

MONROE CAPITAL Corp  
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**PROSPECTUS SUPPLEMENT  
(To Prospectus dated May 9, 2014)**

**Monroe Capital Corporation**

**\$50,000,000**

**Common Stock**

We are a specialty finance company focused on providing financing primarily to lower middle-market companies in the United States and Canada. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, 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.

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

We have entered into separate equity distribution agreements, each dated February 6, 2015, with MLV & Co. LLC and JMP Securities LLC, each a Sales Agent and, collectively, the Sales Agents, relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreements provide that we may offer and sell up to \$50,000,000 of our common stock from time to time through the Sales Agents in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Market or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. As of the date of this prospectus supplement, we have not sold any shares of our common stock under the equity distribution agreements.

Our common stock is listed on The Nasdaq Global Market under the symbol MRCC. On February 5, 2015, the last reported sale price of our stock on The Nasdaq Global Market was \$14.72 per share. Our net asset value as of September 30, 2014 was \$13.95 per share.

Under the terms of the equity distribution agreements, the Sales Agents will receive a commission from us of up to 2.0% of the gross sales price of any shares of our common stock sold through the Sales Agents under the equity distribution agreements. The Sales Agents are not required to sell any specific number or dollar amount of common stock, but will use their commercially reasonable efforts consistent with their sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. For all fees and expenses paid to the Sales Agents, see Plan of Distribution beginning on page S-35 of this prospectus supplement.

**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 will likely increase the risk of loss for purchasers in this offering.** On June 27, 2014, our stockholders voted to allow us to 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 Sale of Common Stock Below Net Asset Value in this prospectus supplement and Risk Factors and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

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

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

MLV & Co.

JMP Securities

Prospectus supplement dated February 6, 2015

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of the common stock and also adds to and updates information contained in the accompanying prospectus.

The second part is the accompanying prospectus, which gives more general information and disclosures. For information about our common stock see "Description of Our Capital Stock" in the accompanying prospectus.

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

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

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## SUMMARY

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

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

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

### **Monroe Capital Corporation**

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

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

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

be in the lower middle-market.

## **Our Investment Advisor**

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

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

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

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital's investment professionals.

The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to a staffing agreement, or the Staffing Agreement, between MC Management, an affiliate of Monroe Capital, and MC Advisors. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 20 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that constitute our primary focus and have expertise in investing throughout all periods of the economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by experienced investment professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital's core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital's formation in 2004 through September 30, 2014, Monroe Capital's investment professionals invested in over 550 loan and related investments with an aggregate principal value of over \$2.3 billion.

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

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

## **About Monroe Capital**

Monroe Capital, a Delaware limited liability company that was founded in 2004, is a leading lender to middle-market companies. As of September 30, 2014, Monroe Capital had approximately \$1.8 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 135 current investments. From Monroe Capital's formation in 2004 through September 30, 2014, Monroe Capital's investment professionals invested in over 550 loans and related investments with an aggregate principal value of over \$2.3 billion. The senior investment team of Monroe Capital averages more than 20 years of experience and has developed a proven investment and portfolio management process that has performed through multiple market cycles.

In addition,

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

### **Market Opportunity**

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

### **Investment Strategy**

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

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

**Sound Portfolio Construction.** We strive to exercise discipline in portfolio creation and management and to implement effective governance throughout our business. Monroe Capital has been, and MC Advisors, which is comprised by substantially the same investment professionals who have operated Monroe Capital, is, and we believe will continue to be, conservative in the underwriting and structuring of covenant packages in order to enable early intervention in the event of weak financial performance by a portfolio company. We seek to pursue lending opportunities selectively and to maintain a diversified portfolio. We believe that exercising disciplined portfolio management through continued intensive account monitoring and timely and relevant management reporting allows us

to mitigate risks in our debt investments. In addition, we have implemented rigorous governance processes through segregation of duties, documented policies and procedures and independent oversight and review of transactions, which we believe helps us to maintain a low level of non-performing loans. We believe that Monroe Capital's proven process of thorough origination, conservative underwriting, due diligence and structuring, combined with careful account management and diversification, enabled it to protect investor capital, and we believe MC Advisors follows and will follow the same philosophy and processes in originating, structuring and managing our portfolio investments.

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

## **Competitive Strengths**

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

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital's experienced team comprised of approximately 40 professionals, including six senior partners that average more than 20 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. This extensive experience includes the management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital's senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital's formation in 2004 through September 30, 2014, Monroe Capital's investment professionals invested in more than 550 loan and related investments with an aggregate principal value of over \$2.3 billion.

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

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital's broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 1,600 investment opportunities during 2013. Monroe Capital's over 550 previously executed transactions, over 135 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, 2014, Monroe Capital had a pipeline of over 200 transactions for an aggregate potential deal volume of greater than \$4.0 billion for all funds under management. We are also positioned to benefit from Monroe Capital's established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital's senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

***Disciplined, Credit-First Underwriting Process.*** Monroe Capital has developed a systematic underwriting process that applies a consistent approach to credit review and approval, with a focus on evaluating credit first and then

appropriately assessing the risk-reward profile of each loan. MC Advisors' assessment of credit outweighs pricing and other considerations, as we seek to minimize potential credit losses through effective due diligence, structuring and covenant design. MC Advisors seeks to customize each transaction structure and financial covenant to reflect risks identified through the underwriting and due diligence process. We also seek to actively manage our origination and credit underwriting activities through personal visits and calls on all parties involved with an investment, including the management team, private equity sponsor, if any, or other lenders.

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

## **Credit Facility**

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

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

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

As of September 30, 2014, we had \$90.8 million outstanding under our revolving credit facility and availability of \$19.2 million.

## **MCC SBIC**

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

As of September 30, 2014, MCC SBIC had received a commitment letter from the SBA for SBA-guaranteed debentures of \$20.0 million and on October 20, 2014, received another commitment for an additional \$20.0 million in SBA-guaranteed debentures. As of September 30, 2014, MCC SBIC had \$13.7 million in SBA-guaranteed debentures outstanding.

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

## **Operating and Regulatory Structure**

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

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

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

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

## **Conflicts of Interests**

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

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

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

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

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

## **Corporate History and Additional Information**

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

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

## **Sale of Common Stock Below NAV**

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

## Risk Factors

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

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## THE OFFERING

### Common Stock Offered by Us

Shares of our common stock having an aggregate offering price of up to \$50,000,000.

### Manner of Offering

At the market offering that may be made from time to time through MLV & Co. LLC and JMP Securities LLC, each a Sales Agent and, collectively, the Sales Agents, using commercially reasonable efforts. See Plan of Distribution.

### Use of Proceeds

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

### Symbol on The Nasdaq Global Market

MRCC

### Distributions

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

### Taxation

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

### Leverage

As a business development company, we are permitted under the 1940 Act to borrow funds to finance a portion of our investments. As a result, we may be exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings, also known as leverage, increase the potential for gain and loss on amounts invested and therefore increase the risks associated with investing in our securities. With certain limited exceptions, we are currently only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% immediately after such borrowing. In addition, the costs associated with our borrowings, if any, including any increase in the management fee payable to MC Advisors, will be borne by our common stockholders.

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As of September 30, 2014, we had debt outstanding under the revolving loan portion of the credit facility of approximately \$90.8 million, SBA-guaranteed debentures outstanding of \$13.7 million and \$5.9 million of secured borrowings at fair value, which arose under the application of Accounting Standards Codification, or ASC, Topic 860 Transfer and Servicing, or ASC Topic 860, to partial loan sales during the quarter.

Trading

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

Sales of common stock below net asset value

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

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

Risk Factors

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

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TABLE OF CONTENTS**FEES AND EXPENSES**

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

|   |       |                  |
|---|-------|------------------|
| Stockholder transaction expenses:   |       |                  |
| Sales load (as a percentage of offering price)  | 2.00  | % <sup>(1)</sup> |
| Offering expenses (as a percentage of offering price)                                   | 0.57  | % <sup>(2)</sup> |
| Dividend reinvestment plan expenses   |       | % <sup>(3)</sup> |
| Total stockholder transaction expenses (as a percentage of offering price)              | 2.57  | %                |
| Estimated annual expenses (as a percentage of net assets attributable to common stock): |       |                  |
| Base management fee   | 3.18  | % <sup>(4)</sup> |
| Incentive fees payable under the Investment Advisory Agreement                          | 2.55  | % <sup>(5)</sup> |
| Interest payments on borrowed funds   | 3.31  | % <sup>(6)</sup> |
| Other expenses (estimated)  | 2.56  | % <sup>(7)</sup> |
| Total annual expenses (estimated)   | 11.60 | % <sup>(8)</sup> |

Represents the commission with respect to the shares of common stock being sold in this offering. There is no (1) guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

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

(3) The expenses of the dividend reinvestment plan are included in other expenses. See Dividend Reinvestment Plan. 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 (4) stockholders, rather than total assets, including assets that have been funded with borrowed monies, because common stockholders bear all of this cost. The base management fee in the table above assumes the base management fee remains consistent with fees incurred for the three months ended September 30, 2014 of \$1.1 million, based on average total assets (excluding cash) for the period of \$239.9 million, as a percentage of our average net assets for the period of \$133.0 million. See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

Estimated assuming that annual incentive fees earned by MC Advisors remains consistent with the incentive fees (5) earned for the three months ended September 30, 2014 of \$0.8 million, as a percentage of our average net assets of \$133.0 million for the period.

The incentive fee consists of two parts:

The first part of the incentive fee, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 2% quarterly (8% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any

calendar quarter, MC Advisors receives no incentive fee until our net investment income equals the hurdle rate of 2% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, MC Advisors

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

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

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

We may borrow funds from time to time to make investments to the extent we determine that it is appropriate to do so. The costs associated with any outstanding borrowings are indirectly borne by our investors. The table assumes borrowings are consistent with the average borrowings for the three months ended September 30, 2014 of \$110.2 million, no preferred stock issued or outstanding and average net assets of \$133.0 million. For the three months ended September 30, 2014, we had interest expense of \$1.1 million. The weighted average interest rate of our (6) revolving credit facility (excluding debt issuance costs) was 3.5% and the weighted average interest rate on our SBA-guaranteed debentures (excluding debt issuance costs) was 1.11% during the three months ended September 30, 2014. The majority of the Company's SBA-guaranteed debentures were charged an interim rate of interest of 1.0% per annum for the period until their pooling date in late September 2014, resulting in a lower average interest rate on SBA-guaranteed debentures than can be expected in the future. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

(7) Includes our estimated overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by MC Management. The table above assumes other expenses remain consistent with those incurred during the three months ended September 30, 2014 and average net assets for the period of \$133.0 million.

(8) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. We calculate the total annual expenses percentage as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been purchased with borrowed amounts. The terms of our indebtedness may be found in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Borrowings. If the total annual expenses percentage were calculated instead as a percentage of consolidated total assets, our total annual expenses would be 6.18% of consolidated total

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

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

| You would pay the following expenses on a \$1,000 investment   | 1<br>Year | 3<br>Years | 5<br>Years | 10<br>Years |
|--|-----------|------------|------------|-------------|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation)                 | \$ 116    | \$ 297     | \$ 478     | \$ 931      |
| Assuming a 5% annual return (assumes entire return is from realized capital gains and thus subject to the capital gains incentive fee) | \$ 126    | \$ 329     | \$ 534     | \$ 1,057    |

This table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. The example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. As incentive fees vary based on the character of the 5% return, the example above provides (i) expenses assuming no return from capital gains (therefore not meeting the hurdle rate for the first part of the incentive fee) and (ii) expenses assuming the entire return is from realized capital gains (resulting in a capital gains incentive fee). For the three months ended September 30, 2014, none of our return was comprised of realized and unrealized capital gains. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See [Dividend Reinvestment Plan](#) for additional information regarding our dividend reinvestment plan.

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

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, sees, estimates, would, 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;

SBA regulations affecting MCC SBIC or any other wholly-owned SBIC subsidiary;

uncertain valuations of our portfolio investments;

fluctuations in our quarterly operating results;

our ability to issue securities at a discount to net asset value per share;

changes in laws or regulations applicable to us; and

general economic conditions and their impact on the industries in which we invest.

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

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

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## **USE OF PROCEEDS**

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on The Nasdaq Global Market or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all \$50,000,000 of common stock offered under this prospectus supplement and the accompanying prospectus at a price of \$14.72 per share (the last reported sale price of our common stock on The Nasdaq Global Market on February 5, 2015), we estimate that the net proceeds of this offering would be approximately \$48.7 million, after deducting the estimated sales commission payable to the Sales Agents and our estimated offering expenses.

We intend to use all or substantially all of the net proceeds from the sale of our common stock to invest in portfolio companies in accordance with our investment objectives and for general corporate purposes. We will also pay operating expenses, including management and administrative fees, and may pay other expenses from the net proceeds of this offering.

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

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

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The equity distribution agreements provide that we may offer and sell up to \$50,000,000 of our common stock from time to time through our Sales Agents for the offer and sale of such common stock. The table below assumes that we will sell all of the \$50,000,000 of our common stock at a price of \$14.72 per share (the last reported sale price of our common stock on The Nasdaq Global Market on February 5, 2015), but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$14.72, depending on the market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of September 30, 2014:

on an actual basis; and

on an as adjusted basis giving effect to the transactions noted above and the assumed sale of \$50,000,000 of our common stock at a price of \$14.72 per share (the last reported sale price of our common stock on The Nasdaq Global Market on February 5, 2015) less commissions and expenses.

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

|  | As of September 30, 2014              |             |
|--|---------------------------------------|-------------|
|  | Actual                                | As Adjusted |
|  | (Unaudited)                           |             |
|  | (in thousands, except per share data) |             |
| Assets:  |                                       |             |
| Cash   | \$ 14,497                             | \$ 63,212   |
| Investments at fair value  | 234,657                               | 234,657     |
| Other assets   | 3,789                                 | 3,789       |
| Total assets   | \$252,943                             | \$ 301,658  |
| Liabilities:   |                                       |             |
| Debt   | \$ 104,450                            | \$ 104,450  |
| Other liabilities  | 15,721                                | 15,721      |
| Total liabilities  | 120,171                               | 120,171     |
| Net Assets:  |                                       |             |
| Common stock, \$0.001 par value, 100,000 shares authorized, actual; 9,518 shares issued and outstanding, actual; 12,915 shares issued and outstanding, as adjusted | 10                                    | 13          |
| Capital in excess of par value   | 134,803                               | 183,515     |
| Accumulated distributions in excess of net investment income   | (2,024 )                              | (2,024 )    |
| Accumulated net realized gain (loss) on investments  |                                       |             |
| Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings   | (17 )                                 | (17 )       |
| Total net assets   | 132,772                               | 181,487     |
| Net asset value per share  | \$13.95                               | \$ 14.05    |



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# PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

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

The following table sets forth the high and low 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 (Discount) 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> |
|--|--------------------|---------------------|----------|---------|--|---|---------------------------------------|
| Year ended December 31, 2015             |                    |                     |          |         |  |   |                                       |
| First Quarter (through February 5, 2015) | (4)                | \$ 14.84            | \$ 13.91 |         | (4)  | (4)   |                                       |
| Year ended December 31, 2014             |                    |                     |          |         |  |   |                                       |
| Fourth Quarter                           | (4)                | \$ 14.63            | \$ 13.00 |         | (4)  | (4)   | \$ 0.34 (5)                           |
| Third Quarter                            | \$ 13.95           | \$ 14.00            | \$ 13.26 | 0.4 %   | (4.9 )%  | \$ 0.34 (5)   |                                       |
| Second Quarter                           | \$ 13.93           | \$ 13.92            | \$ 12.70 | (0.1 )% | (8.8 )%  | \$ 0.34 (5)   |                                       |
| First Quarter                            | \$ 13.99           | \$ 13.55            | \$ 12.19 | (3.1 )% | (12.9 )%   | \$ 0.34 (5)   |                                       |
| Year ended December 31, 2013             |                    |                     |          |         |  |   |                                       |
| Fourth Quarter                           | \$ 13.92           | \$ 13.87            | \$ 11.75 | (0.4 )% | (15.6 )%   | \$ 0.34 (6)   |                                       |
| Third Quarter                            | \$ 14.01           | \$ 14.99            | \$ 12.95 | 7.0 %   | (7.6 )%  | \$ 0.34 (6)   |                                       |
| Second Quarter                           | \$ 14.78           | \$ 15.46            | \$ 14.60 | 4.6 %   | (1.2 )%  | \$ 0.34 (6)   |                                       |
| First Quarter                            | \$ 14.78           | \$ 15.39            | \$ 14.55 | 4.1 %   | (1.6 )%  | \$ 0.34 (6)   |                                       |
| Year ended December 31, 2012             |                    |                     |          |         |  |   |                                       |
| Fourth Quarter <sup>(7)</sup>            | \$ 14.54           | \$ 15.30            | \$ 14.59 | 5.2 %   | 0.3 %  | \$ 0.34 (8)   |                                       |

NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per (1) 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.

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 (3) automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See Dividend Reinvestment Plan in the accompanying prospectus.

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

to our stockholders. The tax character of distributions will be determined at the end of the fiscal year.

(4) NAV calculation is not yet available.

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

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

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

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

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TABLE OF CONTENTS**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data as of and for the nine month period ended September 30, 2014 are derived from our unaudited financial statements for the period ended September 30, 2014 and included elsewhere in this prospectus supplement. 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 year. The following selected consolidated financial data as of and for the years ended December 31, 2013, 2012 and for the period from February 9, 2011 (date of inception) to December 31, 2011 are derived from our financial statements that have been audited by McGladrey LLP, independent registered public accounting firm. The consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement.

|  | As of and<br>for<br>the period<br>ended<br>September<br>30,<br>2014 <sup>(1)</sup> | As of and<br>for<br>the year<br>ended<br>December<br>31,<br>2013 | As of and<br>for<br>the year<br>ended<br>December<br>31,<br>2012 <sup>(2)</sup> | As of and<br>for<br>the period<br>from<br>February<br>9,<br>2011<br>(date of<br>inception)<br>to<br>December<br>31,<br>2011 <sup>(2)</sup> |
|--|--|--|---|--|
|  | (unaudited)  |  |   |  |
|  | (dollars in thousands, except share and per share data)                            |  |   |  |
| Statement of operations data:  |  |  |   |  |
| Total investment income  | \$21,230   | \$ 18,213  | \$ 1,706  | \$   |
| Base management fees   | (3,041 )   | (2,752 )   | (318 )  |  |
| Incentive fees   | (2,433 )   | (1,544 )   | (6 )  |  |
| All other expenses   | (5,302 )   | (5,267 )   | (592 )  |  |
| Net investment income  | 10,454   | 8,650  | 790   |  |
| Net realized gain (loss) on investments  | 299  | 247  |   |  |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | (1,046 )   | 869  | 160   |  |
| Net increase (decrease) in net assets resulting from operations                            | \$9,707  | \$ 9,766   | \$ 950  | \$   |
| Per share data (basic and diluted)   |  |  |   |  |
| Net asset value  | \$13.95  | \$ 13.92   | \$ 14.54  | n/a  |
| Net investment income  | \$1.09   | \$ 1.13  | \$ 0.15   | \$   |
| Net realized gain (loss) on investments  | 0.03   | 0.03   |   |  |
| Net change in unrealized appreciation (depreciation) on investments and secured borrowings | (0.11 )  | 0.12   | 0.03  |  |

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|   |           |               |           |    |
|---|-----------|---------------|-----------|----|
| Net increase (decrease) in net assets resulting from operations | \$1.01    | \$1.28        | \$0.18    | \$ |
| Stockholder distributions net investment income                 | n/a       | (3) \$(1.12 ) | \$(0.14 ) |    |
| Stockholder distributions capital gains                         | n/a       | (3) (0.03 )   |           |    |
| Stockholder distributions return of capital                     | n/a       | (3) (0.21 )   | (0.20 )   |    |
| Total stockholder distributions                                 | \$(1.02 ) | \$(1.36 )     | \$(0.34 ) | \$ |

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|  | As of and<br>for<br>the period<br>ended<br>September<br>30,<br>2014 <sup>(1)</sup> | As of and<br>for<br>the year<br>ended<br>December<br>31,<br>2013 | As of and<br>for<br>the year<br>ended<br>December<br>31,<br>2012 <sup>(2)</sup> | As of and<br>for<br>the period<br>from<br>February<br>9,<br>2011<br>(date of<br>inception)<br>to<br>December<br>31,<br>2011 <sup>(2)</sup> |
|--|--|--|---|--|
|  | (unaudited)  |  |   |  |
|  | (dollars in thousands, except share and per share data)                            |  |   |  |
| Balance sheet data at period end:  |  |  |   |  |
| Investments, at fair value   | \$234,657  | \$207,920  | \$132,752   | \$   |
| Cash   | 14,497   | 14,603   | 4,060   | 10   |
| Other assets   | 3,789  | 3,158  | 2,419   |  |
| Total assets   | \$252,943  | \$225,681  | \$139,231   | \$ 10  |
| Total debt   | \$104,450  | \$83,943   | \$55,000  | \$   |
| Other liabilities  | 15,721   | 3,646  | 597   |  |
| Total liabilities  | 120,171  | 87,589   | 55,597  |  |
| Total net assets   | \$132,772  | \$138,092  | \$83,634  | \$ 10  |
| Other data:  |  |  |   |  |
| Weighted average annualized effective yield at period end <sup>(4)</sup> | 11.3   | %  | 10.7  | %  |
| Number of portfolio company investments at period end                    | 40   |  | 42  |  |
| Purchases of investments for the period                                  | \$103,386  |  | \$138,781   |  |
| Principal payments and sales of investments for the period               | \$76,839   |  | \$65,165  |  |
|  |  |  | \$144,482   | n/a  |
|  |  |  | \$11,898  | n/a  |

(1) Statement of operations data is unaudited and represents activity for the nine months ended September 30, 2014.

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

(3) We are unable to determine the tax nature of distributions to our stockholders until our financial results for the year ended December 31, 2014 are finalized.

(4) The weighted average annualized effective yield at period end is based upon the par value of our debt investments.  
n/a not applicable

TABLE OF CONTENTS**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, 2014. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

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

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

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



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

Except as otherwise specified, references to we, us, and our refer to Monroe Capital Corporation and its consolidated subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing in our annual report on Form 10-K (the Annual Report ) for the year ended December 31, 2013, filed with the U.S. Securities and Exchange Commission ( SEC ) on March 7, 2014. The information contained in this section should also be read in conjunction with our unaudited consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus supplement and accompanying prospectus.

## Overview

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

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

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, 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 \$15 million each, although this investment size may vary proportionately with the size of our capital base. As of September 30, 2014, our portfolio included approximately 58.7% senior secured debt, 34.0% unitranche secured debt, 6.6% junior secured debt and 0.7% equity securities. We expect that the companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies.

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

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958. MRCC SBIC commenced operations on September 16, 2013. MRCC SBIC has received a commitment letter from the SBA for SBA-guaranteed debentures of \$20.0 million and on October 20, 2014 received another commitment for an additional \$20.0 million. As of September 30, 2014, MRCC SBIC had \$20.0 million in regulatory and leveragable capital and \$13.7 million in SBA-guaranteed debentures outstanding. See *SBA Debentures* below for more information.

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### **Investment income**

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

### **Expenses**

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

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

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

### **Portfolio and Investment Activity**

During the three months ended September 30, 2014, we invested \$24.2 million in five new portfolio companies and \$8.1 million in five existing portfolio companies and had \$35.2 million in aggregate amount of sales and principal repayments, resulting in net repayments of \$2.9 million for the period.

During the nine months ended September 30, 2014, we invested \$90.6 million in nineteen new portfolio companies and \$12.8 million in eight existing portfolio companies and had \$76.8 million in aggregate amount of sales and principal repayments, resulting in net investments of \$26.6 million for the period.

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 sales and principal repayments, 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 sales and principal repayments, resulting in net investments of \$34.7 million for the period.

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

|                      | September 30, 2014 |                               |   |  |
|----------------------|--------------------|-------------------------------|---|--|
|                      | Fair Value         | Percentage of Total Portfolio | Weighted Average Annualized Contractual Coupon Yield <sup>(1)</sup> | Weighted Average Annualized Effective Yield <sup>(1)</sup> |
| Senior secured loans | \$ 137,812         | 58.7 %                        | 11.1 %  | 11.1 %   |
| Unitranche loans     | 79,806             | 34.0                          | 10.5  | 11.9   |
| Junior secured loans | 15,507             | 6.6                           | 10.5  | 10.5   |
| Equity securities    | 1,532              | 0.7                           | n/a   | n/a  |
| Total                | \$ 234,657         | 100.0 %                       | 10.8 %  | 11.3 %   |

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

(1) Based upon the par value of our debt investments.  
n/a not applicable

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

|   | September 30, 2014        |                               | December 31, 2013         |                               |
|---|---------------------------|-------------------------------|---------------------------|-------------------------------|
|   | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Services: Business                        | \$ 35,638                 | 15.2 %                        | \$ 28,692                 | 13.8 %                        |
| Retail                                    | 30,441                    | 13.0                          | 21,161                    | 10.2                          |
| Healthcare & Pharmaceuticals              | 22,452                    | 9.6                           | 30,639                    | 14.7                          |
| Consumer Goods: Non-Durable               | 22,204                    | 9.5                           | 23,404                    | 11.3                          |
| Consumer Goods: Durable                   | 19,303                    | 8.2                           | 23,805                    | 11.4                          |
| Hotels, Gaming & Leisure                  | 15,748                    | 6.7                           | 7,198                     | 3.4                           |
| Construction & Building                   | 12,513                    | 5.3                           | 1,012                     | 0.5                           |
| Media: Advertising, Printing & Publishing | 10,671                    | 4.6                           | 17,822                    | 8.6                           |

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|   |            |         |            |         |
|---|------------|---------|------------|---------|
| Wholesale                                 | 8,702      | 3.7     |            |         |
| Automotive                                | 8,514      | 3.6     | 15,100     | 7.2     |
| Media: Diversified & Production           | 7,747      | 3.3     |            |         |
| High Tech Industries                      | 7,586      | 3.2     | 9,530      | 4.6     |
| Metals & Mining                           | 7,206      | 3.1     |            |         |
| Banking, Finance, Insurance & Real Estate | 6,690      | 2.9     | 7,566      | 3.6     |
| Energy: Oil & Gas                         | 4,841      | 2.1     | 4,875      | 2.3     |
| Capital Equipment                         | 4,274      | 1.8     | 4,271      | 2.1     |
| Containers, Packaging & Glass             | 4,083      | 1.7     | 1,980      | 1.0     |
| Services: Consumer                        | 3,119      | 1.3     | 3,104      | 1.5     |
| Beverage, Food & Tobacco                  | 2,925      | 1.2     | 3,034      | 1.5     |
| Telecommunications                        |            |         | 3,714      | 1.8     |
| Chemicals, Plastics & Rubber              |            |         | 1,013      | 0.5     |
| Total                                     | \$ 234,657 | 100.0 % | \$ 207,920 | 100.0 % |

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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 LLC both have daily, weekly, monthly and quarterly components and related reports, each to evaluate performance against historical, budget and underwriting expectations. MC Advisors analysts will monitor performance using standard industry software tools to provide consistent disclosure of performance. MC Advisors also monitors our investment exposure using a proprietary trend analysis tool. When necessary, MC Advisors will update our internal risk ratings, borrowing base criteria and covenant compliance reports.

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

**Rating Definition**

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

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

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

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with oversight of the sale process by us. Several of Monroe Capital LLC's professionals are experienced in running work-out transactions and bankruptcies.

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of September 30, 2014 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|-------------------------------|---------------------------|---------------------------------|
| 1                             | \$                        | %                               |
| 2                             | 199,476                   | 85.0                            |
| 3                             | 35,181                    | 15.0                            |
| 4                             |                           |                                 |
| 5                             |                           |                                 |
| Total                         | \$ 234,657                | 100.0 %                         |

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

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

## Results of Operations

Operating results are as follows (dollars in thousands):

|  | Three months ended |          |
|--|--------------------|----------|
|  | September 30, 2014 | 2013     |
| Total investment income  | \$7,668            | \$ 4,347 |
| Total expenses   | 3,858              | 1,934    |
| Net investment income  | 3,810              | 2,413    |
| Net realized gain (loss) on investments                                    | 94                 | 223      |
| Net change in unrealized appreciation (depreciation) on investments        | (627 )             | (741 )   |
| Net change in unrealized (appreciation) depreciation on secured borrowings | 96                 | 71       |
| Net increase (decrease) in net assets resulting from operations            | \$3,373            | \$ 1,966 |

|  | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2014                               | 2013      |
| Total investment income  | \$21,230                           | \$ 11,818 |
| Total expenses   | 10,776                             | 6,352     |
| Net investment income  | 10,454                             | 5,466     |
| Net realized gain (loss) on investments                                    | 299                                | 369       |
| Net change in unrealized appreciation (depreciation) on investments        | (1,210 )                           | 1,369     |
| Net change in unrealized (appreciation) depreciation on secured borrowings | 164                                | 50        |
| Net increase (decrease) in net assets resulting from operations            | \$9,707                            | \$ 7,254  |

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For the three and nine months ended September 30, 2014, total investment income was \$7.7 million and \$21.2 million, of which \$6.9 million and \$19.4 million was attributable to portfolio interest and \$0.8 and \$1.9 million to other income (including amortization of discounts and origination fees, paydown gains (losses), and dividend income), respectively. 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 amortization of discounts and origination fees, paydown gains (losses), and dividend income), respectively.

**Operating Expenses**

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

|  | Three months ended<br>September 30, |          |
|--|-------------------------------------|----------|
|  | 2014                                | 2013     |
| Interest and other debt financing expenses | \$ 1,100                            | \$ 594   |
| Base management fees                       | 1,058                               | 702      |
| Incentive fees                             | 849                                 | 37       |
| Other expenses                             | 851                                 | 601      |
| Total operating expenses                   | \$ 3,858                            | \$ 1,934 |

|  | Nine months ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2014                               | 2013     |
| Interest and other debt financing expenses | \$ 3,182                           | \$ 1,968 |
| Base management fees                       | 3,041                              | 1,907    |
| Incentive fees                             | 2,433                              | 842      |
| Other expenses                             | 2,120                              | 1,635    |
| Total operating expenses                   | \$ 10,776                          | \$ 6,352 |

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

|  | Three months ended<br>September 30, |        |
|--|-------------------------------------|--------|
|  | 2014                                | 2013   |
| Interest expense credit facility                 | \$ 814                              | \$ 364 |
| Amortization of deferred financing costs         | 149                                 | 116    |
| Interest expense secured borrowings              | 86                                  | 99     |
| Interest expense SBA debentures                  | 35                                  |        |
| Other  | 16                                  | 15     |
| Total interest and other debt financing expenses | \$ 1,100                            | \$ 594 |

|  | Nine months ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2014                               | 2013     |
| Interest expense credit facility                 | \$ 2,391                           | \$ 1,314 |
| Amortization of deferred financing costs         | 418                                | 345      |
| Interest expense secured borrowings              | 296                                | 283      |
| Interest expense SBA debentures                  | 38                                 |          |
| Other  | 39                                 | 26       |
| Total interest and other debt financing expenses | \$ 3,182                           | \$ 1,968 |

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

Sales and principal repayments totaled \$35.2 million and \$76.8 million for the three and nine months ended September 30, 2014, resulting in \$0.1 million and \$0.3 million of realized gains, respectively. Sales and principal repayments totaled \$23.3 million and \$38.1 million for the three and nine months ended September 30, 2013, 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, 2014, our investments had (\$0.6) million and (\$1.2) million of net unrealized appreciation (depreciation), respectively. For the three and nine months ended September 30, 2014, our secured borrowings had \$0.1 million and \$0.2 million of net unrealized (appreciation) depreciation, respectively.

For the three and nine months ended September 30, 2013, our investments had \$(0.7) million and \$1.4 million of net unrealized appreciation (depreciation), respectively. For the three and nine months ended September 30, 2013, our secured borrowings had \$0.1 million and \$0.1 million of net unrealized (appreciation) depreciation, respectively.

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

For the three and nine months ended September 30, 2014, we recorded a net increase in net assets resulting from operations of \$3.4 million and \$9.7 million, respectively. Based on the weighted average shares of common stock outstanding for the three and nine months ended September 30, 2014, our per share net increase in net assets resulting from operations was \$0.35 and \$1.01, respectively.

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 \$1.06, respectively.

**Liquidity and Capital Resources**

As of September 30, 2014, we had \$14.5 million in cash, \$90.8 million of total debt outstanding on our revolving credit facility and \$13.7 million in outstanding SBA debentures. We had \$19.2 million available for additional borrowings on our revolving credit facility and \$6.3 million in available SBA debentures. See *Borrowings Credit Facility* for additional information.

**Cash Flows**

For the nine months ended September 30, 2014, we experienced a net decrease in cash of (\$0.1) million. During the same period we used \$10.5 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 \$10.4 million from financing activities, principally from net borrowings on our revolving credit facility and SBA debenture borrowings, partially offset by distributions to stockholders and repurchases of our common stock.

For the nine months ended September 30, 2013, we experienced a net increase in cash 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.

## **Capital Resources**

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

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will be to invest in portfolio companies and make cash distributions to our stockholders. Additionally, we may continue to opportunistically repurchase our own shares below our net asset value ( NAV ) in accordance with our share repurchase plan discussed in further detail below within *Share Repurchase Plan* .

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our Board, including independent directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale. On June 27, 2014, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of one year, subject to certain limitations. As of September 30, 2014 and December 31, 2013, we had 9,517,910 and 9,918,269 shares outstanding, respectively.

## **Borrowings**

*Revolving Credit Facility:* As of September 30, 2014 and December 31, 2013, we had \$90.8 million and \$76.0 million outstanding, respectively, under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase of our assets. As of September 30, 2014, the maximum amount we are able to borrow under the revolving credit facility is \$110.0 million and this maximum borrowing can be increased to \$200.0 million pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act).

The revolving credit facility is secured by a lien on all of our assets, including cash on hand, but excluding the assets of our wholly-owned subsidiary, MRCC SBIC. Our ability to borrow under the credit facility is subject to availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. We may make draws under the revolving credit facility to make or purchase additional investments through December 2016 and for general working capital purposes until the maturity date of the revolving credit facility. Borrowings under the revolving credit facility bear interest, at our election, at an annual rate of LIBOR plus 3.25% or at a daily rate equal to 2.25% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three and nine months ended September 30, 2014 was 3.5% and 3.5%, respectively. As of September 30, 2014, \$81.3 million of outstanding borrowings were accruing at an interest rate of 3.44% (based on one-month LIBOR) and \$9.5 million of outstanding borrowings were accruing at an interest rate of 5.50% (based on the Prime rate). The weighted average fee rate on the Company's unused portion of the revolving credit facility for the three and nine months ended September 30, 2014 was 0.5% and 0.5%, respectively. The weighted average interest rate of the 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 the Company's 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 of each quarter (excluding from such calculation the portion of assets of MRCC SBIC financed with SBA debentures) or (b) 80% of the net proceeds to us from our initial offering plus 50% of the net proceeds of the sales of our securities after the effectiveness of the revolving credit facility; (2) a ratio of our total assets (less total

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liabilities other than indebtedness) to total indebtedness of not less than 2.15 times; and (3) a ratio of our earnings before interest and taxes to our interest expense of at least 2.5 times. The revolving credit facility also requires us to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the revolving credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both Monroe Capital Corporation and MC Advisors, failure to comply with our financial and negative covenants, and failure to maintain our relationship with MC Advisors. If we incur an event of default under our revolving credit facility and fail to remedy such default under any applicable grace period, if any, then our entire revolving credit facility could become immediately due and payable, which would materially and adversely affect our liquidity, financial condition, results of operations and cash flows.

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

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

The SBIC license allows MRCC SBIC to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis (pooling date) at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, has a superior claim to MRCC SBIC's assets over our stockholders in the event we liquidate MRCC SBIC or the SBA exercises its remedies upon an event of default. As of September 30, 2014, MRCC SBIC had received a commitment letter from the SBA for SBA-guaranteed debentures of \$20.0 million and on October 20, 2014, received another commitment letter for an additional \$20.0 million in SBA-guaranteed debentures. The \$13.0 million in SBA-guaranteed debentures outstanding which have already pooled mature in September 2024 and bear interest at a fixed rate of 3.37% per annum and the \$0.7 million in SBA-guaranteed debentures outstanding which have not already pooled mature in March 2025 and bear interest at an interim rate of 1.0% until the March 2015 pooling date.

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

On October 15, 2014, we received exemptive relief from the SEC to permit us to exclude the debt of MRCC SBIC guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting us to borrow, through MRCC SBIC, more than we would otherwise be able to absent the receipt of this exemptive relief.

*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 accompanying consolidated statements of assets and liabilities and we recorded 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

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balance within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in our accompanying consolidated statements of operations.

As of September 30, 2014, secured borrowings at fair value totaled \$5.9 million and the fair value of the loans that are associated with these secured borrowings was \$19.3 million. As of December 31, 2013, secured borrowings at fair value totaled \$7.9 million and the fair value of the loans that are associated with these secured borrowings was \$22.7 million. These secured borrowings were created as a result of the 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 during the nine months ended September 30, 2014. During the three and nine months ended September 30, 2014, repayments on secured borrowings totaled \$0.5 million and \$1.9 million, respectively. 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 5.1% and 4.3% as of September 30, 2014 and December 31, 2013, respectively.

## **Share Repurchase Plan**

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

The shares may be purchased from time to time at prevailing market prices in the open market, including through block transactions. Our Board has authorized the repurchase plan because it believes that our common stock may be undervalued from time to time. We have no obligation to repurchase shares, and we may discontinue purchases at any time that management determines additional purchases are not warranted.

During the three and nine months ended September 30, 2014, we repurchased 40,882 and 400,359 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$0.6 million and \$5.2 million, respectively. Since the approval of the Plan, we have repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$6.3 million.

## **Distribution Policy**

Our Board will determine the timing and amount, if any, of our distributions. We intend to pay distributions on a quarterly basis. In order to avoid corporate-level tax on the income we distribute as a RIC, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis out of the assets legally available for such distributions. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions. Distributions to stockholders for the three and nine months ended September 30, 2014 totaled \$3.2 million (\$0.34 per share) and \$9.8 million (\$1.02 per share), respectively. The tax character of such distributions is determined at the end of the fiscal year. However, if the character of such distributions were determined as of September 30, 2014, no portion of distributions would have been characterized as a tax return of capital to stockholders.

## Related Party Transactions

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

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

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

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

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

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

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

### **Commitments and Contingencies**

As of September 30, 2014 and December 31, 2013, we had \$13.7 million and \$1.6 million in outstanding commitments to fund investments under undrawn revolvers and delayed draw commitments. 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

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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.

## **Significant Accounting Estimates and Critical Accounting Policies**

### **Revenue Recognition**

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

### **Valuation of Portfolio Investments**

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

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

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

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

the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of MC Advisors responsible for the portfolio investment; preliminary valuation conclusions are then documented and discussed with the investment committee; the Board 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 reviews the preliminary valuations of MC Advisors and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and the Board discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of MC Advisors, the independent valuation firm(s) and the audit committee.

### **Valuation of Secured Borrowings**

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

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

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

### **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.



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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, 2014, we had a reduction in accrued capital gains incentive fees of \$83 thousand and \$144 thousand, respectively, primarily as a result of declines in certain portfolio valuations, of which only \$19 thousand and \$60 thousand, respectively, was related to realized capital gains and was therefore payable to MC Advisors. During the three and nine months ended September 30, 2013, we accrued capital gains incentive fees of \$37 thousand 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 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (ASC Topic 860)*, which makes limited changes to the accounting for repurchase agreements, clarifies when repurchase agreements and securities lending transactions should be accounting for as secured borrowings, and requires additional disclosures regarding these types of transactions. The guidance is effective for fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. Management is currently evaluating the impact these changes will have on our consolidated financial position or statement disclosures.

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies (ASC Topic 946)* ( ASU 2013-08 ), which affects the scope, measurement and disclosure requirements for investment companies under GAAP. ASU 2013-08 contains new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interest in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance became effective for us on January 1, 2014 and did not have a material impact on our consolidated financial position or disclosures.

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## **PLAN OF DISTRIBUTION**

We have entered into separate equity distribution agreements, each dated February 6, 2015, with each of MLV & Co. LLC and JMP Securities LLC, under which each will act as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, a Sales Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in the respective equity distribution agreement. We will instruct the Sales Agent as to the amount of common stock to be sold by it. We may instruct the Sales Agent not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less the Sales Agent's commission, may be less than the net asset value per share of our common stock at the time of such sale. We or the Sales Agent may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act, including sales made directly on The Nasdaq Global Market or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to the prevailing market prices or at negotiated prices.

The Sales Agent will provide written confirmation of a sale to us no later than the opening of the trading day on The Nasdaq Global Market following each trading day in which shares of our common stock are sold under the equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the Sales Agent in connection with the sales.

Under the terms of the equity distribution agreements, MLV & Co. LLC and JMP Securities LLC will be entitled to compensation of up to 2.0% of the gross sales price of shares of our common stock sold through them as sales agents. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Agents under the terms of each equity distribution agreement, will be approximately \$285,000 (including up to an aggregate of \$25,000 in reimbursement of the Sales Agents' counsel fees).

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by us and the Sales Agent in connection with a particular transaction, in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will report at least quarterly the number of shares of our common stock sold through the Sales Agents under the equity distribution agreements and the net proceeds to us.

In connection with the sale of the common stock on our behalf, the Sales Agents may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of the Sales Agents may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the Sales Agents with respect to certain civil liabilities, including liabilities under the Securities Act.

The offering of our shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreement or (ii) the termination of the equity distribution agreements as permitted therein.

The principal business address of MLV & Co. LLC is 1251 Avenue of the Americas, 41st Floor, New York, NY 10020. The principal business address of JMP Securities LLC is 600 Montgomery Street, San Francisco, CA 94111.

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## **SALE OF COMMON STOCK BELOW NET ASSET VALUE**

On June 27, 2014, our stockholders authorized us, subject to the approval of our board of directors and certain limitations set forth below, to sell or otherwise issue shares of our common stock at a discount from net asset value per share for a period of twelve months. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale or issuance and a majority of our independent directors must (a) find that the sale or issuance is in our best interests and in the best interest of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold or otherwise issued is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. Any offering of common stock below net asset value per share will be designed to raise capital for investment in accordance with our investment objective. For additional information, see *Sales of Common Stock Below Net Asset Value* in the accompanying prospectus.

Our net asset value per share as of September 30, 2014 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$13.95.

In making a determination that this offering of common stock below its net asset value per share is in our and our stockholders' best interests, our board of directors considered a variety of factors including:

The effect that an offering below net asset value per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined net asset value per share;

The relationship of recent market prices of our common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments; and

The leverage available to us.

Our board of directors also considered the fact that sales of shares of common stock at a discount will benefit MC Advisors, as MC Advisors will earn additional investment management fees on the proceeds of such offering, as it would from the offering of any of our securities or from the offering of common stock at a premium to net asset value per share.

Sales by us of our common stock at a discount from net asset value per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering. Any sale of common stock at a price below net asset value per share will result in an immediate dilution to many of our existing common stockholders even if they participate in such sale. See *Risk Factors*. 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 in the accompanying prospectus.



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## LEGAL MATTERS

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

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

## AVAILABLE INFORMATION

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

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

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# INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS

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| <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 (unaudited) and 2013 (unaudited)</u>  | <u>S-F-3</u>  |
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|   | September<br>30,<br>2014<br>(unaudited) | December<br>31,<br>2013 |
|---|---|-------------------------|
| <b>ASSETS</b>   |   |                         |
| Investments, at fair value  |   |                         |
| Non-controlled/non-affiliate company investments, at fair value (cost of: \$227,821 and \$206,945, respectively)        | \$228,138                               | \$207,920               |
| Non-controlled affiliate company investments, at fair value (cost of: \$7,072 and \$0, respectively)                    | 6,519                                   |                         |
| Total investments, at fair value (cost of: \$234,893 and \$206,945, respectively)                                       | 234,657                                 | 207,920                 |
| Cash  | 14,497                                  | 14,603                  |
| Interest receivable   | 906                                     | 638                     |
| Deferred financing costs, net   | 2,280                                   | 2,091                   |
| Other assets  | 603                                     | 429                     |
| Total assets  | 252,943                                 | 225,681                 |
| <b>LIABILITIES</b>  |   |                         |
| Revolving credit facility   | 90,800                                  | 76,000                  |
| SBA debentures payable  | 13,650                                  |                         |
| Secured borrowings, at fair value (proceeds of: \$6,125 and \$7,997, respectively)                                      | 5,906                                   | 7,943                   |
| Payable for open trades   | 6,403                                   | 840                     |
| Interest payable  | 118                                     | 239                     |
| Management fees payable   | 1,058                                   | 845                     |
| Incentive fees payable  | 993                                     | 1,067                   |
| Accounts payable and accrued expenses   | 1,243                                   | 655                     |
| Total liabilities   | 120,171                                 | 87,589                  |
| Net assets  | \$132,772                               | \$138,092               |
| Commitments and contingencies (See Note 9)  |   |                         |
| <b>ANALYSIS OF NET ASSETS</b>   |   |                         |
| Common stock, \$0.001 par value, 100,000 shares authorized, 9,518 and 9,918 shares issued and outstanding, respectively | \$10                                    | \$10                    |
| Capital in excess of par value  | 134,803                                 | 140,038                 |
| Accumulated distributions in excess of net investment income  | (2,024 )                                | (2,985 )                |
| Accumulated net realized gain (loss) on investments   |   |                         |
| Accumulated net unrealized appreciation on investments and secured borrowings   | (17 )                                   | 1,029                   |

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|                           |            |            |
|---------------------------|------------|------------|
| Total net assets          | \$ 132,772 | \$ 138,092 |
| Net asset value per share | \$ 13.95   | \$ 13.92   |

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

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

|  | Three months<br>ended September<br>30, |         | Nine months ended<br>September 30, |          |
|--|--|---------|------------------------------------|----------|
|  | 2014                                   | 2013    | 2014                               | 2013     |
| Investment income:   |  |         |                                    |          |
| Interest income:   |  |         |                                    |          |
| Non-controlled/non-affiliate company investments                                 | \$7,469                                | \$4,347 | \$20,760                           | \$11,818 |
| Non-controlled affiliate company investments                                     | 199                                    |         | 470                                |          |
| Total investment income  | 7,668                                  | 4,347   | 21,230                             | 11,818   |
| Operating expenses:  |  |         |                                    |          |
| Interest and other debt financing expenses                                       | 1,100                                  | 594     | 3,182                              | 1,968    |
| Base management fees   | 1,058                                  | 702     | 3,041                              | 1,907    |
| Incentive fees   | 849                                    | 37      | 2,433                              | 842      |
| Professional fees  | 366                                    | 278     | 855                                | 703      |
| Administrative service fees  | 250                                    | 102     | 668                                | 417      |
| General and administrative expenses  | 235                                    | 221     | 597                                | 515      |
| Total expenses   | 3,858                                  | 1,934   | 10,776                             | 6,352    |
| Net investment income  | 3,810                                  | 2,413   | 10,454                             | 5,466    |
| Net gain (loss) on investments and secured borrowings:                           |  |         |                                    |          |
| Net realized gain (loss) on investments:   |  |         |                                    |          |
| Non-controlled/non-affiliate company investments                                 | 94                                     | 223     | 299                                | 369      |
| Net realized gain (loss) on investments  | 94                                     | 223     | 299                                | 369      |
| Net change in unrealized appreciation (depreciation) on investments:             |  |         |                                    |          |
| Non-controlled/non-affiliate company investments                                 | (540 )                                 | (741 )  | (1,508 )                           | 1,369    |
| Non-controlled affiliate company investments                                     | (87 )                                  |         | 298                                |          |
| Net change in unrealized appreciation (depreciation) on investments              | (627 )                                 | (741 )  | (1,210 )                           | 1,369    |
| Net change in unrealized (appreciation) depreciation on secured borrowings       | 96                                     | 71      | 164                                | 50       |
| Net gain (loss) on investments and secured borrowings                            | (437 )                                 | (447 )  | (747 )                             | 1,788    |
| Net increase (decrease) in net assets resulting from operations                  | \$3,373                                | \$1,966 | \$9,707                            | \$7,254  |
| Per common share data:   |  |         |                                    |          |
| Net investment income per share basic and diluted                                | \$0.40                                 | \$0.27  | \$1.09                             | \$0.80   |
| Net increase in net assets resulting from operations per share basic and diluted | \$0.35                                 | \$0.22  | \$1.01                             | \$1.06   |
|  | 9,527                                  | 8,922   | 9,623                              | 6,824    |

Weighted average common shares outstanding basic and  
diluted

See Notes to Consolidated Financial Statements.

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TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(unaudited)****(in thousands, except per share data)**

|  | Common Stock     | Capital in excess of par value | Accumulated distribution in excess of net investment income | Accumulated net realized gain (loss) on investments | Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings | Total net assets |           |
|--|------------------|--------------------------------|---|---|--|------------------|-----------|
|  | Number of shares | Par value                      |   |   |  |                  |           |
| Balances at December 31, 2012  | 5,750            | \$6                            | \$84,633  | \$(1,165)   | \$   | \$160            | \$83,634  |
| Net increase in net assets resulting from operations   |                  |                                |   | 5,466   | 369  | 1,419            | 7,254     |
| Issuance of common stock, net of offering and underwriting costs <sup>(1)</sup>                      | 4,225            | 4                              | 56,140  |   |  |                  | 56,144    |
| Stockholder distributions paid, including stock issued in connection with dividend reinvestment plan | 28               |                                | 417   | (7,316)   |  |                  | (6,899)   |
| Balances at September 30, 2013   | 10,003           | \$10                           | \$141,190   | \$(3,015)   | \$369  | \$1,579          | \$140,133 |
| Balances at December 31, 2013  | 9,918            | \$10                           | \$140,038   | \$(2,985)   | \$   | \$1,029          | \$138,092 |
| Net increase in net assets resulting from operations   |                  |                                |   | 10,454  | 299  | (1,046)          | 9,707     |
| Stockholder distributions paid   |                  |                                |   | (9,493)   | (299)  |                  | (9,792)   |
| Repurchases of common stock  | (400)            |                                | (5,235)   |   |  |                  | (5,235)   |
| Balances at September 30, 2014   | 9,518            | \$10                           | \$134,803   | \$(2,024)   | \$   | \$(17)           | \$132,772 |

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

See Notes to Consolidated Financial Statements.



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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**  
**(in thousands)**

|  | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2014                               | 2013      |
| Cash flows from operating activities:  |                                    |           |
| Net increase (decrease) in net assets resulting from operations  | \$9,707                            | \$7,254   |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: |                                    |           |
| Net change in unrealized (appreciation) depreciation on investments  | 1,210                              | (1,369 )  |
| Net change in unrealized appreciation (depreciation) on secured borrowings   | (164 )                             | (50 )     |
| Net realized (gain) loss on investments  | (299 )                             | (369 )    |
| Paid-in-kind interest income   | (621 )                             | (102 )    |
| Net accretion of discounts and amortization of premiums  | (480 )                             | (120 )    |
| Proceeds from principal payments and sales of investments  | 76,839                             | 38,081    |
| Purchases of investments   | (103,386)                          | (72,802 ) |
| Amortization of deferred financing costs   | 418                                | 345       |
| Changes in operating assets and liabilities:   |                                    |           |
| Interest receivable  | (268 )                             | (224 )    |
| Other assets   | (174 )                             | (100 )    |
| Payable for open trades  | 6,122                              |           |
| Interest payable   | (121 )                             | 2         |
| Management fees payable  | 213                                | 384       |
| Incentive fees payable   | (74 )                              | 359       |
| Accounts payable and accrued expenses  | 588                                | 164       |
| Net cash provided by (used in) operating activities  | (10,490 )                          | (28,547 ) |
| Cash flows from financing activities   |                                    |           |
| Borrowings on credit facility  | 72,300                             | 71,500    |
| Repayments of credit facility  | (57,500 )                          | (73,000 ) |
| SBA debentures borrowings  | 13,650                             |           |
| Payments of deferred financing costs   | (607 )                             | (200 )    |
| Proceeds from secured borrowings   |                                    | 10,000    |
| Repayments on secured borrowings   | (1,873 )                           | (1,301 )  |
| Proceeds from shares sold, net of underwriting costs   |                                    | 56,690    |
| Repurchases of common stock  | (5,794 )                           |           |
| Offering costs paid  |                                    | (546 )    |
| Stockholder distributions paid (net of stock issued under dividend reinvestment plan of \$0 and \$417, respectively)                             | (9,792 )                           | (6,899 )  |
| Net cash provided by (used in) financing activities  | 10,384                             | 56,244    |

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|   |          |          |
|---|----------|----------|
| Net increase (decrease) in cash                   | (106 )   | 27,697   |
| Cash, beginning of period                         | 14,603   | 4,060    |
| Cash, end of period                               | \$14,497 | \$31,757 |
| Supplemental disclosure of cash flow information: |          |          |
| Cash interest paid during the period              | \$2,496  | \$1,312  |

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**(unaudited)**

**September 30, 2014**  
**(in thousands, except for units)**

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)  
(unaudited)**

**September 30, 2014  
(in thousands, except for units)**

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)  
(unaudited)**

**September 30, 2014**

**(in thousands, except for units)**

- All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940 except for Willbros Group, Inc., which is a public company with aggregate market value of outstanding equity in excess of \$250,000. Nonqualified assets totaled \$891, or 0.4% of the total assets at September 30, 2014. The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ( LIBOR or L ) or Prime ( P ) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at September 30, 2014. Certain investments are subject to a LIBOR or Prime interest rate floor.
- Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)
- (d) Percentages are based on net assets of \$132,772 as of September 30, 2014.
- A portion of this loan (par of \$2,933) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.
- A portion of this loan (par of \$4,750) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.
- (g) All or a portion of this commitment was unfunded at September 30, 2014. As such, interest is earned only on the funded portion of this commitment.
- All of this loan is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.
- A portion of this loan (par of \$3,003) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.
- A portion of this loan (par of \$2,865) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.
- (k) This delayed draw loan requires that certain financial covenants be met by the portfolio company prior to any fundings.

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)  
(unaudited)**

**September 30, 2014**

**(in thousands, except for units)**

A portion of this loan (par of \$2,010) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

(l) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of the portfolio company as it owns five percent or more of the portfolio company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for transactions during the three and nine months ended September 30, 2014 in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to control.)

(m) A portion of this loan (par of \$3,452) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

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

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

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

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

(s) This position is currently on non-accrual status.  
n/a not applicable

See Notes to Consolidated Financial Statements.

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TABLE OF CONTENTS**MONROE CAPITAL CORPORATION**

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

| Portfolio Company <sup>(a)</sup>                     | Industry                                  | Spread Above Index <sup>(b)</sup> | Interest Rate               | Maturity   | Principal/Shares | Amortized Cost | Fair Value <sup>(c)</sup> | % of Net Assets <sup>(d)</sup> |
|--|---|-----------------------------------|-----------------------------|------------|------------------|----------------|---------------------------|--------------------------------|
| <b>Senior Secured Loans</b>                          |   |                                   |                             |            |                  |                |                           |                                |
| Alliance Time Holdings, LLC                          | Retail                                    | L+11.50 %                         | 10.00%<br>Cash/3.00%<br>PIK | 12/24/2018 | \$10,000         | \$9,751        | \$9,750                   | 7.1 %                          |
| Alora Pharmaceuticals, LLC <sup>(e)</sup>            | Healthcare & Pharmaceuticals              | L+9.00 %                          | 10.00 %                     | 9/13/2018  | 11,964           | 11,707         | 11,874                    | 8.6 %                          |
| Alora Pharmaceuticals, LLC (Revolver) <sup>(f)</sup> | Healthcare & Pharmaceuticals              | L+9.00 %                          | 10.00 %                     | 9/13/2018  | 1,336            |                |                           | 0.0 %                          |
| American Dental Partners, Inc.                       | Healthcare & Pharmaceuticals              | L+5.00 %                          | 6.00 %                      | 2/9/2018   | 2,910            | 2,910          | 2,821                     | 2.0 %                          |
| Fineline Technologies, Inc.                          | Consumer Goods: Non-Durable               | L+6.75 %                          | 8.00 %                      | 5/6/2017   | 5,350            | 5,348          | 5,350                     | 3.9 %                          |
| Genex Services, Inc.                                 | Banking, Finance, Insurance & Real Estate | L+4.25 %                          | 5.25 %                      | 7/26/2018  | 748              | 745            | 756                       | 0.5 %                          |
| Hoffmaster Group, Inc.                               | Consumer Goods: Non-Durable               | L+5.25 %                          | 6.50 %                      | 1/3/2018   | 1,000            | 986            | 1,001                     | 0.7 %                          |
| Keystone Automotive Holdings, Inc.                   | Automotive                                | L+5.75 %                          | 7.00 %                      | 8/15/2019  | 4,988            | 4,915          | 4,987                     | 3.6 %                          |
| Landpoint, LLC <sup>(g)</sup>                        | Energy: Oil & Gas                         | L+11.00 %                         | 9.50%<br>Cash/2.25%<br>PIK  | 12/20/2018 | 5,000            | 4,875          | 4,875                     | 3.5 %                          |
| Landpoint, LLC (Revolver) <sup>(f)</sup>             | Energy: Oil & Gas                         | L+8.00 %                          | 9.50 %                      | 12/20/2018 | 313              |                |                           | 0.0 %                          |
| Latisys Holdings Corp.                               | High Tech Industries                      | L+5.25 %                          | 6.50 %                      | 3/6/2019   | 1,990            | 1,983          | 1,989                     | 1.4 %                          |
| Northland Cable Television, Inc. and Affiliates      | Telecommunications                        | L+6.00 %                          | 7.75 %                      | 12/30/2016 | 3,714            | 3,714          | 3,714                     | 2.7 %                          |
| Output Services Group, Inc.                          | Services: Business                        | L+8.00 %                          | 9.50 %                      | 12/17/2018 | 7,000            | 6,843          | 6,843                     | 5.0 %                          |
| Output Services Group, Inc. (Revolver)               | Services: Business                        | L+4.50 %                          | 4.66 %                      | 12/17/2018 | 778              | 778            | 760                       | 0.6 %                          |
| PD Products, LLC (Revolver)                          | Consumer Goods: Non-Durable               | L+10.50 %                         | 12.00 %                     | 10/4/2018  | 425              | 425            | 425                       | 0.3 %                          |

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|  |   |          |                             |   |            |        |        |        |       |
|--|---|----------|-----------------------------|---|------------|--------|--------|--------|-------|
| PD Products, LLC   | Consumer Goods:<br>Non-Durable                  | L+10.50% | 12.00                       | % | 10/4/2018  | 14,000 | 13,811 | 14,056 | 10.2% |
| Reliance<br>Communications,<br>LLC                           | High Tech Industries                            | L+7.00%  | 8.00                        | % | 12/18/2017 | 3,158  | 3,127  | 3,158  | 2.3%  |
| Reliance<br>Communications,<br>LLC                           | High Tech Industries                            | L+11.50% | 12.50                       | % | 12/18/2017 | 1,667  | 1,650  | 1,668  | 1.2%  |
| Rocket Dog Brands,<br>LLC                                    | Consumer Goods:<br>Non-Durable                  | P+10.50% | 13.75                       | % | 3/31/2014  | 201    | 201    | 157    | 0.1%  |
| Rocket Dog Brands,<br>LLC                                    | Consumer Goods:<br>Non-Durable                  | P+10.50% | 13.75                       | % | 3/31/2014  | 3,082  | 3,082  | 2,415  | 1.7%  |
| Surgical Specialties<br>Corporation (US), Inc.               | Healthcare &<br>Pharmaceuticals                 | L+5.75%  | 7.25                        | % | 8/22/2018  | 4,875  | 4,828  | 4,912  | 3.6%  |
| Trico Products<br>Corporation                                | Automotive                                      | L+4.75%  | 6.25                        | % | 7/22/2016  | 2,919  | 2,906  | 2,904  | 2.1%  |
| Willbros Group, Inc.   | Construction and<br>Building                    | L+9.75%  | 11.00                       | % | 8/7/2019   | 998    | 963    | 1,012  | 0.7%  |
| Zest Holdings, LLC   | Consumer Goods:<br>Durable                      | L+5.50%  | 6.50                        | % | 8/16/2020  | 3,554  | 3,491  | 3,536  | 2.6%  |
| Total Senior Secured<br>Loans                                |   |          |                             |   |            | 91,970 | 89,039 | 88,963 | 64.4% |
| Unitranche Loans   |   |          |                             |   |            |        |        |        |       |
| Accutest Corporation   | Services: Business                              | L+7.50%  | 9.00                        | % | 6/5/2018   | 7,725  | 7,498  | 7,891  | 5.7%  |
| Collaborative<br>Neuroscience<br>Network, LLC <sup>(h)</sup> | Healthcare &<br>Pharmaceuticals                 | L+10.00% | 11.50                       | % | 12/27/2017 | 9,500  | 9,321  | 9,510  | 6.9%  |
| Conisus, LLC   | Media: Advertising,<br>Printing &<br>Publishing | L+7.00%  | 8.25                        | % | 12/27/2017 | 10,660 | 10,336 | 10,724 | 7.8%  |
| Consolidated Glass<br>Holdings, Inc.                         | Capital Equipment                               | L+10.50% | 11.50                       | % | 4/17/2017  | 4,487  | 4,487  | 4,271  | 3.1%  |
| Escort Holdings Corp.  | Consumer Goods:<br>Durable                      | L+9.00%  | 9.50                        | % | 10/7/2018  | 15,000 | 14,744 | 15,053 | 10.9% |
| Fabco Automotive<br>Corporation                              | Automotive                                      | L+8.25%  | 9.25                        | % | 4/3/2017   | 8,063  | 7,993  | 7,207  | 5.2%  |
| Forbes Media LLC   | Media: Advertising,<br>Printing &<br>Publishing | L+10.25% | 11.75                       | % | 7/31/2017  | 7,000  | 7,000  | 7,098  | 5.1%  |
| FTJFundChoice, LLC   | Banking, Finance,<br>Insurance & Real<br>Estate | L+10.25% | 11.75                       | % | 7/17/2017  | 3,000  | 3,000  | 3,060  | 2.2%  |
| LAI International, Inc.                                      | Services: Business                              | L+9.25%  | 10.75                       | % | 2/27/2017  | 4,313  | 4,313  | 3,970  | 2.9%  |
| MooreCo, Inc.  | Consumer Goods:<br>Durable                      | L+13.50% | 12.50%<br>Cash/2.50%<br>PIK |   | 12/27/2017 | 5,173  | 5,066  | 5,217  | 3.8%  |
| Playtime, LLC <sup>(h)</sup>                                 | Hotels, Gaming &<br>Leisure                     | L+7.50%  | 9.00                        | % | 12/4/2017  | 6,977  | 6,863  | 6,998  | 5.0%  |
| The Tie Bar Operating<br>Company, LLC                        | Retail  | L+8.50%  | 9.75                        | % | 6/25/2018  | 5,100  | 4,979  | 5,087  | 3.7%  |
| TPP Acquisition, Inc. <sup>(h)</sup>                         | Retail  | L+9.00%  | 10.50                       | % | 12/17/2017 | 6,120  | 5,994  | 6,193  | 4.5%  |

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|                        |                    |          |      |   |           |        |        |        |       |
|------------------------|--------------------|----------|------|---|-----------|--------|--------|--------|-------|
| Update, Inc.           | Services: Business | L+7.75 % | 9.25 | % | 3/14/2018 | 3,998  | 3,919  | 3,938  | 2.8 % |
| Total Unitranche Loans |                    |          |      |   |           | 97,116 | 95,513 | 96,217 | 69.6% |

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2013**

**(in thousands, except for units)**

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

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

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

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

See Notes to Consolidated Financial Statements.

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**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2013**

**(in thousands, except for units)**

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

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

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

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

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

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

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

### Note 1. Organization and Principal Business

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

On February 28, 2014, the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013. As of September 30, 2014, MRCC SBIC had \$20,000 in regulatory and leveragable capital and \$13,650 in SBA-guaranteed debentures outstanding. As of September 30, 2014, MRCC SBIC had received a commitment letter from the SBA for SBA-guaranteed debentures of \$20,000 and on October 20, 2014, received another commitment letter for an additional \$20,000 in SBA-guaranteed debentures. See Note 7 for additional information.

### Note 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ). The accompanying consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X.

#### Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires the Company to make

estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Consolidation

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

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# MONROE CAPITAL CORPORATION

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

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

#### Fair Value of Financial Instruments

The Company applies fair value to substantially all of its financial instruments in accordance with ASC Topic 820 *Fair Value Measurements and Disclosures* ( ASC Topic 820 ). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. See Note 4 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

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

#### Revenue Recognition

The Company's revenue recognition policies are as follows:

*Investments and related investment income:* Interest and dividend income is recorded on an accrual basis to the extent that the Company expects to collect such amounts. Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. All other income is recorded into income when earned. The Company records prepayment fees and amendment fees on loans as interest income in the period received. For the three and nine months ended September 30, 2014, interest income included \$387 and \$792 of prepayment and amendment fees. For the three and nine months ended September 30, 2013, interest income included \$1 and \$4 of prepayment and amendment fees. Dividend income is recorded as dividends when declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is income or a return of capital.

Loan origination fees, original issue discounts and market discounts or premiums are capitalized, and the Company

then amortizes such amounts using the effective interest method as interest income over the life of the investment. Unamortized discounts and loan origination fees totaled \$3,939 and \$3,151 as of September 30, 2014 and December 31, 2013, respectively. Upfront loan origination and closing fees received for the three and nine months ended September 30, 2014 totaled \$962 and \$2,444, respectively. For the three and nine months ended September 30, 2014, interest income included \$169 and \$480 of accretion of loan origination fees, original issue discounts and market discounts or premiums, respectively. For the three and nine months ended September 30, 2013, interest income included \$30 and \$120 of accretion of loan origination fees, original issue discounts and market discounts or premiums, respectively. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. For the three and nine months ended September 30, 2014, interest income included \$223 and \$595 of unamortized discount or loan origination fees recorded as interest income upon prepayment of a loan or debt security, respectively.

The Company has certain investments in its portfolio that contain a PIK interest provision, which represents contractual interest or dividends that are added to the principal balance and recorded as income. For the three and nine months ended September 30, 2014, interest income included \$292 and \$621 of PIK interest, respectively. For the three and nine months ended September 30, 2013, interest income included \$34 and \$102 of PIK interest, respectively. The Company stops accruing PIK income when it is determined that PIK income

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**MONROE CAPITAL CORPORATION**

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

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

is no longer collectible. To maintain RIC tax treatment, and to avoid corporate tax, substantially all of this income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

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

*Non-accrual:* Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, are likely to remain current. During the nine months ended September 30, 2014, no loans were on non-accrual status. During the nine months ended September 30, 2014, the Company's investments in one portfolio company were restructured and as part of the restructuring the Company received preferred units with a stated PIK interest rate. These preferred units were placed on non-accrual status at the time of the restructuring. There were no other portfolio company investments on non-accrual status for the three and nine months ended September 30, 2014 and 2013.

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

## Distributions

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

The determination of the tax attributes for the Company's distributions is made annually, based upon its taxable income for the full year and distributions paid for the full year. Ordinary dividend distributions from a RIC do not qualify for the preferential tax rate on qualified dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying

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# MONROE CAPITAL CORPORATION

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

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

dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains but may also include qualified dividends or return of capital.

The Company has adopted a dividend reinvestment plan ( DRIP ) that provides for the reinvestment of distributions on behalf of its stockholders, unless a stockholder has elected to receive distributions in cash. As a result, if the Company declares a cash distribution, the Company's stockholders who have not opted out of the DRIP at least three days prior to the distribution payment date will have their cash distribution automatically reinvested into additional shares of the Company's common stock. The Company has the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued shares are valued based upon the final closing price of the Company's common stock on a date determined by the Board. Shares purchased in the open market to satisfy the DRIP requirements are valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. See Note 8 regarding distributions.

### Earnings per Share

In accordance with the provisions of ASC Topic 260 *Earnings per Share*, basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. The weighted-average shares outstanding utilized in the calculation of earnings per share for the three and nine months ended September 30, 2014 takes into account the Company's repurchases of its common stock on the repurchase date. There were no stock repurchases during the three and nine months ended September 30, 2013. See *Share Repurchase Plan* below for additional information on the Company's share repurchase plan. For the periods presented in these consolidated financial statements, there were no potentially dilutive common shares issued.

### Segments

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

## Cash

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

## Deferred Financing Costs

Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. As of September 30, 2014 and December 31, 2013, the Company had deferred financing costs of \$2,280 and \$2,091, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the estimated average life of the borrowings. Amortization of deferred financing costs for the three and nine months ended September 30, 2014 was \$149 and \$418, respectively. Amortization of deferred financing costs for the three and nine months ended September 30, 2013 was \$116 and \$345, respectively.

## Offering Costs

Offering costs include, among other things, fees paid in relation to legal, accounting, regulatory and printing work completed in preparation of equity offerings. Offering costs are charged against the proceeds from equity offerings within the consolidated statements of changes in net assets. As of September 30, 2014 and December 31, 2013, other assets on the consolidated statements of assets and liabilities included \$320 and zero, respectively, of deferred offering costs which will be charged against the proceeds from further equity offerings when received.

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**MONROE CAPITAL CORPORATION**

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

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

**Share Repurchase Plan**

On November 11, 2013, the Board approved a share repurchase plan (the Plan) under which up to \$7,500 of the Company's outstanding common stock may be acquired in the open market at prices below the Company's NAV as reported in its then most recently published consolidated financial statements. The Plan was implemented at the discretion of management and expired on November 10, 2014. The shares may be purchased from time to time at prevailing market prices in the open market, including through block transactions.

During the three and nine months ended September 30, 2014, the Company repurchased 40,882 and 400,359 shares, respectively of common stock in open market transactions for an aggregate cost (including transaction costs) of \$551 and \$5,235, respectively. Since the approval of the Plan, the Company has repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$6,267. As of September 30, 2014 and December 31, 2013, zero and \$559, respectively of these share repurchases were unsettled and included within payable for open trades on the consolidated statements of assets and liabilities. The Company is incorporated in Maryland and under the law of that state, shares repurchased are considered retired (repurchased shares become authorized but unissued shares) rather than treasury stock. As a result, the cost of the stock repurchased is recorded as a reduction to capital in excess of par value on the consolidated statement of changes in net assets.

**Income Taxes**

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment available to RICs. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to shareholders, for each taxable year, at least 90% of the Company's investment company taxable income, which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company will not have to pay corporate-level federal income taxes on any income that the Company distributes to its shareholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes on income. The Company will also be subject to nondeductible federal excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which it paid no federal income taxes. To the extent that the Company determines that its estimated current year annual taxable income may exceed estimated current year

dividend distributions, the Company accrues excise tax, if any, calculated as 4% of the estimated excess taxable income as taxable income is earned. For the three and nine months ended September 30, 2014, no amount was recorded for U.S. federal excise tax.

The Company accounts for income taxes in conformity with ASC Topic 740 *Income Taxes* ( ASC Topic 740 ). ASC Topic 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain income tax positions through September 30, 2014. The 2013 and 2012 tax years remain subject to examination by U.S. federal and state tax authorities.

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TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
(in thousands, except share and per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)****Recent Accounting Pronouncements**

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (ASC Topic 860)*, which makes limited changes to the accounting for repurchase agreements, clarifies when repurchase agreements and securities lending transactions should be accounting for as secured borrowings, and requires additional disclosures regarding these types of transactions. The guidance is effective for fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. Management is currently evaluating the impact these changes will have on the Company's consolidated financial position or statement disclosures.

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies (ASC Topic 946)* (ASU 2013-08), which affects the scope, measurement and disclosure requirements for investment companies under GAAP.

ASU 2013-08 contains new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interest in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the Company's consolidated financial position or disclosures.

**Note 3. Investments**

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

|                      | September 30, 2014 |       |   | December 31, 2013 |       |   |
|----------------------|--------------------|-------|---|-------------------|-------|---|
| Amortized Cost:      |                    |       |   |                   |       |   |
| Senior secured loans | \$ 135,828         | 57.8  | % | \$ 89,039         | 43.0  | % |
| Unitranche loans     | 82,453             | 35.1  |   | 95,513            | 46.2  |   |
| Junior secured loans | 15,284             | 6.5   |   | 22,032            | 10.6  |   |
| Equity securities    | 1,328              | 0.6   |   | 361               | 0.2   |   |
| Total                | \$ 234,893         | 100.0 | % | \$ 206,945        | 100.0 | % |
| Fair Value:          |                    |       |   |                   |       |   |
| Senior secured loans | \$ 137,812         | 58.7  | % | \$ 88,963         | 42.8  | % |
| Unitranche loans     | 79,806             | 34.0  |   | 96,217            | 46.3  |   |

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|                      |            |         |            |         |
|----------------------|------------|---------|------------|---------|
| Junior secured loans | 15,507     | 6.6     | 22,335     | 10.7    |
| Equity securities    | 1,532      | 0.7     | 405        | 0.2     |
| Total                | \$ 234,657 | 100.0 % | \$ 207,920 | 100.0 % |

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(unaudited)  
(in thousands, except share and per share data)****Note 3. Investments (continued)**

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

|                 | September 30, 2014 |       |   | December 31, 2013 |       |   |
|-----------------|--------------------|-------|---|-------------------|-------|---|
| Amortized Cost: |                    |       |   |                   |       |   |
| West            | \$ 74,463          | 31.7  | % | \$ 73,674         | 35.6  | % |
| Southeast       | 56,172             | 23.9  |   | 45,455            | 22.0  |   |
| Midwest         | 39,706             | 16.9  |   | 23,043            | 11.1  |   |
| Northeast       | 36,096             | 15.4  |   | 21,268            | 10.3  |   |
| Southwest       | 21,013             | 8.9   |   | 24,819            | 12.0  |   |
| Mid-Atlantic    | 7,443              | 3.2   |   | 16,724            | 8.1   |   |
| International   |                    |       |   | 1,962             | 0.9   |   |
| Total           | \$ 234,893         | 100.0 | % | \$ 206,945        | 100.0 | % |
| Fair Value:     |                    |       |   |                   |       |   |
| West            | \$ 71,222          | 30.3  | % | \$ 73,185         | 35.2  | % |
| Southeast       | 57,284             | 24.4  |   | 45,904            | 22.1  |   |
| Midwest         | 40,757             | 17.4  |   | 23,507            | 11.2  |   |
| Northeast       | 37,072             | 15.8  |   | 21,175            | 10.2  |   |
| Southwest       | 20,831             | 8.9   |   | 25,428            | 12.2  |   |
| Mid-Atlantic    | 7,491              | 3.2   |   | 16,741            | 8.1   |   |
| International   |                    |       |   | 1,980             | 1.0   |   |
| Total           | \$ 234,657         | 100.0 | % | \$ 207,920        | 100.0 | % |

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|   |        |     |        |      |
|---|--------|-----|--------|------|
| Consumer Goods: Non-Durable               | 22,204 | 9.5 | 23,404 | 11.3 |
| Consumer Goods: Durable                   | 19,303 | 8.2 | 23,805 | 11.4 |
| Hotels, Gaming & Leisure                  | 15,748 | 6.7 | 7,198  | 3.4  |
| Construction & Building                   | 12,513 | 5.3 | 1,012  | 0.5  |
| Media: Advertising, Printing & Publishing | 10,671 | 4.6 | 17,822 | 8.6  |
| Wholesale                                 | 8,702  | 3.7 |        |      |
| Automotive                                | 8,514  | 3.6 | 15,100 | 7.2  |
| Media: Diversified & Production           | 7,747  | 3.3 |        |      |
| High Tech Industries                      | 7,586  | 3.2 | 9,530  | 4.6  |
| Metals & Mining                           | 7,206  | 3.1 |        |      |
| Banking, Finance, Insurance & Real Estate | 6,690  | 2.9 | 7,566  | 3.6  |
| Energy: Oil & Gas                         | 4,841  | 2.1 | 4,875  | 2.3  |

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(in thousands, except share and per share data)****Note 3. Investments (continued)**

|                               | September 30, 2014 |         | December 31, 2013 |         |
|-------------------------------|--------------------|---------|-------------------|---------|
| Capital Equipment             | 4,274              | 1.8     | 4,271             | 2.1     |
| Containers, Packaging & Glass | 4,083              | 1.7     | 1,980             | 1.0     |
| Services: Consumer            | 3,119              | 1.3     | 3,104             | 1.5     |
| Beverage, Food & Tobacco      | 2,925              | 1.2     | 3,034             | 1.5     |
| Telecommunications            |                    |         | 3,714             | 1.8     |
| Chemicals, Plastics & Rubber  |                    |         | 1,013             | 0.5     |
| Total                         | \$ 234,657         | 100.0 % | \$ 207,920        | 100.0 % |

**Note 4. Fair Value Measurements****Investments**

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

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

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

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

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

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

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

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

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**Note 4. Fair Value Measurements (continued)**

preliminary valuation conclusions are then documented and discussed with the investment committee of the Company;

the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;

the audit committee of the Board reviews the preliminary valuations of MC Advisors and of the independent valuation firm(s) and responds and supplements the valuation recommendations to reflect any comments; and

the Board discusses these valuations and determines the fair value of each investment in the portfolio in good faith, based on the input of MC Advisors, the independent valuation firm(s) and the audit committee.

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

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

The accompanying consolidated schedules of investments held by the Company consist primarily of private debt instruments ( Level 3 debt ). Management generally uses the yield approach to determine fair value, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other factors in determining the fair value, including the value attributable to the debt investment from the

enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is remitting payments in a timely manner; the loan is in covenant compliance or is otherwise not deemed to be impaired. In determining the fair value of the performing Level 3 debt, the Company considers fluctuations in current interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the borrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a Level 3 debt instrument is not

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**Note 4. Fair Value Measurements (continued)**

performing, as defined above, the Company will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the Level 3 debt instrument.

Senior, unitranche and junior secured loans are collateralized by tangible and intangible assets of the borrowers. These investments include loans to entities that have some level of challenge in obtaining financing from other, more conventional institutions, such as a bank. Interest rates on these loans are either fixed or floating, and are based on current market conditions and credit ratings of the borrower. The contractual interest rates on the loans ranged from 4.65% to 15.00% at September 30, 2014 and 4.66% and 15.00% at December 31, 2013. The maturity dates on the loans outstanding at September 30, 2014 range between July 2016 and July 2021. Management evaluates the collectability of the loans on an ongoing basis based upon various factors including, but not limited to, the credit history of the borrower, its financial status and its available collateral.

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

Under the market approach, the Company typically uses the enterprise value methodology to determine the fair value of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values, from which the Company derives a single estimate of enterprise value. In estimating the enterprise value of a portfolio company, the Company analyzes various factors consistent with industry practice, including but not limited to original transaction multiples, the portfolio company's historical and projected financial results, applicable market trading and transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any collateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer companies that are public. Typically, the enterprise values of private companies are based on multiples of earnings before interest, income taxes, depreciation and amortization (EBITDA), cash flows, net income, revenues, or in limited cases, book value.

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

## Secured Borrowings

The Company has elected the fair value option under ASC Topic 825 *Financial Instruments* (ASC Topic 825), relating to accounting for debt obligations at their fair value for its secured borrowings which arose due to partial loan sales which did not meet the criteria for sale treatment under ASC Topic 860. The Company reports changes in the fair value of its secured borrowings as a component of the net change in

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**Note 4. Fair Value Measurements (continued)**

unrealized (appreciation) depreciation on secured borrowings in the consolidated statements of operations. The net gain or loss reflects the difference between the fair value and the principal amount due on maturity.

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

**Fair Value Disclosures**

The following table presents fair value measurements of investments, by major class, as of September 30, 2014, according to the fair value hierarchy:

|                      | Fair Value Measurements |         |            | Total      |
|----------------------|-------------------------|---------|------------|------------|
|                      | Level 1                 | Level 2 | Level 3    |            |
| Assets:              |                         |         |            |            |
| Senior secured loans | \$                      | \$      | \$ 137,812 | \$ 137,812 |
| Unitranche loans     |                         |         | 79,806     | 79,806     |
| Junior secured loans |                         |         | 15,507     | 15,507     |
| Equity securities    |                         |         | 1,532      | 1,532      |
| Total Assets         | \$                      | \$      | \$ 234,657 | \$ 234,657 |
| Secured borrowings   | \$                      | \$      | \$ 5,906   | \$ 5,906   |

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

|                      | Fair Value Measurements |         |           | Total     |
|----------------------|-------------------------|---------|-----------|-----------|
|                      | Level 1                 | Level 2 | Level 3   |           |
| Assets:              |                         |         |           |           |
| Senior secured loans | \$                      | \$      | \$ 88,963 | \$ 88,963 |
| Unitranche loans     |                         |         | 96,217    | 96,217    |

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|                      |    |    |            |            |
|----------------------|----|----|------------|------------|
| Junior secured loans |    |    | 22,335     | 22,335     |
| Equity securities    |    |    | 405        | 405        |
| Total Assets         | \$ | \$ | \$ 207,920 | \$ 207,920 |
| Secured borrowings   | \$ | \$ | \$ 7,943   | \$ 7,943   |

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**Note 4. Fair Value Measurements (continued)**

The following tables provide a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the three and nine months ended September 30, 2014:

|  | Investments<br>Senior<br>secured<br>loans | Unitranche<br>loans | Junior<br>secured<br>loans | Equity<br>securities | Total<br>investments | Secured<br>borrowings |
|--|---|---------------------|----------------------------|----------------------|----------------------|-----------------------|
| Balance as of June 30, 2014  | \$121,127                                 | \$89,756            | \$25,417                   | \$1,360              | \$237,660            | \$6,527               |
| Reclassifications <sup>(1)</sup>   |   |                     |                            |                      |                      |                       |
| Net change in unrealized appreciation (depreciation) on investments      | 276                                       | (961 )              | (114 )                     | 172                  | (627 )               |                       |
| Net realized gain (loss) on investments                                  | 72  |                     | 22                         |                      | 94                   |                       |
| Purchases of investments and other adjustments to cost <sup>(2)</sup>    | 31,998                                    | 113                 | 639                        |                      | 32,750               |                       |
| Proceeds from principal payments and sales on investments <sup>(3)</sup> | (15,661 )                                 | (9,102 )            | (10,457)                   |                      | (35,220 )            |                       |
| Net change in unrealized appreciation on secured borrowings              |   |                     |                            |                      |                      | (96 )                 |
| Proceeds from secured borrowings   |   |                     |                            |                      |                      |                       |
| Repayments on secured borrowings   |   |                     |                            |                      |                      | (525 )                |
| Balance as of September 30, 2014   | \$137,812                                 | \$79,806            | \$15,507                   | \$1,532              | \$234,657            | \$5,906               |
| Balance as of December 31, 2013  | \$88,963                                  | \$96,217            | \$22,335                   | \$405                | \$207,920            | \$7,943               |
| Reclassifications <sup>(1)</sup>   | (2,276 )                                  |                     | 1,309                      | 967                  |                      |                       |
| Net change in unrealized appreciation (depreciation) on investments      | 2,063                                     | (3,352 )            | (81 )                      | 160                  | (1,210 )             |                       |
| Net realized gains (loss) on investments                                 | 169                                       |                     | 130                        |                      | 299                  |                       |
| Purchases of investments and other adjustments to cost <sup>(2)</sup>    | 90,493                                    | 933                 | 13,061                     |                      | 104,487              |                       |
| Proceeds from principal payments and sales on investments <sup>(3)</sup> | (41,600 )                                 | (13,992)            | (21,247)                   |                      | (76,839 )            |                       |
| Net change in unrealized appreciation on secured borrowings              |   |                     |                            |                      |                      | (164 )                |
| Proceeds from secured borrowings   |   |                     |                            |                      |                      |                       |
| Repayments on secured borrowings   |   |                     |                            |                      |                      | (1,873)               |

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|                                  |           |          |          |         |           |         |
|----------------------------------|-----------|----------|----------|---------|-----------|---------|
| Balance as of September 30, 2014 | \$137,812 | \$79,806 | \$15,507 | \$1,532 | \$234,657 | \$5,906 |
|----------------------------------|-----------|----------|----------|---------|-----------|---------|

- (1) Represents reclassifications due to restructuring of the investments in portfolio companies.
- (2) Includes purchases of new investments, effects of refinancing and restructurings, premium and discount accretion and amortization and PIK interest.
- (3) Represents net proceeds from investments sold and principal paydowns received.

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The following tables provide a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the three and nine months ended September 30, 2013:

|  | Investments          |                  |                      | Equity securities | Total investments | Secured borrowings |
|--|----------------------|------------------|----------------------|-------------------|-------------------|--------------------|
|  | Senior secured loans | Unitranche loans | Junior secured loans |                   |                   |                    |
| Balance as of June 30, 2013  | \$39,002             | \$89,935         | \$14,328             | \$399             | \$143,664         | \$9,436            |
| Net change in unrealized appreciation (depreciation) on investments      | (118 )               | (529 )           | (94 )                |                   | (741 )            |                    |
| Net realized gain (loss) on investments                                  | 133                  | 14               | 76                   |                   | 223               |                    |
| Purchases of investments and other adjustments to cost <sup>(1)</sup>    | 38,562               | 365              | 10,671               | 3                 | 49,601            |                    |
| Proceeds from principal payments and sales on investments <sup>(2)</sup> | (19,444)             | (870 )           | (3,000 )             |                   | (23,314 )         |                    |
| Net change in unrealized appreciation on secured borrowings              |                      |                  |                      |                   |                   | (71 )              |
| Proceeds from secured borrowings   |                      |                  |                      |                   |                   |                    |
| Repayments on secured borrowings   |                      |                  |                      |                   |                   | (716 )             |
| Balance as of September 30, 2013   | \$58,135             | \$88,915         | \$21,981             | \$402             | \$169,433         | \$8,649            |
| Balance as of December 31, 2012  | \$45,332             | \$75,487         | \$11,662             | \$271             | \$132,752         | \$                 |
| Net change in unrealized appreciation (depreciation) on investments      | 94                   | 1,105            | 130                  | 40                | 1,369             |                    |
| Net realized gains (loss) on investments                                 | 162                  | 118              | 89                   |                   | 369               |                    |
| Purchases of investments and other adjustments to cost <sup>(1)</sup>    | 40,056               | 19,199           | 13,638               | 131               | 73,024            |                    |
| Proceeds from principal payments and sales on investments <sup>(2)</sup> | (27,509)             | (6,994 )         | (3,538 )             | (40 )             | (38,081 )         |                    |
| Net change in unrealized appreciation on secured borrowings              |                      |                  |                      |                   |                   | (50 )              |
| Proceeds from secured borrowings   |                      |                  |                      |                   |                   | 10,000             |
| Repayments on secured borrowings   |                      |                  |                      |                   |                   | (1,301 )           |
| Balance as of September 30, 2013   | \$58,135             | \$88,915         | \$21,981             | \$402             | \$169,433         | \$8,649            |

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

(2) Represents net proceeds from investments sold and principal paydowns received.

The total change in unrealized appreciation (depreciation) included in the consolidated statements of operations within net change in unrealized appreciation (depreciation) on investments for the three and nine months ended September 30, 2014, attributable to Level 3 investments still held at September 30, 2014, was (\$380) and (\$755), respectively.

The total change in unrealized appreciation (depreciation) included in the consolidated statements of operations within net change in unrealized appreciation (depreciation) on investments for the three and nine months ended September 30, 2013, attributable to Level 3 investments still held at September 30, 2013, was (\$556) and \$1,441, respectively.

The total change in unrealized (appreciation) depreciation included in the consolidated statements of operations within net change in unrealized (appreciation) depreciation on secured borrowings for the three and nine months ended September 30, 2014,

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attributable to Level 3 investments still held at September 30, 2014, was \$96 and \$164 respectively. The total change in unrealized (appreciation) depreciation included in the consolidated statements of operations within net change in unrealized (appreciation) depreciation on secured borrowings for the three and nine months ended September 30, 2013, attributable to Level 3 investments still held at September 30, 2013, was \$71 and \$50, respectively. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of Level 3 as of the beginning of the period which the reclassifications occur. There were no transfers among Levels 1, 2 and 3 during the three and nine months ended September 30, 2014 and 2013.

**Significant Unobservable Inputs**

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

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets and liabilities as of September 30, 2014 were as follows:

|                      | Fair Value | Valuation Technique  | Unobservable Input | Mean  | Range   |         |
|----------------------|------------|----------------------|--------------------|-------|---------|---------|
|                      |            |                      |                    |       | Minimum | Maximum |
| Assets:              |            |                      |                    |       |         |         |
| Senior secured loans | \$111,927  | Discounted cash flow | EBITDA multiples   | 6.9x  | 3.5x    | 10.6x   |
|                      |            |                      | Market yields      | 12.4% | 6.0 %   | 18.0 %  |
| Senior secured loans | 1,007      | Enterprise value     | Revenue multiples  | 0.5x  | 0.4x    | 0.5x    |
| Unitranche loans     | 74,130     | Discounted cash flow | EDITDA multiples   | 7.0x  | 3.5x    | 10.0x   |
|                      |            |                      |                    | 13.6% | 9.7 %   | 20.2 %  |

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|                      |                                |  |                   |        |        |        |
|----------------------|--------------------------------|--|-------------------|--------|--------|--------|
|                      |                                |  | Market yields     |        |        |        |
| Unitranche loans     | 5,676                          | Combination of discounted cash flow and enterprise value | EBITDA multiples  | 5.3x   | 5.0x   | 5.5x   |
|                      |                                |  | Market yields     | 24.5 % | 21.9 % | 27.1 % |
| Junior secured loans | 1,317                          | Enterprise value   | Revenue multiples | 0.5x   | 0.4x   | 0.5x   |
| Equity securities    | 1,532                          | Enterprise value   | EBITDA multiples  | 6.7x   | 3.5x   | 10.0x  |
| Total Level 3 Assets | <b>\$195,589<sup>(1)</sup></b> |  |                   |        |        |        |
| Liabilities:         |                                |  |                   |        |        |        |
| Secured borrowings   | \$5,906                        | Discounted cash flow                                     | Market yields     | 7.1 %  | 3.6 %  | 10.2 % |

(1) Excludes loans of \$39,068 fair value where valuation is obtained from a third-party pricing service for which such disclosure is not required.

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

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

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

The significant unobservable inputs used in the market approach of fair value measurement of our investments are the market multiples of EBITDA of the comparable guideline public companies. The independent valuation firm selects a population of public companies for each investment with similar operations and attributes of the portfolio company.

Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA is calculated. The

Company selects percentages from the range of multiples for purposes of determining the portfolio company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Significant increases (decreases) in the multiple will result in an increase (decrease) in enterprise value, resulting in an increase (decrease) in the fair value estimate of the investment.

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

## **Other Financial Assets and Liabilities**

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

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**MONROE CAPITAL CORPORATION**

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**Note 5. Transactions with Affiliated Companies**

An affiliated company is a company in which the Company has an ownership of 5% or more of its voting securities. A controlled affiliate company is a company in which the Company has ownership of more than 25% of its voting securities. Transactions related to our investments with affiliates for the nine months ended September 30, 2014 were as follows:

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

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

**Note 6. Transactions with Related Parties**

The Company has entered into the Investment Advisory and Management Agreement with MC Advisors, under which MC Advisors, subject to the overall supervision of the Board, provides investment advisory services to the Company.

The Company pays MC Advisors a fee for its services under the Investment Advisory and Management Agreement consisting of two components – a base management fee and an incentive fee. The base management fee is calculated at an annual rate equal to 1.75% of invested assets (calculated as total assets excluding cash) and is payable in arrears.

Base management fees for the three and nine months ended September 30, 2014 were \$1,058 and \$3,041, respectively. Base management fees for the three and nine months ended September 30, 2013 were \$702 and \$1,907, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of pre-incentive fee net investment income for the immediately preceding quarter, subject to a 2% (8% annualized) preferred return, or hurdle, and a catch up feature. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of preincentive fee net investment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. Therefore, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (1) 20% of the amount by which preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (2) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of preincentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. The second part of

the incentive fee is determined and payable in arrears as of the end of each fiscal year in an amount equal to 20% of realized capital gains, if any, on a cumulative basis from inception through the end of the year, computed net of all realized capital losses on a cumulative basis and unrealized depreciation, less the aggregate amount of any previously paid capital gain incentive fees.

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

Incentive fees for the three and nine months ended September 30, 2014 were \$849 and \$2,433, respectively. Incentive fees for the three and nine months ended September 30, 2014, consisted of part one incentive fees (based on net investment income) of \$932 and \$2,577, respectively, reduced by the second part of the incentive fee (based upon net realized and unrealized gains and losses) of (\$83) and (\$144), respectively. Incentive fees for the three and nine months ended September 30, 2013 were \$37 and \$842, respectively. Of the \$37 and \$842 in accrued incentive fees for the three and nine months ended September 30, 2013, \$37 and \$358 related to the second part of the incentive fee (based upon net realized and unrealized gains and losses), respectively. The Company accrues, but does not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20% of the sum of net realized gains (losses) plus net unrealized appreciation (depreciation).

The Company has entered into the Administration Agreement with Monroe Capital Management Advisors, LLC, ( MC Management ), under which the Company reimburses MC Management (subject to the review and approval of the Board) for its allocable portion of overhead and other expenses, including the costs of furnishing the Company with office facilities and equipment and providing clerical, bookkeeping, record-keeping and other administrative services at such facilities, and the Company's allocable portion of the cost of the chief financial officer and chief compliance officer and their respective staffs. To the extent that MC Management outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis, without incremental profit to MC Management. Administrative expenses for the three and nine months ended September 30, 2013 were limited to the greater of (i) 0.375% of the Company's average invested assets for such quarter and (ii) \$375 by the Administrative Agreement. For the three and nine months ended September 30, 2014, the Company incurred \$851 and \$2,120 in administrative expenses (included within Professional fees, Administrative service fees and General and administrative on the consolidated statements of operations) under the Administration Agreement, respectively, of which \$250 and \$668, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. For the three and nine months ended September 30, 2013, the Company incurred \$601 and \$1,635 in administrative expenses (included within Professional fees, Administrative service fees and General and administrative on the consolidated statements of operations) under the Administration Agreement, respectively, of which \$103 and \$418, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. As of September 30, 2014 and December 31, 2013, \$241 and \$178 of expenses were due to MC Management under this agreement and are included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

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

Other than with respect to this limited license, the Company has no legal right to the Monroe Capital name.

As of September 30, 2014 and December 31, 2013, the Company had accounts payable to members of the Board of \$35 and \$72, respectively, representing accrued and unpaid compensation.

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**MONROE CAPITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note 7. Borrowings**

*Revolving Credit Facility:* As of September 30, 2014 and December 31, 2013, the Company had \$90,800 and \$76,000 outstanding, respectively, under its revolving credit facility with ING Capital LLC, as agent, to finance the purchase of the Company's assets. As of September 30, 2014, the maximum amount the Company was able to borrow under the revolving credit facility is \$110,000 and this maximum borrowing can be increased to \$200,000 pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act).

The revolving credit facility is secured by a lien on all of the Company's assets, including cash on hand, but excluding the assets of the Company's wholly-owned subsidiary, MRCC SBIC. The Company's ability to borrow under the credit facility is subject to availability under a defined borrowing base, which varies based on the Company's portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. The Company may make draws under the revolving credit facility to make or purchase additional investments through December 2016 and for general working capital purposes until the maturity date of the revolving credit facility.

Borrowings under the revolving credit facility bear interest, at the Company's election, at an annual rate of LIBOR (one-month, two-month, three-month or six-month at the Company's discretion based on the term of the borrowing) plus 3.25% or at a daily rate equal to 2.25% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, the Company is required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of the Company's revolving credit facility borrowings (excluding debt issuance costs) for the three and nine months ended September 30, 2014 was 3.5% and 3.5%, respectively. As of September 30, 2014, \$81,300 of outstanding borrowings were accruing at an interest rate of 3.44% (based on one-month LIBOR) and \$9,500 of outstanding borrowings were accruing at an interest rate of 5.50% (based on the Prime rate). The weighted average fee rate on the Company's unused portion of the revolving credit facility for the three and nine months ended September 30, 2014 was 0.5% and 0.5%, respectively. The weighted average interest rate of the Company's 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 the Company's unused portion of the revolving credit facility for the three and nine months ended September 30, 2013 was 0.9% and 0.7%, respectively.

The Company's ability to borrow under the revolving credit facility is subject to availability under the borrowing base, which permits the Company to borrow up to 70% of the fair market value of its portfolio company investments depending on the type of the investment the Company holds and whether the investment is quoted. The Company's ability to borrow is also subject to certain concentration limits, and its continued compliance with the representations, warranties and covenants given by the Company under the facility. The revolving credit facility contains certain

financial and restrictive covenants, including, but not limited to, the Company's maintenance of: (1) a minimum consolidated net worth at least equal to the greater of (a) 55% of assets on the last day of each quarter (excluding from such calculation the portion of assets of MRCC SBIC financed with SBA debentures) or (b) 80% of the net proceeds to the Company from this offering plus 50% of the net proceeds of the sales of the Company's securities after the effectiveness of the revolving credit facility; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.15 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The credit facility also requires the Company to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both

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(in thousands, except share and per share data)**

**Note 7. Borrowings (continued)**

the Company and MC Advisors, failure to comply with financial and negative covenants, and failure to maintain the Company's relationship with MC Advisors. If the Company incurs an event of default under the revolving credit facility and fails to remedy such default under any applicable grace period, if any, then the entire revolving credit facility could become immediately due and payable, which would materially and adversely affect the Company's liquidity, financial condition, results of operations and cash flows.

The Company's credit facility also imposes certain conditions that may limit the amount of the Company's distributions to stockholders. Distributions payable in the Company's common stock under the DRIP are not limited by the credit facility. Distributions in cash or property other than common stock are generally limited to 110% (125% in certain instances) of the amount of distributions required to maintain the Company's status as a RIC.

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

The SBIC license allows MRCC SBIC to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis (pooling date) at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, has a superior claim to MRCC SBIC's assets over the Company's stockholders in the event the Company liquidates MRCC SBIC or the SBA exercises its remedies upon an event of default. As of September 30, 2014, MRCC SBIC had \$20,000 in regulatory capital and leveragable capital and \$13,650 in SBA-guaranteed debentures outstanding. As of September 30, 2014, MRCC SBIC had received a commitment letter from the SBA for SBA-guaranteed debentures of \$20,000 and on October 20, 2014, received another commitment letter for an additional \$20,000 in SBA-guaranteed debentures. The \$12,920 in SBA-guaranteed debentures outstanding which have already pooled mature in September 2024 and bear interest at a fixed rate of 3.37% per annum and the \$730 in SBA-guaranteed debentures outstanding which have not already pooled mature in March 2025 and bear interest at an interim rate of 1.0% until the March 2015 pooling date.

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

MRCC SBIC is currently limited to a maximum of \$40,000 in borrowings.

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

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

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(unaudited)  
(in thousands, except share and per share data)****Note 7. Borrowings (continued)**

recorded within interest income and the interest earned by the buyer in the partial loan sale is recorded within interest and other debt financing expenses in the accompanying consolidated statements of operations.

As of September 30, 2014, secured borrowings at fair value totaled \$5,906 and the fair value of the loans that are associated with these secured borrowings was \$19,264. As of December 31, 2013, secured borrowings at fair value totaled \$7,943 and the fair value of the loans that are associated with these secured borrowings was \$22,701. These secured borrowings were created as a result of the Company's completion of partial loan sales of three unitranche loan assets totaling \$10,000 during the three months ended March 31, 2013, that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings. No such partial loan sales occurred during the nine months ended September 30, 2014. During the three and nine months ended September 30, 2014, repayments on secured borrowings totaled \$525 and \$1,873, respectively.

During the three and nine months ended September 30, 2013, repayments on secured borrowings totaled \$716 and \$1,301, respectively. The weighted average interest rate on our secured borrowings was approximately 5.1% and 4.3% as of September 30, 2014 and December 31, 2013, respectively.

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

|  | Three months ended<br>September 30, |        |
|--|-------------------------------------|--------|
|  | 2014                                | 2013   |
| Interest expense - credit facility               | \$ 814                              | \$ 364 |
| Amortization of deferred financing costs         | 149                                 | 116    |
| Interest expense - secured borrowings            | 86                                  | 99     |
| Interest expense - SBA debentures                | 35                                  |        |
| Other  | 16                                  | 15     |
| Total interest and other debt financing expenses | \$ 1,100                            | \$ 594 |

  

|  | Nine months ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2014                               | 2013     |
| Interest expense - credit facility       | \$ 2,391                           | \$ 1,314 |
| Amortization of deferred financing costs | 418                                | 345      |

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|  |                    |          |          |
|--|--------------------|----------|----------|
| Interest expense                                 | secured borrowings | 296      | 283      |
| Interest expense                                 | SBA debentures     | 38       |          |
| Other  |                    | 39       | 26       |
| Total interest and other debt financing expenses |                    | \$ 3,182 | \$ 1,968 |

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**(unaudited)**  
**(in thousands, except share and per share data)**

**Note 8. Distributions**

The Company's distributions are recorded on the record date. The following table summarizes distributions declared during the nine months ended September 30, 2014:

| Date Declared                | Record Date           | Payment Date          | Amount<br>Per<br>Share | Cash<br>Distribution    | DRIP<br>Shares<br>Issued | DRIP<br>Shares<br>Value |
|------------------------------|-----------------------|-----------------------|------------------------|-------------------------|--------------------------|-------------------------|
| March 7, 2014                | March 18, 2014        | March 28, 2014        | \$ 0.34                | \$ 3,304 <sup>(1)</sup> |                          | \$                      |
| May 29, 2014                 | June 13, 2014         | June 27, 2014         | \$ 0.34                | 3,252 <sup>(2)</sup>    |                          |                         |
| August 27, 2014              | September 15,<br>2014 | September 30,<br>2014 | \$ 0.34                | 3,236 <sup>(3)</sup>    |                          |                         |
| Total distributions declared |                       |                       | \$ 1.02                | \$ 9,792                |                          | \$                      |

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

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

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

The following table summarizes distributions declared during the nine months ended September 30, 2013:

| Date Declared   | Record Date       | Payment Date      | Amount<br>Per<br>Share | Cash<br>Distribution    | DRIP<br>Shares<br>Issued | DRIP<br>Shares<br>Value |
|-----------------|-------------------|-------------------|------------------------|-------------------------|--------------------------|-------------------------|
| March 6, 2013   | March 19,<br>2013 | March 28,<br>2013 | \$ 0.34                | \$ 1,955                | 14,290                   | \$ 215                  |
| May 31, 2013    | June 14, 2013     | June 28, 2013     | \$ 0.34                | \$ 1,959                | 13,679                   | \$ 202                  |
| August 30, 2013 |                   |                   | \$ 0.34                | \$ 3,402 <sup>(1)</sup> |                          |                         |

|                              | September 13,<br>2013 | September 27,<br>2013 |         |          |        |        |
|------------------------------|-----------------------|-----------------------|---------|----------|--------|--------|
| Total distributions declared |                       |                       | \$ 1.02 | \$ 7,316 | 27,969 | \$ 417 |

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

## Note 9. Commitments and Contingencies

*Commitments:* As of September 30, 2014 and December 31, 2013, the Company had \$13,710 and \$1,648, respectively, in outstanding commitments to fund investments under undrawn revolvers and delayed draw commitments.

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

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(unaudited)  
(in thousands, except share and per share data)****Note 9. Commitments and Contingencies (continued)**

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

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

*Legal proceedings:* In the normal course of business, the Company may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While there can be no assurance of the ultimate disposition of any such proceedings, the Company is not currently aware of any such proceedings or disposition that would have a material adverse effect on the Company's consolidated financial statements.

**Note 10. Financial Highlights**

The following is a schedule of financial highlights for the nine months ended September 30, 2014 and 2013:

|  | September 30,<br>2014 | September 30,<br>2013 |
|--|-----------------------|-----------------------|
| Per share data:  |                       |                       |
| Net asset value at beginning of period                               | \$ 13.92              | \$ 14.54              |
| Net investment income <sup>(1)</sup>                                 | 1.09                  | 0.80                  |
| Net gain (loss) on investments and secured borrowings <sup>(1)</sup> | (0.08 )               | 0.26                  |
| Net increase in net assets from operations <sup>(1)</sup>            | 1.01                  | 1.06                  |
| Stockholder distributions <sup>(2)</sup>                             | (1.02 )               | (1.02 )               |
| Effect of share issuance below NAV <sup>(3)</sup>                    |                       | (0.57 )               |
| Effect of share repurchases <sup>(3)</sup>                           | 0.04                  |                       |
| Net asset value at end of period                                     | \$ 13.95              | \$ 14.01              |
| Net assets at end of period  | \$ 132,772            | \$ 140,133            |
| Shares outstanding at end of period                                  | 9,517,910             | 10,003,072            |
| Per share market value at end of period                              | \$ 13.50              | \$ 12.99              |
| Total return based on market value <sup>(4)</sup>                    | 19.16 %               | (6.01 )%              |

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|  |          |   |          |   |
|--|----------|---|----------|---|
| Total return based on net asset value <sup>(5)</sup>                                     | 7.25     | % | 3.37     | % |
| Ratio/Supplemental data:   |          |   |          |   |
| Ratio of net investment income to average net assets <sup>(6)</sup>                      | 10.98    | % | 7.70     | % |
| Ratio of interest and other debt financing expenses to average net assets <sup>(7)</sup> | 3.16     | % | 2.67     | % |
| Ratio of expenses (without incentive fees) to average net assets <sup>(7)</sup>          | 8.28     | % | 7.47     | % |
| Ratio of incentive fees to average net assets <sup>(8)</sup>                             | 1.80     | % | 0.85     | % |
| Ratio of total expenses to average net assets <sup>(6)</sup>                             | 10.08    | % | 8.32     | % |
| Average debt outstanding   | \$89,043 |   | \$38,068 |   |
| Average debt outstanding per share   | \$9.25   |   | \$5.58   |   |
| Portfolio turnover <sup>(7)</sup>  | 34.22    | % | 26.25    | % |

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**Note 10. Financial Highlights (continued)**

(1) Calculated using the weighted average shares outstanding during the period.

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 the Company's taxable earnings fall below the total amount of the Company's distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to the Company's stockholders. The tax character of distributions will be determined at the (2) end of the fiscal year. However, if the character of such distributions were determined as of September 30, 2014 and 2013, zero and approximately \$0.16 per share for the nine months ended September 30, 2014 and 2013, respectively, would have been characterized as a tax return of capital to the Company's stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.

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

Total return based on market value is calculated assuming a purchase of common shares at the market value on the (4) first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan.

Total return based on market value does not reflect brokerage commissions. Return calculations are not annualized. Total return based on net asset value is calculated by dividing the net increase in net assets from operations by the (5) net asset value per share at the beginning of the period (adjusted for the effect of share issuances below NAV).

Total investment return does not reflect brokerage commissions. Return calculations are not annualized.

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

(7) Ratios are annualized.

(8) Ratios are not annualized.

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**PROSPECTUS**

**\$200,000,000**

**Monroe Capital Corporation**

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

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

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

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

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

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

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

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

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

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

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

The date of this prospectus is May 9, 2014

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## **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process.

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

The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

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

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## SUMMARY

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

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

*we, us and our refer to Monroe Capital Corporation, a Maryland corporation;*

*MC Advisors refers to Monroe Capital BDC Advisors, LLC, our investment advisor and a Delaware limited liability company;*

*MC Management refers to Monroe Capital Management Advisors, LLC, our administrator and a Delaware limited liability company;*

*Monroe Capital refers to Monroe Capital LLC, a Delaware limited liability company, and its subsidiaries and affiliates;*

*MCC SBIC refers to Monroe Capital Corporation SBIC, LP, our wholly-owned subsidiary that operates as a small business investment company pursuant to a license received from the United States Small Business Administration; and*

*LIBOR refers to the one-month, three-month or six-month London Interbank Offered Rate as reported by the British Bankers Association. Unless stated otherwise herein, LIBOR refers to the one-month rate.*

### **Monroe Capital Corporation**

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

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

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

## **Our Investment Advisor**

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

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

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

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital's investment professionals.

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

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

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

## **About Monroe Capital**

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

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

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

### **Market Opportunity**

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

### **Investment Strategy**

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

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

**Sound Portfolio Construction.** We strive to exercise discipline in portfolio creation and management and to implement effective governance throughout our business. Monroe Capital has been, and MC Advisors, which is comprised by substantially the same investment professionals who have operated Monroe Capital, is, and we believe will continue to be, conservative in the underwriting and structuring of covenant packages in order to enable early intervention in the event of weak financial performance by a portfolio company. We seek to pursue lending opportunities selectively and to maintain a diversified portfolio. We believe that exercising disciplined portfolio management through continued intensive account monitoring and timely and relevant management reporting allows us to mitigate risks in our debt investments. In addition, we have implemented rigorous governance processes through

segregation of duties, documented policies and procedures and independent oversight and review of transactions, which we believe helps us to maintain a low level of non-performing loans. We believe that Monroe Capital's proven process of thorough origination, conservative underwriting, due diligence and structuring, combined with careful account management and diversification, enabled it to protect investor capital, and we believe MC Advisors follows and will follow the same philosophy and processes in originating, structuring and managing our portfolio investments.

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

## **Competitive Strengths**

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

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

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

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

***Disciplined, Credit-First Underwriting Process.*** Monroe Capital has developed a systematic underwriting process that applies a consistent approach to credit review and approval, with a focus on evaluating credit first and then

appropriately assessing the risk-reward profile of each loan. MC Advisors' assessment of credit outweighs pricing and other considerations, as we seek to minimize potential credit losses through effective due diligence, structuring and covenant design. MC Advisors seeks to customize each transaction structure and financial covenant to reflect risks identified through the underwriting and due diligence process. We also seek to actively manage our origination and credit underwriting activities through personal visits and calls on all parties involved with an investment, including the management team, private equity sponsor, if any, or other lenders.

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

## **Credit Facility**

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

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

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

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

## **MCC SBIC**

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

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

## Operating and Regulatory Structure

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

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

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

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

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

## **Conflicts of Interests**

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

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

MC Advisors and/or its affiliates may in the future sponsor or manage investment funds, accounts or other investment vehicles with similar or overlapping investment strategies, and MC Advisors has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors seeks to ensure an

equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. When we invest alongside such other accounts as permitted, such investments will be made consistent with MC Advisors' allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including a majority of our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each

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

## **Corporate History and Additional Information**

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

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

## **Implications of Being an Emerging Growth Company**

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

we will present only two years of audited financial statements and only two years of related Management's Discussion & Analysis of Financial Condition and Results of Operations;

we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;

we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and

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

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

**Risk Factors**

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

**FEES AND EXPENSES**

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

## Stockholder transaction expenses:

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

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

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

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

The incentive fee consists of two parts:

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

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

See Management and Other Agreements Investment Advisory Agreement.

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

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

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

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

**Example**

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

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

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

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



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## RISK FACTORS

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

### Risks Relating to Our Business and Structure

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

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

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

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to other investment vehicles managed by affiliates of MC Advisors. Business development companies are required, for example, to invest at least 70% of their total assets in qualifying assets, which generally include securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Any failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a business development company. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a business development company, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could

significantly increase our costs of doing business. Moreover, qualification for treatment as a RIC requires satisfaction of source-of-income, asset diversification and distribution requirements. None of us, MC Advisors or any of our or their respective affiliates has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective.

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

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

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

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

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

The investment committee that oversees our investment activities is provided by MC Advisors under the Investment Advisory Agreement. MC Advisors' investment committee consists of Messrs. Koenig, Peck, Egan and VanDerMeid.

The loss of any member of MC Advisors' investment committee or of other Monroe Capital senior investment professionals would limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition and results of operations.

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

We depend upon the senior investment professionals of MC Advisors to maintain their relationships with financial institutions, sponsors and investment professionals, and we rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the senior investment professionals of MC Advisors fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the senior investment professionals of MC Advisors have relationships are not obligated to provide us with investment opportunities, and, therefore, we

can offer no assurance that these relationships will generate investment opportunities for us in the future.

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

Our ability to achieve our investment objective and grow depends on our ability to manage our business. This depends, in turn, on MC Advisors' ability to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives depends upon MC Advisors' execution of our investment process, its ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. MC Advisors has substantial responsibilities under the Investment Advisory Agreement. The senior origination professionals and other personnel of MC Advisors and its affiliates may be called upon to provide managerial assistance to our portfolio companies. These activities

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may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our stockholders. MC Advisors seeks to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy.

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

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

Our financial condition and results of operation depend on our ability to manage our business effectively. 165

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of the majority of the members of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the business development company regulations

governing transactions with affiliates to prohibit certain joint transactions between entities that share a common investment adviser.

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

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

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

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

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

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

We have elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ending December 31, 2012 and for succeeding tax years; however, no assurance can be given that we will be able to qualify for and maintain RIC status. To qualify as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to our stockholders, we must meet certain requirements, including source-of-income, asset

diversification and distribution requirements. The annual distribution requirement applicable to RICs is satisfied if we distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. In addition, we will be subject to a 4% nondeductible federal excise tax to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar year basis. To the extent we use debt financing, we will be subject to certain asset coverage ratio requirements under the 1940 Act and may be subject to financial covenants under loan and credit agreements, each of which could, under certain

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

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

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

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

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

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

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as original issue discount and PIK interest. If we pay a net investment income incentive fee on interest that has been accrued, but not yet received in

cash, it will increase the basis of our investment in that loan, which will reduce the capital gain incentive fee that we would otherwise pay in the future. Nevertheless, if we pay a net investment income incentive fee on interest that has been accrued but not yet received, and if that portfolio company defaults on such a loan, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible.

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

See Material U.S. Federal Income Tax Considerations  
Taxation as a RIC.

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a business development company to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets less all liabilities and indebtedness not represented by senior securities, immediately after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. In addition, issuance of securities could dilute the percentage ownership of our current stockholders in us.

No person or entity from which we borrow money will have a veto power or a vote in approving or changing any of our fundamental policies. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights on certain matters and might have other rights, preferences or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest. Holders of our common stock will directly or indirectly bear all of the costs associated with offering and servicing any preferred stock that we issue.

In addition, any interests of preferred stockholders may not necessarily align with the interests of holders of our common stock and the rights of holders of shares of preferred stock to receive dividends would be senior to those of holders of shares of our common stock.

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

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

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

our common stock is exposed to an increased risk of loss because a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use leverage; if we do not appropriately match the assets and liabilities of our business, adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;

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our ability to pay distributions on our common stock may be restricted if our asset coverage ratio, as provided in the 1940 Act, is not at least 200% and any amounts used to service indebtedness or preferred stock would not be available for such distributions;

any credit facility is subject to periodic renewal by its lenders, whose continued participation cannot be guaranteed; our credit facility with ING Capital LLC, as agent, is, and any other credit facility we may enter into would be, subject to various financial and operating covenants, including that our portfolio of investments satisfies certain eligibility and concentration limits as well as valuation methodologies;

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

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

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

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

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

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

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

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

Under the 1940 Act, as a business development company we are generally not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200%. On April 26, 2013, legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to business development companies. On November 14, 2013 the U.S. House of Representatives Financial Services Committee favorably reported a version of the legislation for consideration by the full U.S. House of Representatives.

This legislation, among other things, provides for increasing the amount business development companies may borrow by reducing the asset-to-debt limitation from 200% to 150%. As a result, if this or similar legislation were to pass, we may be able to incur additional indebtedness in the future and therefore risks related to incurring indebtedness may increase.

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

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

credit facility to maintain our status as a RIC.

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

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

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

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

To the extent we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with issuances of equity and long-term debt securities. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

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

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

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

### **MCC SBIC will be subject to SBA regulations.**

Under current SBA regulations, a licensed SBIC can invest in entities that have a tangible net worth not exceeding \$18.0 million and an average annual net income after U.S. federal income taxes not exceeding \$6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must invest 25.0% of its capital in those entities that have a tangible net worth not exceeding \$6.0 million and an average annual net income after U.S. federal income taxes not exceeding \$2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on either the number of employees or the gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in certain prohibited

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

industries. Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA staff to determine its compliance with the relevant SBA regulations. Compliance with these SBA requirements may cause MCC SBIC to forego attractive investment opportunities that are not permitted under the SBA regulations, and may cause MCC SBIC to make investments it otherwise would not make in order to remain in compliance with these regulations.

Failure to comply with the SBA regulations could result in the loss of the SBIC license and the resulting inability to participate in the SBA debenture program. The SBA prohibits, without prior SBA approval, a

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change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. Current SBA regulations provide the SBA with certain rights and remedies if an SBIC violates their terms. Remedies for regulatory violations are graduated in severity depending on the seriousness of capital impairment or other regulatory violations. For minor regulatory infractions, the SBA issues a warning. For more serious infractions, the use of SBA debentures may be limited or prohibited, outstanding debentures can be declared to be immediately due and payable, restrictions on distributions and making new investments may be imposed and management fees may be required to be reduced. In severe cases, the SBA may require the removal of a general partner of an SBIC or its officers, directors, managers or partners, or the SBA may obtain appointment of a receiver for the SBIC.

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

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

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

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

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

In order to maintain our status as a RIC, we are required to distribute to our stockholders on an annual basis 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses. For this purpose, our taxable income will include the income of MCC SBIC (and any other entities that are disregarded as separate from us for U.S. federal income tax purposes). MCC SBIC's ability to make distributions to us may be limited by the Small Business Investment Act of 1958. As a result, in order to maintain our status as a RIC, we may be required to make distributions attributable to MCC SBIC's income without receiving any corresponding cash distributions from it with respect to such income. We can make no assurances that MCC SBIC will be able to make, or not be limited in

making, distributions to us. If we are unable to satisfy the annual distribution requirements, we may fail to maintain our status as a RIC, which would result in the imposition of corporate-level U.S. federal income tax on our entire taxable income without regard to any distributions made by us. See We will be subject to corporate-level U.S. federal income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code.

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

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

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

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

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

- a comparison of the portfolio company's securities to publicly traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments and its earnings and discounted cash flow;
- the markets in which the portfolio company does business; and
- chan