

MONROE CAPITAL Corp  
Form 10-Q  
May 11, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended March 31, 2015**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission file number: 814-00866**

**MONROE CAPITAL CORPORATION**

**(Exact Name of Registrant as Specified in its Charter)**

<b>Maryland</b> <b>(State or Other Jurisdiction of</b>	<b>27-4895840</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>311 South Wacker Drive, Suite 6400</b> <b>Chicago, Illinois</b> <b>(Address of Principal Executive Office)</b>	<b>60606</b> <b>(Zip Code)</b>

**(312) 258-8300**

**(Registrant's Telephone Number, Including Area Code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Large accelerated filer  Accelerated filer  x

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of May 8, 2015, the registrant had 12,082,361 shares of common stock, \$0.001 par value, outstanding.

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Statements of Assets and Liabilities as of March 31, 2015 (unaudited) and December 31, 2014</u>	3
<u>Consolidated Statements of Operations for the three months ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Net Assets for the three months ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	6
<u>Consolidated Schedules of Investments as of March 31, 2015 (unaudited) and December 31, 2014</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	11
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	39
<b><u>PART II. OTHER INFORMATION</u></b>	<b>40</b>
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults upon Senior Securities</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41
<u>Signatures</u>	42



**Part I. Financial Information****Item 1. Consolidated Financial Statements****MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES****(unaudited)****(in thousands, except per share data)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	(unaudited)	
<b>ASSETS</b>		
Investments, at fair value:		
Non-controlled/non-affiliate company investments	\$ 215,681	\$ 210,318
Non-controlled affiliate company investments	30,289	16,596
Controlled affiliate company investments	6,677	6,621
Total investments, at fair value (cost of: \$253,539 and \$234,098, respectively)	252,647	233,535
Cash	8,641	5,737
Interest receivable	1,107	952
Deferred financing costs, net	2,669	2,479
Other assets	846	882
<b>Total assets</b>	<b>265,910</b>	<b>243,585</b>
<b>LIABILITIES</b>		
Revolving credit facility	87,700	82,300
SBA debentures payable	34,800	20,000
Secured borrowings, at fair value (proceeds of: \$3,985 and \$4,134, respectively)	3,819	4,008
Interest payable	116	244
Management fees payable	1,068	1,050
Incentive fees payable	1,042	1,140
Accounts payable and accrued expenses	1,438	1,105
<b>Total liabilities</b>	<b>129,983</b>	<b>109,847</b>
<b>Net assets</b>	<b>\$ 135,927</b>	<b>\$ 133,738</b>

**Commitments and contingencies (See Note 10)****ANALYSIS OF NET ASSETS**

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Common stock, \$0.001 par value, 100,000 shares authorized, 9,632 and 9,518 shares issued and outstanding, respectively	\$ 10	\$ 10
Capital in excess of par value	136,487	134,803
Undistributed net investment income (accumulated distributions in excess of net investment income)	157	(639 )
Accumulated net realized gain (loss) on investments	-	-
Accumulated net unrealized appreciation (depreciation) on investments and secured borrowings	(727 )	(436 )
<b>Total net assets</b>	<b>\$ 135,927</b>	<b>\$ 133,738</b>
<b>Net asset value per share</b>	<b>\$ 14.11</b>	<b>\$ 14.05</b>

See Notes to Consolidated Financial Statements.

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Investment income:</b>		
Interest income:		
Non-controlled/non-affiliate company investments	\$ 7,341	\$ 6,211
Non-controlled affiliate company investments	490	305
Controlled affiliate company investments	250	-
<b>Total investment income</b>	<b>8,081</b>	<b>6,516</b>
<b>Operating expenses:</b>		
Interest and other debt financing expenses	1,103	967
Base management fees	1,068	953
Incentive fees	1,042	917
Professional fees	238	191
Administrative service fees	271	201
General and administrative expenses	192	157
<b>Total expenses</b>	<b>3,914</b>	<b>3,386</b>
<b>Net investment income</b>	<b>4,167</b>	<b>3,130</b>
<b>Net gain (loss) on investments and secured borrowings:</b>		
Net realized gain (loss) on investments:		
Non-controlled/non-affiliate company investments	-	44
Net realized gain (loss) on investments	-	44
Net change in unrealized appreciation (depreciation) on investments:		
Non-controlled/non-affiliate company investments	(628	) (148
Non-controlled affiliate company investments	283	698
Controlled affiliate company investments	15	-
Net change in unrealized appreciation (depreciation) on investments	(330	) 550
Net change in unrealized (appreciation) depreciation on secured borrowings	39	(56
<b>Net gain (loss) on investments and secured borrowings</b>	<b>(291</b>	<b>) 538</b>



Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

<b>Net increase (decrease) in net assets resulting from operations</b>	\$ 3,876	\$ 3,668
<b>Per common share data:</b>		
Net investment income per share - basic and diluted	\$ 0.44	\$ 0.32
Net increase in net assets resulting from operations per share - basic and diluted	\$ 0.41	\$ 0.38
Weighted average common shares outstanding - basic and diluted	9,562	9,761

See Notes to Consolidated Financial Statements.

## 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	Undistributed net investment income (accumulated distributions in excess of net investment income)	Accumulated net realized gain (loss) on investments	Accumulated net realized appreciation (depreciation) on investments and secured borrowings	Total net assets
	Number of shares	Par value	of par value	investment income)	(loss) on investments	secured borrowings	Total net assets
<b>Balances at December 31, 2013</b>	9,918	\$ 10	\$140,038	\$ (2,985 )	\$ -	\$ 1,029	\$138,092
Net increase (decrease) in net assets resulting from operations	-	-	-	3,130	44	494	3,668
Stockholder distributions paid - income distributions	-	-	-	(3,260 )	(44 )	-	(3,304 )
Repurchases of common stock	(262 )	-	(3,388 )	-	-	-	(3,388 )
<b>Balances at March 31, 2014</b>	9,656	\$ 10	\$136,650	\$ (3,115 )	\$ -	\$ 1,523	\$135,068
<b>Balances at December 31, 2014</b>	9,518	\$ 10	\$134,803	\$ (639 )	\$ -	\$ (436 )	\$133,738
Issuance of common stock, net of offering and underwriting costs	114	-	1,684	-	-	-	1,684
Net increase (decrease) in net assets resulting from operations	-	-	-	4,167	-	(291 )	3,876
Stockholder distributions paid - income distributions	-	-	-	(3,371 )	-	-	(3,371 )
<b>Balances at March 31, 2015</b>	9,632	\$ 10	\$136,487	\$ 157	\$ -	\$ (727 )	\$135,927

See Notes to Consolidated Financial Statements.



**MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(in thousands)**

	<b>Three months ended March</b>	
	<b>31,</b>	<b>2014</b>
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 3,876	\$ 3,668
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	330	(550 )
Net change in unrealized appreciation (depreciation) on secured borrowings	(39 )	56 )
Net realized (gain) loss on investments	-	(44 )
Payment-in-kind interest income	(530 )	(130 )
Net accretion of discounts and amortization of premiums	(198 )	(161 )
Proceeds from principal payments and sales of investments	17,698	20,126
Purchases of investments	(36,412 )	(35,991 )
Amortization of deferred financing costs	167	133
Changes in operating assets and liabilities:		
Receivable for open trades	-	(2,734 )
Interest receivable	(155 )	(184 )
Other assets	36	8
Payable for open trades	-	918
Interest payable	(128 )	(127 )
Management fees payable	18	108
Incentive fees payable	(98 )	56
Accounts payable and accrued expenses	333	98
<b>Net cash provided by (used in) operating activities</b>	<b>(15,102 )</b>	<b>(14,750 )</b>
<b>Cash flows from financing activities:</b>		
Borrowings on credit facility	20,400	26,500
Repayments of credit facility	(15,000 )	(8,000 )
SBA debentures borrowings	14,800	-
Payments of deferred financing costs	(357 )	-
Repayments on secured borrowings	(150 )	(1,818 )
Repurchases of common stock	-	(3,836 )

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Proceeds from shares sold, net of underwriting costs	1,684	-
Stockholder distributions paid	(3,371)	(3,304)
<b>Net cash provided by (used in) financing activities</b>	<b>18,006</b>	<b>9,542</b>
<b>Net increase (decrease) in cash</b>	<b>2,904</b>	<b>(5,208)</b>
<b>Cash, beginning of period</b>	<b>5,737</b>	<b>14,603</b>
<b>Cash, end of period</b>	<b>\$ 8,641</b>	<b>\$ 9,395</b>
Supplemental disclosure of cash flow information:		
Cash interest paid during the period	\$ 977	\$ 844

See Notes to Consolidated Financial Statements.

**MONROE CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS****(unaudited)****March 31, 2015****(in thousands, except for units)**

<b>Portfolio Company (a)</b>	<b>Industry</b>	<b>Spread Above Index (b)</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Principal</b>	<b>Amortized Cost</b>	<b>Value</b>
<b>Senior Secured Loans</b>							
Alora Pharmaceuticals, LLC (e)	Healthcare & Pharmaceuticals	L+9.00%	10.00%	9/13/2018	\$10,852	\$10,670	\$
Alora Pharmaceuticals, LLC (Revolver) (f)	Healthcare & Pharmaceuticals	L+9.00%	10.00%	9/13/2018	1,336	-	
American Community Homes, Inc. (g)	Banking, Finance, Insurance & Real Estate	L+8.00%	9.50%	7/22/2019	6,667	6,513	
American Community Homes, Inc. (g)	Banking, Finance, Insurance & Real Estate	L+12.50%	9.50% Cash/4.50% PIK	7/22/2019	3,404	3,327	
BCC Software, LLC (h)	High Tech Industries	L+8.00%	9.00%	6/20/2019	2,944	2,905	
BCC Software, LLC (Revolver) (f)	High Tech Industries	L+8.00%	9.00%	6/20/2019	469	-	
BookIt Operating LLC (i)	Hotels, Gaming & Leisure	L+12.50%	14.00%	1/10/2019	5,505	5,383	
Cornerstone Detention Products, Inc. (j)	Construction & Building	L+10.50%	10.50% Cash/1.00% PIK	4/8/2019	4,552	4,476	
Cornerstone Detention Products, Inc. (Revolver) (f)	Construction & Building	L+9.50%	10.50%	4/8/2019	400	-	
Cytovance Biologics, Inc. (h)	Healthcare & Pharmaceuticals	L+9.00%	10.00%	10/24/2019	2,000	1,954	

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Cytovance Biologics, Inc. (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%		10/24/2019	1,143	686
Cytovance Biologics, Inc. (Capex) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%		10/24/2019	1,143	-
Diesel Direct Holdings, Inc. <sup>(h)</sup>	Energy: Oil & Gas	L+9.00%	10.00%		2/17/2020	5,466	5,362
EB Employee Solutions, LLC <sup>(h)</sup>	Services: Business	L+8.50%	10.00%		2/28/2019	3,667	3,587
Fineline Technologies, Inc.	Consumer Goods: Non-Durable	L+6.75%	8.00%		5/6/2017	5,080	5,078
Landpoint, LLC	Energy: Oil & Gas	L+12.75%	12.00%	Cash/2.25% PIK <sup>(p)</sup>	12/20/2018	4,375	4,288
Landpoint, LLC (Revolver) <sup>(f)</sup>	Energy: Oil & Gas	L+10.50%	12.00%		12/20/2018	313	-
L.A.R.K. Industries, Inc.	Construction & Building	L+10.00%	11.50%		9/3/2019	6,905	6,751
Luxury Optical Holdings Co.	Retail	L+9.00%	9.00%	Cash/1.00% PIK	9/12/2019	4,002	3,929
Luxury Optical Holdings Co. (Revolver) <sup>(f)</sup>	Retail	L+8.00%	9.00%		9/12/2019	273	-
Miles Media Group LLC	Hotels, Gaming & Leisure	L+8.50%	9.50%		9/12/2019	3,960	3,887
Miles Media Group LLC (Delayed Draw) <sup>(f) (k)</sup>	Hotels, Gaming & Leisure	L+8.50%	9.50%		9/12/2019	1,600	-
Miles Media Group LLC (Revolver) <sup>(f)</sup>	Hotels, Gaming & Leisure	L+8.50%	9.50%		9/12/2019	320	-
O'Brien Industrial Holdings, LLC	Metals & Mining	L+11.50%	11.00%	Cash/2.00% PIK	5/13/2019	6,600	6,460
O'Brien Industrial Holdings, LLC (Revolver) <sup>(f)</sup>	Metals & Mining	L+9.50%	11.00%		5/13/2019	2,844	305
PD Products, LLC	Consumer Goods: Non-Durable	L+13.00%	12.00%	Cash/2.50% PIK	10/4/2018	13,118	12,981
PD Products, LLC (Revolver) <sup>(f)</sup>	Consumer Goods: Non-Durable	L+13.00%	12.00%	Cash/2.50% PIK	10/4/2018	2,500	1,240
Precision Toxicology, LLC <sup>(h)</sup>	Healthcare & Pharmaceuticals	L+8.00%	8.00%	Cash/1.00% PIK	3/24/2020	5,500	5,390
Precision Toxicology, LLC (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+8.00%	8.00%	Cash/1.00% PIK	3/24/2020	635	-
Rockdale Blackhawk, LLC <sup>(g)</sup>	Healthcare & Pharmaceuticals	L+11.00%	12.00%		3/31/2020	12,850	11,611
Rockdale Blackhawk, LLC (Revolver) <sup>(f) (g)</sup>	Healthcare & Pharmaceuticals	L+11.00%	12.00%		3/31/2020	1,849	650
Rockdale Blackhawk, LLC (Capex) <sup>(f) (g)</sup>	Healthcare & Pharmaceuticals	L+11.00%	12.00%		3/31/2020	2,311	-
Rocket Dog Brands LLC <sup>(g)</sup>	Consumer Goods: Non-Durable	n/a	10.00%		5/2/2019	1,007	1,007

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

SHI Holdings, Inc. <sup>(h)</sup>	Healthcare & Pharmaceuticals	L+9.25%	9.43%	7/10/2019	2,887	2,825
SHI Holdings, Inc. (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+9.25%	9.43%	7/10/2019	818	354
SNI Companies <sup>(l)</sup>	Services: Business	L+10.00%	11.00%	12/31/2018	7,806	7,656
SNI Companies (Revolver) <sup>(f)</sup>	Services: Business	L+10.00%	11.00%	12/31/2018	1,250	488
Summit Container Corporation <sup>(g) (h)</sup>	Containers, Packaging & Glass	L+9.00%	11.00%	1/6/2019	3,750	3,669
The Sandbox Group LLC <sup>(h)</sup>	Media: Advertising, Printing & Publishing	L+10.00%	9.00% cash/2.00% PIK	2/23/2020	5,511	5,376
The Sandbox Group LLC (Revolver) <sup>(f)</sup>	Media: Advertising, Printing & Publishing	L+10.00%	9.00% cash/2.00% PIK	2/23/2020	1,250	1,002
TRG, LLC	Hotels, Gaming & Leisure	L+17.92%	11.00% cash/7.92% PIK <sup>(q)</sup>	12/23/2019	3,021	2,964
TRG, LLC (Revolver) <sup>(f)</sup>	Hotels, Gaming & Leisure	L+12.00%	13.00%	12/23/2019	131	66
TRG, LLC (Delayed Draw) <sup>(f) (k)</sup>	Hotels, Gaming & Leisure	L+12.00%	13.00%	12/23/2019	790	-
West World Media, LLC	Media: Diversified & Production	L+11.00%	9.00% Cash/3.00% PIK	5/8/2019	7,763	7,623
Yandy Holding, LLC	Retail	L+9.00%	10.00%	9/30/2019	6,500	6,410
Yandy Holding, LLC (Revolver) <sup>(f)</sup>	Retail	L+9.00%	10.00%	9/30/2019	906	-
<b>Total Senior Secured Loans</b>					167,973	146,873
<b>Unitranche Loans</b>						
Accutest Corporation	Services: Business	L+7.50%	9.00%	6/5/2018	7,223	7,043
Collaborative Neuroscience Network, LLC <sup>(n)</sup>	Healthcare & Pharmaceuticals	L+11.50%	13.00%	12/27/2017	8,057	7,941
Conisus, LLC	Media: Advertising, Printing & Publishing	L+7.00%	8.25%	12/27/2017	10,660	10,433
Consolidated Glass Holdings, Inc.	Capital Equipment	L+12.50%	11.50% Cash/2.00% PIK	4/17/2017	3,664	3,664
Escort Holdings Corp.	Consumer Goods: Durable	L+9.00%	9.50%	10/7/2018	14,711	14,494
Fabco Automotive Corporation	Automotive	L+9.25%	10.25%	4/3/2017	8,062	8,008
	Wholesale	L+12.05%	11.00% Cash/2.55% PIK <sup>(r)</sup>	5/7/2019	5,433	5,304



Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Gracelock Industries,  
LLC

Incipio Technologies, Inc. <sup>(h)</sup>	Consumer Goods: Non-Durable	L+6.00%	7.00%	12/26/2019	5,500	5,368
MooreCo, Inc.	Consumer Goods: Durable	L+13.50%	12.50% Cash/2.50% PIK	12/27/2017	4,634	4,567
Output Services Group, Inc.	Services: Business	L+10.00%	10.50% cash/1.00% PIK	12/17/2018	6,599	6,302
Output Services Group, Inc.	Services: Business	L+10.00%	10.50% cash/1.00% PIK	12/17/2018	7,366	7,387
Playtime, LLC <sup>(n)</sup>	Hotels, Gaming & Leisure	L+7.50%	9.00%	12/4/2017	6,127	6,055
TPP Acquisition, Inc. <sup>(m)</sup>	Retail	L+11.00%	10.50% Cash/2.00% PIK	12/17/2017	6,732	6,643
<b>Total Unitranche Loans</b>					94,768	93,209

## MONROE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS – (continued)

(unaudited)

March 31, 2015

(in thousands, except for units)

Portfolio Company <sup>(a)</sup>	Industry	Spread Above Index <sup>(b)</sup>	Interest Rate	Maturity	Principal	Amortized Cost	Fair Value <sup>(c)</sup>	% of Net Assets <sup>(d)</sup>
<b>Junior Secured Loans</b>								
Confie Seguros Holdings II Co.	Banking, Finance, Insurance & Real Estate	L+9.00%	10.25%	5/8/2019	3,593	3,570	3,594	2.7
CSM Bakery Supplies LLC	Beverage, Food & Tobacco	L+7.75%	8.75%	7/3/2021	3,000	2,991	2,782	2.0
Pre-Paid Legal Services, Inc. (Legal Shield)	Services: Consumer	L+8.50%	9.75%	7/1/2020	3,000	2,977	3,005	2.2
Rocket Dog Brands LLC <sup>(g)</sup>	Consumer Goods: Non-Durable	n/a	15.00% PIK	5/2/2020	1,497	1,497	1,389	1.0
<b>Total Junior Secured Loans</b>					11,090	11,035	10,770	7.9
<b>Equity Securities</b>								
American Community Homes, Inc. (warrant to purchase up to 10.0% of the equity) <sup>(g)</sup>	Banking, Finance, Insurance & Real Estate	-	-	10/9/2024	-	-	214	0.2
BookIt Operating LLC (warrant to purchase up to 4.2% of the equity) <sup>(o)</sup>	Hotels, Gaming & Leisure	-	-	12/21/2023	-	-	653	0.5
Collaborative Neuroscience Network,	Healthcare & Pharmaceuticals	-	-	12/27/2022	-	-	-	0.0

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

LLC (warrant to purchase up to 1.67 LLC units) <sup>(o)</sup>									
Monte Nido Residential Center, LLC - Class A Units Common Units (1,762 units) <sup>(o)</sup>	Services: Consumer	-	-	-	-	74	74	0.1	
O'Brien Industrial Holdings, LLC (warrants to purchase up to 2.44% of certain affiliated entities of the company) <sup>(o)</sup>	Metals & Mining	-	-	5/13/2024	-	-	-	0.0	
Output Services Group, Inc. (warrant to purchase up to 3.89% of the common stock) <sup>(o)</sup>	Services: Business	-	-	12/17/2022	-	-	894	0.7	
Playtime, LLC - Preferred Units (8,665 units) <sup>(o)</sup>	Hotels, Gaming & Leisure	-	-	-	-	200	81	0.1	
Rocket Dog Brands LLC - Common Units (75,502 units) <sup>(g)</sup>	Consumer Goods: Non-Durable	-	-	-	-	-	-	0.0	
Rocket Dog Brands LLC - Preferred Units (10 units) <sup>(g)</sup>	Consumer Goods: Non-Durable	-	15.00% PIK <sup>(s)</sup>	-	-	967	40	0.0	
Rockdale Blackhawk, LLC - LLC Units (11.56% of the LLC interest) <sup>(g)</sup>	Healthcare & Pharmaceuticals	-	-	-	-	1,093	1,093	0.8	
Summit Container Corporation (warrant to purchase up to 19.50% of the equity) <sup>(g)</sup>	Containers, Packaging & Glass	-	-	1/6/2024	-	-	421	0.3	
The Sandbox Group LLC (warrant to purchase up to 1.0% of the equity) <sup>(o)</sup>	Media: Advertising, Printing & Publishing	-	-	-	-	-	271	0.2	
The Tie Bar Operating Company, LLC - Class A Preferred Units (1,275 units) <sup>(o)</sup>	Retail	-	-	-	-	87	110	0.1	
The Tie Bar Operating Company, LLC - Class B Preferred Units (1,275 units) <sup>(o)</sup>	Retail	-	-	-	-	1	-	0.0	
TPP Acquisition, Inc. (829 shares of common stock) <sup>(m)</sup>	Retail	-	-	-	-	-	201	0.0	
<b>Total Equity Securities</b>						-	2,422	4,052	3.0

**TOTAL  
INVESTMENTS**

\$253,539 \$252,647 185

- (a) All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940. All investments are non-controlled/non-affiliate company investments, unless otherwise noted.
- 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
- (b) Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2015. 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
- (c) 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 \$135,927 as of March 31, 2015.
- (e) A portion of this loan (principal of \$4,479) 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.
- (f) All or a portion of this commitment was unfunded at March 31, 2015. As such, interest is earned only on the funded portion of this commitment.
- 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 additional information on transactions in which the issuer was an
- (g) Affiliated Person (but not a portfolio company that the Company is deemed to control.)
- (h) All of this loan is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.
- (i) A portion of this loan (principal of \$2,861) 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.
- (j) A portion of this loan (principal of \$2,731) 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.
- (k) This delayed draw loan requires that certain financial covenants be met by the portfolio company prior to any fundings.
- (l) A portion of this loan (principal of \$5,007) 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.
- As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" of and "Control" this
- (m) portfolio company as it owns 25% percent or more of the portfolio company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.
- (n) The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 — *Transfers and Servicing*, and therefore, the entire unitranche loan asset remains in the Consolidated Schedule of Investments.
- (o) Represents less than 5% ownership of the class and the portfolio company.
- The PIK portion of the interest rate for Landpoint, LLC is structured as a guaranteed fee paid upon the termination
- (p) of the commitment. The fee accrues at 2.25% per annum and is subject to a minimum payment upon termination of \$338.
- A portion of the PIK interest rate for TRG, LLC is structured as a guaranteed fee paid upon the termination of the
- (q) commitment. The fee accrues at 5.92% per annum and is subject to an estimated minimum payment upon termination of \$891.
- (r) The PIK portion of the interest rate for Gracelock Industries, LLC is structured as a fee paid upon the termination of the commitment. The fee accrues at 2.55% per annum.
- (s) This position includes a PIK dividend and is currently on non-accrual status.
- n/a - not applicable

See Notes to Consolidated Financial Statements.

8

## MONROE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2014

(in thousands, except for units)

Portfolio Company <sup>(a)</sup>	Industry	Spread Above Index <sup>(b)</sup>	Interest Rate	Maturity	Principal	Amortized Cost	Fair Value <sup>(c)</sup>	% of Net Asset <sup>(d)</sup>
<b>Senior Secured Loans</b>								
Alora Pharmaceuticals, LLC <sup>(e)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%	9/13/2018	\$11,282	\$11,082	\$11,277	8.4
Alora Pharmaceuticals, LLC (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%	9/13/2018	1,336	-	-	0.0
American Community Homes, Inc. <sup>(g)</sup>	Banking, Finance, Insurance & Real Estate	L+8.00%	9.50%	7/22/2019	6,667	6,506	6,577	4.9
American Community Homes, Inc. <sup>(g)</sup>	Banking, Finance, Insurance & Real Estate	L+12.50%	9.50% Cash/4.50% PIK	7/22/2019	3,366	3,286	3,404	2.5
BCC Software, LLC <sup>(h)</sup>	High Tech Industries	L+8.00%	9.00%	6/20/2019	2,962	2,922	2,973	2.2
BCC Software, LLC (Revolver) <sup>(f)</sup>	High Tech Industries	L+8.00%	9.00%	6/20/2019	469	-	-	0.0
BookIt Operating LLC <sup>(i)</sup>	Hotels, Gaming & Leisure	L+14.50%	14.00% Cash/2.00% PIK	1/10/2019	5,655	5,525	5,477	4.1
Cornerstone Detention Products, Inc. <sup>(j)</sup>	Construction & Building	L+9.50%	9.50% Cash/1.00% PIK	4/8/2019	4,663	4,581	4,633	3.5
Cornerstone Detention Products, Inc. (Revolver) <sup>(f)</sup>	Construction & Building	L+8.50%	9.50%	4/8/2019	400	-	-	0.0
Cytovance Biologics, Inc. <sup>(h)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%	10/24/2019	2,000	1,952	1,995	1.5
		L+9.00%	10.00%	10/24/2019	1,143	286	286	0.2

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Cytovance Biologics, Inc. (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals							
Cytovance Biologics, Inc. (Capex) <sup>(f)</sup>	Healthcare & Pharmaceuticals	L+9.00%	10.00%	10/24/2019	1,143	-	-	0.0
EB Employee Solutions, LLC <sup>(h)</sup>	Services: Business	L+8.50%	10.00%	2/28/2019	3,950	3,860	3,930	2.9
Fineline Technologies, Inc.	Consumer Goods: Non-Durable	L+6.75%	8.00%	5/6/2017	5,188	5,186	5,234	3.9
Landpoint, LLC	Energy: Oil & Gas	L+12.75%	12.00% Cash/2.25% PIK <sup>(p)</sup>	12/20/2018	4,750	4,650	4,698	3.5
Landpoint, LLC (Revolver) <sup>(f)</sup>	Energy: Oil & Gas	L+10.50%	12.00%	12/20/2018	313	-	-	0.0
L.A.R.K. Industries, Inc.	Construction & Building	L+10.00%	11.50%	9/3/2019	6,993	6,827	7,004	5.2
Luxury Optical Holdings Co.	Retail	L+9.00%	9.00% Cash/1.00% PIK	9/12/2019	4,002	3,926	4,000	3.0
Luxury Optical Holdings Co. (Revolver) <sup>(f)</sup>	Retail	L+8.00%	9.00%	9/12/2019	273	-	-	0.0
Miles Media Group LLC	Hotels, Gaming & Leisure	L+8.50%	9.50%	9/12/2019	3,980	3,904	3,996	3.0
Miles Media Group LLC (Delayed Draw) <sup>(k)</sup>	Hotels, Gaming & Leisure	L+8.50%	9.50%	9/12/2019	1,600	-	-	0.0
Miles Media Group LLC (Revolver) <sup>(f)</sup>	Hotels, Gaming & Leisure	L+8.50%	9.50%	9/12/2019	320	160	160	0.1
O'Brien Industrial Holdings, LLC	Metals & Mining	L+11.50%	11.00% Cash/2.00% PIK	5/13/2019	6,567	6,420	6,563	4.9
O'Brien Industrial Holdings, LLC (Revolver) <sup>(f)</sup>	Metals & Mining	L+9.50%	11.00%	5/13/2019	2,844	-	-	0.0
Pacific Labs, LLC <sup>(h)</sup>	Healthcare & Pharmaceuticals	L+10.50%	11.50%	10/28/2019	5,466	5,346	5,493	4.1
Pacific Labs, LLC (Delayed Draw) <sup>(k)</sup>	Healthcare & Pharmaceuticals	L+10.50%	11.50%	10/28/2019	1,833	-	-	0.0
PD Products, LLC	Consumer Goods: Non-Durable	L+10.50%	12.00%	10/4/2018	13,126	12,979	13,093	9.8
PD Products, LLC (Revolver) <sup>(f)</sup>	Consumer Goods: Non-Durable	L+10.50%	12.00%	10/4/2018	2,500	1,225	1,224	0.9
Rocket Dog Brands LLC <sup>(g)</sup>	Consumer Goods: Non-Durable	n/a	10.00%	5/2/2019	1,007	1,007	1,007	0.8
SHI Holdings, Inc. <sup>(h)</sup>	Healthcare & Pharmaceuticals	L+9.25%	9.42%	7/10/2019	2,925	2,858	2,919	2.2
		L+9.25%	9.42%	7/10/2019	818	355	355	0.3

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

SHI Holdings, Inc. (Revolver) <sup>(f)</sup>	Healthcare & Pharmaceuticals								
SNI Companies <sup>(l)</sup>	Services: Business	L+8.00%	9.00%	12/31/2018	6,072	5,953	6,075	4.5	
SNI Companies (Revolver) <sup>(f)</sup>	Services: Business	L+8.00%	9.00%	12/31/2018	1,250	750	750	0.6	
Summit Container Corporation <sup>(g) (h)</sup>	Containers, Packaging & Glass	L+9.00%	11.00%	1/6/2019	3,800	3,712	3,838	2.9	
TRG, LLC	Hotels, Gaming & Leisure	L+17.92%	11.00% Cash/7.92% PIK <sup>(q)</sup>	12/23/2019	3,010	2,950	2,950	2.2	
TRG, LLC (Revolver) <sup>(f)</sup>	Hotels, Gaming & Leisure	L+10.00%	11.00%	12/23/2019	131	-	-	0.0	
TRG, LLC (Delayed Draw) <sup>(f) (k)</sup>	Hotels, Gaming & Leisure	L+10.00%	11.00%	12/23/2019	790	-	-	0.0	
West World Media, LLC	Media: Diversified & Production	L+11.00%	9.00% Cash/3.00% PIK	5/8/2019	7,743	7,599	7,747	5.8	
Yandy Holding, LLC	Retail	L+9.00%	10.00%	9/30/2019	6,500	6,406	6,503	4.9	
Yandy Holding, LLC (Revolver) <sup>(f)</sup>	Retail	L+9.00%	10.00%	9/30/2019	907	-	-	0.0	
<b>Total Senior Secured Loans</b>					139,744	122,213	124,161	92.8	
<b>Unitranche Loans</b>									
Accutest Corporation	Services: Business	L+7.50%	9.00%	6/5/2018	7,435	7,243	6,952	5.2	
Collaborative Neuroscience Network, LLC <sup>(n)</sup>	Healthcare & Pharmaceuticals	L+11.50%	13.00%	12/27/2017	8,057	7,936	7,602	5.7	
Conisus, LLC	Media Advertising, Printing & Publishing	L+7.00%	8.25%	12/27/2017	10,660	10,412	10,628	7.9	
Consolidated Glass Holdings, Inc.	Capital Equipment	L+12.50%	11.50% Cash/2.00% PIK	4/17/2017	3,645	3,645	3,665	2.7	
Escort Holdings Corp.	Consumer Goods: Durable	L+9.00%	9.50%	10/7/2018	14,711	14,487	14,630	10.9	
Fabco Automotive Corporation	Automotive	L+9.25%	10.25%	4/3/2017	8,062	8,005	5,482	4.1	
FTJFundChoice, LLC	Banking, Finance, Insurance & Real Estate	L+10.00%	11.50%	7/17/2017	3,000	3,000	3,060	2.3	
Gracelock Industries, LLC	Wholesale	L+12.05%	11.00% Cash/2.55% PIK <sup>(r)</sup>	5/7/2019	5,604	5,466	5,624	4.2	
Incipio Technologies, Inc. <sup>(h)</sup>	Consumer Goods:	L+6.00%	7.00%	12/26/2019	5,500	5,363	5,362	4.0	



Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

		Non-Durable						
MooreCo, Inc.	Consumer Goods: Durable	L+13.50%	12.50% Cash/2.50% PIK	12/27/2017	4,605	4,532	4,651	3.5
Output Services Group, Inc.	Services: Business	L+10.00%	10.50% cash/1.00% PIK	12/17/2018	11,929	11,696	11,911	8.9
Playtime, LLC <sup>(n)</sup>	Hotels, Gaming & Leisure	L+7.50%	9.00%	12/4/2017	6,277	6,197	5,540	4.1
The Tie Bar Operating Company, LLC	Retail	L+8.50%	9.75%	6/25/2018	5,100	4,995	5,108	3.8
TPP Acquisition, Inc. <sup>(m)</sup>	Retail	L+13.00%	12.50% Cash/2.00% PIK	12/17/2017	6,698	6,603	6,420	4.8
<b>Total Unitranche Loans</b>					101,283	99,580	96,635	72.1

## MONROE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS – (continued)

December 31, 2014

(in thousands, except for units)

Portfolio Company <sup>(a)</sup>	Industry	Spread Above Index <sup>(b)</sup>	Interest Rate	Maturity	Principal	Amortized Cost	Fair Value <sup>(c)</sup>	% of Net Assets <sup>(d)</sup>
<b>Junior Secured Loans</b>								
Confie Seguros Holdings II Co.	Banking, Finance, Insurance & Real Estate	L+9.00%	10.25%	5/8/2019	3,594	3,569	3,593	2.7
CSM Bakery Supplies LLC	Beverage, Food & Tobacco	L+7.75%	8.75%	7/3/2021	3,000	2,990	2,900	2.2
Pre-Paid Legal Services, Inc. (Legal Shield)	Services: Consumer	L+8.50%	9.75%	7/1/2020	3,000	2,973	2,940	2.2
Rocket Dog Brands LLC <sup>(g)</sup>	Consumer Goods: Non-Durable	n/a	15.00% PIK	5/2/2020	1,444	1,444	1,370	1.0
<b>Total Junior Secured Loans</b>					<b>11,038</b>	<b>10,976</b>	<b>10,803</b>	<b>8.1</b>
<b>Equity Securities</b>								
American Community Homes, Inc. (warrant to purchase up to 10.0% of the equity) <sup>(g)</sup>	Banking, Finance, Insurance & Real Estate	-	-	10/9/2024	-	-	182	0.1
BookIt Operating LLC (warrant to purchase up to 4.2% of the equity) <sup>(o)</sup>	Hotels, Gaming & Leisure	-	-	12/21/2023	-	-	436	0.3
Collaborative Neuroscience Network, LLC (warrant to purchase up to 1.67	Healthcare & Pharmaceuticals	-	-	12/27/2022	-	-	2	0.0

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

LLC units) <sup>(o)</sup>									
Monte Nido Residential Center, LLC - Class A Units Common Units (1,762 units) <sup>(o)</sup>	Services: Consumer	-	-	-	-	74	74	0.1	9
O'Brien Industrial Holdings, LLC (warrants to purchase up to 2.44% of certain affiliated entities of the company) <sup>(o)</sup>	Metals & Mining	-	-	5/13/2024	-	-	-	0.0	9
Output Services Group, Inc. (warrant to purchase up to 3.89% of the common stock) <sup>(o)</sup>	Services: Business	-	-	12/17/2022	-	-	617	0.5	9
Playtime, LLC - Preferred Units (8,665 units) <sup>(o)</sup>	Hotels, Gaming & Leisure	-	-	-	-	200	96	0.1	9
Rocket Dog Brands LLC - Common Units (75,502 units) <sup>(g)</sup>	Consumer Goods: Non-Durable	-	-	-	-	-	-	0.0	9
Rocket Dog Brands LLC - Preferred Units (10 units) <sup>(g)</sup>	Consumer Goods: Non-Durable	-	15.00% PIK <sup>(s)</sup>	-	-	967	77	0.1	9
Summit Container Corporation (warrant to purchase up to 19.50% of the equity) <sup>(g)</sup>	Containers, Packaging & Glass	-	-	1/6/2024	-	-	141	0.1	9
The Tie Bar Operating Company, LLC - Class A Preferred Units (1,275 units) <sup>(o)</sup>	Retail	-	-	-	-	87	110	0.1	9
The Tie Bar Operating Company, LLC - Class B Preferred Units (1,275 units) <sup>(o)</sup>	Retail	-	-	-	-	1	-	0.0	9
TPP Acquisition, Inc. (829 shares of common stock) <sup>(m)</sup>	Retail	-	-	-	-	-	201	0.0	9
<b>Total Equity Securities</b>						-	1,329	1,936	1.4
<b>TOTAL INVESTMENTS</b>							\$234,098	\$233,535	174.4

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

(b) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2014. Certain investments are subject to a LIBOR or Prime interest rate floor.

Because there is no readily available market value for these investments, the fair value of these investments is

(c) determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)

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

A portion of this loan (principal of \$4,656) is held in the Company's wholly-owned subsidiary, Monroe Capital

(e) Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility discussed in Note 7 in the accompanying notes to the consolidated financial statements.

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

As defined in the 1940 Act, the Company is deemed to be an "Affiliated Person" of the portfolio company as it

(g) 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 additional information on transactions in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to control.)

All of this loan is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is

(h) 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 (principal of \$2,939) is held in the Company's wholly-owned subsidiary, Monroe Capital

(i) 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 (principal of \$2,798) is held in the Company's wholly-owned subsidiary, Monroe Capital

(j) 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.

A portion of this loan (principal of \$3,238) is held in the Company's wholly-owned subsidiary, Monroe Capital

(l) 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.

As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" of and "Control" this

(m) portfolio company as it owns 25% percent or more of the portfolio company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.

The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 — *Transfers and*

(n) *Servicing*, and therefore, the entire unitranche loan asset remains in the Consolidated Schedule of Investments. (See Note 7 in the accompanying notes to the consolidated financial statements.)

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

The PIK portion of the interest rate for Landpoint, LLC is structured as a guaranteed fee paid upon the termination

(p) of the commitment. The fee accrues at 2.25% per annum and is subject to a minimum payment upon termination of \$338.

A portion of the PIK interest rate for TRG, LLC is structured as a guaranteed fee paid upon the termination of the

(q) commitment. The fee accrues at 5.92% per annum and is subject to an estimated minimum payment upon termination of \$891.

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

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

n/a - not applicable

See Notes to Consolidated Financial Statements.



**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 investment in senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility) debt and, to a lesser extent, unsecured subordinated debt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC (“MC Advisors”), a registered investment adviser under the Investment Advisers Act of 1940, as amended. In addition, for U.S. federal income tax purposes, Monroe Capital has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On February 6, 2015, the Company entered into an at-the-market (“ATM”) program with MLV & Co. LLC and JMP Securities LLC through which the Company may sell, by means of ATM offerings from time to time, up to \$50,000 of the Company’s common stock. On April 20, 2015, the Company closed a public offering of 2,450,000 shares of its common stock at a public offering price of \$14.85 per share, raising approximately \$36,383 in gross proceeds. The Company also granted the underwriters a 30-day option to purchase up to an additional 367,500 shares of common stock to cover over-allotments, if any.

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 March 31, 2015, MRCC SBIC had \$20,000 in regulatory and leveragable capital and \$34,800 in SBA-guaranteed debentures outstanding.

**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. The Company has determined it meets the definition of an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 — *Financial Services — Investment Companies* (“ASC Topic 946”).

## **Use of Estimates**

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

## **Consolidation**

As permitted under Regulation S-X and ASC Topic 946, 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.

## **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 the accrual basis to the extent that the Company expects to collect such amounts. Interest and dividend income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. All other income is recorded into income when earned. The Company records prepayment fees and amendment fees on loans as interest income in the period earned. For the three months ended March 31, 2015 and 2014, interest income included \$567 and \$197 of prepayment and amendment fees, respectively. Dividend income is recorded as dividends when declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from portfolio companies are evaluated to determine if the distribution is income or a return of capital.

Loan origination fees, original issue discount and market discount or premiums are capitalized, and the Company then amortizes such amounts using the effective interest method as interest income over the life of the investment. Unamortized discounts and loan origination fees totaled \$5,224 and \$4,002 as of March 31, 2015 and December 31, 2014, respectively. Upfront loan origination and closing fees received for the three months ended March 31, 2015 and 2014 totaled \$918 and \$760, respectively. For the three months ended March 31, 2015 and 2014, interest income included \$198 and \$161 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 months ended March 31, 2015 and 2014, interest income included \$267 and \$229 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 payment-in-kind ("PIK") interest provision, which represents contractual interest or dividends that are added to the principal balance and recorded as income. For the three months ended March 31, 2015 and 2014, interest income included \$530 and \$130 of PIK interest, respectively. The Company stops accruing PIK interest when it is determined that PIK interest 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 within net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

*Non-accrual:* Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal, interest or dividends are paid and, in management's judgment, are likely to remain current. During the three months ended March 31, 2015 and 2014, no loans were on non-accrual status. During the three months ended June 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 and remain on non-accrual status. There were no other portfolio company investments on non-accrual status for the three months ended March 31, 2015 and 2014.

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

## Distributions

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

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

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

## Earnings per Share

In accordance with the provisions of ASC Topic 260 — "*Earnings per Share*" ("ASC Topic 260"), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. The weighted-average shares outstanding utilized in the calculation of earnings per share take into account share issues under the ATM program on the issuance date and the Company's repurchases of its common stock on the repurchase date. See Note 9 for additional information on the Company's share issuances and repurchases. 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 March 31, 2015 and December 31, 2014, the Company had deferred financing costs of \$2,669 and \$2,479, 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 months ended March 31, 2015 and 2014, was \$167 and \$133, 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 March 31, 2015 and December 31, 2014, other assets on the consolidated statements of assets and liabilities included \$402 and \$341, respectively, of deferred offering costs which will be charged against the proceeds from further equity offerings when received.

## Income Taxes

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment available to RICs. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to shareholders, for each taxable year, at least 90% of the Company's "investment company taxable income," which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company will not have to pay corporate-level federal income taxes on any income that the Company distributes to its shareholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes 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 months ended March 31, 2015 and 2014, \$3 and zero was recorded within general and administrative expenses for U.S. federal excise tax, respectively.

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 March 31, 2015. The 2014, 2013 and 2012 tax years remain subject to examination by U.S. federal and state tax authorities.

## Recent Accounting Pronouncements

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

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for fiscal years that begin after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

### Note 3. Investments

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

	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
<b>Amortized Cost:</b>				
Senior secured loans	\$ 146,873	57.9 %	\$ 122,213	52.2 %
Unitranche loans	93,209	36.8	99,580	42.5
Junior secured loans	11,035	4.3	10,976	4.7
Equity securities	2,422	1.0	1,329	0.6
Total	\$253,539	100.0%	\$ 234,098	100.0 %

	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
<b>Fair Value:</b>				
Senior secured loans	\$ 148,660	58.8 %	\$ 124,161	53.2 %
Unitranche loans	89,165	35.3	96,635	41.4
Junior secured loans	10,770	4.3	10,803	4.6
Equity securities	4,052	1.6	1,936	0.8
Total	\$252,647	100.0%	\$ 233,535	100.0 %

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:

	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
<b>Amortized Cost:</b>				
West	\$81,699	32.2 %	\$76,642	32.7 %
Southeast	50,870	20.1	55,136	23.6
Midwest	48,736	19.2	45,434	19.4
Northeast	33,166	13.1	26,077	11.1
Southwest	32,025	12.6	23,566	10.1
Mid-Atlantic	7,043	2.8	7,243	3.1
Total	\$253,539	100.0%	\$234,098	100.0 %

	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
<b>Fair Value:</b>				
West	\$77,620	30.7 %	\$73,055	31.3 %
Southeast	51,812	20.5	56,164	24.1
Midwest	49,754	19.7	46,348	19.8
Northeast	34,718	13.7	27,178	11.6
Southwest	32,235	12.8	23,838	10.2
Mid-Atlantic	6,508	2.6	6,952	3.0
Total	\$252,647	100.0%	\$233,535	100.0 %

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

	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
<b>Amortized Cost:</b>				
Healthcare & Pharmaceuticals	\$43,175	17.0 %	\$29,814	12.7 %
Services: Business	32,462	12.8	29,502	12.6
Consumer Goods: Non-Durable	28,139	11.1	28,170	12.0
Consumer Goods: Durable	19,061	7.5	19,020	8.1
Hotels, Gaming & Leisure	18,554	7.3	18,936	8.1
Retail	17,070	6.7	22,017	9.4
Media: Advertising, Printing & Publishing	16,812	6.6	10,412	4.5
Banking, Finance, Insurance & Real Estate	13,410	5.3	16,361	7.0
Construction & Building	11,227	4.4	11,409	4.9
Energy: Oil & Gas	9,650	3.8	4,650	2.0
Automotive	8,008	3.2	8,005	3.4
Media: Diversified & Production	7,623	3.0	7,599	3.3

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

Metals & Mining	6,764	2.7	6,420	2.7
Wholesale	5,304	2.1	5,466	2.3
Containers, Packaging & Glass	3,669	1.5	3,712	1.6
Capital Equipment	3,664	1.5	3,645	1.6
Services: Consumer	3,051	1.2	3,048	1.3
Beverage, Food & Tobacco	2,991	1.2	2,990	1.3
High Tech Industries	2,905	1.1	2,922	1.2
Total	\$253,539	100.0%	\$ 234,098	100.0 %



	March 31, 2015		December 31, 2014	
<b>Fair Value:</b>				
Healthcare & Pharmaceuticals	\$43,099	17.1 %	\$29,929	12.8 %
Services: Business	33,329	13.2	30,235	12.9
Consumer Goods: Non-Durable	27,244	10.8	27,367	11.7
Consumer Goods: Durable	19,207	7.6	19,281	8.3
Hotels, Gaming & Leisure	18,625	7.4	18,655	8.0
Retail	17,283	6.8	22,342	9.6
Media: Advertising, Printing & Publishing	17,138	6.7	10,628	4.5
Banking, Finance, Insurance & Real Estate	13,876	5.5	16,815	7.2
Construction & Building	11,393	4.5	11,637	5.0
Energy: Oil & Gas	9,812	3.9	4,698	2.0
Media: Diversified & Production	7,764	3.1	7,747	3.3
Metals & Mining	6,871	2.7	6,563	2.9
Automotive	5,156	2.0	5,483	2.3
Wholesale	5,153	2.0	5,624	2.4
Containers, Packaging & Glass	4,218	1.7	3,979	1.7
Capital Equipment	3,664	1.5	3,665	1.6
Services: Consumer	3,079	1.2	3,014	1.3
High Tech Industries	2,953	1.2	2,973	1.3
Beverage, Food & Tobacco	2,783	1.1	2,900	1.2
Total	\$252,647	100.0%	\$233,535	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;

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 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 between 7.00% and 18.92% at both March 31, 2015 and December 31, 2014. The maturity dates on the loans outstanding at March 31, 2015 range between April 2017 and July 2021. Management evaluates the collectability of the loans on an ongoing basis based upon various factors including, but not limited to, the credit history of the borrower, its financial status and its available collateral.

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

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

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

### **Secured Borrowings**

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

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

### **Fair Value Disclosures**

The following table presents fair value measurements of investments and secured borrowings, by major class, as of March 31, 2015, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Investments:				
Senior secured loans	\$—	\$—	\$ 148,660	\$ 148,660
Unitranche loans	—	—	89,165	89,165
Junior secured loans	—	—	10,770	10,770
Equity securities	—	—	4,052	4,052
Total Investments	\$—	\$—	\$ 252,647	\$ 252,647
Secured borrowings	\$—	\$—	\$ 3,819	\$ 3,819

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

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

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 months ended March 31, 2015 and 2014:

	<b>Investments</b>					
	<b>Senior</b>	<b>Unitranche</b>	<b>Junior</b>	<b>Equity</b>	<b>Total</b>	<b>Secured</b>
	<b>secured loans</b>	<b>loans</b>	<b>secured loans</b>	<b>securities</b>	<b>investments</b>	<b>borrowings</b>
Balance as of December 31, 2014	\$124,161	\$ 96,635	\$ 10,803	\$ 1,936	\$ 233,535	\$ 4,008
Net change in unrealized appreciation (depreciation) on investments	(160 )	(1,100 )	(92 )	1,022	(330 )	—
Net realized gain (loss) on investments	—	—	—	—	—	—
Purchases of investments and other adjustments to cost <sup>(1)</sup>	33,840	2,147	59	1,094	37,140	—
Proceeds from principal payments and sales on investments <sup>(2)</sup>	(9,181 )	(8,517 )	—	—	(17,698 )	—
Net change in unrealized appreciation (depreciation) on secured borrowings	—	—	—	—	—	(39 )
Proceeds from secured borrowings	—	—	—	—	—	—
Repayments on secured borrowings	—	—	—	—	—	(150 )
Balance as of March 31, 2015	\$148,660	\$ 89,165	\$ 10,770	\$ 4,052	\$ 252,647	\$ 3,819

	<b>Investments</b>					
	<b>Senior</b>	<b>Unitranche</b>	<b>Junior</b>	<b>Equity</b>	<b>Total</b>	<b>Secured</b>
	<b>secured loans</b>	<b>loans</b>	<b>secured loans</b>	<b>securities</b>	<b>investments</b>	<b>borrowings</b>
Balance as of December 31, 2013	\$88,963	\$ 96,217	\$ 22,335	\$ 405	\$ 207,920	\$ 7,943
Net change in unrealized appreciation (depreciation) on investments	438	(711 )	104	719	550	—
Net realized gain (loss) on investments	—	—	44	—	44	—
Purchases of investments and other adjustments to cost <sup>(1)</sup>	23,182	722	12,379	—	36,283	—
Proceeds from principal payments and sales on investments <sup>(2)</sup>	(9,885 )	(2,222 )	(8,019 )	—	(20,126 )	—
Net change in unrealized appreciation (depreciation) on secured borrowings	—	—	—	—	—	56
Proceeds from secured borrowings	—	—	—	—	—	—
Repayments on secured borrowings	—	—	—	—	—	(1,818 )
Balance as of March 31, 2014	\$102,698	\$ 94,006	\$ 26,843	\$ 1,124	\$ 224,671	\$ 6,181

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

<sup>(2)</sup> 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 months ended March 31, 2015 and 2014, attributable to Level 3 investments still held at March 31, 2015 and 2014, was (\$9) and \$725, 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 months ended March 31, 2015 and 2014, attributable to Level 3 investments still held at March 31, 2015 and 2014, was \$39 and (\$56), 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 months ended March 31, 2015 and 2014.

### **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 March 31, 2015 were as follows:

	Fair Value	Valuation Technique	Unobservable Input	Range			
				Mean	Minimum	Maximum	
<b>Assets:</b>							
Senior secured loans	\$130,003	Discounted cash flow	EBITDA multiples	7.2 x	3.5 x	11.5	x
			Market yields	12.8 %	8.0 %	22.0	%
Senior secured loans	6,476	Enterprise value	EBITDA multiples	4.0 x	3.8 x	4.3	x
Senior secured loans	1,007	Enterprise value	Revenue multiples	0.5 x	0.5 x	0.5	x
Unitranche loans	73,869	Discounted cash flow	EDITDA multiples	6.3 x	5.0 x	8.5	x
			Market yields	14.4 %	10.3 %	19.3	%
Unitranche loans	3,664	Discounted cash flow	Revenue multiples	0.4 x	0.4 x	0.4	x
			Market yields	14.4 %	13.0 %	15.9	%
Unitranche loans	5,156	Combination of discounted cash flow and enterprise value	EBITDA multiples	4.3 x	4.0 x	4.5	x
			Market yields	25.3 %	22.6 %	28.0	%
Junior secured loans	1,389	Enterprise value	Revenue multiples	0.5 x	0.5 x	0.5	x
Equity securities	2,884	Enterprise value	EBITDA multiples	6.6 x	3.8 x	7.5	x
<b>Total Level 3 Assets</b>	<b>\$ 224,448</b>	<sup>(1)</sup>					
<b>Liabilities:</b>							
Secured borrowings	\$3,819	Discounted cash flow	Market yields	6.7 %	3.3 %	10.4	%

<sup>(1)</sup> Excludes loans of \$28,199 fair value where valuation is obtained from a third-party pricing service for which such disclosure is not required.

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

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

<sup>(1)</sup> Excludes loans of \$17,819 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 or revenue of the comparable guideline public companies. The Company selects a population of public companies for each investment with similar operations and attributes of the portfolio company. Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA is calculated. The Company selects percentages from the range of multiples for purposes of determining the portfolio company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Significant increases (decreases) in the multiple will result in an increase (decrease) in enterprise value, resulting in an increase (decrease) in the fair value estimate of the investment.

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

#### **Other Financial Assets and Liabilities**

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. Fair value of the Company's revolving credit facility is estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if applicable. The Company believes that the carrying value of its revolving credit facility approximates fair value. SBA-guaranteed debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date and the ability of market participants to prepay the debentures. As of March 31, 2015, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$34,800, which is the same as the Company's carrying value of the SBA debentures.

#### **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 three months ended March 31, 2015 were as follows:

Portfolio Company	Fair Value at December 31, 2014	Purchases and paydowns (cost)	Sales and paydowns (cost)	PIK interest (cost)	Discount accretion	Net unrealized gains/(losses)	Net unrealized gains/(losses)	Fair Value at March 31, 2015	Interest Income	Dividend Income
Non-controlled affiliate company investments <sup>(1)</sup> :										
American Community Homes, Inc	\$ 10,163	\$ —	\$ —	\$ 38	\$ 10	\$ —	\$ 71	\$ 10,282	287	\$ —
Rockdale Blackhawk LLC	—	13,353	—	—	—	—	—	13,353	5	—
Rocket Dog Brands LLC	2,454	—	—	53	—	—	(71)	2,436	78	—
Summit Container Corporation	3,979	—	(49)	—	5	—	283	4,218	120	—
Total non-controlled affiliate company investments	\$ 16,596	\$ 13,353	\$ (49)	\$ 91	\$ 15	\$ —	\$ 283	\$ 30,289	\$ 490	\$ —
Controlled affiliate company investments <sup>(1)</sup> :										
TPP Acquisition, Inc.	\$ 6,621	\$ —	\$ —	\$ 34	\$ 7	\$ —	\$ 15	\$ 6,677	\$ 250	\$ —
Total controlled affiliate company investments	\$ 6,621	\$ —	\$ —	\$ 34	\$ 7	\$ —	\$ 15	\$ 6,677	\$ 250	\$ —

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

Transactions related to our investments with affiliates for the three months ended March 31, 2014 were as follows:

Portfolio Company	Fair Value at December 31, 2013	Purchases and Paydowns (cost)	Sales and Paydowns (cost)	PIK interest (cost)	Discount accretion	Net realized gains/ (losses)	Net unrealized gains/ (losses)	Fair Value March 31, 2014	Interest Income	Dividend Income
Non-controlled affiliate company investments <sup>(1)</sup> :										
BookIt Operating LLC	\$ —	\$ 5,835	\$ —	\$ 17	\$ 9	\$ —	\$ 422	\$ 6,283	\$ 197	\$ —
Summit Container Corporation	—	3,890	(50 )	—	6	—	276	4,122	108	—
Total non-controlled affiliate company investments	\$ —	\$ 9,725	\$ (50 )	\$ 17	\$ 15	\$ —	\$ 698	\$ 10,405	\$ 305	\$ —

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

## 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 months ended March 31, 2015 and 2014 were \$1,068 and \$953, 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.

Incentive fees for the three months ended March 31, 2015 and 2014 were \$1,042 and \$917, respectively. Incentive fees for the three months ended March 31, 2015 consisted solely of part one incentive fees (based on net investment income) of \$1,042. Incentive fees for the three months ended March 31, 2014 consisted of part one incentive fees of \$810 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$107. 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. For the three months ended March 31, 2015 and 2014, the Company incurred \$701 and \$549, respectively, in administrative expenses (included within Professional fees, Administrative service fees and General and administrative on the consolidated statements of operations) under the Administration Agreement, of which \$271 and \$201, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. As of March 31, 2015 and December 31, 2014, \$271 and \$208 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 March 31, 2015 and December 31, 2014, the Company had accounts payable to members of the Board of \$35 and zero, respectively, representing accrued and unpaid compensation.

#### **Note 7. Borrowings**

*Revolving Credit Facility:* As of March 31, 2015 and December 31, 2014, the Company had \$87,700 and \$82,300 outstanding, respectively, under its revolving credit facility with ING Capital LLC, as agent, to finance the purchase of the Company’s assets. As of March 31, 2015, 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 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 months ended March 31, 2015 and 2014 was 3.5% and 3.5%, respectively. As of March 31, 2015, \$71,700 of the outstanding borrowings were accruing at an interest rate of 3.4% (based on one-month LIBOR) and \$16,000 of the outstanding borrowings were accruing at an interest rate of 5.5% (based on the prime rate). The weighted average fee rate on the Company’s unused portion of the revolving credit facility for the three months ended March 31, 2015 and 2014 was 0.5% and 0.5%, 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 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 March 31, 2015, MRCC SBIC had \$20,000 in regulatory capital and leveragable capital and \$34,800 in SBA-guaranteed debentures outstanding. Additionally, as of March 31, 2015, MRCC SBIC has a commitment letter for an additional \$5,200 in SBA-guaranteed debentures. As of March 31, 2015, \$12,920 in SBA-guaranteed debentures outstanding mature in September 2024 and bear interest at a fixed rate of 3.4% per annum and \$21,880 in SBA-guaranteed debentures outstanding mature in March 2025 and bear interest at a fixed rate of 2.9% per annum.

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

As of March 31, 2015, secured borrowings at fair value totaled \$3,819 and the fair value of the loans that are associated with these secured borrowings was \$12,964. As of December 31, 2014, secured borrowings at fair value totaled \$4,008 and the fair value of the loans that are associated with these secured borrowings was \$13,142. 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 year ended December 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 year ended December 31, 2014 and the three months ended March 31, 2015. During the three months ended March 31, 2015 and 2014, repayments on secured borrowings totaled \$150 and \$1,818, respectively. The weighted average interest rate on our secured borrowings was approximately 5.5% as of March 31, 2015.

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest expense – credit facility	\$ 706	\$ 701

Interest expense – SBA debentures	162	—
Amortization of deferred financing costs	167	133
Interest expense – secured borrowings	56	121
Other	12	12
Total interest and other debt financing expenses	\$ 1,103	\$ 967

**Note 8. Distributions**

The Company's distributions are recorded on the record date. The following table summarizes distributions declared during the three months ended March 31, 2015:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution		DRIP Shares Issued	DRIP Shares Value
March 6, 2015	March 20, 2015	March 31, 2015	\$ 0.35	\$ 3,371	(1)	—	\$ —
Total distributions declared			\$ 0.35	\$ 3,371		—	\$ —

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 16,057 shares of common stock for \$238 and no new shares were issued to satisfy the DRIP requirements for this dividend.

The following table summarizes distributions declared during the three months ended March 31, 2014:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution		DRIP Shares Issued	DRIP Shares Value
March 7, 2014	March 18, 2014	March 28, 2014	\$ 0.34	\$ 3,304	(1)	—	\$ —
Total distributions declared			\$ 0.34	\$ 3,304		—	\$ —

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.



## Note 9. Stock Issuances and Repurchases

*Stock Issuances:* On February 6, 2015, the Company entered into an at-the-market (“ATM”) program with MLV & Co. LLC and JMP Securities LLC through which the Company may sell, by means of ATM offerings from time to time, up to \$50,000 of the Company’s common stock. During the three months ended March 31, 2015, the Company sold 114,451 shares at an average price of \$14.75 per share for aggregate proceeds (including transaction costs) of \$1,684.

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

During the three months ended March 31, 2014, the Company repurchased 262,066 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$3,388. During the time the Plan was active the Company repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$6,267. The Company is incorporated in Maryland and under the law of that state, shares repurchased are considered retired (repurchased shares become authorized but unissued shares) rather than treasury stock. As a result, the cost of stock repurchases is recorded as a reduction to capital in excess of par value on the consolidated statement of changes in net assets.

## Note 10. Commitments and Contingencies

*Commitments:* As of March 31, 2015 and December 31, 2014, the Company had \$17,490 and \$15,294, 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.

*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 11. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2015 and 2014:

	<b>March 31, 2015</b>		<b>March 31, 2014</b>	
<b>Per share data:</b>				
Net asset value at beginning of period	\$ 14.05		\$ 13.92	
Net investment income <sup>(1)</sup>	0.44		0.32	
Net gain (loss) on investments and secured borrowings <sup>(1)</sup>	(0.03	)	0.06	
Net increase in net assets from operations <sup>(1)</sup>	0.41		0.38	
Stockholder distributions <sup>(2)</sup>	(0.35	)	(0.34	)
Effect of share repurchases <sup>(3)</sup>	—		0.03	
Net asset value at end of period	\$ 14.11		\$ 13.99	
Net assets at end of period	\$ 135,927		\$ 135,068	
Shares outstanding at end of period	9,632,361		9,656,203	
Per share market value at end of period	\$ 14.73		\$ 13.53	
Total return based on market value <sup>(4)</sup>	4.28	%	13.68	%
Total return based on net asset value <sup>(5)</sup>	2.90	%	2.70	%
<b>Ratio/Supplemental data:</b>				
Ratio of net investment income to average net assets <sup>(6)</sup>	14.72	%	9.29	%
Ratio of interest and other debt financing expenses to average net assets <sup>(7)</sup>	3.28	%	2.87	%
Ratio of expenses (without incentive fees) to average net assets <sup>(7)</sup>	8.55	%	7.34	%
Ratio of incentive fees to average net assets <sup>(8)</sup>	0.77	%	0.67	%
Ratio of total expenses to average net assets <sup>(6)</sup>	9.32	%	8.01	%
Average debt outstanding	\$ 103,727		\$ 73,650	
Average debt outstanding per share	\$ 10.85		\$ 7.55	
Portfolio turnover <sup>(7)</sup>	7.28	%	9.41	%

(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 March 31, 2015 and 2014, zero and approximately \$0.01 per share for the three months ended March 31, 2015 and 2014, 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.

## **Note 12. Subsequent Events**

On April 20, 2015, the Company closed public offering of 2,450,000 shares of its common stock at a public offering price of \$14.85 per share, raising approximately \$36,383 in gross proceeds. The Company also granted the underwriters a 30-day option to purchase up to an additional 367,500 shares of common stock to cover over-allotments, if any.

## **ITEM 2. 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 consolidated financial statements and related notes appearing in our annual report on Form 10-K (the “Annual Report”) for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission (“SEC”) on March 6, 2015. The information contained in this section should also be read in conjunction with our unaudited consolidated financial statements and related notes and other financial information appearing elsewhere in this quarterly report on Form 10-Q (the “Quarterly Report”).

### **FORWARD-LOOKING STATEMENTS**

This Quarterly Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to future events or our future performance or future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this Quarterly Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;



- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of increased competition;
- the impact of fluctuations in interest rates on our business and our portfolio companies;
- our contractual arrangements and relationships with third parties;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- the ability of our prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the ability of our Monroe Capital BDC Advisors, LLC (“MC Advisors”) to locate suitable investments for us and to monitor our investments; and
- the impact of future legislation and regulation on our business and our portfolio companies.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks,” “plans,” “estimates,” “targets,” “expects” and similar expressions to identify forward-looking statements. The forward looking statements contained in this Quarterly Report involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “*Part I—Item 1A. Risk Factors*” in our Annual Report and “*Part II—Item 1A. Risk Factors*” in this Quarterly Report.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this Quarterly Report on information available to us on the date of this Quarterly Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this Quarterly Report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

## Overview

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

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

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, subordinated debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. Our investments in senior, unitranche, junior secured debt and other investments generally will range between \$2 million and \$15 million each, although this investment size may vary proportionately with the size of our capital base. As of March 31, 2015, our portfolio included approximately 58.8% senior secured debt, 35.3% unitranche secured debt, 4.3% junior secured debt and 1.6% equity securities, compared to December 31, 2014, when our portfolio consisted of 53.2% senior secured debt, 41.4% unitranche secured debt, 4.6% junior secured debt and 0.8% 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 6, 2015, we entered into an at-the-market (“ATM”) program with MLV & Co. LLC and JMP Securities LLC through which we may sell, by means of ATM offerings from time to time, up to \$50.0 million of our common stock. On April 20, 2015, we closed a public offering of 2,450,000 shares of our common stock at a public offering price of \$14.85 per share, raising approximately \$36.4 million in gross proceeds. We also granted the underwriters a 30-day option to purchase up to an additional 367,500 shares of common stock to cover over-allotments, if any.

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP (“MRCC SBIC”), a Delaware limited partnership, received a license from the Small Business Administration (“SBA”) to operate as a Small Business Investment Company (“SBIC”) under Section 301(c) of the Small Business Investment Company Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As of March 31, 2015, MRCC SBIC had \$20.0 million in regulatory and leveragable capital and \$34.8 million in SBA-guaranteed debentures outstanding. See “*SBA Debentures*” below for more information.

### ***Investment income***

We generate interest income on the debt investments in portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior, junior or unitranche secured debt, typically have an initial term of three to seven years and bear interest at a fixed or floating rate. In some instances we receive payments on our debt investment based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity date. In some cases, our investments provide for deferred interest 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 March 31, 2015, we invested \$30.5 million in four new portfolio companies and \$5.9 million in five existing portfolio companies and had \$17.7 million in aggregate amount of principal repayments, resulting in investments of \$18.7 million for the period.

During the three months ended March 31, 2014, we invested \$31.8 million in eight new portfolio companies and \$4.2 million in two existing portfolio companies and had \$20.1 million in aggregate amount of principal repayments, resulting in net investments of \$15.9 million for the period.

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

**March 31, 2015**  
**Fair Value**

Edgar Filing: MONROE CAPITAL Corp - Form 10-Q

		<b>Percentage of Total Portfolio</b>		<b>Weighted Average Annualized Contractual Coupon Yield <sup>(1)</sup></b>		<b>Weighted Average Annualized Effective Yield <sup>(1)</sup></b>	
Senior secured loans	\$148,660	58.8	%	11.5	%	11.5	%
Unitranche loans	89,165	35.3		10.5		11.8	
Junior secured loans	10,770	4.3		10.4		10.4	
Equity securities	4,052	1.6		n/a		n/a	
Total	\$252,647	100.0	%	11.1	%	11.6	%

**December 31, 2014**

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

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

During the three months ended March 31, 2015, we were able to keep our effective yield on the portfolio consistent with December 31, 2014, while also shifting to a more senior portfolio of assets.

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

	<b>March 31, 2015</b>		<b>December 31, 2014</b>		
	<b>Investments at Fair Value</b>	<b>Percentage of Total Portfolio</b>	<b>Investments at Fair Value</b>	<b>Percentage of Total Portfolio</b>	
Healthcare & Pharmaceuticals	\$43,099	17.1	% \$ 29,929	12.8	%
Services: Business	33,329	13.2	30,235	12.9	
Consumer Goods: Non-Durable	27,244	10.8	27,367	11.7	
Consumer Goods: Durable	19,207	7.6	19,281	8.3	
Hotels, Gaming & Leisure	18,625	7.4	18,655	8.0	
Retail	17,283	6.8	22,342	9.6	
Media: Advertising, Printing & Publishing	17,138	6.7	10,628	4.5	
Banking, Finance, Insurance & Real Estate	13,876	5.5	16,815	7.2	
Construction & Building	11,393	4.5	11,637	5.0	
Energy: Oil & Gas	9,812	3.9	4,698	2.0	
Media: Diversified & Production	7,764	3.1	7,747	3.3	
Metals & Mining	6,871	2.7	6,563	2.9	
Automotive	5,156	2.0	5,483	2.3	
Wholesale	5,153	2.0	5,624	2.4	
Containers, Packaging & Glass	4,218	1.7	3,979	1.7	
Capital Equipment	3,664	1.5	3,665	1.6	
Services: Consumer	3,079	1.2	3,014	1.3	
High Tech Industries	2,953	1.2	2,973	1.3	
Beverage, Food & Tobacco	2,783	1.1	2,900	1.2	
Total	\$252,647	100.0	% \$ 233,535	100.0	%

### Portfolio Asset Quality

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

As part of the monitoring process, MC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on an internal proprietary system that uses the categories listed below, which we refer to as MC Advisors' investment performance rating. For any investment rated in grades 3, 4 or 5, MC Advisors will increase its monitoring intensity and prepare regular updates for the investment committee, summarizing current operating

results and material impending events and suggesting recommended actions. MC Advisors monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, MC Advisors reviews these investment ratings on a quarterly basis, and our board of directors (the “Board”) reviews and affirms such ratings. A definition of the rating system follows:

## Investment

### Performance Summary Description

#### Risk Rating

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

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

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

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of March 31, 2015 (dollars in thousands):



<b>Investment Performance Rating</b>	<b>Investments at Fair Value</b>	<b>Percentage of Total Investments</b>	
1	\$ —	—	%
2	225,334	89.2	
3	27,313	10.8	
4	—	—	
5	—	—	
Total	\$ 252,647	100.0	%

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

<b>Investment Performance Rating</b>	<b>Investments at Fair Value</b>	<b>Percentage of Total Investments</b>	
1	\$ —	—	%
2	205,737	88.1	
3	27,798	11.9	
4	—	—	
5	—	—	
Total	\$ 233,535	100.0	%

**Results of Operations**

Operating results are as follows (dollars in thousands):

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Total investment income	\$ 8,081	\$ 6,516
Total expenses	3,914	3,386
Net investment income	4,167	3,130
Net realized gain (loss) on investments	—	44
Net change in unrealized appreciation (depreciation) on investments	(330	) 550
Net change in unrealized (appreciation) depreciation on secured borrowings	39	(56
Net increase (decrease) in net assets resulting from operations	\$ 3,876	\$ 3,668

**Investment Income**

The composition of our investment income was as follows (dollars in thousands):

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest income	\$ 7,049	\$ 5,929
Fee income	567	197
Prepayment gain (loss)	267	229
Accretion of discounts and amortization of premium	198	161
Total investment income	\$ 8,081	\$ 6,516

The increase in investment income of \$1.6 million during the three month period ended March 31, 2015, as compared to the three months ended March 31, 2014, is primarily due to an increases in both the effective interest rate on the portfolio and the average outstanding loan balances.

**Operating Expenses**

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest and other debt financing expenses	\$ 1,103	\$ 967
Base management fees	1,068	953
Incentive fees	1,042	917
Professional fees	238	191
Administrative service fees	271	201
General & administrative expenses	192	157
Total operating expenses	\$ 3,914	\$ 3,386

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest expense – credit facility	\$ 706	\$ 701
Interest expense – SBA debentures	162	—
Amortization of deferred financing costs	167	133
Interest expense – secured borrowings	56	121
Other	12	12
Total interest and other debt financing expenses	\$ 1,103	\$ 967

The increase in expenses of \$0.5 million during the three month period ended March 31, 2015, as compared to the three months ended March 31, 2014, is primarily due to an increase in interest expense as a result of additional borrowings (including SBA-guaranteed debentures) required to support the growth of the portfolio, an increase in base management fees due to the growth in invested assets and increased incentive fees resulting from improvement in performance.

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

Sales totaled zero and \$0.6 million for the three months ended March 31, 2015 and 2014, resulting in zero and \$0.04 million of realized gains, respectively.

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

For the three months ended March 31, 2015 and 2014, our investments had (\$0.3) million and \$0.6 million of net unrealized appreciation (depreciation), respectively. For the three months ended March 31, 2015 and 2014, our secured borrowings had \$0.04 million and (\$0.06) million of net unrealized (appreciation) depreciation, respectively.

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

For the three months ended March 31, 2015 and 2014, we recorded a net increase in net assets resulting from operations of \$3.9 million and \$3.7 million, respectively. Based on the weighted average shares of common stock outstanding for the three months ended March 31, 2015 and 2014, our per share net increase in net assets resulting from operations was \$0.41 and \$0.38, respectively.

**Liquidity and Capital Resources**

As of March 31, 2015, we had \$8.6 million in cash and cash equivalents, \$87.7 million of total debt outstanding on our revolving credit facility and \$34.8 million in outstanding SBA debentures. We had \$22.3 million available for additional borrowings on our revolving credit facility and \$5.2 million in available SBA debentures. See “*Borrowings*” below for additional information.

***Cash Flows***

For the three months ended March 31, 2015 and 2014, we experienced a net increase (decrease) in cash and cash equivalents of \$2.9 million and (\$5.2) million, respectively. During the same periods we used \$15.1 million and \$14.8 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of

and principal repayments on portfolio investments. During the three months ended March 31, 2015, we generated \$18.0 million from financing activities, principally from SBA debenture borrowings, net borrowings on our revolving credit facility and proceeds from shares sold under our ATM program, partially offset by distributions to stockholders. During the three months ended March 31, 2014, we generated \$9.5 million from financing activities, principally from net borrowings on our revolving credit facility, partially offset by repurchases of common stock and distributions to shareholders.

### ***Capital Resources***

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

On February 6, 2015, we entered into an at-the-market (“ATM”) program with MLV & Co. LLC and JMP Securities LLC through which we may sell, by means of ATM offerings from time to time, up to \$50.0 million of our common stock. During the three months ended March 31, 2015, we sold 114,451 shares at an average price of \$14.75 per share for aggregate proceeds (including transaction costs) of \$1.7 million. Additionally, on April 20, 2015, we closed a public offering of 2,450,000 shares of our common stock. See “*Recent Developments*” below for additional information.

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 March 31, 2015 and December 31, 2014, we had 9,632,361 and 9,517,910 shares outstanding, respectively.

### ***Borrowings***

*Revolving Credit Facility:* As of March 31, 2015 and December 31, 2014, we had \$87.7 million and \$82.3 million outstanding, respectively, under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase of our assets. As of March 31, 2015, the maximum amount we were able to borrow under the revolving credit facility was \$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 (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 3.25% (3.75% prior to December 19, 2013) or at a daily rate equal to 2.25% (2.75% prior to December 19, 2013) per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 50% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 50% of the then available maximum borrowing. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three months ended March 31, 2015 and 2014 was 3.5% and 3.5%, respectively. As of March 31, 2015, \$71,700 of the outstanding borrowings were accruing at an interest rate of 3.4% (based on one-month LIBOR) and \$16,000 of the outstanding borrowings were accruing at an interest rate of 5.5% (based on the prime rate rate). The weighted average fee rate on the Company's unused portion of the revolving credit facility for the three months ended March 31, 2015 and 2014 was 0.5% and 0.5%, respectively.

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

Our credit facility also imposes certain conditions that may limit the amount of our distributions to stockholders. Distributions payable in our common stock under 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 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 March 31, 2015, MRCC SBIC had \$20.0 million in regulatory capital and leveragable capital and \$34.8 million in SBA-guaranteed debentures outstanding. Additionally, as of March 31, 2015, MRCC SBIC has a commitment letter for an additional \$5.2 million in SBA-guaranteed debentures. As of March 31, 2015, \$12.9 million in SBA-guaranteed debentures outstanding mature in September 2024 and bear interest at a fixed rate of 3.4% per annum and \$21.9 million in SBA-guaranteed debentures outstanding mature in March 2025 and bear interest at a fixed rate of 2.9% per annum.

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

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

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



As of March 31, 2015, secured borrowings at fair value totaled \$3.8 million and the fair value of the loans that are associated with these secured borrowings was \$13.0 million. As of December 31, 2014, secured borrowings at fair value totaled \$4.0 million and the fair value of the loans that are associated with these secured borrowings was \$13.1 million. 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 year ended December 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 year ended December 31, 2014 and the three months ended March 31, 2015. During the three months ended March 31, 2015 and 2014, repayments on secured borrowings totaled \$0.2 million and \$1.8 million, respectively. The weighted average interest rate on our secured borrowings was approximately 5.5% and 5.5% as of March 31, 2015 and December 31, 2014, respectively.

### ***Share Repurchase Plan***

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

During the three months ended March 31, 2014, we repurchased 262,066 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$3.4 million. During the time the Plan was active we repurchased 485,162 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$6.3 million. We are incorporated in Maryland and under the law of that state, shares repurchased are considered retired (repurchased shares become authorized but unissued shares) rather than treasury stock. As a result, the cost of stock repurchases is recorded as a reduction to capital in excess of par value on the consolidated statement of changes in net assets.

### ***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 months ended March 31, 2015 and 2014 totaled \$3.4 million (\$0.35 per share) and \$3.3 million (\$0.34 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 March 31, 2015 and 2014, zero and approximately \$0.01 per share, respectively, 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.

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.

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

### *Commitments and Contingencies*

As of March 31, 2015 and December 31, 2014, we had \$17.5 million and \$15.3 million in outstanding commitments to fund investments under the underdrawn 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, and we believe that this market segment will continue to produce significant investment opportunities for us.

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

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

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

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

## **Recent Developments**

On April 20, 2015, we closed a public offering of 2,450,000 shares of our common stock at a public offering price of \$14.85 per share, raising approximately \$36.4 million in gross proceeds. We also granted the underwriters a 30-day option to purchase up to an additional 367,500 shares of common stock to cover over-allotments, if any.

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

### ***Revenue Recognition***

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

over the life of the investment. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts.

### *Valuation of Portfolio Investments*

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

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

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

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

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

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

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

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

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

### ***Valuation of Secured Borrowings***

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

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

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

### ***Capital Gains Incentive Fee***

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

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

During the three months ended March 31, 2015 and 2014, we accrued capital gains incentive fees of zero and \$0.1 million, respectively, based on the performance of our portfolio, of which only zero and \$0.01 million, respectively, was related to realized capital gains and was therefore payable to MC Advisors.

### ***New Accounting Pronouncements***

In April 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for fiscal years that begin after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact these changes will have on our consolidated financial statements and disclosures.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”). ASU 2015-02 significantly changes the consolidation analysis required under GAAP and ends the deferral granted to investment companies from applying the variable interest entity guidance. ASU 2015-02



is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact these changes will have on our consolidated financial statements and disclosures.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to financial market risks, including changes in interest rates. The majority of the loans in our portfolio have floating interest rates, and we expect that our loans in the future may also have floating interest rates. These loans are usually based on a floating LIBOR and typically have interest rate re-set provisions that adjust applicable interest rates under such loans to current market rates on a monthly or quarterly basis. The majority of the loans in our current portfolio have interest rate floors which have effectively converted the loans to fixed rate loans in the current interest rate environment. In addition, our credit facility has a floating interest rate provision and we expect that other credit facilities into which we enter in the future may have floating interest rate provisions.

Assuming that the consolidated statement of financial condition as of March 31, 2015 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

<b>Change in Interest Rates</b>	<b>Increase (decrease) in interest expense (in thousands)</b>		<b>Net increase (decrease) in net investment income</b>
Down 25 basis points	\$ (5.7 )	\$ (175.7 )	\$ 170.0
Up 100 basis points	440.0	909.4	(469.4 )
Up 200 basis points	2,712.7	1,826.2	886.5
Up 300 basis points	5,251.1	2,743.1	2,508.0

Although we believe that this analysis is indicative of our existing sensitivity to interest rate changes, it does not adjust for changes in the credit market, credit quality, the size and composition of the assets in our portfolio and other business developments, including borrowing under the credit facility or other borrowings that could affect net increase in net assets resulting from operations, or net income. Accordingly, we can offer no assurances that actual results would not differ materially from the analysis above.

We may in the future hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts to the extent permitted under the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates or interest rate floors.

**ITEM 4. CONTROLS AND PROCEDURES**

In accordance with Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that, at the end of the period covered by our Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

No change occurred in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

Neither we nor our investment adviser are currently subject to any material legal proceedings.

**Item 1A. Risk Factors**

None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

40

**Item 6. Exhibits**

**Exhibit**

**Number Description of Document**

- |      |   |
|------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

41

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 11, 2015 By/s/ Theodore L. Koenig  
Theodore L. Koenig

Chairman, Chief Executive Officer and Director

*(Principal Executive Officer)*  
Monroe Capital Corporation

Date: May 11, 2015 By/s/ Aaron D. Peck  
Aaron D. Peck

Chief Financial Officer, Chief Investment Officer,

Chief Compliance Officer, and Director

*(Principal Financial and Accounting Officer)*

Monroe Capital Corporation