or declining to follow MC Advisors advice or recommendations. MC Advisors maintains a contractual, as opposed to a fiduciary, relationship with us. Under the terms of the Investment Advisory Agreement, MC Advisors and its and its affiliates' respective officers, directors, members, managers,

stockholders and employees will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Advisory Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of MC Advisors' duties under the Investment Advisory Agreement. In addition, we have agreed to indemnify MC Advisors and its and its affiliates' respective officers, directors, members, managers, stockholders and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. These protections may lead MC Advisors to act in a riskier manner when acting on our behalf than it would when acting for its own account.

*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 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 involve higher levels of risk, 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 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.

##### ***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 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 repeal the exemption from the Maryland Control Share Acquisition Act, the Maryland Control Share Acquisition Act also may make it more difficult for a third-party to obtain control of us and increase the difficulty of consummating such a transaction.

We have also adopted 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;

loss of RIC or business development company status;

the ability of Monroe 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 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;

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 December 12, 2013 we had 10,003,072 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.

**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, should, targets, projects, and 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;

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Monroe SBIC's ability to obtain an SBIC license;

SBA regulations affecting Monroe 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 are advised to consult any additional disclosures that we may make directly to you or through reports that we may file in the future with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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.

### 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. 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.

## 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. In addition, we have announced the declaration of a cash distribution on December 27, 2013 to stockholders of record as of December 13, 2013 of \$0.34 per share.

Record Date	Payment Date	Distributions Declared Per Share
<b>Fiscal Year Ended December 31, 2012</b>		
December 14, 2012	December 28, 2012	\$ 0.34
Total		\$ 0.34 <sup>(1)</sup>
<b>Fiscal Year Ended December 31, 2013</b>		
March 19, 2013	March 28, 2013	\$ 0.34
June 14, 2013	June 28, 2013	\$ 0.34
September 13, 2013	September 27, 2013	\$ 0.34
Total		\$ 1.02 <sup>(2)</sup>

(1) Includes a return of capital for tax purposes of approximately \$0.20 per share.

(2) 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. However, if the character of such distributions were determined as of September 30, 2013, approximately \$0.16 per share would have been characterized as a tax return of capital to our stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.

We have elected, and intend to qualify annually thereafter, to be treated as a RIC under the Code, beginning with the taxable year ending December 31, 2012. 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.

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. However, if the character of such distributions were determined as of September 30, 2013, approximately \$0.16 per share would have been characterized as a tax return of capital to our stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.

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](#).

### 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 <sup>(1)</sup>	Closing Sales Price High	Low	Premium of High Sales Price to NAV <sup>(2)</sup>	Premium (Discount) of Low Sales Price to NAV <sup>(2)</sup>	Declared Distributions <sup>(3)</sup>
<b>Year ended December 31, 2013</b>						
Fourth Quarter (through December 12, 2013)	<sup>(4)</sup>	\$ 13.87	\$ 11.75	<sup>(4)</sup>	<sup>(4)</sup>	<sup>(5)(6)</sup>
Third Quarter	\$ 14.01	\$ 14.99	\$ 12.95	7.0%	(7.6)%	\$ 0.34 <sup>(6)</sup>
Second Quarter	\$ 14.78	\$ 15.46	\$ 14.60	4.6%	(1.2)%	\$ 0.34 <sup>(6)</sup>
First Quarter	\$ 14.78	\$ 15.42	\$ 14.55	4.3%	(1.6)%	\$ 0.34 <sup>(6)</sup>
<b>Year ended December 31, 2012</b>						
Fourth Quarter <sup>(7)</sup>	\$ 14.54	\$ 15.39	\$ 14.29	5.8%	(1.7)%	\$ 0.34 <sup>(8)</sup>

- (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 December 31, 2013.
- (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, 2013 are finalized.
- (6) 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. However, if the character of such distributions were determined as of September 30, 2013, approximately \$0.16 per share, respectively, would have been characterized as a tax return of capital to our stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.
- (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.

### SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company as of December 31, 2012 and 2011, and for the period from February 9, 2011 (inception) through December 31, 2011, and the year ended December 31, 2012 is derived from the financial statements that have been audited by McGladrey LLP, independent registered public accounting firm. The Company's consolidated financial statements for the nine-month period ended September 30, 2013, are unaudited. However, in the opinion of the Company, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been made. Interim results are subject to significant seasonal variations and are not indicative of the results of operations to be expected for a full fiscal year. The 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.

	Period from February 9 (inception) through December 31, 2011 <sup>(2)</sup>	Year Ended December 31, 2012 <sup>(2)</sup>	Nine Months Ended September 30, 2013 (Unaudited)
(dollars in thousands, except per share data)			
<b>Statement of Operations Data:</b>			
Total investment income	\$	\$ 1,706	\$ 11,818
Interest and other debt financing expenses		305	1,968
Base management fee		318	1,907
Incentive fee		6	842
All other expenses		287	1,635
Net investment income		790	5,466
Net gain on investments and secured borrowings		160	1,788
Net increase in net assets resulting from operations		950	7,254
<b>Per share data:</b>			
Net asset value	N/A	\$ 14.54	\$ 14.01
Net investment income	N/A	0.15	0.80
Net gain on investments and secured borrowings	N/A	0.03	0.26
Net increase in net assets resulting from operations	N/A	0.18	1.06
Stockholder dividends and other distributions	N/A	0.34 <sup>(3)</sup>	1.02 <sup>(4)</sup>
<b>Other data:</b>			
Weighted average annualized contractual yield on debt investments	N/A	9.8%	9.5%
Weighted average annualized effective yield on debt investments <sup>(1)</sup>	N/A	11.3%	10.5%
Number of portfolio companies at period end	N/A	28	39
<b>Statement of assets and liabilities data:</b>			
Total investments at fair value	\$	\$ 132,752	\$ 169,433
Total assets		139,231	203,788
Borrowings		55,000	62,149 <sup>(5)</sup>
Total net assets		83,634	140,133

(1) Weighted average effective yield is based upon the par value of our debt investments.

(2) For historical periods prior to October 24, 2012, we had no operations and therefore information for the periods that include financial results prior to October 24, 2012 are not provided.

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

- (4) 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. However, if the character of such distributions were determined as of September 30, 2013, approximately \$0.16 per share would have been characterized as a tax return of capital to our stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.
- (5) Borrowings include \$53.5 million drawn under our revolving credit facility and \$8.6 million of secured borrowings at fair value, which arose under the application of ASC Topic 860 to partial loan sales during the period.

**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 September 30, 2013. 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.

	Quarter Ended			
	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012 <sup>(1)</sup>
	(unaudited) (dollars in thousands, except per share data)			
Total investment income	\$ 4,347	\$ 3,752	\$ 3,719	\$ 1,706
Net investment income	2,413	1,550	1,503	790
Net increase in net assets from operations	1,966	1,988	3,300	950
Net increase in net assets from operations per share	\$ 0.22	\$ 0.34	\$ 0.57	\$ 0.18
Net asset value per share at end of period	\$ 14.01	\$ 14.78	\$ 14.78	\$ 14.54

- (1) Our common stock commenced trading on the Nasdaq Global Market on October 24, 2012. There was no established public trading market for the stock prior to that date. We completed our initial public offering on October 25, 2012 and commenced operations on that date.

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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 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 million and \$25 million each, although this investment size may vary proportionately with the size of our capital base. As of September 30, 2013, our portfolio included approximately 34.3% senior secured debt, 52.5% unitranche secured debt, 13.0% 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 noninvestment grade.

### 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, 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 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 management and incentive fees to MC Advisors 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 three months ended September 30, 2013, we invested \$46.5 million in fourteen new portfolio companies and \$3.0 million in six existing portfolio companies and had \$23.3 million in aggregate amount of exits and repayments (including completely exiting seven portfolio companies), resulting in net investments of \$26.2 million for the period.

During the nine months ended September 30, 2013, we invested \$69.1 million in twenty one new portfolio companies and \$3.7 million in seven existing portfolio companies and had \$38.1 million in aggregate amount of exits and repayments (including completely exiting ten portfolio companies), resulting in net investments of \$34.7 million for the period.

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

		September 30, 2013			
	Fair Value	Percentage of Total Portfolio	Weighted Average Annualized Contractual Coupon Yield <sup>(1)</sup>	Weighted Average Annualized Effective Yield <sup>(1)</sup>	
Unitranche loans	\$ 88,915	52.5%	10.5%	12.3%	
Senior secured loans	58,135	34.3	8.1	8.1	
Junior secured loans	21,981	13.0	9.7	9.7	
Equity securities	402	0.2	n/a	n/a	
<b>Total</b>	<b>\$ 169,433</b>	<b>100.0%</b>	<b>9.5%</b>	<b>10.5%</b>	



	December 31, 2012			
	Fair Value	Percentage of Total Portfolio	Weighted Average Annualized Contractual Coupon Yield <sup>(1)</sup>	Weighted Average Annualized Effective Yield <sup>(1)</sup>
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
<b>Total</b>	<b>\$ 132,752</b>	<b>100.0%</b>	<b>9.8%</b>	<b>11.3%</b>

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

n/a not applicable

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

	September 30, 2013		December 31, 2012	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Healthcare & Pharmaceuticals	\$ 35,796	21.1%	\$ 17,407	13.1%
Services: Business	16,353	9.7	4,040	3.0
Media: Advertising, Printing & Publishing	14,620	8.6	14,273	10.8
Services: Consumer	14,482	8.5	14,937	11.2
Automotive	14,372	8.5	14,783	11.0
Retail	11,795	7.0	6,633	5.0
High Tech Industries	9,608	5.7	9,158	6.9
Consumer Goods: Non-durable	9,273	5.5	7,554	5.9
Consumer Goods: Durable	8,699	5.1	6,864	5.2
Hotels, Gaming & Leisure	7,348	4.3	8,434	6.4
Banking, Finance, Insurance & Real Estate	6,799	4.0	5,997	4.5
Energy: Oil & Gas	4,545	2.7	3,500	2.6
Capital Equipment	4,534	2.7	7,978	6.0
Telecommunications	3,755	2.2	3,840	2.9
Beverage, Food & Tobacco	2,994	1.8		
Containers, Packaging & Glass	1,950	1.1	2,940	2.2
Transportation: Cargo	1,500	0.9		
Chemicals, Plastics and Rubber	1,010	0.6	4,414	3.3
<b>Total</b>	<b>\$ 169,433</b>	<b>100.0%</b>	<b>\$ 132,752</b>	<b>100.0%</b>

### Portfolio Asset Quality

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



performance rating. For any investment rated in grades 3, 4 or 5, MC Advisor 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 Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, MC Advisor reviews these investment ratings on a quarterly basis, and our board of directors reviews and affirms such ratings.

**Rating Definition**

<b>Investment Performance Risk Rating</b>	<b>Summary Description</b>
<b>Grade 1</b>	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.
<b>Grade 2</b>	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.
<b>Grade 3</b>	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.
<b>Grade 4</b>	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.
<b>Grade 5</b>	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, the Advisor 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, LLC'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 performance rating scale as of September 30, 2013 (dollars in thousands):

Investment Performance Rating	Investments at Fair Value	Percentage of Total Investments
1	\$	%
2	158,115	93.3
3	11,318	6.7
4		
5		
<b>Total</b>	<b>\$ 169,433</b>	<b>100.0%</b>

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale 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		
<b>Total</b>	<b>\$ 132,752</b>	<b>100.0%</b>

**Results of Operations**

Operating results are as follows (dollars in thousands):

	Three Months Ended	Nine Months Ended
	September 30, 2013	
Total investment income	\$ 4,347	\$ 11,818
Total expenses, net	1,934	6,352
Net investment income	2,413	5,466
Net realized gain (loss) on investments	223	369
Net change in unrealized appreciation (depreciation) on investments and secured borrowings	(670)	1,419
Net increase in net assets resulting from operations	\$ 1,966	\$ 7,254

**Investment Income**

For the three and nine months ended September 30, 2013, total investment income was \$4.3 million and \$11.8 million, of which \$4.3 million and \$11.7 million was attributable to portfolio interest and \$31,195 and \$127,304 to other income (including income from amortization of discounts and origination fees and dividend income), respectively.



**Operating Expenses**

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

	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2013</b>
Interest and other debt financing expenses	\$ 594	\$ 1,968
Base management fees	702	1,907
Incentive fees	37	842
General & administrative expenses	601	1,635
<b>Total operating expenses</b>	<b>\$ 1,934</b>	<b>\$ 6,352</b>

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

	<b>Three months Ended September 30, 2013</b>	<b>Nine months Ended September 30, 2013</b>
Interest expense revolving credit facility	\$ 364	\$ 1,314
Amortization of deferred financing costs	116	345
Interest expense secured borrowings	99	283
Other	15	26
<b>Total interest and other debt financing expenses</b>	<b>\$ 594</b>	<b>\$ 1,968</b>

**Net Realized Gain (Loss) on Investments**

For the three and nine months ended September 30, 2013, we had \$23.3 million and \$38.1 million of sales and principal repayments, resulting in \$0.2 million and \$0.4 million of realized gains, respectively.

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

For the three and nine months ended September 30, 2013, our investments and secured borrowings had \$(0.7) million and \$1.4 million of net unrealized appreciation (depreciation), respectively.

**Changes in Net Assets from Operations**

For the three and nine months ended September 30, 2013, we recorded a net increase in net assets resulting from operations of \$2.0 million and \$7.3 million, respectively. Based on the weighted average shares of common stock outstanding for the three and nine months ended September 30, 2013, our per share net increase in net assets resulting from operations was \$0.22 and \$1.26, respectively. During the three months ended September 30, 2013, we completed a public offering as described in further detail within *Liquidity and Capital Resources* below. The new capital raised during the quarter was initially used to repay borrowings under our revolving credit facility, and has since been redeployed into new portfolio investments. The timing lag between raising additional capital and closing new investments and declines in fair market valuation of certain investments in our investment portfolio resulted in a reduction in net increase in net assets resulting from operations per share during the three months ended September 30, 2013.

**Liquidity and Capital Resources**

As of September 30, 2013, we had \$31.8 million in cash and cash equivalents and \$53.5 million of total debt outstanding on our revolving credit line. We had an unusually large cash balance as of September 30, 2013,



due to the expected timing of closing new investments in our pipeline. At September 30, 2013, there were several investments that were expected to close imminently, requiring us to maintain a significant cash balance. As of September 30, 2013, we had \$41.5 million currently available for additional borrowings on our revolving credit facility. See *Borrowings Revolving Credit Facility* below for additional information.

### **Cash Flows**

For the nine months ended September 30, 2013, we experienced a net increase in cash and cash equivalents of \$27.7 million. During the same period we used \$28.5 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 \$56.2 million from financing activities, principally from our secondary offering during the three months ended September 30, 2013 and increases in secured borrowings, partially offset by distributions to stockholders and net repayments on our revolving credit facility.

### **Borrowings**

*Revolving Credit Facility:* As of September 30, 2013, and December 31, 2012 we had \$53.5 million and \$55.0 million outstanding, respectively, under our revolving credit facility with ING Capital LLC, as agent to finance the purchase of our assets. On September 27, 2013, the maximum amount we are able to borrow under the revolving credit facility was increased from \$65.0 million to \$95.0 million, pursuant to an accordion feature. The maximum borrowing under the revolving credit facility can be increased up to \$100.0 million pursuant to this accordion feature, subject to maintaining 200% asset coverage, as defined in the 1940 Act. The maturity date of the revolving credit facility will be the earliest to occur of (a) October 21, 2016, subject to extension as mutually agreed by us and ING Capital, LLC, as agent (b) the termination of the revolving credit facility in accordance with its terms or (c) any other date mutually agreed to by us and ING Capital LLC, as agent.

The revolving credit facility is secured by a lien on all of our assets, including cash on hand. Our ability to borrow under the revolving 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 during the first three years (through October 2015) 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 3.75% or at a daily rate equal to 2.75% 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 three and nine months ended September 30, 2013 was 4.2% and 4.1%, respectively. The weighted average fee rate on our unused portion of the revolving credit facility for the three and nine months ended September 30, 2013 was 0.9% and 0.7%, respectively.

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 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 2.25 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 Advisor, failure to comply with our financial and negative covenants, and failure to maintain our relationship with our Advisor. 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.

*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 within interest and other debt financing expenses in our consolidated statements of operations.

As of September 30, 2013, we recognized secured borrowings at fair value totaled \$8.6 million and the fair value of the loans that are associated with these secured borrowings was \$23.5 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 meet 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 prior to January 1, 2013 or during the three months ended September 30, 2013. During the three and nine months ended September 30, 2013, repayments on secured borrowings totaled \$0.7 million and \$1.3 million, respectively. The weighted average interest rate on our secured borrowings was approximately 4.3% as of September 30, 2013.

#### *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 the three and nine months ended September 30, 2013 totaled \$3.4 million (\$0.34 per share) and \$7.7 million (\$1.02 per share), respectively.

#### **Commitments and Contingencies and Off-Balance Sheet Arrangements**

A summary of our significant contractual obligations as of December 31, 2012 is as follows (dollars in thousands):

<b>Contractual obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>More than 5 years</b>
Revolving Credit Facility	\$ 55,000	\$	\$	\$ 55,000	\$
Total contractual obligations	\$ 55,000	\$	\$	\$ 55,000	\$

See Liquidity and Capital Resources Borrowings Secured Borrowings for a description of secured borrowings recognized subsequent to December 31, 2012.

### ***Commitments and Contingencies***

We had \$1.3 million in outstanding commitments to fund investments under an undrawn revolver as of September 30, 2013. Additionally, we have entered into certain contracts with other parties that contain a variety of indemnifications. Our maximum exposure under these arrangements is unknown. However, we have not experienced claims or losses pursuant to these contracts and believe the risk of loss related to such indemnifications to be remote.

### ***Off-Balance Sheet Arrangements***

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, LLC, 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 November 11, 2013, our of directors 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 next twelve months at the discretion of management.

The shares will be purchased from time to time at prevailing market prices, through open market or block transactions. Our board of directors 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.

### **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. Upon the prepayment of a loan or debt security, any unamortized 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 in accordance with generally accepted accounting principles in the United States ( US GAAP ) to determine the fair value of the investment. Debt and equity investments 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 investments, 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.

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 there are not readily available market quotations for many of the investments in our portfolio, the fair value of many of our portfolio investments is 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 repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. 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. The net gain or loss reflects the difference between the fair value and the principal due at maturity.

#### ***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 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 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 three and nine months ended September 30, 2013, we accrued capital gains incentive fees of \$37,000 and \$0.4 million, respectively, based on the performance of our portfolio, none of which were 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 U.S. GAAP. The amendments (i) change the approach to the investment company assessment in ASC Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment company; (ii) require an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than the equity method of accounting; and (iii) require the following additional disclosures (a) the fact that the entity is an investment company and is applying the guidance in ASC Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2013. We are currently assessing the impacts ASU 2013-08 will have on our consolidated financial statements.

#### **Senior Securities**

Information about our senior securities is shown in the following table as of December 31, 2012 and September 30, 2013 (dollars in thousands). We have derived the information as of December 31, 2012 from our consolidated financial statements, which have been audited by our independent registered public accounting firm and are included elsewhere in this prospectus.

<b>Class and Year</b>	<b>Total Amount Outstanding Exclusive of Treasury Securities</b>	<b>Asset Coverage per Unit<sup>(1)</sup></b>	<b>Involuntary Liquidating Preference per Unit<sup>(2)</sup></b>	<b>Average Market Value per Unit<sup>(3)</sup></b>
<b>Revolving Credit Facility</b>				
2012	\$ 55,000	\$ 2,521		N/A
2013 (as of September 30, 2013, unaudited)	\$ 53,500	\$ 3,619		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.
- (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.

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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 September 30, 2013, we had debt and equity investments in 39 portfolio companies with an aggregate fair value of \$169.4 million. At September 30, 2013, our portfolio at fair value was comprised of 52.5% unitranche loans, 34.3% senior secured loans, 13.0% 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 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 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 September 30, 2013, Monroe Capital's investment professionals invested in over 500 loan and related investments with an aggregate principal value of over \$2.0 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 18 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 12 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 October 1, 2013, Monroe Capital had approximately \$1.3 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 170 current investments. From Monroe Capital's formation in 2004 through September 30, 2013, Monroe Capital's investment professionals invested in more than 500 loan and related investments with an aggregate principal value of over \$2.0 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 million to \$15 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.

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 490 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 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 to 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 to 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 expect to enter into transactions with the characteristics described in this paragraph, we cannot assure you that we will be able to enter into transactions on those terms or at all.

**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 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 September 30, 2013, Monroe Capital's investment professionals invested in more than 500 loan and related investments with an aggregate principal value of over \$2.0 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. On average, Monroe Capital estimates that it will review approximately 1,800 investment opportunities during 2013. Monroe Capital's over 500 previously executed transactions, over 170 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. As of September 30, 2013, Monroe Capital had a pipeline of over 150 transactions for an aggregate potential deal volume of greater than \$3.0 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 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.

***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.

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:

<b>Investment Performance Rating</b>	<b>Definition</b>
<b>Grade 1</b>	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.
<b>Grade 2</b>	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.
<b>Grade 3</b>	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.
<b>Grade 4</b>	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.
<b>Grade 5</b>	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.

The following table shows the distribution of our initial portfolio of investments we have acquired on the 1 to 5 investment performance rating scale at fair value:

Investment Performance Rating	As of September 30, 2013		As of December 31, 2012	
	Investments at Fair Value (dollars in thousands)	Percentage of Total Portfolio	Investments at Fair Value (dollars in thousands)	Percentage of Total Portfolio
1			\$ 4,414	3.3%
2	\$ 158,115	93.3%	125,301	94.4
3	11,318	6.7%	3,037	2.3
4				
5				
<b>Total</b>	\$ 169,433	100.0%	\$ 132,752	100.0%

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.

### Investment Structure

We structure our investments, which typically have maturities of three to seven years, as follows:

*Senior Secured Loans.* We structure these investments as senior secured loans. We obtain security interests in the assets of the portfolio company borrowers that serve as collateral in support of the repayment of such loans. This collateral may take the form of first-priority liens on the assets of the portfolio company borrower. Our senior secured loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity.

*Unitranche Loans.* We structure our unitranche loans as senior secured loans. We obtain security interests in the assets of these portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first-priority liens on the assets of a portfolio company. Unitranche loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases we, together with our affiliates, are the sole or majority lender of our unitranche loans, which can afford us additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance.

*Junior Secured Loans.* We structure these investments as junior secured loans. We obtain a security interest in the assets of these portfolio companies that serves as collateral in support of the repayment of such loans. This collateral may take the form of second priority liens on the assets of a portfolio company. These loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity.

*Warrants and Equity Co-Investment Securities.* In some cases, we may also receive nominally priced warrants or options to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In other cases, we may make a minority equity co-investment in the portfolio company in connection with a loan.

We tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its operating results. We seek to limit the downside potential of our investments by:

selecting investments that we believe have a very low probability of loss;

requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances.

We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

### **Competition**

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 invest in areas they have not traditionally invested in or from which they had withdrawn during the recent 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.

We use the expertise of our investment professionals to assess investment risks and determine appropriate pricing and terms for investments in our loan portfolio. In addition, we expect that the relationships of our senior professionals will enable us to learn about, and compete effectively for, investment opportunities with attractive middle-market companies, independently or in conjunction with our private equity clients. For additional information concerning the competitive risks we face, see [Risk Factors Risks Relating to Our Business and Structure](#). We operate in a highly competitive market for investment opportunities, which could reduce returns in losses.

### **Information Technology**

We utilize a number of industry standard practices and software packages to secure, protect, manage and back up all corporate data. We outsource our information technology function to monitor and maintain our systems efficiently. Also, we conduct a daily backup of our systems to ensure the security and stability of the network. Our system provider performs this backup off site.

### **Staffing and Administration**

We do not currently have any employees. MC Management, an affiliate of Monroe Capital, provides access to Monroe Capital's investment professionals and the administrative services necessary for us to operate



pursuant to the Staffing Agreement and the Administration Agreement. The Staffing Agreement provides us with access to investment opportunities, which we refer to in the aggregate as deal flow, generated by Monroe Capital and its affiliates in the ordinary course of their businesses and commits the members of MC Advisors' investment committee to serve in that capacity. Mr. Koenig serves as our Chairman and Chief Executive Officer and also currently serves as the managing member and a partner of each of MC Advisors, Monroe Capital and MC Management. Mr. Peck serves as our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer and is an employee of Monroe Capital and performs his functions as Chief Financial Officer and Chief Compliance Officer pursuant to the Staffing Agreement.

In addition, under the Administration Agreement, MC Management furnishes us with office facilities and equipment and provides us clerical, bookkeeping, recordkeeping and other administrative services at such facilities. MC Management performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records we are required to maintain and preparing our reports to our stockholders and reports filed with the SEC. MC Management also assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns, prints and disseminates reports to our stockholders and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others.

MC Management may retain third parties to assist in providing administrative services to us. To the extent that MC Management outsources any of its functions, we pay the fees associated with such functions on a direct basis without profit to MC Management. We reimburse MC Management for the allocable portion (subject to the review and approval of our board of directors) of MC Management's overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. Amounts payable to MC Management in any quarter through the quarter ending December 31, 2013 will not exceed the greater of (i) 0.375% of our average assets for such quarter and (ii) \$375,000. MC Management also provides on our behalf significant managerial assistance to those portfolio companies to which we are required to provide such assistance.

#### **Properties**

We do not own any real estate or other physical properties materially important to our operation. The principal executive offices of Monroe Capital are located in at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606. Monroe Capital and its affiliates currently have additional offices in Boston, Massachusetts; Charlotte, North Carolina; New York, New York; Los Angeles, California; Atlanta, Georgia; and Dallas, Texas. Our administrator furnishes us office space, and we reimburse it for such costs on an allocated basis.

#### **Legal Proceedings**

We, MC Advisors and MC Management are not subject to any material legal proceedings.

### PORTFOLIO COMPANIES

The following table sets forth certain information as of September 30, 2013, for each portfolio company in which we had a debt or equity investment. Other than equity investments, we expect that our only formal relationships with our portfolio companies will be the managerial assistance we may provide, and the board observation or participation rights we may receive. We do not control and are not an affiliate of any of our portfolio companies, as each term is defined in the 1940 Act. In general, under the 1940 Act, we would control a portfolio company if we owned more than 25.0% in voting securities and would be an affiliate of a portfolio company if we owned 5.0% or more of its voting securities. The loans in our current portfolio were either acquired in our initial portfolio from affiliates of Monroe Capital or originated or purchased in the secondary market.

Name and Address of Portfolio Company	Industry	Type of Investment	Interest Rate <sup>(2)</sup>	Maturity Date	Principal Due at Maturity	Fair Value of Investment
						(dollars in thousands)
Accutest Holdings, Inc. 2235 U.S. Highway 130 Dayton, NJ 08810	Services Business	Unitranche <sup>(1)</sup>	9.00% (LIBOR + 7.50%,  1.50% Floor)	06/05/2018	\$ 7,725	\$ 7,841
Alora Pharmaceuticals, LLC 11675 Great Oaks Way, Suite 144 Alpharetta, GA 30022	Healthcare & Pharmaceuticals	Senior Secured   Revolver	10.00%  (LIBOR + 9.00%,  1.00% Floor)  10.00%	09/13/2018   09/13/2018	12,115	11,843
American Dental Partners, Inc. 401 Edgewater Place, Suite 430 Wakefield, MA 01880	Healthcare and Pharmaceuticals	Senior Secured	6.00% (LIBOR + 5.00%, 1.00% Floor)	02/09/2018	2,921	2,864
Clondalkin Acquisition B.V. Ito Tower, 9 <sup>th</sup> Floor Gustav Mahlerplein 68 1082MA Amsterdam, The Netherlands	Containers, Packaging & Glass	Junior Secured	10.00% (LIBOR + 8.75%, 1.25% Floor)	11/30/2020	2,000	1,950
Collaborative Neuroscience Network, LLC 12772 Valley View Street #3 Garden Grove, CA 92845	Healthcare and Pharmaceuticals	Unitranche <sup>(1)</sup>	11.50% (LIBOR + 10.00%, 1.50% Floor)	12/27/2017	9,625	9,741
Confie Seguros Holdings II Co. 6722 Orangethorpe Avenue, Suite 200 Buena Park, CA 90620	Banking, Finance, Insurance & Real Estate	Junior Secured	10.25% (LIBOR + 9.00%, 1.25% Floor)	05/08/2019	2,969	2,986

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Conisus, LLC 1300 Parkwood Circle SE, Suite 450A Atlanta, GA 30339	Media: Advertising, Printing & Publishing	Unitranche <sup>(1)</sup>	8.50% (LIBOR + 7.25%, 1.25% Floor)	12/27/2017	7,600	7,676
Consolidated Glass Holdings, Inc. 616 Selfield Road Selma, AL 36703	Capital Equipment	Unitranche <sup>(1)</sup>	11.50% (LIBOR + 10.50%, 1.00% Floor)	04/17/2017	4,589	4,534

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Name and Address of Portfolio Company	Industry	Type of Investment	Interest Rate <sup>(2)</sup>	Maturity Date	Principal Due at Maturity	Fair Value of Investment (dollars in thousands)
CSM Bakery Supplies, LLC 1912 Montreal Road W Tucker, GA 30084	Beverage, Food & Tobacco	Junior Secured	8.50% (LIBOR +7.50%, 1.00% Floor)	07/03/2021	3,000	2,994
Fabco Automotive Corp, LLC 151 Lawrence Drive Livermore, CA 94551	Automotive	Unitranche <sup>(1)</sup>	9.25% (LIBOR + 8.25%, 1.00% Floor)	04/03/2017	7,781	7,692
Fineline Technologies, Inc. 3145 Medlock Bridge Road Norcross, GA 30071	Consumer Goods: Non-Durable	Senior Secured	8.00% (LIBOR + 6.75%, 1.25% Floor)	05/06/2017	5,404	5,412
Forbes Media LLC 60 Fifth Avenue New York, NY 10011	Media: Advertising, Printing & Publishing	Unitranche <sup>(1)</sup>	11.75% (LIBOR + 10.25%, 1.50% Floor)	07/31/2017	7,000	6,944
FTJFundChoice, LLC 2300 Litton Lane, Suite 102 Hebron, KY 41048	Banking, Finance, Insurance & Real Estate	Unitranche <sup>(1)</sup>	11.75% (LIBOR + 10.25%, 1.50% Floor)	07/17/2017	3,000	3,060
Genex Services, Inc. 440 E. Swedesford Road Wayne, PA 19087	Banking, Finance, Insurance & Real Estate	Junior Secured	9.25% (LIBOR +8.25%, 1.00% Floor)	01/26/2019	750	754
Hoffmaster Group, Inc. 2920 N. Main Street Oshkosh, WI 54901	Consumer Goods: Non-Durable	Senior Secured	6.50% (LIBOR +5.25%, 1.25% Floor)	01/03/2018	1,000	999
LAI International, Inc. 14350 N. 87 <sup>th</sup> Street, Suite 105 Scottsdale Airpark Scottsdale, AZ 85269	Services: Business	Unitranche <sup>(1)</sup>	10.75% (LIBOR + 9.25%, 1.50% Floor)	02/27/2017	4,313	3,922
Latisys Holdings Corp. 393 Inverness Parkway Englewood, CO 80112	High Tech Industries	Senior Secured	6.50% (LIBOR +5.25%, 1.25% Floor)	03/16/2019	1,995	1,995
Monte Nido Residential Center, LLC	Services: Consumer	Unitranche <sup>(1)</sup>	9.50% (LIBOR + 8.50%,	12/21/2017	9,479	9,445

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27162 Sea Vista Drive		1.00 Floor)				
Malibu, CA 90265						
		Class A Common Units				74
MooreCo, Inc.	Consumer Goods: Durable	Unitranche <sup>(1)</sup>	15.00% (LIBOR + 11.00%, 1.50% Floor, 2.50% PIK)	12/27/2017	5,140	5,163
2885 Lorraine Avenue						
Temple, TX 76501						

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Name and Address of Portfolio Company	Industry	Type of Investment	Interest Rate <sup>(2)</sup>	Maturity Date	Principal Due at Maturity	Fair Value of Investment (dollars in thousands)
National Veterinary Associates, Inc. 29229 Canwood Street, Suite 100 Agoura Hills, CA 91301	Services: Consumer	Senior Secured	6.25% (LIBOR + 5.00%, 1.25% Floor)	12/06/2017	1,985	1,985
Northland Cable Television, Inc. and Affiliates 101 Stewart Street, Suite 700 Seattle, WA 98101	Telecommunications	Senior Secured	7.75% (LIBOR + 6.00%, 1.75% Floor)	12/30/2016	3,755	3,755
Ozburn-Hessey Holding Company LLC 7101 Executive Center Drive, Suite 333 Brentwood, TN 37027	Transportation: Cargo	Senior Secured	6.75% (LIBOR + 5.50%, 1.25% Floor)	05/23/2019	1,496	1,500
The Petroleum Place, Inc. 1221 Lamar, Suite 1400 Houston, TX 77010	Energy: Oil & Gas	Junior Secured	10.00% (LIBOR + 8.75, 1.25% Floor)	05/20/2019	4,500	4,545
Phillips & Temro Industries, Inc. 9700 West 74 <sup>th</sup> Street Eden Prairie, MN 55344	Automotive	Senior Secured	7.25% (LIBOR + 5.75%, 1.50% Floor)	02/09/2017	3,750	3,750
Playtime, LLC 13310 James East Casey Avenue Englewood, CO 80112	Hotels, Gaming & Leisure	Unitranche <sup>(1)</sup> Term Loan	9.00% (LIBOR + 7.50%, 1.50% Floor)	12/04/2017	7,077	7,148
		Preferred Units				200
PPT Management, LLC (ProPT) 21-42 Utopia Parkway Bayside, NY 11357	Healthcare and Pharmaceuticals	Senior Secured	8.50% (LIBOR + 7.00%, 1.50% Floor)	10/31/2016	4,836	4,836
Pre-Paid Legal Services, Inc. (Legal Shield) One Pre-Paid Way Ada, OK 74820	Services: Consumer	Junior Secured	9.75% (LIBOR + 8.50%, 1.25% Floor)	07/01/2020	3,000	2,978
Reliance Communications, LLC 718 University Avenue	High Tech Industries	Senior Secured	8.00% (LIBOR + 7.00%, 1.00% Floor)	12/18/2017	3,202	3,202

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Los Gatos, CA 65032		Senior Secured	12.50% (LIBOR + 11.50%, 1.00% Floor)	12/18/2017	1,667	1,667
Road Infrastructure Investment, LLC	Chemicals, Plastics & Rubber	Junior Secured	10.25% (LIBOR +9.00%, 1.25% Floor)	09/30/2018	1,000	1,010
115 Todd Court Thomasville, NC 27360						

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Name and Address of Portfolio Company	Industry	Type of Investment	Interest Rate <sup>(2)</sup>	Maturity Date	Principal Due at Maturity	Fair Value of Investment (dollars in thousands)
Rocket Dog Brands, LLC 24610 Industrial Boulevard Hayward, CA 94545	Consumer Goods: Non-Durable	Senior Secured	10.50% (LIBOR + 8.50%, 2.00% Floor)	03/31/2014	195	175
		Senior Secured	10.50% (LIBOR + 8.50%, 2.00% Floor)	03/31/2014	2,992	2,687
StoneRiver Group, L.P. 555 Corporate Drive Kalispell, MT 59901	Services: Business	Junior Secured	8.50% (LIBOR + 7.25%, 1.25% Floor)	05/30/2020	500	509
SumTotal Systems, LLC 2850 NW 43rd Street, Suite 150 Gainesville, FL 32606	High Tech Industries	Junior Secured	10.25% (LIBOR + 9.00%, 1.25% Floor)	05/16/2019	2,750	2,743
Surgical Specialties Corporation (US), Inc. 601 108th Avenue NE, Suite 1900 Bellevue, WA 98004	Healthcare & Pharmaceuticals	Senior Secured	7.25% (LIBOR + 5.75%, 1.50% Floor)	08/22/2018	4,938	4,999
The Tie Bar Operating Company, LLC 123 Ambassador Drive, Suite 123 Naperville, IL 60540	Retail	Unitranche <sup>(1)</sup>	9.75% (LIBOR + 8.50%, 1.25% Floor)	6/25/2018	5,100	5,095
		Class A Preferred Units				126
		Class B Preferred Units				2
TPP Acquisition, Inc. 2703 Telecom Parkway, Suite 190 Richardson, TX 75082	Retail	Unitranche <sup>(1)</sup>	10.50% (LIBOR + 9.00%, 1.50% Floor)	12/17/2017	6,596	6,573
Trico Products Corporation 3255 W. Hamlin Road Rochester Hills, MI 48309	Automotive	Senior Secured	6.25% (LIBOR + 4.75%, 1.50% Floor)	07/22/2016	2,959	2,930
Update, Inc. 1040 Avenue of the Americas New York, NY 10018	Services: Business	Unitranche	9.25% (LIBOR + 7.75%, 1.50% Floor)	3/14/2018	4,049	4,081
US Renal Care, Inc.				01/03/2020	1,500	1,512



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2400 Dallas Parkway, #350 Plano, TX 75093	Healthcare & Pharmaceuticals	Junior Secured	8.50% (LIBOR +7.50%, 1.00% Floor)			
Zest Holdings, LLC 2061 Wineridge Place Escondido, CA 92029	Consumer Goods: Durable	Senior Secured	6.50% (LIBOR +5.50%, 1.00% Floor)	08/16/2020	3,563	3,536
<b>TOTAL</b>					<b>\$ 169,816</b>	<b>\$ 169,433</b>

- (1) For these unitranche loans, we own a senior last-out tranche which can result in an effective yield that is higher than the listed interest rate. The effective cash yield on the unitranche loans in the portfolio range from approximately 9.0% to 17.4% with a weighted average yield of approximately 12.3% as of September 30, 2013.
- (2) At September 30, 2013, the majority of the investments bore interest at a rate that may be determined by reference to London Interbank Offered Rate (LIBOR), which reset daily, monthly, quarterly, or semiannually. For each investment bearing interest determined by reference to LIBOR, we have provided the spread over LIBOR and the weighted average current contractual interest rate in effect at September 30, 2013. Certain investments are subject to a LIBOR or prime rate interest rate floor.

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5.0% of our total assets as of September 30, 2013:

*Alora Pharmaceuticals, LLC* develops and manufactures pharmaceuticals, including prenatal vitamins, nutraceuticals, dermatologics and gastroenterologics.

## MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. The board of directors consists of seven members, four of whom are not interested persons of us, MC Advisors or their respective affiliates as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who serve at the discretion of the board of directors. The responsibilities of our board of directors include oversight of our investment activities, quarterly valuation of our assets, oversight of our financing arrangements and corporate governance activities.

Oversight of our investment activities extends to oversight of the risk management processes employed by MC Advisors as part of its day-to-day management of our investment activities. The board of directors anticipates reviewing enterprise risk management processes at both regular and special board meetings throughout the year, consulting with appropriate representatives of MC Advisors as necessary and periodically requesting the production of risk management reports or presentations. The goal of the board of directors' risk oversight function is to ensure that the risks associated with our investment activities are accurately identified, thoroughly investigated and responsibly addressed. Investors should note, however, that the board of directors' oversight function cannot eliminate all risks or ensure that particular events do not adversely affect the value of investments.

The board of directors has established an audit committee and a nominating and corporate governance committee, and may establish additional committees from time to time as necessary. The scope of each committee's responsibilities is discussed in greater detail below. Theodore L. Koenig, an interested person of Monroe Capital Corporation, serves as Chairman of the board of directors. The board of directors believes that it is in the best interests of our investors for Mr. Koenig to lead the board of directors because of his broad experience with the day-to-day management and operation of other investment funds and his significant background in the financial services industry, as described below. The board of directors does not have a lead independent director. However, Thomas J. Allison, the chairman of the audit committee, is an independent director and acts as a liaison between the independent directors and management between meetings of the board of directors and is involved in the preparation of agendas for board and committee meetings. The board of directors believes that its leadership structure is appropriate in light of the characteristics and circumstances of Monroe Capital Corporation because the structure allocates areas of responsibility among the individual directors and the committees in a manner that enhances effective oversight. The board of directors also believes that its size creates a highly efficient governance structure that provides ample opportunity for direct communication and interaction between MC Advisors and the board of directors.

### **Board of Directors**

Under our charter and bylaws, our directors are divided into three classes. At each annual meeting, directors will be elected for staggered terms of three years (other than the initial terms, which extend for up to three years), with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

**Directors**

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Term Expires</b>
<b>Interested Directors</b>				
Theodore L. Koenig	55	Chairman of the board of directors and Chief Executive Officer	2011	2015
Aaron D. Peck	43	Director, Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer	2012	2014
Jeffrey D. Steele	53	Director	2012	2015
<b>Independent Directors</b>				
Thomas J. Allison	62	Director	2013	2016
Jeffrey A. Golman	58	Director	2012	2014
Robert S. Rubin	57	Director	2012	2014
Jorde M. Nathan	50	Director	2013	2016

The address for each of our directors is c/o Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, IL 60606.

**Biographical Information**

The board of directors has determined that each of the directors is qualified to serve as our director, based on a review of the experience, qualifications, attributes and skills of each director, including those described below. The board of directors has determined that each director has significant experience in the investment or financial services industries and has held management, board or oversight positions in other companies and organizations. For the purposes of this presentation, our directors have been divided into two groups – independent directors and interested directors. Interested directors are interested persons as defined in the 1940 Act.

***Independent Directors***

Mr. Allison serves as our Audit Committee Chairperson. From 2006 until his retirement in 2012, Mr. Allison served as Executive Vice President and Senior Managing Director of Mesirow Financial Consulting, LLC, a full-service financial and operational advisory consulting firm headquartered in Chicago. At Mesirow, Mr. Allison managed complex turnaround situations and advised on major reorganizations and insolvencies. He also served as CEO, CFO or CRO for several clients. From 2002 to 2006, Mr. Allison served as National Practice Leader of the restructuring practice of Huron Consulting Group. From 1988 to 2002, he served in a variety of roles at Arthur Andersen, LLC, including Partner-in-Charge, Central Region Restructuring Practice. Earlier in his career, Mr. Allison served in various capacities at Coopers & Lybrand, First National Bank of Chicago and the Chicago Police Department. Mr. Allison has previously served as Chairman of the Association for Certified Turnaround Professionals, Chairman and Director of the Turnaround Management Association, is a Fellow in the American College of Bankruptcy and has taught as a guest lecturer at Northwestern University and DePaul University. Mr. Allison received his bachelor of science in commerce and his master of business administration from DePaul University. Mr. Allison's extensive turnaround and restructuring experience, financial leadership and corporate finance experience provide our board of directors with valuable industry knowledge and practical insight.

Jeffrey A. Golman serves as our Nominating and Corporate Governance Committee Chairperson. Since 2001, Mr. Golman has served as Vice Chairman and head of Investment Banking of Mesirow Financial, Inc., a diversified financial services firm headquartered in Chicago. Prior to his time with Mesirow Financial, Mr. Golman co-founded GGW Management Partners, LLC, a management-oriented investment group formed in partnership with Madison Dearborn Partners, Willis Stein & Partners and The Pritzker Organization, and was Managing Director with Lazard Frères & Co., LLC from 1989 to 1999. From 1981 to 1988, Mr. Golman worked with Salomon Brothers Chicago Banking Group, rising to the level of Vice President. Prior to that time, Mr. Golman practiced corporate and tax law in Chicago. Mr. Golman is a director of the Cystic Fibrosis Foundation Leadership Council's Greater Illinois Chapter. Mr. Golman is also a member of The Economic Club of Chicago, a member of the University of Illinois Foundation and a member of the Development Council of B.U.I.L.D., Inc. (Broader Urban Involvement and Leadership Development), a non-profit organization which helps at-risk youth realize their potential and contributes to the stability, safety and well-being of our communities. Mr. Golman also serves on the Advisory Board of DHR International, Inc. in an advisory position and as a member of the Law Board of Northwestern University School of Law. Mr. Golman received his bachelor of science in accounting from the University of Illinois in Champaign-Urbana and received his juris doctor from Northwestern University. Mr. Golman brings extensive capital markets and middle market investment banking experience to our board.

Jorde M. Nathan was a Managing Director of Barclays Bank, a major global financial services provider, from 2008 until his retirement in 2012. From 1993 until 2008, Mr. Nathan was employed by Lehman Brothers Inc., and served as a Managing Director of distressed, high yield and leverage loan sales and trading. From 1985 to 1993, Mr. Nathan served in various capacities as a First Scholar at The First National Bank of Chicago, ultimately serving as head of trading for bank loans. Mr. Nathan graduated Phi Beta Kappa with an AB degree in Chinese Language and Economics from Amherst College and earned his master of business administration from the University of Chicago. Mr. Nathan is a member of the national board and serves as chairman of the central region of the Friends of Israel Defense Forces. Mr. Nathan's significant capital markets and leveraged loan experience provides our board of directors with industry knowledge and practical insight.

Robert S. Rubin is currently managing principal of the Diamond Group, an investment group that operates various companies and partnerships engaged in asset management and real estate investments. Mr. Rubin has been Managing Principal of the Diamond Group since 1999, and has acted as President of the various operating companies and special purpose investment vehicles that comprise the Diamond Group, including serving as a member of the board of Diamond Bancorp, Inc. and Diamond Bank, FSB (formerly North Federal Savings Bank) in Chicago since 2004. From 1997 to 1998, Mr. Rubin founded and ran a boutique derivatives advisory firm called Prospect Park Capital Advisors, and from 1991 to 1997 co-founded and ran Horizon Advisors, a hedge fund and commodity trading advisor. From 1986 to 1991, Mr. Rubin worked at Nomura Securities in the Global Syndicate and New Products Department, where he co-founded and served on the board of Nomura Capital Services Inc., the first Japanese dealer in derivative products. From 1983 to 1986, Mr. Rubin worked at First National Bank of Chicago (now a part of JPMorgan Chase Bank, N.A.). Mr. Rubin currently serves on the boards of the Parsons Water Fund and the Aleh Foundation, which supports facilities for developmentally disabled children and adults in Israel. Mr. Rubin received his bachelor of arts from Harvard College in 1978 and his master of business administration from the University of Chicago in 1986. Mr. Rubin brings extensive capital markets, risk management and business operating experience to our board.

#### ***Interested Directors***

Theodore L. Koenig serves as our President and Chief Executive Officer. Since founding Monroe Capital in 2004, Mr. Koenig has served continuously as its President and Chief Executive Officer. Prior to founding Monroe Capital, Mr. Koenig served as the President and Chief Executive Officer of Hilco Capital LP from 1999 to 2004, where he invested in distressed debt, junior secured debt and unsecured subordinated debt transactions. From 1986 to 1999, Mr. Koenig was a partner with the Chicago-based corporate law firm, Holleb & Coff. Mr. Koenig is a past President of the Indiana University Kelley School of Business Alumni Club of Chicago. He currently serves as director of the Commercial Finance Association and is a member of the Turnaround Management Association, the

Association for Corporate Growth and the American Bankruptcy Institute. Mr. Koenig also serves on the Dean's Advisory Council, Kelley School of Business; Board of Overseers, Chicago-Kent School of Law; and as Vice Chairman of the Board of Trustees of Allendale School, a non-profit residential and educational facility for emotionally troubled children in the greater Chicago area. He is also a Certified Public Accountant. Mr. Koenig received a bachelor of science in accounting, with high honors, from Indiana University and earned a juris doctor, with honors, from Chicago Kent College of Law. Mr. Koenig's depth of experience investing in a variety of debt transactions as well as his legal background provides our board of directors with valuable experience, insight and perspective.

Aaron D. Peck serves as our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. Mr. Peck has been a managing director of Monroe Capital since September 2012, where he is responsible for portfolio management and strategic initiatives. From 2002 to 2003 and from 2004 to June 2011, Mr. Peck worked in various capacities at Deerfield Capital Management LLC, including serving as its Co-Chief Investment Officer and as Managing Director of its Middle Market Lending Group. He also helped establish and served as chief portfolio manager for Deerfield Capital Corp. (fka Deerfield Triarc Capital Corp.), a publicly traded, externally managed specialty finance hybrid mortgage REIT. For Deerfield Capital Corp., Mr. Peck was the primary point of contact for institutional and retail investors, equity research analysts, investment bankers and lenders. Mr. Peck also served as a member of Deerfield Capital's Executive Committee, Investment Committee and Risk Management Committee. From 2003 to 2004, Mr. Peck served as Senior Director of AEG Investors LLC and led the company's efforts in acquiring distressed middle market loans. From 2001 to 2002, Mr. Peck was a senior research analyst at Black Diamond Capital Management LLC. Prior to that, Mr. Peck worked in leveraged credit at several investment firms including Salomon Smith Barney, Merrill Lynch, ESL Investments and Lehman Brothers. Mr. Peck received his bachelor of science in commerce from the University of Virginia, McIntire School of Commerce and received a master of business administration with honors from The University of Chicago, Graduate School of Business. Mr. Peck's extensive experience in public company management, capital markets, risk management and financial services gives the board of directors valuable industry knowledge, expertise and insight.

Jeffrey D. Steele has served as Executive Vice President and Managing Director of The Private Bank, a commercial bank headquartered in Chicago, since 2007. Mr. Steele was a founding member of The Private Bank's Transitional Management Team, and is currently a member on the bank's Executive Committee and Loan Committee, where his responsibilities include operations, compliance, bank-wide performance and credit approval. From 1992 to 2007, Mr. Steele worked in various capacities at LaSalle Bank, N.A., including serving as Group Senior Vice President from 2001 to 2007. From 1982 to 1992, he served in a variety of roles at National Boulevard Bank of Chicago, including Vice President and Co-Head of Commercial Banking. Mr. Steele has previously served as a board member of the Better Government Association in Chicago and has taught as a guest lecturer at Indiana University Kelley School for Business and the University of Iowa Tippie College of Business. Mr. Steele received his bachelor of science in finance from Indiana University and completed a graduate program in banking management at the Stonier Graduate School of Banking. Mr. Steele brings extensive middle market commercial banking and corporate finance experience to our board of directors.

#### *Audit Committee*

Thomas J. Allison, Jeffrey A. Golman and Robert S. Rubin serve as members of our audit committee. Mr. Allison serves as chairman of the audit committee. The members of the audit committee are independent directors, each of whom meets the independence standards established by the SEC and The Nasdaq Stock Market for audit committees and is independent for purposes of the 1940 Act. Mr. Steele serves as chairman of the audit committee. Our board of directors has determined that each of the members of our audit committee is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Exchange Act. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy

of our internal accounting controls. The audit committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The board of directors and audit committee will utilize the services of independent valuation firms to help them determine the fair value of these securities. The audit committee charter is available on our corporate website.

#### ***Nominating and Corporate Governance Committee***

The members of the nominating and corporate governance committee are Jeffrey A. Golman, Jorde M. Nathan and Robert S. Rubin, each of whom is independent for purposes of the 1940 Act and the Nasdaq corporate governance regulations. Mr. Golman serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management. The nominating and corporate governance committee charter is available on our corporate website.

The nominating and corporate governance committee considers nominees to the board of directors recommended by a stockholder, if such stockholder complies with the advance notice provisions of our bylaws. Our bylaws provide that a stockholder who wishes to nominate a person for election as a director at a meeting of stockholders must deliver written notice to our corporate secretary. This notice must contain, as to each nominee, all of the information relating to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Exchange Act, and certain other information set forth in the bylaws. In order to be eligible to be a nominee for election as a director by a stockholder, such potential nominee must deliver to our corporate secretary a written questionnaire providing the requested information about the background and qualifications of such person and a written representation and agreement that such person is not and will not become a party to any voting agreements, any agreement or understanding with any person with respect to any compensation or indemnification in connection with service on the board of directors, and would be in compliance with all of our publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines.

#### ***Compensation Committee***

We do not have a compensation committee because our executive officers will not receive any direct compensation from us. Our executive officers are paid by MC Advisors.

#### ***Compensation of Executive Officers***

None of our executive officers receives direct compensation from us. The compensation of our chief financial officer and chief executive officer is paid and set by MC Advisors and is subject to reimbursement by us of an allocable portion of such compensation for services rendered to us.

#### ***Compensation of Directors***

Each independent director and each interested director who is not an employee of our Investment Advisor or any of its affiliates, receives an annual retainer of \$20,000 for serving on the board of directors and a \$1,000 fee for each meeting attended. The chair of our audit committee receives a \$15,000 annual retainer and the chair of our nominating and corporate governance committee receives a \$5,000 annual retainer. Mr. Steele, who is not an employee of us, the Investment Advisor or its affiliates, is the only interested director that currently receives director compensation. Interested Directors that are employees of the Investment Advisor or its affiliates do not receive additional compensation for service as a member of our board of directors. We also reimburse each of the above directors for all reasonable and authorized business expenses in accordance with our policies as in effect from time-to-time.

**Investment Committee**

The investment committee of MC Advisors responsible for our investments meets regularly to consider our investments, direct our strategic initiatives and supervise the actions taken by MC Advisors on our behalf. In addition, the investment committee reviews and determines whether to make prospective investments identified by MC Advisors and monitors the performance of our investment portfolio. The investment committee consists of Messrs. Koenig, Peck, Egan and VanDerMeid.

Information regarding members of MC Advisors investment committee who are not also our directors is as follows:

Michael J. Egan has more than 20 years of experience in commercial finance, credit administration and banking. Mr. Egan joined Monroe Capital in 2004 and is responsible for credit policies and procedures along with portfolio and asset management. Mr. Egan also served as Executive Vice President and Chief Credit Officer of Hilco Capital from 1999 to 2004. Prior to joining Hilco Capital LP, Mr. Egan was with The CIT Group/Business Credit, Inc. for a ten-year period beginning in 1989, where he served as Senior Vice President and Regional Manager for the Midwest U.S. Region responsible for all credit, new business and operational functions. Prior to joining The CIT Group, Mr. Egan was a commercial lending officer with The National Community Bank of New Jersey (The Bank of New York) and a credit analyst with KeyCorp, where he completed a formal management and credit training program.

Jeremy T. VanDerMeid has more than 12 years of lending and corporate finance experience and is responsible for portfolio management, capital markets and all trading functions for Monroe Capital. Prior to joining Monroe Capital in 2007, Mr. VanDerMeid was with Morgan Stanley Investment Management in the Van Kampen Senior Loan Group. Mr. VanDerMeid managed a portfolio of bank loans for Van Kampen and also led the firm's initiative to increase its presence with middle-market lenders and private equity firms. Prior to his work at Morgan Stanley, he worked for Dymas Capital and Heller Financial where he originated, underwrote, and managed various middle-market debt transactions.

**Portfolio Management**

Each investment opportunity requires the consensus and receives the unanimous approval of MC Advisors investment committee. Follow-on investments in existing portfolio companies require the investment committee's approval beyond that obtained when the initial investment in the company was made. In addition, the investment committee oversees any temporary investments, such as those in cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. The day-to-day management of investments approved by the investment committee is overseen by the investment committee. Biographical information with respect to the investment committee is set forth under Biographical Information Interested Directors and Investment Committee.

Each of Messrs. Koenig, Peck, Egan and VanDerMeid has ownership and financial interests in, and may receive compensation and/or profit distributions from, MC Advisors. None of Messrs. Koenig, Peck, Egan and VanDerMeid receives any direct compensation from us.

The table below shows the dollar range of shares of our common stock beneficially owned by each member of the investment committee of MC Advisors responsible for our investments as of the end of our most recently completed fiscal year.

<b>Investment Committee of MC Advisors</b>	<b>Dollar Range of Equity Securities in Monroe Capital Corporation <sup>(1)(2)</sup></b>
Theodore L. Koenig	over \$1,000,000
Aaron D. Peck	\$50,001-\$100,000
Michael J. Egan	\$100,001-\$500,000
Jeremy T. VanDerMeid	\$10,001-\$50,000



(1) Dollar ranges are as follows: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001 \$500,000; \$500,001 \$1,000,000 or over \$1,000,000.

(2) The dollar range of equity securities beneficially owned by the members of our investment committee is based on a stock price of \$14.83 per share as of December 31, 2012.

Messrs. Koenig, Egan and VanDerMeid are also primarily responsible for the day-to-day management of two other pooled investment vehicles and other accounts in which their affiliates may receive incentive fees, with a total amount of approximately \$652.7 million of capital under management as of December 31, 2012.

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## MANAGEMENT AND OTHER AGREEMENTS

MC Advisors is located at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606. MC Advisors is a registered investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors and in accordance with the 1940 Act, MC Advisors manages our day-to-day operations and provides investment advisory services to us. Under the terms of the Investment Advisory Agreement, MC Advisors:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

assists us in determining what securities we purchase, retain or sell;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

executes, closes, services and monitors the investments we make.

MC Advisors' services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired.

### **Investment Advisory Agreement**

#### ***Management and Incentive Fee***

Under the Investment Advisory Agreement with MC Advisors and subject to the overall supervision of our board of directors, MC Advisors provides investment advisory services to us. For providing these services, MC Advisors receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% based on the average value of our total assets (including assets purchased with borrowed amounts and not including cash and cash equivalents). The base management fee is payable quarterly in arrears.

The incentive fee has two parts. One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the preceding quarter subject to a total return requirement. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero-coupon securities, accrued income that we have not yet received in cash. MC Advisors is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued interest that we never actually receive.

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 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding 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 amount, if positive, of 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.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation and MC Advisors will not be paid an income incentive fee on any distribution that is characterized as a return of an investor's capital. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed hurdle rate of 2% per quarter (8% annually). If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for MC Advisors to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts) used to calculate the 1.75% base management fee.

We pay MC Advisors an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate of 2% (8% annually);

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% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) as the catch-up provision. The catch-up is meant to provide MC Advisors with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter. These calculations are adjusted for any share issuances or repurchases during the quarter.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

**Quarterly Incentive Fee Based on Pre-Incentive Fee Net Investment Income**

**Pre-incentive fee net investment income (expressed as a percentage of the value of net assets)**

**Percentage of pre-incentive fee net investment income allocated to income-related portion of incentive fee**

These calculations will be appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee is a capital gains incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the investment advisory and management agreement, as of the termination date), and equals 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains incentive fee payable to MC Advisors, we calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains incentive fees paid in respect of our portfolio in all prior years.

### Examples of Quarterly Incentive Fee Calculation

#### Example 1: Income Related Portion of Incentive Fee before Total Return Requirement Calculation

##### *Alternative 1*

##### *Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate<sup>(1)</sup> = 2%

Management fee<sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.2%

Pre-incentive fee net investment income

(investment income (management fee + other expenses)) = 0.6125%

Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no income-related incentive fee.

##### *Alternative 2*

##### *Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.0%

Hurdle rate<sup>(1)</sup> = 2%

Management fee<sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.2%

Pre-incentive fee net investment income

(investment income (management fee + other expenses)) = 2.3625%

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Incentive fee = 100% × Pre-incentive fee net investment income (subject to catch-up<sup>4</sup>)

$$= 100\% \times (2.3625\% - 2\%)$$

$$= 0.3625\%$$

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Pre-incentive fee net investment income exceeds the hurdle rate, but does not fully satisfy the catch-up provision, therefore the income-related portion of the incentive fee is 0.3625%.

**Alternative 3**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.5%

Hurdle rate<sup>(1)</sup> = 2%

Management fee<sup>(2)</sup> = 0.4375%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.2%

Pre-incentive fee net investment income

(investment income (management fee + other expenses)) = 2.8625%

Incentive fee = 100% × Pre-incentive fee net investment income (subject to catch-up<sup>(3)</sup>)  
 Incentive fee = 100% × catch-up + (20% × (Pre-incentive fee net investment Income - 2.5%))

Catch-up = 2.5% - 2%  
 = 0.5%

Incentive fee = (100% × 0.5%) + (20% × (2.8625% - 2.5%))  
 = 0.5% + (20% × 0.3625%)  
 = 0.5% + 0.0725%  
 = 0.5725%

Pre-incentive fee net investment income exceeds the hurdle rate, and fully satisfies the catch-up provision, therefore the income related portion of the incentive fee is 0.56%.

(1) Represents 8% annualized hurdle rate.

(2) Represents 1.75% annualized base management fee.

(3) The catch-up provision is intended to provide our investment advisor with an incentive fee of 20% on all pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.5% in any fiscal quarter.

**Example 2: Income Portion of Incentive Fee with Total Return Requirement Calculation:**

*Assumptions*

Hurdle rate<sup>(1)</sup> = 2%

Management fee<sup>(2)</sup> = 0.4375

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Other expenses (legal, accounting, transfer agent, etc.) = 0.2%

Cumulative incentive compensation accrued and/or paid for

preceding 11 calendar quarters = \$9,000,000

***Alternative 1***

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.50%

Preincentive fee net investment income

(investment income (management fee + other expenses)) = 2.8625%

20.0% of cumulative net increase in net assets resulting from operations over

current and preceding 11 calendar quarters = \$8,000,000

Although our preincentive fee net investment income exceeds the hurdle rate of 2.0% (as shown in Alternative 3 of Example 1 above), no incentive fee is payable because 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters did not exceed the cumulative income and capital gains incentive fees accrued and/or paid for the preceding 11 calendar quarters.

**Alternative 2**

*Additional Assumptions*

Investment Income (including interest, dividends, fees, etc.) = 3.50%

Preincentive fee net investment income

(investment income - (management fee + other expenses)) = 2.8625%.

20% of cumulative net increase in net assets resulting from operations over

current and preceding 11 calendar quarters = \$10,000,000

Because our preincentive fee net investment income exceeds the hurdle rate of 2.0% and because 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 income and capital gains incentive fees accrued and/or paid for the preceding 11 calendar quarters, an incentive fee would be payable, as shown in Alternative 3 of Example 1 above.

(1) Represents 8.0% annualized hurdle rate.

(2) Represents 1.75% annualized management fee.

**Example 3: Capital Gains Portion of Incentive Fee(\*):**

**Alternative 1:**

*Assumptions*

Year 1: \$20 million investment made in Company A ( Investment A ), and \$30 million investment made in Company B ( Investment B )

Year 2: Investment A sold for \$50 million and fair market value ( FMV ) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee would be:

Year 1: None

Year 2: Capital gains incentive fee of \$6 million ( \$30 million realized capital gains on sale of Investment A multiplied by 20% )

Year 3: None \$5 million (20% multiplied by (\$30 million cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous capital gains fee paid in Year 2)

Year 4: Capital gains incentive fee of \$200,000 \$6.2 million (\$31 million cumulative realized capital gains multiplied by 20%) less \$6 million (capital gains incentive fee taken in Year 2)





*Alternative 2*

*Assumptions*

Year 1: \$20 million investment made in Company A ( Investment A ), \$30 million investment made in Company B ( Investment B ) and \$25 million investment made in Company C ( Investment C )

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold