MONROE CAPITAL Corp
Form 497
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**File No. 333-216665**

# PROSPECTUS SUPPLEMENT
# (To Prospectus dated June 1, 2018)

# Monroe Capital Corporation

# $50,000,000

# Common Stock

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

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

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

We have entered into separate equity distribution agreements, each dated May 12, 2017, with B. Riley FBR, Inc., as successor by merger to FBR Capital Markets & Co. ( B. Riley FBR ), and JMP Securities LLC ( JMP Securities ). B. Riley FBR, together with JMP Securities, are herein referred to individually as a Sales Agent and together, the Sales Agents. The equity distribution agreement with JMP Securities and the equity distribution agreement with B. Riley FBR relate to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreements provide that we may offer and sell up to $50,000,000 of our common stock from time to time through the Sales Agents in negotiated transactions or transactions that are deemed to be at the market offerings, as defined in Rule 415 under the Securities Act of 1933, as amended. As of the date of this prospectus supplement, we have sold $2.5 million of our common stock under the equity distribution agreements.

Our common stock is listed on The Nasdaq Global Select Market under the symbol MRCC. On August 9, 2018, the last reported sale price of our stock on The Nasdaq Global Select Market was $13.76 per share. Our net asset value as of June 30, 2018 was $13.35 per share.

Under the terms of the equity distribution agreements, the Sales Agents will receive a commission from us of up to 2.0% of the gross sales price of any shares of our common stock sold through the Sales Agents under the equity distribution agreements. The Sales Agents are not required to sell any specific number or dollar amount of common stock, but will use their commercially reasonable efforts consistent with their sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. For all fees and expenses paid to the Sales Agents, see Plan of Distribution beginning on page S-51 of this prospectus supplement.

**Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering.** On June 20, 2018, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of twelve months subject to certain conditions. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Sale of Common Stock Below Net Asset Value in this prospectus supplement and Risk Factors and Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

**An investment in our securities is subject to risks, including a risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. Substantially all of the debt instruments in which we invest (i) have and will have variable interest rate provisions that may make it more difficult for borrowers to make debt repayments to us in a rising interest rate environment and (ii) will likely have a principal amount outstanding at maturity, that may lead to a substantial loss to us if the borrower is unable to refinance or repay. See Risk Factors beginning on page S-15 of this prospectus supplement and beginning on page 13 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our securities.**

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

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

B. Riley FBR **JMP Securities**

Prospectus supplement dated August 10, 2018

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# ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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

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# SUMMARY

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

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

*we, us and our refer to Monroe Capital Corporation, a Maryland corporation;*
*MC Advisors refers to Monroe Capital BDC Advisors, LLC, our investment advisor and a Delaware limited liability company;*
*MC Management refers to Monroe Capital Management Advisors, LLC, our administrator and a Delaware limited liability company;*
*Monroe Capital refers to Monroe Capital LLC, a Delaware limited liability company, and its subsidiaries and affiliates;*
*SLF refers to MRCC Senior Loan Fund I, LLC, an unconsolidated Delaware limited liability company, in which we co-invest with NLV Financial Corporation ( NLV ) primarily in senior secured loans. SLF is capitalized as transactions are completed and all portfolio and investment decisions in respect of SLF must be approved by representatives of each of the members. As of June 30, 2018, we owned 50.0% of the LLC equity interests of SLF. As of June 30, 2018, SLF had LLC equity interest subscriptions from its members totaling $100.0 million, of which we have committed to fund $50.0 million;*
*MRCC SBIC refers to Monroe Capital Corporation SBIC, LP, a Delaware limited partnership, our wholly-owned subsidiary that operates as a small business investment company pursuant to a license received from the United States Small Business Administration; and*
*LIBOR refers to the one-month, three-month or six-month London Interbank Offered Rate as reported by the British Bankers Association. Unless stated otherwise herein, LIBOR refers to the one-month rate.*

## Monroe Capital Corporation

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

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity investments. We seek to use our extensive leveraged finance origination infrastructure and broad expertise in sourcing loans to invest in primarily senior, unitranche and junior secured debt of middle-market companies. We believe that our primary focus on lending to lower middle-market companies offers several advantages as compared to lending to larger companies, including more attractive economics, lower leverage,

more comprehensive and restrictive covenants, more expansive events of default, relatively small debt facilities that provide us with enhanced influence over our borrowers, direct access to borrower management and improved information flow.

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

# Portfolio Update

Since the consummation of the initial public offering in October 2012, we have grown the fair value of our portfolio of investments to approximately $498.2 million as of June 30, 2018. As of June 30, 2018, our portfolio consisted of 71 different portfolio companies, comprised of approximately 77.8% senior secured debt, 10.3% unitranche secured debt, 5.7% junior secured debt and 6.2% equity securities. As of June 30, 2018, the weighted average annualized effective yield on portfolio investments (which represents the expected annualized effective yield to be generated by us on our portfolio based on the composition of our portfolio as of such date) prior to leverage was 10.0% based on the par value of our debt investments and the cost basis of our preferred equity investments. For the six months ended June 30, 2018, our total return based on net asset value was 2.1% and our total return based on market value was 3.4%.

Our weighted average annualized effective yield on portfolio investments may be higher than an investor s yield on an investment in shares of our common stock. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of our fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors. In addition, total return figures disclosed above do not consider the effect of any sales load that may be incurred in connection with the sale of shares of our common stock. Our estimated weighted average annualized effective yield on portfolio investments and total return based on net asset value do not represent actual investment returns to stockholders. Our weighted average annualized effective yield on portfolio investments and total return figures are subject to change and, in the future, may be greater or less than the rates set forth above. See Risk Factors in the accompanying prospectus for a discussion of the uncertainties, risks and assumptions associated with these statements. See footnotes 4, 5 and 6 to the table included in Selected Consolidated Financial Data for information regarding the calculation of our total return based on market value, total return based on average net asset value, and weighted average annualized effective yield on portfolio investments, respectively.

# Asset Coverage Approval

On March 27, 2018, our Board approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. On June 20, 2018, our stockholders approved a proposal to accelerate the effective date of the modified asset coverage requirements. As a result, the asset coverage ratio test applicable to us was decreased from 200% to 150%, effective June 21, 2018. As of June 30, 2018, we had an asset coverage ratio of 312%. For a discussion of the principal risk factors associated with these senior securities, see Risk Factors beginning on page S-15 of this prospectus supplement and beginning on page 13 of the accompanying prospectus.

# Our Investment Advisor

Our investment activities are managed by our investment advisor, MC Advisors. MC Advisors is responsible for sourcing potential investments, conducting research and due diligence on prospective investments and their private equity sponsors, analyzing investment opportunities, structuring our investments and managing our investments and portfolio companies on an ongoing basis. MC Advisors was organized in February 2011 and is a registered investment

adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act.

Under the investment advisory and management agreement with MC Advisors, or the Investment Advisory Agreement, we pay MC Advisors a base management fee and an incentive fee for its services. See Management and Other Agreements Investment Advisory Agreement Management and Incentive Fee for a discussion of the base management fee and incentive fee payable by us to MC Advisors. While not expected to review or approve each investment, our independent directors periodically review MC Advisors

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services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors consider whether our fees and expenses (including those related to leverage) remain appropriate.

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital s investment professionals. The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to a staffing agreement, or the Staffing Agreement, between MC Management, an affiliate of Monroe Capital, and MC Advisors. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 25 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that constitute our primary focus and have expertise in investing throughout all periods of the economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by experienced investment professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital s core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital s formation in 2004 through June 30, 2018, Monroe Capital s investment professionals invested in over 1,250 loan and related investments with an aggregate principal value of over $9.0 billion.

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

Messrs. Koenig and Peck are joined on the investment committee of MC Advisors by Michael J. Egan and Jeremy T. VanDerMeid, each of whom is a senior investment professional at Monroe Capital. Mr. Egan has more than 30 years of experience in commercial finance, credit administration and banking at organizations including Hilco Capital, The CIT Group/Business Credit, Inc., The National Community Bank of New Jersey (The Bank of New York) and KeyCorp. Mr. VanDerMeid has more than 15 years of lending and corporate finance experience at organizations including Morgan Stanley Investment Management, Dymas Capital Management Company, LLC and Heller Financial.

# About Monroe Capital

Monroe Capital, a Delaware limited liability company that was founded in 2004, is a leading lender to middle-market companies. As of June 30, 2018, Monroe Capital had approximately $5.6 billion in assets under management. Monroe Capital has maintained a continued lending presence in the lower middle-market throughout the most recent economic downturn. The result is an established lending platform that we believe generates consistent primary and secondary deal flow from a network of proprietary relationships and additional deal flow from a diverse portfolio of over 475 current investments. From Monroe Capital s formation in 2004 through June 30, 2018, Monroe Capital s investment professionals invested in over 1,250 loan and related investments with an aggregate principal value of over $9.0 billion. The senior investment team of Monroe Capital averages more than 25 years of experience and has developed a proven investment and portfolio management process that has performed through multiple market cycles. In addition, Monroe Capital s investment professionals are supported by administrative and back-office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office

management.

## Market Opportunity

We invest primarily in senior, unitranche and junior secured debt issued to lower middle-market companies in the United States and, to a lesser extent and in accordance with the limitations on foreign investments in the 1940 Act, Canada. We believe that U.S. and Canadian lower middle-market companies comprise a large, growing and fragmented market that offers attractive financing opportunities. We believe that

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there exists a large number of prospective lending opportunities for lenders, which should allow us to generate substantial investment opportunities and build an attractive portfolio of investments.

# Investment Strategy

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation primarily through investments in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity. We also seek to invest opportunistically in attractively priced, broadly syndicated loans, which should enhance our geographic and industry portfolio diversification and increase our portfolio s liquidity. We do not target any specific industry, however, as of June 30, 2018, our investments in the healthcare & pharmaceuticals; banking, finance, insurance & real estate; and high tech industries represented approximately 12.8%, 12.3% and 10.8%, respectively, of the fair value of our portfolio. To achieve our investment objective, we utilize the following investment strategy:

***Attractive Current Yield on Investment Portfolio.*** We believe our sourcing network allows us to enter into transactions with attractive yields and investment structures. Based on current market conditions and our pipeline of new investments, we expect our target directly originated senior and unitranche secured debt will have an average maturity of three to five years and interest rates of 7% to 13%, and we expect our target directly originated junior secured debt and unsecured subordinated debt will have an average maturity of four to seven years and interest rates of 10% to 15%. In addition, based on current market conditions and our pipeline of new investments, we expect that our target debt investments will typically have a variable coupon (with a LIBOR floor), may include payment-in-kind, or PIK, interest (interest that is not received in cash, but added to the principal balance of the loan), and that we will typically receive upfront closing fees of 1% to 4%. We may also receive warrants or other forms of upside equity participation. Our transactions are generally secured and supported by a lien on all assets and/or a pledge of company stock in order to provide priority of return and to influence any corporate actions. Although we will target investments with the characteristics described in this paragraph, we cannot assure you that our new investments will have these characteristics and we may enter into investments with different characteristics as the market dictates. For a description of the characteristics of our current investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity. Until investment opportunities can be found, we may invest our undeployed capital in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

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

***Predictability of Returns.*** Beyond conservative structuring and protection of capital, we seek a predictable exit from our investments. We seek to invest in situations where there are a number of potential exit options that can result in full repayment or a modest refinance of our investment. We seek to structure the majority of our transactions as secured loans with a covenant package that provides for full or partial repayment upon the completion of asset sales and restructurings. Because we seek to structure these transactions to provide for contractually determined, periodic payments of principal and interest, we are less

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likely to depend on merger and acquisition activity or public equity markets to exit our debt investments. As a result, we believe that we can achieve our target returns even in a period when public markets are depressed.

# Competitive Strengths

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

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital s experienced team comprised of over 90 professionals, including seven senior partners that average more than 25 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer and Chief Investment Officer. This extensive experience includes the management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital s senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital s formation in 2004 through June 30, 2018, Monroe Capital s investment professionals invested in more than 1,250 loan and related investments with an aggregate principal value of over $9.0 billion.

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

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital s broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 2,000 investment opportunities during 2017. Monroe Capital s over 1,250 previously executed transactions, over 475 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. We are also positioned to benefit from Monroe Capital s established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital s senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

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

***Established Credit Risk Management Framework.*** We seek to manage our credit risk through a well-defined portfolio strategy and credit policy. In terms of credit monitoring, MC Advisors assigns each loan to a particular

portfolio management professional and maintains an internal credit rating analysis for all loans. MC Advisors then employs ongoing review and analysis, together with monthly investment committee meetings to review the status of certain complex and challenging loans and a comprehensive quarterly review of all loan transactions. MC Advisors investment professionals also have significant turnaround and debt work-out experience, which gives them perspective on the risks and possibilities throughout the entire credit cycle. We believe this careful approach to investment and monitoring enables us to identify problems early and gives us an opportunity to assist borrowers before they face difficult liquidity constraints. By anticipating

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possible negative contingencies and preparing for them, we believe that we diminish the probability of underperforming assets and loan losses.

# Credit Facility

We have a credit facility with ING Capital LLC, or the Lender, as agent, which as of June 30, 2018 consisted of a revolving line of credit of $200.0 million, which may be increased to up to $300.0 million pursuant to an accordion feature.

We may make draws under the revolver from time-to-time through December 2019 to make or purchase additional investments or for general working capital purposes until the maturity date of the credit facility, or the earliest to occur of (a) December 14, 2020, subject to extension as mutually agreed by us and the Lender, (b) the termination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and the Lender. 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. The material terms of the credit facility are as follows:

total borrowing capacity currently equal to $200.0 million and up to $300.0 million pursuant to an accordion feature, subject to, among other things, availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as valuation methodologies;
an interest rate equal to, at our election, (a) LIBOR (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 2.75% per annum, or (b) a daily rate equal to 1.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%;
in addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 65% 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 65% of the then available maximum borrowing; and
customary financial covenants and negative covenants and events of default.

As of June 30, 2018, we had U.S. dollar borrowings of $106.0 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £14.8 million ($19.5 million in U.S. dollars) under our revolving credit facility and availability of $74.5 million.

# MRCC SBIC

On February 28, 2014, our wholly-owned subsidiary, MRCC SBIC, received a license from the U.S. Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As our wholly-owned subsidiary, MRCC SBIC relies on one or more exclusions from the definition of investment company under the 1940 Act and does not elect to be regulated as business development company under the 1940 Act. MRCC SBIC has an investment objective substantially similar to ours and makes similar types of investments in accordance with SBIC regulations.

On April 13, 2016, MRCC SBIC was approved by the SBA for an additional $75.0 million in SBA-guaranteed debentures, for a total of $115.0 million in available debentures. As of June 30, 2018, MRCC SBIC had $57.6 million in leverageable capital (approximately 11.2% of our total assets) and $115.0 million in SBA-guaranteed debentures outstanding.

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

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# Operating and Regulatory Structure

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

As a business development company, we are required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of notes, other borrowings and shares of preferred stock, our ability to use leverage is limited in significant respects. We are required to maintain an asset coverage ratio, as defined in the 1940 Act, of at least 150%, effective June 21, 2018. See Regulation in the accompanying prospectus. Any decision on our part to use leverage will depend upon our assessment of the attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. See Risk Factors We maintain a revolving credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to risks typically associated with leverage and increases the risk of investing in us and Risk Factors Recent legislation allows us to incur additional leverage, which could increase the risk of investing in us.

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

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

# Conflicts of Interests

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

Affiliates of MC Advisors manage other assets in five closed-end funds, two small business investment companies and 12 private funds that also have an investment strategy focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt to lower middle-market companies. In addition, MC Advisors and/or its affiliates may manage other entities in the future with an investment focus similar to ours, including a closed-end non-diversified management company that intends to be regulated as a business development company, which has been formed but has not yet commenced operations. To the extent that we compete with entities managed by MC Advisors or any of its affiliates for a particular investment opportunity, MC Advisors seeks to allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal conflict of interest and allocation policies, (b) the requirements of the Advisers Act and (c) certain restrictions under the 1940 Act and rules

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thereunder regarding co-investments with affiliates. MC Advisors allocation policies are intended to ensure that we may generally share equitably with other investment funds or other investment vehicles managed by MC Advisors or its affiliates in investment opportunities, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer, which may be suitable for us and such other investment funds or other investment vehicles.

MC Advisors and/or its affiliates may in the future sponsor or manage investment funds, accounts or other investment vehicles with similar or overlapping investment strategies, and MC Advisors has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors seeks to ensure an equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. We received exemptive relief from the SEC on October 15, 2014 that permits us greater flexibility relating to co-investments, subject to certain conditions. When we invest alongside such other accounts as permitted under the 1940 Act, pursuant to SEC staff interpretations or our exemptive relief from the SEC that permits greater flexibility relating to co-investments, such investments will be made consistent with such relief and MC Advisors allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including a majority of our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors, including a majority of our independent directors. It is our policy to base our determinations as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures, which will generally require that such opportunities be offered to eligible accounts on a basis that is fair and equitable over time, including, for example, through random or rotational methods.

# Corporate History and Additional Information

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

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

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# Sale of Common Stock Below NAV

We may offer, and have in the past offered, shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on June 20, 2018, June 21, 2017, July 14, 2016, June 24, 2015, June 27, 2014 and July 9, 2013. Our board of directors has in the past determined that it would be in our and our stockholders best interests to issue shares of our common stock below net asset value. See Sale of Common Stock Below Net Asset Value in this prospectus supplement, Risk Factors on page 13 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value on page 124 of the accompanying prospectus.

# Risk Factors

The value of our assets, as well as the market price of our shares will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. A material portion of our portfolio may have exposure to specific industries. See Risk Factors beginning on page S-15 of this prospectus supplement and beginning on page 13 of the accompanying prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our common stock.

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# THE OFFERING

Common Stock Offered by Us

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

Manner of Offering

At the market offerings that may be made from time to time through B. Riley FBR, Inc. and JMP Securities LLC, each a Sales Agent and, collectively, the Sales Agents, using commercially reasonable efforts. See Plan of Distribution.

Use of Proceeds

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

Symbol on The Nasdaq Global Select Market

MRCC

Distributions

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

Taxation

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

Leverage

As a business development company, we are permitted under the 1940 Act to borrow funds to finance a portion of our investments. As a result, we may be exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings, also known as leverage, increase the potential for gain and loss on amounts invested and therefore increase the risks associated with investing in our securities. With certain limited exceptions, we are currently only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals, immediately after such borrowing, at least 150%, effective June 21, 2018. In addition, the costs associated with our borrowings, if any, including any increase in the management fee payable to MC Advisors, will be borne by our common stockholders.

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

As of June 30, 2018, we had debt outstanding under the revolving loan portion of the credit facility of approximately $125.5 million and SBA-guaranteed debentures outstanding of $115.0 million.

Trading

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

Sales of common stock below net asset value

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

On June 20, 2018, our stockholders voted to allow us to sell or otherwise issue common stock at a price below net asset value per share for a period of twelve months subject to approval by our board of directors. Sales or other issuances by us of our common stock at a discount from our net asset value pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

Risk Factors

An investment in our common stock is subject to risks. See Risk Factors beginning on page S-15 of this prospectus supplement and beginning on page 13 of the accompanying prospectus to read about factors you should consider before deciding to invest in shares of our common stock.

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# FEES AND EXPENSES

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

| | | |
|---|---|---|
| Stockholder transaction expenses: | | |
| Sales load (as a percentage of offering price) | 2.00 | %(1) |
| Offering expenses (as a percentage of offering price) | 0.50 | %(2) |
| Dividend reinvestment plan expenses | | %(3) |
| Total stockholder transaction expenses (as a percentage of offering price) | 2.50 | % |
| Estimated annual expenses (as a percentage of net assets attributable to common stock): | | |
| Base management fee | 3.24 | %(4) |
| Incentive fees payable under the Investment Advisory Agreement | 2.62 | %(5) |
| Interest payments on borrowed funds | 4.17 | %(6) |
| Other expenses (estimated) | 1.31 | %(7) |
| Acquired fund fees and expenses | 0.46 | %(8) |
| Total annual expenses (estimated) | 11.80 | %(9) |

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

(2) The percentage reflects estimated offering expenses of approximately $250,000.

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

(4) Our base management fee is 1.75% of our total assets (which includes assets purchased with borrowed amounts but does not include cash and cash equivalents). For the purposes of this table, we have assumed that the base management fee will remain at 1.75% as set forth in the Investment Advisory Agreement. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to the Investment Advisory Agreement generally must be submitted to our stockholders for approval. The base management fee percentage is calculated as a percentage of net assets attributable to common stockholders, rather than total assets, including assets that have been funded with borrowed monies, because common stockholders bear all of this cost. The base management fee in the table above assumes the base management fee remains consistent with fees incurred for the three months ended June 30, 2018 of $2.2 million, based on average total assets (excluding cash) for the period of $504.5 million, as a percentage of our average net assets for the period of $271.9 million. See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

(5) Estimated assuming that annual incentive fees earned by MC Advisors remains consistent with the incentive fees earned, gross of the Incentive Fee Limitation due to the total return requirement, for the three months ended June 30, 2018 of $1.8 million, as a percentage of our average net assets of $271.9 million for the period. For information about our Incentive Fee Limitation and incentive fee waiver, see Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus and Consolidated Statements of Operations in our financial statements included in this prospectus supplement.

The incentive fee consists of two parts:

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

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MC Advisors receives no incentive fee until our net investment income equals the hurdle rate of 2% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, MC Advisors will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The first component of the incentive fee will be computed and paid on income that includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Since the hurdle rate is fixed, as interest rates rise, it will be easier for the MC Advisors to surpass the hurdle rate and receive an incentive fee based on net investment income. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our pre-incentive fee net investment income will be payable except to the extent that 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the 2% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of our pre-incentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters.

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

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

(6) We may borrow funds from time to time to make investments to the extent we determine that it is appropriate to do so. The costs associated with any outstanding borrowings are indirectly borne by our investors. The table assumes borrowings are consistent with the average borrowings for the three months ended June 30, 2018 of $239.4 million, no preferred stock issued or outstanding and average net assets of $271.9 million. For the three months ended June 30, 2018, we had interest expense of $2.8 million (including fees for unused portions of commitments). As of June 30, 2018, weighted average interest rate of our revolving credit facility (excluding debt issuance costs) was 4.6% and the weighted average interest rate on our SBA-guaranteed debentures (excluding debt issuance costs) was 3.4%. Although we do not have any current plans to issue debt securities or preferred stock in the next twelve months, we may issue debt securities or preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

(7) Includes our estimated overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by MC Management. The table above assumes other expenses remain consistent with the $0.9 million incurred during the three months ended June 30, 2018 and average net assets for the period of $271.9 million.

(8) Our stockholders indirectly bear the expenses of our investment in SLF. SLF does not pay any fees to MC Advisors or its affiliates; however, SLF has entered into an administration agreement with MC Management, pursuant to which certain loan servicing and administrative functions are delegated to MC Management. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management.

No such expenses have been incurred or charged to SLF for the three months ended June 30, 2018. The table above assumes acquired fund fees and expenses remain consistent with the $0.3 million of expenses incurred for the three months ended June 30, 2018 and average net assets for the period of $271.9 million. Future expenses for SLF may be substantially higher or lower because certain expenses may fluctuate over time.

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(9) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. We calculate the total annual expenses percentage as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been purchased with borrowed amounts. The terms of our indebtedness may be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Borrowings. If the total annual expenses percentage were calculated instead as a percentage of consolidated total assets, our total annual expenses would be 6.25% of consolidated total assets. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 150%, effective June 21, 2018. We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities for the purposes of the asset coverage ratio. We have included our estimated leverage expenses (consistent with the assumptions in footnote (7)) for the twelve months following this offering in total annual expenses.

# Example

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

| You would pay the following expenses on a $1,000 investment | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation) | $117 | $300 | $484 | $943 |
| Assuming a 5% annual return (assumes entire return is from realized capital gains and thus subject to the capital gains incentive fee) | $127 | $332 | $539 | $1,069 |

This table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. As incentive fees vary based on the character of the 5% return, the example above provides (i) expenses assuming no return from capital gains (therefore not meeting the hurdle rate for the first part of the incentive fee) and (ii) expenses assuming the entire return is from realized capital gains (resulting in a capital gains incentive fee). For the three months ended June 30, 2018, our return included net realized and unrealized capital losses. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

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

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# RISK FACTORS

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

## Recent legislation allows us to incur additional leverage, which could increase the risk of investing in us.

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). However, on March 23, 2018, the Small Business Credit Availability Act (the SBCAA ) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA amended the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150% (i.e. the amount of debt may not exceed 66.7% of the value of our total assets), if certain requirements are met. Under the SBCAA, we are allowed to reduce our asset coverage requirement to 150%, and thereby increase our leverage capacity, if shareholders representing at least a majority of the votes cast, when quorum is met, approve a proposal to do so. If we receive stockholder approval, we would be allowed to reduce our asset coverage requirement to 150% on the first day after such approval. Alternatively, the SBCAA allows the majority of our independent directors to approve the reduction in our asset coverage requirement to 150%, and such approval would become effective after one year. In either case, we would be required to make certain disclosures on our website and in SEC filings regarding, among other things, the receipt of approval to reduce our asset coverage requirement to 150%, our leverage capacity and usage, and risks related to leverage.

On March 27, 2018, our board of directors unanimously approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective March 27, 2019. On March 27, 2018, our board of directors also recommended the submission of a proposal for stockholders to approve the application of the 150% minimum asset coverage requirements at our annual meeting of stockholders to be held on June 20, 2018. At the annual meeting, our stockholders approved this proposal and we became subject to the 150% minimum asset coverage ratio, effective June 21, 2018.

Leverage is generally considered a speculative investment technique and increases the risk of investing in our securities. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we

not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. The effects of leverage would cause any decrease in net asset value for any losses to be greater than any increase in net asset value for any corresponding gains. If we incur additional leverage, you will experience increased risks of investing in our common stock.

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

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

- our common stock is exposed to an increased risk of loss because a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use leverage;
- if we do not appropriately match the assets and liabilities of our business, adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;
- our ability to pay distributions on our common stock may be restricted if our asset coverage ratio, as provided in the 1940 Act, is not at least 150% and any amounts used to service indebtedness or preferred stock would not be available for such distributions;
- any credit facility is subject to periodic renewal by its lenders, whose continued participation cannot be guaranteed;
- our revolving credit facility with ING Capital LLC, as agent, is, and any other credit facility we may enter into would be, subject to various financial and operating covenants, including that our portfolio of investments satisfies certain eligibility and concentration limits as well as valuation methodologies;
- such securities would be governed by an indenture or other instrument containing covenants restricting our operating flexibility;
- we bear the cost of issuing and paying interest or distributions on such securities, which costs are entirely borne by our common stockholders; and
- any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock.

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

| | Assumed Return on Our Portfolio (Net of Expenses)[1] | | | | |
|---|---|---|---|---|---|
| | -10% | -5% | 0% | 5% | 10% |
| Corresponding return to common stockholder[1][2][3] | -47.65% | -29.01% | -10.37% | 8.27% | 26.91% |

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

(2) Assumes $507.0 million in total portfolio assets, $371.0 million in total debt outstanding, of which $261.0 million is senior securities outstanding, $136.0 million in net assets and an average cost of funds of 3.80%, which was the weighted average interest rate of borrowings on our revolving credit facility and SBA-guaranteed debentures as of December 31, 2017. The interest rate on our revolving credit facility is a variable rate. Actual interest payments may be different.

(3) In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our December 31, 2017 total portfolio assets of at least 2.78%.

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## The terms of our revolving credit facility may contractually limit our ability to incur additional indebtedness.

Even though our stockholders approved the proposal to apply the modified asset coverage requirements to us at our 2018 annual meeting of stockholders that was held on June 20, 2018, a covenant under our existing revolving credit facility may limit our ability to incur additional indebtedness. Currently, our revolving credit facility contains a covenant requiring that we maintain asset coverage of at least 210%. We may not be able to amend our revolving credit facility to change this covenant and if we are successful in amending our revolving credit facility, we will incur costs to do so and the other terms of such amended facility, such as interest rate, may not be as favorable to us as the current terms. An inability on our part to amend the revolving credit facility and access additional leverage could limit our ability to take advantage of the potential benefits related to our ability to incur additional leverage and could decrease our earnings, if any, which would have an adverse effect on our results of operations and the value of our shares of common stock.

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a business development company to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 150% (as of June 21, 2018) of total assets (other than the SBA debentures of an SBIC subsidiary, as permitted by exemptive relief we have been granted by the SEC) less all liabilities and indebtedness not represented by senior securities, immediately after each issuance of senior securities (other than the SBA debentures of an SBIC subsidiary, as permitted by exemptive relief we have been granted by the SEC). If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. This could have a material adverse effect on our operations and we may not be able to make distributions in an amount sufficient to be subject to taxation as a RIC, or at all. In addition, issuance of securities could dilute the percentage ownership of our current stockholders in us.

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

As a business development company, we generally are not able to issue our common stock at a price below net asset value per share without first obtaining the approval of our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then percentage ownership of our stockholders at that time would decrease, and you might experience dilution. We have stockholder approval to sell our common stock below net asset value through June 20, 2019. We may seek further stockholder approval to sell shares below net asset value in the future.

Regulations governing our operation as a business development companyaffect our ability to and the way in which

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# SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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# USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all $50,000,000 of common stock offered under this prospectus supplement and the accompanying prospectus, we estimate that the net proceeds of this offering would be approximately $48.8 million, after deducting the estimated sales commission payable to the Sales Agents and our estimated offering expenses. Through August 9, 2018, we have sold an aggregate of $2.5 million of our common stock pursuant to the equity distribution agreements to which this prospectus supplement relates.

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

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

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

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# CAPITALIZATION

The equity distribution agreements provide that we may offer and sell up to $50,000,000 of our common stock from time to time through our Sales Agents for the offer and sale of such common stock. The table below assumes that we will sell all of the remaining common stock available under the program as of August 9, 2018 of $47.5 million at a price of $13.76 per share (the last reported sale price of our common stock on The Nasdaq Global Select Market on August 9, 2018), but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $13.76, depending on the market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of June 30, 2018:

on an actual basis; and

on an as adjusted basis giving effect to the $2.3 million sold from June 30, 2018 to August 9, 2018 at an average price of $13.78 per share and the assumed sale of $47.5 million of our common stock at a price of $13.76 per share (the last reported sale price of our common stock on The Nasdaq Global Select Market on August 9, 2018) less commissions and expenses.

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

| | As of June 30, 2018 | |
|---|---|---|
| | Actual | As Adjusted |
| | (unaudited) | |
| | (in thousands, except per share data) | |
| Assets: | | |
| Cash | $2,779 | $51,314 |
| Restricted cash | 4,252 | 4,252 |
| Investments at fair value | 498,235 | 498,235 |
| Other assets | 8,337 | 8,337 |
| Total assets | $513,603 | $562,138 |
| Liabilities: | | |
| Debt | $236,034 | $236,034 |
| Other liabilities | 6,861 | 6,861 |
| Total liabilities | $242,895 | $242,895 |
| Net Assets: | | |
| Common stock, $0.001 par value, 100,000 shares authorized, actual; 20,279 shares issued and outstanding, actual; 23,895 shares issued and outstanding, as adjusted | $20 | $24 |
| Capital in excess of par value | 286,651 | 335,182 |
| Undistributed net investment income (accumulated distributions in excess of net investment income) | 8,907 | 8,907 |
| Accumulated net realized gain (loss) on investments, secured borrowings and foreign currency transactions | (369 ) | (369 ) |
| | (24,501 ) | (24,501 ) |

| | | |
|---|---|---|
| Accumulated net unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings | | |
| Total net assets | $270,708 | $319,243 |
| Net asset value per share | $13.35 | $13.36 |

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# PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock began trading on The Nasdaq Global Market under the ticker symbol MRCC on October 25, 2012. Prior to that date, there was no established trading market for our common stock. Our common stock is now traded on the Nasdaq Global Select Market. Our common stock has historically traded both above and below net asset value ( NAV ).

The following table sets forth the high and low closing sales prices of our common stock, the closing sales price as a percentage of our NAV and the dividends declared by us since January 1, 2016.

| | NAV[1] | Closing Sales Price | | Premium (Discount) of High Sales Price to NAV[2] | Premium (Discount) of Low Sales Price to NAV[2] | Declared Distributions[3] |
|---|---|---|---|---|---|---|
| | | High | Low | | | |
| Year ending December 31, 2018 | | | | | | |
| Third Quarter (through August 9, 2018) | [4] | $13.82 | $13.22 | [4] | [4] | |
| Second Quarter | $13.35 | $14.52 | $12.31 | 8.8 % | (7.8 )% | $ 0.35 [5] |
| First Quarter | $13.49 | $14.28 | $12.20 | 5.9 % | (9.6 )% | $ 0.35 [5] |
| Year ending December 31, 2017 | | | | | | |
| Fourth Quarter | $13.77 | $14.70 | $13.75 | 6.8 % | (0.1 )% | $ 0.35 [6] |
| Third Quarter | $14.01 | $15.22 | $13.50 | 8.6 % | (3.6 )% | $ 0.35 [6] |
| Second Quarter | $14.05 | $16.14 | $14.92 | 14.9 % | 6.2 % | $ 0.35 [6] |
| First Quarter | $14.34 | $16.09 | $15.18 | 12.2 % | 5.9 % | $ 0.35 [6] |
| Year ending December 31, 2016 | | | | | | |
| Fourth Quarter | $14.52 | $15.63 | $13.77 | 7.6 % | (5.2 )% | $ 0.35 [7] |
| Third Quarter | $14.42 | $16.25 | $14.91 | 12.7 % | 3.4 % | $ 0.35 [7] |
| Second Quarter | $14.50 | $14.83 | $13.11 | 2.3 % | (9.6 )% | $ 0.35 [7] |
| First Quarter | $14.45 | $14.32 | $10.82 | (0.9 )% | (25.1 )% | $ 0.35 [7] |

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

(2) Calculated by taking the respective high or low closing sales price divided by the quarter end NAV and subtracting 1.

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

(4) NAV calculation is not yet available.

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

(6) There was no return of capital for tax purposes for the year ended December 31, 2017.

(7) There was no return of capital for tax purposes for the year ended December 31, 2016.

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# SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 are derived from our consolidated financial statements that have been audited by RSM US LLP, our independent registered public accounting firm. We derived the selected consolidated financial data as of and for the six months ended June 30, 2018 and 2017 from our unaudited interim consolidated financial statements. In the opinion of the Company, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been made. Interim results are subject to variation and are not indicative of the results of operations to be expected for a full fiscal year. This consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement.

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(1) For the six months ended June 30, 2018 and 2017, MC Advisors waived part one incentive fees (based on net investment income) of zero and $0.3 million, respectively. During the years ended December 31, 2017, 2016, 2015, 2014 and 2013, MC Advisors waived part one incentive fees of $0.3 million, $0.3 million, zero, zero and zero, respectively.

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

(3) In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 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 statements of assets and liabilities as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted ASU 2015-03 during the year ended December 31, 2016 and the consolidated statement of assets and liabilities for prior years was also revised to reflect this presentation.

(4) Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under our dividend reinvestment plan ( DRIP ). Total return based on market value does not reflect brokerage commissions.

(5) Total return based on average net asset value is calculated by dividing the net increase in net assets from operations by the average net asset value.

(6) The weighted average annualized effective yield on portfolio investments at year end is computed by dividing (a) interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end effective rate for each investment by (b) the par value of our debt investments (excluding debt investments on non-accrual status acquired for no cost in a restructuring) and the cost basis of our preferred equity investments. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of our fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors.

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# SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial information for the quarters ended June 30, 2018, March 31, 2018 and each quarter in our two most recent fiscal years, which were the calendar years ended December 31, 2017 and 2016. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 |
| | (in thousands, except per share data) | | | | |
| Total investment income | $14,820 | $14,950 | $13,364 | $13,469 | $12,268 |
| Net investment income | $7,906 | $8,465 | $6,995 | $6,887 | $6,088 |
| Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings | $(3,626) | $(7,075) | $(4,754) | $(569) | $(5,064) |
| Net increase (decrease) in net assets resulting from operations | $4,280 | $1,390 | $2,241 | $6,318 | $1,024 |
| Net investment income per share basic and diluted | $0.39 | $0.42 | $0.35 | $0.34 | $0.35 |
| Net increase (decrease) in net assets resulting from operations per share basic and diluted | $0.21 | $0.07 | $0.11 | $0.31 | $0.06 |
| Net asset value per share at period end | $13.35 | $13.49 | $13.77 | $14.01 | $14.05 |

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2017 | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 |
| | (in thousands, except per share data) | | | | |
| Total investment income | $12,006 | $11,233 | $11,128 | $11,118 | $11,539 |
| Net investment income | $6,034 | $5,377 | $5,583 | $5,759 | $5,787 |
| Net gain (loss) on investments and secured borrowings | $(3,465) | $2,155 | $(1,971) | $(482) | $2,157 |
| Net increase (decrease) in net assets resulting from operations | $2,569 | $7,532 | $3,612 | $5,277 | $7,944 |
| Net investment income per share basic and diluted | $0.36 | $0.32 | $0.36 | $0.44 | $0.44 |
| Net increase (decrease) in net assets resulting from operations per share basic and diluted | $0.15 | $0.45 | $0.23 | $0.41 | $0.61 |
| Net asset value per share at period end | $14.34 | $14.52 | $14.42 | $14.50 | $14.45 |

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

Except as otherwise specified, references to we, us, and our refer to Monroe Capital Corporation and its consolidated subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing in our annual report on Form 10-K (the Annual Report ) for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission ( SEC ) on March 14, 2018. The information contained in this section should also be read in conjunction with our unaudited consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus supplement and accompanying prospectus.

## Overview

Monroe Capital Corporation is an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (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 and Canada. We provide customized financing solutions focused primarily on senior secured, junior secured and unitranche secured (a combination of senior secured and junior secured debt in the same facility in which we syndicate a first out portion of the loan to an investor and retain a last out portion of the loan) 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 Select 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 secured 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 secured and junior secured debt of middle-market companies. Our investments in senior, unitranche, junior secured debt and other investments generally will range between $2.0 million and $18.0 million each, although this investment size may vary proportionately with the size of our capital base. As of June 30, 2018, our portfolio included approximately 77.8% senior secured debt, 10.3% unitranche secured debt, 5.7% junior secured debt and 6.2% equity securities, compared to December 31, 2017, when our portfolio included approximately 78.5% senior secured debt, 8.2% unitranche secured debt, 7.8% junior secured debt and 5.5% equity securities. We expect that the companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies.

While our primary focus is to maximize current income and capital appreciation through debt investments in thinly traded or private U.S. companies, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed

debt, private equity or securities of public companies that are not thinly traded and securities of middle-market companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As of June 30, 2018, MRCC SBIC had $57.6 million in leverageable capital and $115.0 million in SBA-guaranteed debentures outstanding. See *SBA Debentures* below for more information.

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## Investment income

We generate interest income on the debt investments in portfolio 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. As the frequency or volume of the repayments which trigger these prepayment premiums and prepayment gains (losses) may fluctuate significantly from period to period, the associated interest income recorded may also fluctuate significantly from period to period. Interest and fee income is recorded on the accrual basis to the extent we expect to collect such amounts. Interest 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. We record fees on loans based on the determination of whether the fee is considered a yield enhancement or payment for a service. If the fee is considered a yield enhancement associated with a funding of cash on a loan, the fee is generally deferred and recognized into interest income using the effective interest method if captured in the cost basis or using the straight-line method if the loan is unfunded and therefore there is no cost basis. If the fee is not considered a yield enhancement because a service was provided, and the fee is payment for that service, the fee is deemed earned and recognized as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. The frequency and volume of the distributions on common equity securities and LLC and LP investments may fluctuate significantly from period to period.

## 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, our SBA-guaranteed debentures and our secured borrowings. We bear all other out-of-pocket costs and expenses of our operations and transactions.

## Net gain (loss) on investments, secured borrowings and foreign currency transactions

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 without regard to unrealized gains or losses previously recognized. We record current period changes in fair value of investments, secured borrowings, and foreign currency transactions within net change in unrealized gain (loss) on investments, secured borrowings, and foreign currency borrowings in the consolidated statements of operations.

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# Portfolio and Investment Activity

During the three months ended June 30, 2018, we invested $13.6 million in five new portfolio companies and $26.7 million in 14 existing portfolio companies and had $34.8 million in aggregate amount of sales and principal repayments, resulting in net investments of $5.5 million for the period.

During the six months ended June 30, 2018, we invested $18.5 million in six new portfolio companies and $54.3 million in 19 existing portfolio companies and had $60.4 million in aggregate amount of sales and principal repayments, resulting in net investments of $12.4 million for the period.

During the three months ended June 30, 2017, we invested $62.4 million in eight new portfolio companies and $11.0 million in 12 existing portfolio companies and had $41.6 million in aggregate amount of sales and principal repayments, resulting in net investments of $31.8 million for the period.

During the six months ended June 30, 2017, we invested $89.7 million in 10 new portfolio companies and $25.2 million in 18 existing portfolio companies and had $75.5 million in aggregate amount of sales and principal repayments, resulting in net investments of $39.4 million for the period.

The following table shows yield by debt and preferred equity security type:

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Weighted Average Annualized Contractual Coupon Yield[1] | Weighted Average Annualized Effective Yield[2] | Weighted Average Annualized Contractual Coupon Yield[1] | Weighted Average Annualized Effective Yield[2] |
| Senior secured loans | 9.9 % | 9.9 % | 9.6 % | 9.6 % |
| Unitranche secured loans | 10.2 | 10.5 | 9.3 | 11.3 |
| Junior secured loans | 9.8 | 9.8 | 9.4 | 9.4 |
| Preferred equity securities | 10.8 | 10.8 | 10.8 | 10.8 |
| Total | 9.9 % | 10.0 % | 9.8 % | 10.0 % |

(1) The weighted average annualized contractual coupon yield at period end is computed by dividing (a) the interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end contractual coupon rate for each investment by (b) the par value of our debt investments (excluding debt investments on non-accrual status acquired for no cost in a restructuring) and the cost basis of our preferred equity investments.

(2) The weighted average annualized effective yield on portfolio investments at period end is computed by dividing (a) interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end effective rate for each investment by (b) the par value of our debt investments (excluding debt investments on non-accrual status acquired for no cost in a restructuring) and the cost basis of our preferred equity investments. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of our fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors.

The following table shows the composition of the investment portfolio (dollars in thousands):

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| **Fair Value:** | | | | | | |
| Senior secured loans | $ 387,639 | 77.8 | % | $ 387,874 | 78.5 | % |
| Unitranche secured loans | 51,485 | 10.3 | | 40,295 | 8.2 | |
| Junior secured loans | 28,515 | 5.7 | | 38,549 | 7.8 | |
| LLC equity interest in SLF | 18,693 | 3.8 | | 9,640 | 1.9 | |
| Equity securities | 11,903 | 2.4 | | 17,780 | 3.6 | |
| Total | $ 498,235 | 100.0 | % | $ 494,138 | 100.0 | % |

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Our portfolio composition remained relatively consistent with December 31, 2017, with the largest shift in portfolio composition a result of the additional investments made in SLF during the six months ended June 30, 2018. The overall contractual and effective yield on the portfolio was relatively flat as compared to December 31, 2017. General increases in LIBOR during the six months ended June 30, 2018 were partially offset by market spread compression as new portfolio investments during the six months ended June 30, 2018 were at a slightly lower average spread than the average spread in the existing portfolio.

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Aerospace & Defense | $ | % | $ 5,000 | 1.0 % |
| Banking, Finance, Insurance & Real Estate | 61,442 | 12.3 | 61,407 | 12.4 |
| Beverage, Food & Tobacco | 17,340 | 3.5 | 17,770 | 3.6 |
| Capital Equipment | 2,969 | 0.6 | | |
| Chemicals, Plastics & Rubber | 12,785 | 2.6 | 8,860 | 1.8 |
| Construction & Building | 17,652 | 3.5 | 18,049 | 3.7 |
| Consumer Goods: Durable | 15,551 | 3.1 | 11,808 | 2.4 |
| Consumer Goods: Non-Durable | 31,773 | 6.4 | 24,717 | 5.0 |
| Containers, Packaging & Glass | 8,382 | 1.7 | 4,928 | 1.0 |
| Energy: Oil & Gas | 2,234 | 0.4 | 2,352 | 0.5 |
| Environmental Industries | 4,364 | 0.9 | 4,457 | 0.9 |
| Healthcare & Pharmaceuticals | 63,972 | 12.8 | 65,582 | 13.3 |
| High Tech Industries | 53,931 | 10.8 | 46,239 | 9.4 |
| Hotels, Gaming & Leisure | 26,209 | 5.3 | 42,744 | 8.6 |
| Investment Funds & Vehicles | 18,693 | 3.8 | 9,640 | 2.0 |
| Media: Advertising, Printing & Publishing | 26,830 | 5.4 | 23,264 | 4.7 |
| Media: Broadcasting & Subscription | 15,003 | 3.0 | 15,965 | 3.2 |
| Media: Diversified & Production | 5,006 | 1.0 | 5,006 | 1.0 |
| Retail | 33,141 | 6.6 | 41,644 | 8.4 |
| Services: Business | 33,094 | 6.6 | 33,732 | 6.8 |
| Services: Consumer | 18,207 | 3.7 | 21,474 | 4.3 |
| Telecommunications | | | 3,152 | 0.6 |
| Utilities: Electric | 2,785 | 0.6 | 2,792 | 0.6 |
| Utilities: Water | 932 | 0.2 | | |
| Wholesale | 25,940 | 5.2 | 23,556 | 4.8 |
| **Total** | **$ 498,235** | **100.0 %** | **$ 494,138** | **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

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

Our investment performance 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.

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The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of June 30, 2018 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ 3,451 | 0.7 % |
| 2 | 402,031 | 80.7 |
| 3 | 57,475 | 11.5 |
| 4 | 35,090 | 7.1 |
| 5 | 188 | |
| Total | $ 498,235 | 100.0 % |

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of December 31, 2017 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ 3,445 | 0.7 % |
| 2 | 415,094 | 84.0 |
| 3 | 57,547 | 11.6 |
| 4 | 18,052 | 3.7 |
| 5 | | |
| Total | $ 494,138 | 100.0 % |

As of June 30, 2018, we had four borrowers with loans and preferred equity securities on non-accrual status (Gibson Brands, LLC senior secured note, Incipio Technologies, Inc. third lien tranches, Millennial Brands LLC and TPP Operating, Inc.), which comprised 2.0% of our total investments at fair value. As of December 31, 2017, we had two borrowers with loans and preferred equity securities on non-accrual status (Millennial Brands LLC and TPP Operating, Inc.), which comprised 1.7% of our total investments at fair value. 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.

# Results of Operations

Operating results were as follows (in thousands):

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Total investment income | $ 14,820 | $ 12,268 |
| Total expenses, net of incentive fee waiver | 6,914 | 6,180 |
| Net investment income | 7,906 | 6,088 |
| Net realized gain (loss) on investments | | 2,161 |
| Net realized gain (loss) on secured borrowings | | 66 |

| | | |
|---|---|---|
| Net realized gain (loss) on foreign currency transactions | (9 ) | |
| Net change in unrealized gain (loss) on investments | (4,412 ) | (7,270 ) |
| Net change in unrealized gain (loss) on secured borrowings | | (5 ) |
| Net change in unrealized gain (loss) on foreign currency borrowings | 795 | (16 ) |
| Net increase (decrease) in net assets resulting from operations | $ 4,280 | $ 1,024 |

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| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Total investment income | $29,770 | $ 24,274 |
| Total expenses, net of incentive fee waiver | 13,399 | 12,152 |
| Net investment income | 16,371 | 12,122 |
| Net realized gain (loss) on investments | | 2,328 |
| Net realized gain (loss) on secured borrowings | | 66 |
| Net realized gain (loss) on foreign currency transactions | 3 | |
| Net change in unrealized gain (loss) on investments | (11,057) | (10,901) |
| Net change in unrealized gain (loss) on secured borrowings | | (6) |
| Net change in unrealized gain (loss) on foreign currency borrowings | 353 | (16) |
| Net increase (decrease) in net assets resulting from operations | $5,670 | $ 3,593 |

## Investment Income

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

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $ 12,703 | $ 10,701 |
| Dividend income | 615 | 250 |
| Fee income | 666 | 637 |
| Prepayment gain (loss) | 312 | 322 |
| Accretion of discounts and amortization of premium | 524 | 358 |
| Total investment income | $ 14,820 | $ 12,268 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $25,329 | $21,089 |
| Dividend income | 1,050 | 500 |
| Fee income | 1,390 | 965 |
| Prepayment gain (loss) | 445 | 974 |
| Accretion of discounts and amortization of premium | 1,556 | 746 |
| Total investment income | $29,770 | $24,274 |

The increase in investment income of $2.6 million and $5.5 million during the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, is primarily due to an increase in average outstanding loan balances, an increase in the effective rate on the portfolio and an increase in the net accretion of discounts on portfolio assets. During the six months ended June 30, 2018, these increases were also partially offset by a decrease in prepayment gain (loss) as a result of a reduction in the volume of loan payoff activity. The increase in dividend income during the three and six months ended June 30, 2018, as compared to the prior year period, is primarily driven by an increase in dividend income from our investment in SLF of $0.3 million and $0.5 million,

respectively.

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## Operating Expenses

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

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest and other debt financing expenses | $ 2,836 | $ 2,184 |
| Base management fees | 2,202 | 1,903 |
| Incentive fees, net of incentive fee waiver[1] | 990 | 1,210 |
| Professional fees | 302 | 286 |
| Administrative service fees | 322 | 301 |
| General and administrative expenses | 225 | 259 |
| Directors fees | 37 | 37 |
| Total expenses, net of incentive fee waiver | $ 6,914 | $ 6,180 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest and other debt financing expenses | $ 5,542 | $ 4,194 |
| Base management fees | 4,365 | 3,708 |
| Incentive fees, net of incentive fee waiver[1] | 1,751 | 2,500 |
| Professional fees | 609 | 577 |
| Administrative service fees | 646 | 631 |
| General and administrative expenses | 401 | 468 |
| Excise taxes | 11 | |
| Directors fees | 74 | 74 |
| Total expenses, net of incentive fee waiver | $ 13,399 | $ 12,152 |

(1) During the three and six months ended June 30, 2018, no incentive fees were waived. During the three and six months ended June 30, 2017, incentive fees of $0.3 million and $0.3 million, respectively, were waived. Incentive fees during the three and six months ended June 30, 2018 were limited by $0.8 million and $1.9 million, respectively, due to the Incentive Fee Limitation. During the three and six months ended June 30, 2017, incentive fees were not limited. See Note 6 in our attached consolidated financial statements for additional information on the Incentive Fee Limitation.

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

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest expense revolving credit facility | $ 1,551 | $ 1,385 |
| Interest expense SBA guaranteed debentures | 970 | 518 |
| Amortization of deferred financing costs | 315 | 255 |
| Interest expense secured borrowings | | 13 |

| | | |
|---|---|---|
| Other | | 13 |
| Total interest and other debt financing expenses | $ 2,836 | $ 2,184 |

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| | | Six months ended June 30, | |
|---|---|---|---|
| | | 2018 | 2017 |
| Interest expense | revolving credit facility | $ 3,108 | $ 2,730 |
| Interest expense | SBA guaranteed debentures | 1,838 | 924 |
| Amortization of deferred financing costs | | 596 | 486 |
| Interest expense | secured borrowings | | 34 |
| Other | | | 20 |
| Total interest and other debt financing expenses | | $ 5,542 | $ 4,194 |

The increase in expenses of $0.7 million and $1.2 million, respectively, during the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, 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 and an increase in base management fees due to the growth in invested assets, partially offset by a decrease in incentive fees due to the Incentive Fee Limitation during the three and six months ended June 30, 2018.

## Net Realized Gain (Loss) on Investments, Secured Borrowings and Foreign Currency Transactions

During the three months ended June 30, 2018 and 2017, we had sales of investments of zero and $2.2 million, respectively, resulting in zero and $2.2 million of net realized gain (loss), respectively. During the six months ended June 30, 2018 and 2017, we had sales of investments of zero and $4.2 million resulting in zero and $2.3 million of net realized gain (loss), respectively.

During the three months ended June 30, 2018 and 2017, we had sales of secured borrowings of zero and $1.3 million resulting in zero and $66 thousand of net realized gain (loss), respectively. During the six months ended June 30, 2018 and 2017, we had sales of secured borrowings of zero and $1.3 million resulting in zero and $66 thousand of net realized gain (loss), respectively.

During the three months ended June 30, 2018 and 2017, we had ($9) thousand and zero of net realized gain (loss) on foreign currency transactions, respectively. During the six months ended June 30, 2018 and 2017, we had $3 thousand and zero of net realized gain (loss) on foreign currency transactions, respectively.

## Net Change in Unrealized Gain (Loss) on Investments, Secured Borrowings and Foreign Currency Borrowings

For the three months ended June 30, 2018 and 2017, our investments had ($4.4) million and ($7.3) million of net change in unrealized gain (loss), respectively. The net change in unrealized gain (loss) includes both unrealized gain on investments in our portfolio with mark-to-market gains during the period and unrealized loss on investments in our portfolio with mark-to-market losses during the period. The largest contributor to the net unrealized mark-to-market losses during the three months ended June 30, 2018 was our debt investment in TPP Operating, Inc. ( TPP ) of ($3.6) million. During the three months ended June 30, 2018, TPP ceased operations and we, along with the other owners, appointed an assignee and pursuant to Delaware state law completed a General Assignment for the Benefit of Creditors to the assignee. The purpose of the assignment was to wind down the TPP business and distribute assets to its creditors. The assignee has informed us that it will have de minimis assets, if any, to distribute to its creditors. As a result, while we still have debt and equity positions in TPP, we have valued these positions at zero as of June 30, 2018. For the three months ended June 30, 2018 and 2017, our secured borrowings had zero and ($5) thousand of net

change in unrealized gain (loss), respectively. For the three months ended June 30, 2018 and 2017, our foreign currency borrowings had $795 thousand and ($16) thousand of net change in unrealized gain (loss), respectively.

For the six months ended June 30, 2018 and 2017, our investments had ($11.1) million and ($10.9) million of net unrealized gain (loss), respectively. The largest contributor to the net unrealized mark-to-market losses during the six months ended June 30, 2018 were our investments in TPP and Rockdale Blackhawk, LLC which contributed net mark-to-market losses of ($8.4) million and ($2.1) million, respectively. For the six months ended June 30, 2018 and 2017, our secured borrowings had zero and

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($6) thousand of net unrealized gain (loss), respectively. For the six months ended June 30, 2018 and 2017, our foreign currency borrowings had $353 thousand and ($16) thousand of net change in unrealized gain (loss), respectively.

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

For the three months ended June 30, 2018 and 2017, the net increase in net assets from operations was $4.3 million and $1.0 million, respectively. Based on the weighted average shares of common stock outstanding for the three months ended June 30, 2018 and 2017, our per share net increase in net assets resulting from operations was $0.21 and $0.06, respectively. The $3.3 million increase during the three months ended June 30, 2018 as compared to the three months ended June 30, 2017, is primarily the result of a decrease in net unrealized mark-to-market losses on investments in the portfolio and an increase in net investment income.

For the six months ended June 30, 2018 and 2017, the net increase in net assets from operations was $5.7 million and $3.6 million, respectively. Based on the weighted average shares of common stock outstanding for the six months ended June 30, 2018 and 2017, our per share net increase in net assets resulting from operations was $0.28 and $0.21, respectively. The $2.1 million increase during the six months ended June 30, 2018, as compared to six months ended June 30, 2017, is primarily the result of an increase in net investment income, partially offset by a decline in net realized gains on investments in the portfolio.

# Liquidity and Capital Resources

As of June 30, 2018, we had $2.8 million in cash, $4.3 million in cash at MRCC SBIC, $125.5 million of total debt outstanding on our revolving credit facility and $115.0 million in outstanding SBA-guaranteed debentures. We had $74.5 million available for additional borrowings on our revolving credit facility. See *Borrowings* below for additional information.

## Cash Flows

For the six months ended June 30, 2018 and 2017, we experienced a net increase (decrease) in cash and restricted cash of ($0.2) million and $6.9 million, respectively. For the six months ended June 30, 2018, operating activities used $0.4 million, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. For the six months ended June 30, 2017, operating activities used $29.4 million, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the six months ended June 30, 2018, we generated $0.2 million from financing activities, primarily as a result of net proceeds from net borrowings on our revolving credit facility and SBA debenture borrowings, partially offset by distributions to stockholders. During the six months ended June 30, 2017, we generated $36.4 million from financing activities primarily as a result of net proceeds from capital raises and SBA debenture borrowings during the period, partially offset by net repayments on our revolving credit facility and distributions to stockholders.

## Capital Resources

As a BDC, we distribute substantially all of our net income to our stockholders and have an ongoing need to raise additional capital for investment purposes. We intend to generate additional cash primarily from future offerings of securities, future borrowings and cash flows from operations, including income earned from investments in our

portfolio companies. On both a short-term and long-term basis, our primary use of funds will be to invest in portfolio companies and make cash distributions to our stockholders.

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our Board, including independent directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders have approved such sales. On June 20, 2018 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 June 30, 2018 and December 31, 2017, we had 20,279,405 and 20,239,957 shares outstanding, respectively.

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On June 24, 2015, our stockholders approved a proposal to authorize us to issue warrants, options or rights to subscribe to, convert to, or purchase our common stock in one or more offerings. This is a standing authorization and does not require annual re-approval by our stockholders.

On March 27, 2018, our Board approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. On June 20, 2018, our stockholders approved a proposal to accelerate the effective date of the modified asset coverage requirements. As a result, the asset coverage ratio test applicable to us was decreased from 200% to 150%, effective June 21, 2018.

*Stock Issuances:* On July 1, 2016, we amended the ATM securities offering program with MLV & Co. LLC ( MLV ) and JMP Securities LLC ( JMP ) to replace MLV with FBR Capital Markets & Co. ( FBR ), an affiliate of MLV (the Prior ATM Program ). On May 12, 2017, we entered into new equity distribution agreements with each of FBR and JMP that reference our current registration statement (the ATM Program ). All other material terms of the Prior ATM Program remain unchanged under the ATM Program. During the six months ended June 30, 2017, we sold 173,939 shares at an average price of $15.71 per share for gross proceeds of $2.7 million under the Prior ATM Program and no shares were sold under the ATM Program. Aggregate underwriters discounts and commissions were $41 thousand and offering costs were $23 thousand, resulting in net proceeds of approximately $2.7 million. During the six months ended June 30, 2018, we sold 17,140 shares at an average price of $14.21 per share for gross proceeds of $0.2 million under the ATM. Aggregate underwriters discounts and commissions were $3 thousand and offering costs were $31 thousand, resulting in net proceeds of approximately $0.2 million.

On June 9, 2017, we closed a public offering of 3,000,000 shares of our common stock at a public offering price of $15.00 per share, raising approximately $45.0 million in gross proceeds. On June 14, 2017, pursuant to the underwriters exercise of the over-allotment option, we sold an additional 450,000 shares of our common stock, at a public offering price of $15.00 per share, and additional $6.8 million in gross proceeds for a total of $51.8 million. Aggregate underwriters discounts and commissions were $2.1 million and offering costs were $0.1 million, resulting in net proceeds of approximately $49.6 million.

## Borrowings

On June 20, 2018, our stockholders approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the Investment Company Act to the Company. As a result of this approval, we are now permitted to borrow amounts such that our asset coverage ratio, as defined in the Investment Company Act, is at least 150% after such borrowing (if certain requirements are met), rather than 200%, as previously required. As of June 30, 2018 and December 31, 2017, our asset coverage ratio based on aggregate borrowings outstanding was 312% and 334%, respectively.

*Revolving Credit Facility:* As of June 30, 2018, we had U.S. dollar borrowings of $106.0 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £14.8 million ($19.5 million in U.S. dollars) under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase of our assets. As of December 31, 2017, we had U.S. dollar borrowings of $105.2 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £8.8 million ($11.9 million in U.S. dollars) under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase of our assets. The borrowings denominated in Great Britain pounds may be positively or negatively affected by movements in the rate of exchange between the U.S. dollar and the Great Britain pound. These movements are beyond our control and cannot be predicted. The borrowings denominated in Great Britain pounds are translated into U.S. dollars based on the spot rate at each balance sheet date. The impact resulting from changes in foreign currency borrowings is included in net change in unrealized gain (loss) on foreign currency borrowings in our

consolidated statements of operations and totaled $0.8 million and $0.4 million for the three and six months ended June 30, 2018, and ($16) thousand and ($16) thousand for the three and six months ended June 30, 2017 respectively. As of June 30, 2018, the maximum amount we were able to borrow was $200.0 million and this borrowing can be increased to $300.0 million pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act). On February 22, 2017, we closed a $40.0 million upsize to the revolving credit facility, bringing the maximum amount we are able to borrow from $160.0 million to the now current maximum amount of $200.0 million, in accordance with the facility s accordion feature. The maturity date on the facility is December 14, 2020.

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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 revolving credit facility is subject to availability under a defined borrowing base, which varies based on 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 2019 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 2.75% or at a daily rate equal to 1.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 65% 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 65% of the then available maximum borrowing. As of June 30, 2018 and December 31, 2017, the outstanding borrowings were accruing at a weighted average interest rate of 4.6% and 4.4%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three and six months ended June 30, 2018 was 4.7% and 4.6%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the three and six months ended June 30, 2018 was 0.5% and 0.5%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three and six months ended June 30, 2017 was 4.0% and 4.1%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the three and six months ended June 30, 2017 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 total net assets at least equal to the greater of (a) 40% of the consolidated total assets on the last day of each quarter or (b) $120.0 million plus 65% of the net proceeds to us from sales of our securities after December 14, 2015; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.1 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The revolving credit facility also requires us to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the 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.

On April 25, 2018, we entered into an amendment to the revolving credit facility which, among other things, removes the pricing step-down related to our net worth to fix the interest rate the revolving credit facility bears to LIBOR plus 2.75% and makes certain borrowing base changes to allow more flexibility under the revolving credit facility. We paid the lenders an amendment fee of $0.2 million in conjunction with the amendment which has been capitalized within unamortized deferred financing costs and will be amortized into interest expense over the estimated average life of the borrowings.

Our revolving 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 revolving credit facility. Distributions in cash or property other than common stock are generally limited to 115% of the amount of distributions required to maintain our status as a RIC.

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*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 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.

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 historically limited a related group of SBICs (commonly referred to as a family of funds ) to a maximum of $225.0 million in total borrowings. On December 18, 2015, this family of funds limitation was raised to $350.0 million in total borrowings. As we have other affiliated SBICs already in operation, MRCC SBIC was historically limited to a maximum of $40.0 million in borrowings. Pursuant to the increase in the family of funds limitation, we submitted a commitment application to the SBA and on April 13, 2016 we were approved for $75.0 million in additional SBA-guaranteed debentures for MRCC SBIC for a total of $115.0 million in available debentures.

As of June 30, 2018, MRCC SBIC had $57.6 million in leverageable capital and $115.0 million in SBA-guaranteed debentures outstanding. As of December 31, 2017, MRCC SBIC had $57.6 million in leverageable capital and $109.5 million in SBA-guaranteed debentures outstanding.

As of June 30, 2018, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 3.9 % | 18,520 |
| September 2028 | 3.3 %(1) | 2,180 |
| September 2028 | 3.4 %(1) | 2,200 |
| Total | | $ 115,000 |

As of December 31, 2017, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

| Maturity Date | Interest Rate | Amount |
|---|---|---|

| | | |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 2.5 %(1) | 9,160 |
| March 2028 | 2.6 %(1) | 2,780 |
| March 2028 | 2.7 %(1) | 5,480 |
| Total | | $ 109,520 |

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

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On October 2, 2014, the Company was granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the asset coverage test.

*Secured Borrowings:* Certain partial loan sales do not qualify for sale accounting under Accounting Standards Codification ( ASC ) Topic 860 *Transfers and Servicing* ( ASC Topic 860 ) because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on 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 June 30, 2018 and December 31, 2017, there were no secured borrowings.

## Distribution Policy

Our Board will determine the timing and amount, if any, of our distributions. We intend to pay distributions on a quarterly basis. In order to avoid corporate-level tax on the income we distribute as a RIC, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis out of the assets legally available for such distributions. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions. Distributions to stockholders for the three and six months ended June 30, 2018, totaled $7.1 million ($0.35 per share) and $14.2 million ($0.70 per share), respectively. Distributions to stockholders for the three and six months ended June 30, 2017, totaled $7.1 million ($0.35 per share) and $12.9 million ($0.70 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 June 30, 2018 and 2017, no portion of these distributions would have been characterized as a tax return of capital to stockholders.

We have adopted an opt out dividend reinvestment plan ( DRIP ) for our common stockholders. As a result, if we declare a distribution, our stockholders cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes.

## MRCC Senior Loan Fund I, LLC

We co-invest with NLV Financial Corporation ( NLV ), in senior secured loans through SLF, an unconsolidated Delaware limited liability company. SLF is capitalized as underlying investment transactions are completed, taking into account available debt and equity commitments available for funding these investments. All portfolio and investment decisions in respect to SLF must be approved by the SLF investment committee, consisting of one representative of each of us and NLV. SLF may cease making new investments upon notification of either member, but operations will continue until all investments have been sold or paid-off in the normal course of business. Investments held by SLF are measured at fair value using the same valuation methodologies as described below. The

Company s investment is illiquid in nature as SLF does not allow for withdrawal from the LLC or the sale of a member s interest unless approved by the board of members of SLF. The full withdrawal of a member would result in an orderly wind-down of SLF.

SLF s profits and losses are allocated to us and NLV in accordance with the respective ownership interests. As of both June 30, 2018 and December 31, 2017, we and NLV each owned 50.0% of the LLC equity interests of SLF. As of June 30, 2018, SLF had $100.0 million in equity commitments from its members (in the aggregate), of which $35.7 million was funded. As of December 31, 2017, SLF had $100.0 million in commitments from its members (in the aggregate), of which $19.0 million was funded.

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As of both June 30, 2018 and December 31, 2017, we have committed to fund $50.0 million of LLC equity interest subscriptions to SLF. As of June 30, 2018 and December 31, 2017, $17.9 million and $9.5 million of our LLC equity interest subscriptions to SLF had been called and contributed, net of return of capital distributions subject to recall, respectively.

For the three and six months ended June 30, 2018, we received $0.3 million and $0.5 million dividend income from the SLF LLC equity interests, respectively. For the three and six months ended June 30, 2017, we did not receive dividend income from the SLF LLC equity interests, as we did not make its investment in SLF until November 2017.

SLF has entered into a senior secured revolving credit facility (as amended, the SLF Credit Facility ) with Capital One, N.A., through its wholly-owned subsidiary MRCC Senior Loan Fund I Financing SPV, LLC ( SLF SPV ), which as of June 30, 2018 allowed SLF SPV to borrow up to $100.0 million at any one time, subject to leverage and borrowing base restrictions. Borrowings under the SLF Credit Facility bear interest at an annual rate of LIBOR (three-month) plus 2.25%. The maturity date on the SLF Credit Facility is March 22, 2023.

SLF does not pay any fees to MC Advisors or its affiliates; however, SLF has entered into an administration agreement with MC Management, pursuant to which certain loan servicing and administrative functions are delegated to MC Management. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF through June 30, 2018. There are no agreements or understandings by which we guarantee any SLF obligations.

As of June 30, 2018 and December 31, 2017, SLF had total assets at fair value of $98.6 million and $41.6 million, respectively. As of June 30, 2018 and December 31, 2017, SLF had zero and zero portfolio company investments on non-accrual status, respectively. The portfolio companies in SLF are in industries and geographies similar to those in which we may invest directly. Additionally, as of June 30, 2018 and December 31, 2017, SLF had commitments to fund various undrawn revolving credit and delayed draw loans to its portfolio companies totaling $5.2 million and $2.1 million, respectively.

Below is a summary of SLF s portfolio, followed by a listing of the individual investments in SLF s portfolio as of June 30, 2018 and December 31, 2017 (in thousands):

| | As of | |
|---|---|---|
| | June 30, 2018 | December 31, 2017 |
| Senior secured loans[1] | 94,729 | 29,438 |
| Weighted average current interest rate on senior secured loans[2] | 7.5 % | 7.1 % |
| Number of borrowers in SLF | 28 | 8 |

(1) Represents outstanding principal amount, excluding unfunded commitments.

(2) Computed as the (a) annual stated interest rate on accruing senior secured loans divided by (b) total senior secured loans at outstanding principal amount.

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# MRCC SENIOR LOAN FUND I, LLC
# CONSOLIDATED SCHEDULE OF INVESTMENTS
# (unaudited)
# June 30, 2018
# (in thousands)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Aerospace & Defense** | | | | | |
| MAG Aerospace Industries, Inc.[c] | L+4.75% | 6.84 % | 6/06/2025 | 3,300 | $ 3,292 |
| The KEYW Corporation | L+4.50% | 6.53 % | 5/08/2024 | 1,600 | 1,614 |
| | | | | 4,900 | 4,906 |
| **Automotive** | | | | | |
| Wheel Pros, LLC | L+4.75% | 6.75 % | 4/04/2025 | 4,000 | 3,990 |
| | | | | 4,000 | 3,990 |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| MTC Intermediate Holdco, Inc. | L+4.75% | 6.84 % | 1/30/2023 | 4,988 | 4,988 |
| Zenith Merger Sub, Inc | L+5.50% | 7.83 % | 12/13/2023 | 3,731 | 3,731 |
| | | | | 8,719 | 8,719 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50% | 8.59 % | 11/10/2022 | 4,947 | 4,944 |
| US Salt, LLC | L+4.75% | 6.84 % | 11/30/2023 | 3,491 | 3,491 |
| | | | | 8,438 | 8,435 |
| **Capital Equipment** | | | | | |
| Analogic Corp | L+6.00% | 8.08 % | 6/24/2024 | 5,000 | 4,950 |
| | | | | 5,000 | 4,950 |
| **Chemicals, Plastics & Rubber** | | | | | |
| Loparex International B.V. | L+4.25% | 6.58 % | 4/11/2025 | 500 | 503 |
| Peach State Labs, LLC | L+6.25% | 8.24 % | 6/30/2021 | 2,869 | 2,891 |
| | | | | 3,369 | 3,394 |
| **Construction & Building** | | | | | |
| Fastener Acquisition, Inc. | L+4.25% | 6.34 % | 3/18/2025 | 1,330 | 1,333 |
| | | | | 1,330 | 1,333 |
| **Consumer Goods: Durable** | | | | | |
| International Textile Group, Inc. | L+5.00% | 6.98 % | 5/1/2024 | 1,875 | 1,889 |
| | | | | 1,875 | 1,889 |
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50% | 8.82 % | 9/11/2023 | 1,617 | 1,617 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50% | 8.82 % | 9/11/2023 | 1,873 | 1,185 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 3,490 | 2,802 |
| **Containers, Packaging & Glass** | | | | | |
| Port Townsend Holdings Company, Inc. | L+4.75% | 6.75 % | 4/03/2024 | 4,407 | 4,412 |
| | | | | 4,407 | 4,412 |
| **Healthcare & Pharmaceuticals** | | | | | |
| LSCS Holdings, Inc. | L+4.25% | 6.34 % | 3/17/2025 | 2,793 | 2,793 |

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| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| LSCS Holdings, Inc. (Delayed Draw)[d] | L+4.25% | 6.34 % | 3/17/2025 | 700 | 553 |
| Radiology Partners Holdings, LLC | P+4.75% | 9.75 % | 12/04/2023 | 2,092 | 2,099 |
| Radiology Partners Holdings, LLC (Delayed Draw)[d] | P+4.75% | 9.75 % | 12/04/2023 | 775 | |
| Solara Medical Supplies, LLC | L+6.00% | 8.31 % | 5/31/2023 | 5,714 | 5,717 |
| Solara Medical Supplies, LLC (Delayed Draw)[d] | L+6.00% | 8.31 % | 5/31/2023 | 1,071 | |
| Solara Medical Supplies, LLC (Revolver)[d] | L+6.00% | 8.31 % | 5/31/2023 | 714 | |
| | | | | 13,859 | 11,162 |
| **High Tech Industries** | | | | | |
| Corel Corporation[c] | L+5.00% | 7.09 % | 6/04/2024 | 2,500 | 2,512 |
| Gigamon, Inc. | L+4.50% | 6.83 % | 12/27/2024 | 2,985 | 3,011 |
| | | | | 5,485 | 5,523 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC | L+5.50% | 7.86 % | 12/20/2024 | 6,965 | 6,861 |
| | | | | 6,965 | 6,861 |
| **Services: Business** | | | | | |
| CHA Holdings, Inc. | L+4.50% | 6.58 % | 4/10/2025 | 2,054 | 2,059 |
| CHA Holdings, Inc. (Delayed Draw)[d] | L+4.50% | 6.58 % | 4/10/2025 | 446 | |
| Engage2Excel, Inc. | L+6.50% | 8.63 % | 3/07/2023 | 4,364 | 4,392 |
| Engage2Excel, Inc. (Revolver)[d] | L+6.50% | 8.55 % | 3/07/2023 | 545 | 36 |
| GI Revelation Acquisition LLC | L+5.00% | 7.09 % | 4/16/2025 | 1,400 | 1,413 |
| Output Services Group, Inc. | L+4.25% | 6.34 % | 3/27/2024 | 4,135 | 4,176 |
| Output Services Group, Inc. (Delayed Draw)[d] | L+4.25% | 6.34 % | 3/27/2024 | 855 | |
| | | | | 13,799 | 12,076 |
| **Services: Consumer** | | | | | |
| EWC Ventures, LLC | L+5.50% | 7.59 % | 1/18/2023 | 3,333 | 3,342 |
| LegalZoom.com, Inc. | L+4.50% | 6.59 % | 11/21/2024 | 1,990 | 2,002 |
| | | | | 5,323 | 5,344 |
| **Telecommunications** | | | | | |
| Mavenir Systems, Inc. | L+6.00% | 8.03 % | 5/08/2025 | 4,000 | 4,010 |
| | | | | 4,000 | 4,010 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc. | L+5.25% | 7.70 % | 12/30/2024 | 4,975 | 5,012 |
| | | | | 4,975 | 5,012 |
| **TOTAL INVESTMENTS** | | | | | **$94,818** |

(a) All investments are U.S. companies, except Loparex International B.V.

(b) The majority of investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ( LIBOR or L ) or Prime Rate ( Prime or P ) which reset daily, quarterly or semiannually. The Compa has provided the spread over LIBOR or Prime and the current contractual rate of interest in effect at June 30, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of June 30, 2018.

(d) All or a portion of this commitment was unfunded as of June 30, 2018. Principal reflects the commitment outstanding.

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# MRCC SENIOR LOAN FUND I, LLC
# SCHEDULE OF INVESTMENTS
# December 31, 2017
# (in thousands)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,056 | $ 1,045 |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,257 | 1,244 |
| Clearent Holdings LLC and Clearent, LLC[c] [d] | P+3.75 % | 8.25 % | 1/02/2024 | 208 | |
| | | | | 2,521 | 2,289 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50 % | 8.07 % | 11/10/2022 | 5,000 | 5,008 |
| US Salt, LLC[c] | L+4.75 % | 6.18 % | 11/30/2023 | 3,500 | 3,500 |
| | | | | 8,500 | 8,508 |
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50 % | 8.02 % | 9/11/2023 | 1,625 | 1,625 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50 % | 8.02 % | 9/11/2023 | 1,875 | |
| | | | | 3,500 | 1,625 |
| **High Tech Industries** | | | | | |
| Gigamon, Inc.[c] | L+4.50 % | 6.03 % | 12/27/2024 | 3,000 | 2,985 |
| | | | | 3,000 | 2,985 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC[c] | L+5.50 % | 7.13 % | 12/20/2024 | 7,000 | 6,714 |
| | | | | 7,000 | 6,714 |
| **Services: Consumer** | | | | | |
| LegalZoom.com, Inc.[c] | L+4.50 % | 5.94 % | 11/21/2024 | 2,000 | 2,005 |
| | | | | 2,000 | 2,005 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc.[c] | L+5.25 % | 6.94 % | 12/28/2024 | 5,000 | 5,000 |
| | | | | 5,000 | 5,000 |
| **TOTAL INVESTMENTS** | | | | | **$ 29,126** |

(a) All investments are U.S. companies.

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

2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of December 31, 2017.

(d) All or a portion of this commitment was unfunded as of December 31, 2017. Principal reflects the commitment outstanding.

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Below is certain summarized financial information for SLF as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

| | June 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Investments, at fair value | $ 94,818 | $ 29,126 |
| Cash | 471 | 12,504 |
| Restricted cash | 3,074 | |
| Interest receivable | 264 | 11 |
| **Total assets** | $ 98,627 | $ 41,641 |
| **Liabilities** | | |
| Revolving credit facility | $ 56,412 | $ |
| Less: Unamortized deferred financing costs | (1,244 ) | |
| Total debt, less unamortized deferred financing costs | 55,168 | |
| Payable for open trades | 5,742 | 22,304 |
| Interest payable | 223 | |
| Accounts payable and accrued expenses | 108 | 57 |
| **Total liabilities** | 61,241 | 22,361 |
| **Members capital** | 37,386 | 19,280 |
| **Total liabilities and members capital** | $ 98,627 | $ 41,641 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 (unaudited) | 2017[1] | 2018 (unaudited) | 2017[1] |
| **Investment income:** | | | | |
| Interest income | $ 1,399 | $ | $ 2,179 | $ |
| **Total investment income** | 1,399 | | 2,179 | |
| **Expenses:** | | | | |
| Interest and other debt financing expenses | 605 | | 649 | |
| Organizational costs | 5 | | 11 | |
| Professional fees | 22 | | 62 | |
| **Total expenses** | 632 | | 722 | |
| **Net investment income (loss)** | 767 | | 1,457 | |
| **Net gain (loss) on investments:** | | | | |
| Net change in unrealized gain (loss) on investments | 454 | | 999 | |
| **Net gain (loss) on investments** | 454 | | 999 | |
| **Net increase (decrease) in members capital** | $ 1,221 | $ | $ 2,456 | $ |

(1) SLF commenced operations on November 14, 2017.

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## 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.

SLF has an Administration Agreement with MC Management to provide SLF with certain loan servicing and administrative functions. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF through June 30, 2018.

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 and Chief Investment 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 MC Advisors officers, directors and employees. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and Maryland General Corporation Law.

# Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our significant contractual payment obligations for repayment as of December 31, 2017 (dollars in thousands):

| | Total | Less than 1 year | 1 3 years | 3 5 years | More than 5 years |
|---|---|---|---|---|---|
| Revolving credit facility | $ 117,092 | $ | $ 117,092 | $ | $ |
| SBA guaranteed debentures payable | 109,520 | | | | 109,520 |
| Unfunded commitments[(1)] | 41,238 | 41,238 | | | |
| Total contractual obligations | $ 267,850 | $ 41,238 | $ 117,092 | $ | $ 109,520 |

(1) Unfunded commitments represent all amounts unfunded, excluding our investments in SLF, as of December 31, 2017. These amounts may or may not be funded to the borrowing party now or in the future. The unfunded commitments relate to loans with various maturity dates, but we are showing this amount in the less than one year category as this entire amount was eligible for funding to the borrowers as of December 31, 2017.

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

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase.

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## Commitments and Contingencies

As of June 30, 2018 and December 31, 2017, we had $38.4 million and $41.2 million, respectively, in outstanding commitments to fund investments under undrawn revolvers, capital expenditure loans and delayed draw commitments. As described in Note 3, we had commitments up to $32.1 million and $40.5 million, respectively, to SLF, as of June 30, 2018 and December 31, 2017 that may be contributed primarily for the purpose of funding new investments approved by the SLF investment committee. Drawdowns of the commitments to SLF require explicit authorization of our representatives on SLF s board of managers. 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 U.S. with annual revenues between $10.0 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 BDC 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 BDC 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.

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# Significant Accounting Estimates and Critical Accounting Policies

## Revenue Recognition

We record interest and fee 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 are 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. Interest 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. We record fees on loans based on the determination of whether the fee is considered a yield enhancement or payment for a service. If the fee is considered a yield enhancement associated with a funding of cash on a loan, the fee is generally deferred and recognized into interest income using the effective interest method if captured in the cost basis or using the straight-line method if the loan is unfunded and therefore there is no cost basis. If the fee is not considered a yield enhancement because a service was provided, and the fee is payment for that service, the fee is deemed earned and recognized as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment.

## Valuation of Portfolio Investments

As a BDC, 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 of America ( 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 are 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.

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. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by our Board using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

the quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals responsible for the credit monitoring of the portfolio investment;
preliminary valuation conclusions are then documented and discussed with the investment committee;
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.

The Board, together with our independent valuation firms, generally uses the income approach to determine fair value for loans where market quotations are not readily available, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, we 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 under the market approach or the proceeds that would be received in a liquidation analysis. We generally consider our debt to be performing 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 debt, we consider 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 debt instrument is not performing, as defined above, we will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the loan.

Under the income approach, we utilize discounted cash flow models to determine the present value of the future cash flow streams of our debt investments, based on future interest and principal payments as set forth in the associated loan agreements. In determining fair value under the income approach, we also consider 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.

Under the market approach, we typically use 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 we derive a single estimate of enterprise value. In estimating the enterprise value of a portfolio company, we analyze 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.

In addition, for certain debt investments, we may base our valuation on indicative bid and ask prices provided by an independent third-party pricing service. Bid prices reflect the highest price that we and others

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may be willing to pay. Ask prices represent the lowest price that we and others may be willing to accept. We generally use the midpoint of the bid/ask range as our best estimate of fair value of such investment.

## Net Realized Gains or Losses and Net Change in Unrealized Gain or Loss

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 gain or loss previously recognized. Net change in unrealized gain or loss reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gain or loss, when gains or losses are realized. Additionally, we do not isolate the portion of the change in fair value resulting from foreign currency exchange rate fluctuations from the changes in fair values of the underlying investment. All fluctuations in fair value are included in net change in unrealized gain (loss) on investments in fair value on our consolidated statements of operations. 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 gain (loss) on secured borrowings in the consolidated statements of operations. The impact resulting from changes in foreign exchange rates on the revolving credit facility borrowings is included in change in unrealized gain (loss) on foreign currency borrowings.

## 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). This fee equals 20% of our incentive fee capital gains (i.e., our realized capital gains on a cumulative basis from inception, calculated as of the end of the applicable period, net of all realized capital losses and unrealized capital depreciation on a cumulative basis), less the aggregate amount of any previously paid capital gains incentive fees. On a quarterly basis, we accrue for the capital gains incentive fee by calculating such fee as if it were due and payable as of the end of such period.

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

During the three and six months ended June 30, 2018, we did not accrue capital gains incentive fees. During the three and six months ended June 30, 2017, we had a reduction in accrued capital gains incentive fees of zero and $0.2 million, respectively, primarily as a result of net declines in portfolio valuations during the period.

## New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) ( ASU 2014-09 ). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s)

with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 also specified the accounting for some costs to obtain or fulfill a contract with a customer. In addition, ASU 2014-09 requires that an entity disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The initial effective date of ASU 2014-09 was for fiscal periods beginning after

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December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC Topic 606): *Deferral of the Effective Date*, which deferred the effective date to fiscal periods beginning after December 15, 2017. We have adopted ASU 2014-09, and the adoption did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments *Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. We have adopted ASU 2016-01, and the adoption did not have a material impact on our consolidated financial statements for the periods presented.

# 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 June 30, 2018 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.

| Change in Interest Rates | Increase (decrease) in interest income | Increase (decrease) in interest expense | Net increase (decrease) in net investment income |
|---|---|---|---|
| | (in thousands) | | |
| Down 25 basis points | $(1,067 ) | $(314 ) | $(753 ) |
| Up 100 basis points | 4,429 | 1,255 | 3,174 |
| Up 200 basis points | 8,995 | 2,510 | 6,485 |
| Up 300 basis points | 13,561 | 3,765 | 9,796 |

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.

We may also have exposure to foreign currencies (currently the Great Britain pound) related to certain investments. Such investments are translated into U.S. dollars based on the spot rate at each balance sheet date, exposing us to movements in the exchange rate. In order to reduce our exposure to fluctuations in exchange rates, we generally borrow in Great Britain pounds under our revolving credit facility to finance such investments. As of June 30, 2018, we have non-U.S. dollar borrowings denominated in Great Britain pounds of £14.8 million ($19.5 million U.S. dollars) outstanding under the revolving credit facility.

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# PLAN OF DISTRIBUTION

We have entered into separate equity distribution agreements, each dated May 12, 2017, with each of B. Riley FBR, Inc., as successor by merger to FBR Capital Markets & Co. ( B. Riley FBR ), and JMP Securities LLC ( JMP Securities ). JMP Securities and B. Riley FBR will each act as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, a Sales Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in the respective equity distribution agreement. We will instruct the Sales Agent as to the amount of common stock to be sold by it. We may instruct the Sales Agent not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less the Sales Agent s commission, may be less than the net asset value per share of our common stock at the time of such sale. We or the Sales Agent may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market offerings, as defined in Rule 415 under the Securities Act.

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

Under the terms of the equity distribution agreements, B. Riley FBR and JMP Securities will be entitled to compensation of up to 2.0% of the gross sales price of shares of our common stock sold through them as sales agents. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Agents under the terms of each equity distribution agreement, will be approximately $250,000 (including up to an aggregate of $25,000 in reimbursement of the Sales Agents counsel fees).

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

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

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

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

The principal business address of B. Riley FBR, Inc. is 299 Park Avenue, 7th Floor, New York, NY 10017. The principal business address of JMP Securities LLC is 600 Montgomery Street, San Francisco, CA 94111.

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# SALE OF COMMON STOCK BELOW NET ASSET VALUE

On June 20, 2018, our stockholders authorized us, subject to approval of our board of directors and certain limitations set forth below, to sell or otherwise issue shares of our common stock at a discount from net asset value per share for a period of twelve months. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale or issuance and a majority of our independent directors must (a) find that the sale or issuance is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold or otherwise issued is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. Any offering of common stock below net asset value per share will be designed to raise capital for investment in accordance with our investment objective. For additional information, see Sales of Common Stock Below Net Asset Value in the accompanying prospectus.

Our net asset value per share as of June 30, 2018 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $13.35.

In making a determination that an offering of common stock at a price below its net asset value per share is in our and our stockholders best interests, our board of directors would consider a variety of factors, including:

The effect that an offering below net asset value per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined net asset value per share;
The relationship of recent market prices of our common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;
Whether the estimated offering price would closely approximate the market value of our shares, less distributing commissions or discounts, and would not be below current market price;
The potential market impact of being able to raise capital in the current financial market;
The nature of any new investors anticipated to acquire shares in the offering;
The anticipated rate of return on and quality, type and availability of investments;
The leverage available to us, both before and after the offering and other borrowing terms; and
The potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering.

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

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

immediate dilution in an amount that may be material in the accompanying prospectus.

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# LEGAL MATTERS

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

# INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements, the effectiveness of internal control over financial reporting and the related senior securities table appearing in the Annual Report on Form 10-K and in the accompanying prospectus have been audited by RSM US LLP, an independent registered public accounting firm located at One South Wacker Drive, Suite 800, Chicago, IL 60606, as stated in their reports appearing elsewhere therein, and are included in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

# AVAILABLE INFORMATION

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

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We maintain a website at *www.monroebdc.com* and make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus supplement and accompanying prospectus, and you should not consider information on our website to be part of this prospectus supplement and the accompanying prospectus. You may also obtain such information by contacting us in writing at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Attention: Investor Relations. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Section, 100 F Street, NE, Washington, D.C. 20549.

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# MONROE CAPITAL CORPORATION

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

| | June 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Investments, at fair value: | | |
| Non-controlled/non-affiliate company investments | $425,220 | $425,747 |
| Non-controlled affiliate company investments | 54,322 | 58,751 |
| Controlled affiliate company investments | 18,693 | 9,640 |
| Total investments, at fair value (amortized cost of: $522,734 and $507,580, respectively) | 498,235 | 494,138 |
| Cash | 2,779 | 4,332 |
| Restricted cash | 4,252 | 2,867 |
| Interest receivable | 7,239 | 5,335 |
| Other assets | 1,098 | 760 |
| **Total assets** | 513,603 | 507,432 |
| **LIABILITIES** | | |
| Debt: | | |
| Revolving credit facility | 125,496 | 117,092 |
| SBA debentures payable | 115,000 | 109,520 |
| Total debt | 240,496 | 226,612 |
| Less: Unamortized deferred financing costs | (4,462) | (4,670) |
| Total debt, less unamortized deferred financing costs | 236,034 | 221,942 |
| Interest payable | 1,657 | 1,535 |
| Management fees payable | 2,202 | 2,064 |
| Incentive fees payable | 990 | 1,157 |
| Accounts payable and accrued expenses | 2,012 | 2,035 |
| **Total liabilities** | 242,895 | 228,733 |
| **Net assets** | $270,708 | $278,699 |
| **Commitments and contingencies (See Note 10)** | | |
| **ANALYSIS OF NET ASSETS** | | |
| Common stock, $0.001 par value, 100,000 shares authorized, 20,279 and 20,240 shares issued and outstanding, respectively | $20 | $20 |
| Capital in excess of par value | 286,651 | 286,141 |
| Undistributed net investment income (accumulated distributions in excess of net investment income) | 8,907 | 6,707 |
| | (369) | (372) |

| | | |
|---|---|---|
| Accumulated net realized gain (loss) on investments, secured borrowings and foreign currency transactions | | |
| Accumulated net unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings | (24,501 ) | (13,797 ) |
| **Total net assets** | $270,708 | $278,699 |
| **Net asset value per share** | $13.35 | $13.77 |

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Investment income:** | | | | |
| Interest income: | | | | |
| Non-controlled/non-affiliate company investments | $11,788 | $10,053 | $23,751 | $20,108 |
| Non-controlled affiliate company investments | 1,751 | 1,111 | 3,579 | 2,307 |
| Controlled affiliate company investments | | 217 | | 394 |
| Total interest income | 13,539 | 11,381 | 27,330 | 22,809 |
| Dividend income: | | | | |
| Non-controlled/non-affiliate company investments | 265 | 250 | 525 | 500 |
| Controlled affiliate company investments | 350 | | 525 | |
| Total dividend income | 615 | 250 | 1,050 | 500 |
| Fee income: | | | | |
| Non-controlled/non-affiliate company investments | 583 | 637 | 1,307 | 965 |
| Non-controlled affiliate company investments | 83 | | 83 | |
| Total fee income | 666 | 637 | 1,390 | 965 |
| **Total investment income** | 14,820 | 12,268 | 29,770 | 24,274 |
| **Operating expenses:** | | | | |
| Interest and other debt financing expenses | 2,836 | 2,184 | 5,542 | 4,194 |
| Base management fees | 2,202 | 1,903 | 4,365 | 3,708 |
| Incentive fees | 990 | 1,460 | 1,751 | 2,750 |
| Professional fees | 302 | 286 | 609 | 577 |
| Administrative service fees | 322 | 301 | 646 | 631 |
| General and administrative expenses | 225 | 259 | 401 | 468 |
| Excise taxes | | | 11 | |
| Directors fees | 37 | 37 | 74 | 74 |
| Expenses before incentive fee waiver | 6,914 | 6,430 | 13,399 | 12,402 |
| Incentive fee waiver | | (250) | | (250) |
| **Total expenses, net of incentive fee waiver** | 6,914 | 6,180 | 13,399 | 12,152 |
| **Net investment income** | 7,906 | 6,088 | 16,371 | 12,122 |
| **Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings:** | | | | |
| Net realized gain (loss): | | | | |
| Non-controlled/non-affiliate company investments | | 2,161 | | 2,328 |
| Secured borrowings | | 66 | | 66 |

| | | | | |
|---|---|---|---|---|
| Foreign currency transactions | (9 ) | | 3 | |
| Net realized gain (loss) | (9 ) | 2,227 | 3 | 2,394 |
| Net change in unrealized gain (loss): | | | | |
| Non-controlled/non-affiliate company investments | (515 ) | 497 | (680 ) | 689 |
| Non-controlled affiliate company investments | (4,157 ) | (7,192 ) | (11,080) | (9,356 ) |
| Controlled affiliate company investments | 260 | (575 ) | 703 | (2,234 ) |
| Secured borrowings | | (5 ) | | (6 ) |
| Foreign currency borrowings | 795 | (16 ) | 353 | (16 ) |
| Net change in unrealized gain (loss) | (3,617 ) | (7,291 ) | (10,704) | (10,923) |
| **Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings** | (3,626 ) | (5,064 ) | (10,701) | (8,529 ) |
| **Net increase (decrease) in net assets resulting from operations** | $4,280 | $1,024 | $5,670 | $3,593 |
| **Per common share data:** | | | | |
| Net investment income per share basic and diluted | $0.39 | $0.35 | $0.81 | $0.71 |
| Net increase (decrease) in net assets resulting from operations per share basic and diluted | $0.21 | $0.06 | $0.28 | $0.21 |
| Weighted average common shares outstanding basic and diluted | 20,244 | 17,369 | 20,242 | 16,984 |

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# MONROE CAPITAL CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited) (in thousands)

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Par value | 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, secured borrowings and foreign currency transactions | Accumulated net unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings | Total net assets |
| **Balances at December 31, 2016** | 16,582 | $17 | $233,526 | $7,037 | $587 | $(317) | $240,850 |
| Net increase (decrease) in net assets resulting from operations | | | | 12,122 | 2,394 | (10,923) | 3,593 |
| Issuance of common stock, net of offering and underwriting costs | 3,624 | 3 | 52,218 | | | | 52,221 |
| Distributions to stockholders: | | | | | | | |
| Stock issued in connection with dividend reinvestment plan | 34 | | 525 | (525) | | | |
| Distributions from net investment income | | | | (12,356) | | | (12,356) |
| **Balances at June 30, 2017** | 20,240 | $20 | $286,269 | $6,278 | $2,981 | $(11,240) | $284,308 |
| **Balances at December 31, 2017** | 20,240 | $20 | $286,141 | $6,707 | $(372) | $(13,797) | $278,699 |
| Net increase (decrease) in net assets resulting from operations | | | | 16,371 | 3 | (10,704) | 5,670 |
| Issuance of common stock, net of offering and underwriting costs | 17 | | 209 | | | | 209 |
| Distributions to stockholders: | | | | | | | |
| Stock issued in connection with dividend reinvestment plan | 22 | | 301 | (301) | | | |
| Distributions from net investment income | | | | (13,870) | | | (13,870) |
| **Balances at June 30, 2018** | 20,279 | $20 | $286,651 | $8,907 | $(369) | $(24,501) | $270,708 |

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

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| **Cash flows from operating activities:** | | |
| Net increase (decrease) in net assets resulting from operations | $5,670 | $3,593 |
| 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 (gain) loss on investments | 11,057 | 10,901 |
| Net change in unrealized (gain) loss on secured borrowings | | 6 |
| Net change in unrealized (gain) loss on foreign currency borrowings | (353) | 16 |
| Net realized (gain) loss on investments | | (2,328) |
| Net realized (gain) loss on secured borrowings | | (66) |
| Net realized (gain) on foreign currency transactions | (3) | |
| Payment-in-kind interest income | (656) | (1,018) |
| Payment-in-kind dividend income | (522) | |
| Net accretion of discounts and amortization of premiums | (1,556) | (746) |
| Proceeds from principal payments and sales of investments | 60,368 | 75,460 |
| Purchases of investments | (72,788) | (114,898) |
| Amortization of deferred financing costs | 596 | 486 |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (1,904) | (919) |
| Other assets | (338) | (2) |
| Interest payable | 122 | 135 |
| Management fees payable | 138 | 154 |
| Incentive fees payable | (167) | (12) |
| Accounts payable and accrued expenses | (23) | (203) |
| **Net cash provided by (used in) operating activities** | (359) | (29,441) |
| **Cash flows from financing activities:** | | |
| Borrowings on revolving credit facility | 67,107 | 68,329 |
| Repayments of revolving credit facility | (58,350) | (103,500) |
| SBA debentures borrowings | 5,480 | 34,100 |
| Payments of deferred financing costs | (388) | (1,182) |
| Repayments on secured borrowings | | (1,254) |
| Proceeds from shares sold, net of offering and underwriting costs | 209 | 52,221 |
| Stockholder distributions paid, net of stock issued under the dividend reinvestment plan of $301, and $525, respectively | (13,870) | (12,356) |
| **Net cash provided by (used in) financing activities** | 188 | 36,358 |
| **Net increase (decrease) in Cash and Restricted Cash** | (171) | 6,917 |

| | | |
|---|---|---|
| Effect of foreign currency exchange rates | 3 | |
| **Cash and Restricted Cash, beginning of period[1]** | 7,199 | 8,331 |
| **Cash and Restricted Cash, end of period[2]** | $7,031 | $15,248 |
| Supplemental disclosure of cash flow information: | | |
| Cash interest paid during the period | $4,786 | $3,473 |
| Cash paid for excise taxes during the period | $91 | $495 |

(1) Represents cash and restricted cash of $4,332 and $2,867, respectively, from the consolidated statement of assets and liabilities as of December 31, 2017. Represents cash and restricted cash of $5,958 and $2,373, respectively, from the consolidated statement of assets and liabilities as of December 31, 2016.

(2) Represents cash and restricted cash of $2,779 and $4,252, respectively, from the consolidated statement of assets and liabilities as of June 30, 2018. Represents cash and restricted cash of $9,904 and $5,344, respectively, from the consolidated statement of assets and liabilities as of June 30, 2017.

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| Portfolio Company[a] | Spread Above Index[b] | Interest Rate | Maturity | Principal | Amortized Cost | Fair Value[c] | % of Net Assets[d] |
|---|---|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | | | |
| **Senior Secured Loans** | | | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | | | |
| Echelon Funding I, LLC (Delayed Draw)[e][f][g] | L+10.25% | 12.23 % | 2/24/2021 | 15,750 | $15,745 | $15,941 | 5.9 % |
| HFZ Capital Group, LLC[e] | L+10.17% | 12.31% Cash/ 0.17% PIK[h] | 10/20/2019 | 18,000 | 17,718 | 18,000 | 6.6 % |
| Liftforward SPV II, LLC[e][f] | L+10.75% | 12.84 % | 11/10/2020 | 10,000 | 4,220 | 4,279 | 1.6 % |
| PKS Holdings, LLC[e] | L+9.50 % | 11.48 % | 11/30/2022 | 1,778 | 1,622 | 1,720 | 0.6 % |
| PKS Holdings, LLC (Revolver)[e][f] | L+9.50 % | 11.48 % | 11/30/2022 | 80 | | | 0.0 % |
| | | | | 45,608 | 39,305 | 39,940 | 14.7% |
| **Beverage, Food & Tobacco** | | | | | | | |
| All Holding Company, LLC[i] | L+7.00 % | 9.09 % | 11/15/2021 | 5,259 | 5,187 | 5,131 | 1.9 % |
| California Pizza Kitchen, Inc. | L+6.00 % | 8.10 % | 8/23/2022 | 6,878 | 6,818 | 6,750 | 2.5 % |
| | | | | 12,137 | 12,005 | 11,881 | 4.4 % |
| **Capital Equipment** | | | | | | | |
| Hastings Manufacturing Company | L+8.25 % | 10.34 % | 4/24/2023 | 2,981 | 2,923 | 2,969 | 1.1 % |
| Hastings Manufacturing Company (Delayed Draw)[f][g] | L+8.25 % | 10.34 % | 4/24/2023 | 899 | | | 0.0 % |
| | | | | 3,880 | 2,923 | 2,969 | 1.1 % |
| **Chemicals, Plastics & Rubber** | | | | | | | |
| Valudor Products LLC | L+7.50 % | 9.59 % | 6/18/2023 | 1,624 | 1,592 | 1,592 | 0.6 % |
| Valudor Products LLC[j] | L+7.50 % | 9.59 % | 6/18/2023 | 211 | 205 | 205 | 0.1 % |
| Valudor Products LLC (Revolver)[f] | L+7.50 % | 9.59 % | 6/18/2023 | 264 | 66 | 65 | 0.0 % |
| | | | | 2,099 | 1,863 | 1,862 | 0.7 % |
| **Construction & Building** | | | | | | | |
| Cali Bamboo, LLC | L+7.00 % | 9.09 % | 7/10/2020 | 5,291 | 5,248 | 5,291 | 2.0 % |
| Cali Bamboo, LLC (Revolver)[f] | L+7.00 % | 9.09 % | 7/10/2020 | 2,165 | 779 | 779 | 0.3 % |
| Cornerstone Detention Products, Inc.[k] | L+11.83% | | 4/8/2019 | 3,434 | 3,422 | 3,434 | 1.3 % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 10.59% Cash/ 3.33% PIK[l] | | | | | | | |
| Cornerstone Detention Products, Inc. (Revolver)[f] | L+8.50 | % | 10.59 | % | 4/8/2019 | 1,000 | 200 | 200 | 0.1 | % |
| TRP Construction Group, LLC[i] | L+6.50 | % | 8.59 | % | 10/5/2022 | 7,960 | 7,820 | 7,948 | 2.9 | % |
| TRP Construction Group, LLC (Revolver)[f] | L+6.50 | % | 8.59 | % | 10/5/2022 | 2,133 | | | 0.0 | % |
| | | | | | | 21,983 | 17,469 | 17,652 | 6.6 | % |
| **Consumer Goods: Durable** | | | | | | | | | | |
| Parterre Flooring & Surface Systems, LLC[i] | L+7.25 | % | 9.34 | % | 8/22/2022 | 11,550 | 11,352 | 11,533 | 4.3 | % |
| Parterre Flooring & Surface Systems, LLC (Revolver)[f] | L+7.25 | % | 9.34 | % | 8/22/2022 | 2,400 | | | 0.0 | % |
| | | | | | | 13,950 | 11,352 | 11,533 | 4.3 | % |
| **Consumer Goods: Non-Durable** | | | | | | | | | | |
| Gibson Brands, Inc.[m] | n/a | | 8.88%[n] | | n/a | 10,000 | 9,220 | 8,491 | 3.1 | % |
| Gibson Brands, Inc. (DIP Facility)[f] | L+9.00 | % | 11.01 | % | 2/1/2019 | 3,600 | 959 | 1,087 | 0.4 | % |
| Solaray, LLC | L+6.50 | % | 8.82 | % | 9/9/2023 | 3,247 | 3,222 | 3,247 | 1.2 | % |
| Solaray, LLC | L+6.50 | % | 8.83 | % | 9/9/2023 | 697 | 697 | 697 | 0.3 | % |
| | | | | | | 17,544 | 14,098 | 13,522 | 5.0 | % |

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# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) (unaudited) June 30, 2018 (in thousands, except for shares and units)

(a) All of our investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940 (the 1940 Act ), unless otherwise noted. All of our investments are issued by U.S. portfolio companies 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 Rate ( Prime or P ) which reset daily, monthly, quarterly, or semiannually. F each such investment, the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at June 30, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor, or rate cap.

(c) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith using significant unobservable inputs 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 $270,708 as of June 30, 2018.

(e) This investment is treated as a non-qualifying investment under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company s total assets. As of June 30, 2018, non-qualifying assets totaled 16.31% of the Company s total assets.

(f) All or a portion of this commitment was unfunded at June 30, 2018. As such, interest is earned only on the funded portion of this commitment.

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

(h) The PIK portion of the interest rate for HFZ Capital Group, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.17% per annum.

(i) 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.

(j) This investment represents a note convertible to preferred shares of the borrower.

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# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) (unaudited) June 30, 2018 (in thousands, except for shares and units)

(k) A portion of this loan (principal of $2,061) 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.

(l) A portion of the PIK interest rate for Cornerstone Detention Products, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.33% per annum.

(m) This investment represents a senior secured note that is traded in the secondary bond market.

(n) This position was on non-accrual status as of June 30, 2018, meaning that the Company has ceased accruing interest income on the position. See Note 2 in the accompanying notes to the consolidated financial statements for additional information on the Company s accounting policies.

(o) The PIK portion of the interest rate for Landpoint, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.25% per annum.

(p) This is an international company.

(q) This loan is denominated in Great Britain pounds and is translated into U.S. dollars as of the valuation date.

(r) A portion of the PIK interest rate for TRG, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.60% per annum.

(s) The Company structures its unitranche secured loans as senior secured loans. The Company obtains security interests in the assets of these portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first-priority liens on the assets of a portfolio company. Generally, the Company syndicates a first out portion of the loan to an investor and retains a last out portion of the loan, in which case the first out portion of the loan will generally receive priority with respect to payments of principal, interest and any other amounts due thereunder. Unitranche structures combine characteristics of traditional first lien senior secured as well as second lien and subordinated loans and the Company s unitranche secured loans will expose the Company to the risks associated with second lien and subordinated loans and may limit the Company s recourse or ability to recover collateral upon a portfolio company s bankruptcy. Unitranche secured loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche secured loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases the Company, together with its affiliates, are the sole or majority lender of these unitranche secured loans, which can afford the Company additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance.

(t) A portion of this loan (principal of $5,061) 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.

(u) The PIK portion of the interest rate for Incipio Technologies, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.56% per annum.

(v)

A portion of this loan (principal of $46) 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.

(w) This is a demand note with no stated maturity.

(x) A portion of this loan (principal of $1,015) 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.

(y) A portion of this loan (principal of $1,938) is held in the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP, and is therefore not collateral to the Company s revolving credit facility.

(z) This loan is subject to a prime rate cap of 1.10%.

(aa) Represents less than 5% ownership of the portfolio company s voting securities.

(ab) Ownership of certain equity investments may occur through a holding company or partnership.

(ac) Represents a non-income producing security.

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(ad) 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 Affiliated Person (but not a portfolio company that the Company is deemed to control).

(ae) This investment is held in a wholly owned entity, MCC Holdco Equity Manager I, LLC ( MCC Holdco ), which has an independent manager who has full control over the operations of MCC Holdco, including the right to vote the shares of TPP Holdco LLC, the holding company which owns the Company s equity interest in TPP Operating, Inc. See Note 5 in the accompanying notes to the consolidated financial statements for additional information.

(af) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and to Control this portfolio company as it owns more than 25% in 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 both an Affiliated Person and a portfolio company that the Company is deemed to Control.

n/a not applicable

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# (in thousands, except for shares and units)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate | Maturity | Principal | Amortized Cost | Fair Value[c] | % of Net Assets[d] |
|---|---|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | | | |
| **Senior Secured Loans** | | | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | | | |
| Echelon Funding I, LLC (Delayed Draw)[e][f][g] | L+10.25% | 11.61 % | 2/24/2021 | 15,750 | $15,415 | $15,654 | 5.6 % |
| HFZ Capital Group, LLC[e] | L+10.00% | 11.36 % | 10/20/2019 | 18,000 | 17,613 | 17,991 | 6.5 % |
| Liftforward SPV II, LLC[e][f] | L+10.75% | 12.32 % | 11/10/2020 | 10,000 | 4,212 | 4,268 | 1.5 % |
| PKS Holdings, LLC[e] | L+9.50 % | 10.85 % | 11/30/2022 | 1,800 | 1,640 | 1,719 | 0.6 % |
| PKS Holdings, LLC (Revolver)[e][f] | L+9.50 % | 10.85 % | 11/30/2022 | 80 | | | 0.0 % |
| | | | | 45,630 | 38,880 | 39,632 | 14.2 % |
| **Beverage, Food & Tobacco** | | | | | | | |
| All Holding Company, LLC[h] | L+7.00 % | 8.57 % | 11/15/2021 | 5,328 | 5,246 | 5,368 | 1.9 % |
| California Pizza Kitchen, Inc. | L+6.00 % | 7.57 % | 8/23/2022 | 6,913 | 6,850 | 6,791 | 2.5 % |
| | | | | 12,241 | 12,096 | 12,159 | 4.4 % |
| **Construction & Building** | | | | | | | |
| Cali Bamboo, LLC | L+8.00 % | 9.57 % | 7/10/2020 | 5,319 | 5,266 | 5,319 | 1.9 % |
| Cali Bamboo, LLC (Revolver)[f] | L+8.00 % | 9.57 % | 7/10/2020 | 2,165 | 1,039 | 1,039 | 0.4 % |
| Cornerstone Detention Products, Inc.[i] | L+11.83% | 10.07% Cash/ 3.33% PIK [j] | 4/8/2019 | 3,521 | 3,501 | 3,500 | 1.3 % |
| Cornerstone Detention Products, Inc. (Revolver)[f] | L+8.50 % | 10.07 % | 4/8/2019 | 400 | 200 | 199 | 0.1 % |
| TRP Construction Group, LLC[h] | L+6.50 % | 8.07 % | 10/5/2022 | 8,000 | 7,845 | 7,992 | 2.9 % |
| TRP Construction Group, LLC (Revolver)[f] | L+6.50 % | 8.07 % | 10/5/2022 | 2,134 | | | 0.0 % |
| | | | | 21,539 | 17,851 | 18,049 | 6.6 % |
| **Consumer Goods: Durable** | | | | | | | |
| Parterre Flooring & Surface Systems, LLC[h] | L+7.25 % | 8.82 % | 8/22/2022 | 11,850 | 11,625 | 11,808 | 4.2 % |
| Parterre Flooring & Surface Systems, LLC (Revolver)[f] | L+7.25 % | 8.82 % | 8/22/2022 | 2,400 | | | 0.0 % |
| | | | | 14,250 | 11,625 | 11,808 | 4.2 % |
| **Consumer Goods: Non-Durable** | | | | | | | |
| Gibson Brands, Inc.[k] | 8.88 % | 8.88 % | 8/1/2018 | 10,000 | 8,664 | 8,435 | 3.0 % |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Solaray, LLC | L+6.50 % | 8.02 % | 9/9/2023 | 3,264 | 3,236 | 3,264 | 1.2 % |
| Solaray, LLC (Delayed Draw) | L+6.50 % | 8.19 % | 9/9/2023 | 699 | 699 | 699 | 0.3 % |
| | | | | 13,963 | 12,599 | 12,398 | 4.5% |
| **Energy: Oil & Gas** | | | | | | | |
| Landpoint, LLC | L+12.75% | 12.07% Cash/ 2.25% PIK [l] | 12/20/2019 | 2,386 | 2,372 | 2,352 | 0.8 % |
| Landpoint, LLC (Revolver)[f] | L+10.50% | 12.07 % | 12/20/2019 | 313 | | | 0.0 % |
| | | | | 2,699 | 2,372 | 2,352 | 0.8 % |
| **Environmental Industries** | | | | | | | |
| Synergy Environmental Corporation[h] | L+8.00 % | 9.57 % | 4/29/2021 | 3,011 | 2,958 | 3,036 | 1.1 % |
| Synergy Environmental Corporation[h] | L+8.00 % | 9.57 % | 4/29/2021 | 504 | 495 | 508 | 0.2 % |
| Synergy Environmental Corporation (Delayed Draw)[f][g] | L+8.00 % | 9.57 % | 4/29/2018 | 1,342 | 859 | 866 | 0.3 % |
| Synergy Environmental Corporation (Revolver)[f] | L+8.00 % | 9.57 % | 4/29/2021 | 671 | 47 | 47 | 0.0 % |
| | | | | 5,528 | 4,359 | 4,457 | 1.6 % |

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) December 31, 2017 (in thousands, except for shares and units)

(a) All of our investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940 (the 1940 Act ), unless otherwise noted. All of our investments are issued by U.S. portfolio companies 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 Rate ( Prime or P ) which reset daily, monthly, quarterly, or semiannually. F each such investment, the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith using significant unobservable inputs 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 $278,699 as of December 31, 2017.

(e) This investment is treated as a non-qualifying investment under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company s total assets. As of December 31, 2017, non-qualifying assets totaled 13.13% of the Company s total assets excluding prepaid expenses.

(f) All or a portion of this commitment was unfunded at December 31, 2017. As such, interest is earned only on the funded portion of this commitment.

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

(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 $2,113) 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 the PIK interest rate for Cornerstone Detention Products, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.33% per annum.

(k) This investment represents a senior secured note that is traded in the secondary bond market.

(l) The PIK portion of the interest rate for Landpoint, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.25% per annum.

(m) This is an international company.

(n) This term loan is denominated in Great Britain pounds and is translated into U.S. dollars as of the valuation date.

(o) A portion of the PIK interest rate for TRG, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.92% per annum.

(p) A portion of this loan (principal of $4,099) 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.

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

# CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) December 31, 2017 (in thousands, except for shares and units)

(q) A portion of the PIK interest rate for Vacation Innovations, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 1.81% per annum.

(r) The PIK portion of the interest rate for Peerless Network, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.75% per annum.

(s) A portion of this loan (principal of $4,477) 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.

(t) Represents less than 5% ownership of the portfolio company s voting securities.

(u) Ownership of certain equity investments may occur through a holding company or partnership.

(v) Represents a non-income producing security.

(w) 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 Affiliated Person (but not a portfolio company that the Company is deemed to control).

(x) This is a demand note with no stated maturity.

(y) This position was on non-accrual status as of December 31, 2017, meaning that the Company has ceased accruing interest income on the position. See Note 2 in the accompanying notes to the consolidated financial statements for additional information on the Company's accounting policies.

(z) This investment is held in a wholly owned entity, MCC Holdco Equity Manager I, LLC ( MCC Holdco ), which has an independent manager who has full control over the operations of MCC Holdco, including the right to vote the shares of TPP Holdco LLC, the holding company which owns the Company's equity interest in TPP. See Note 5 in the accompanying notes to the consolidated financial statements for additional information.

(aa) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and to Control this portfolio company as it owns more than 25% in 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 both an Affiliated Person and a portfolio company that the Company is deemed to Control.

(ab) The Company structures its unitranche secured loans as senior secured loans. The Company obtains security interests in the assets of these portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first-priority liens on the assets of a portfolio company. Generally, the Company syndicates a first out portion of the loan to an investor and retains a last out portion of the loan, in which case the first out portion of the loan will generally receive priority with respect to payments of principal, interest and any other amounts due thereunder. Unitranche structures combine characteristics of traditional first lien senior secured as well as second lien and subordinated loans and the Company s unitranche secured loans will expose the Company to the risks associated with second lien and subordinated loans and may limit the Company s recourse or ability to recover collateral upon a portfolio company s bankruptcy. Unitranche secured loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche secured loans generally allow the borrower to make a large lump sum

payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases the Company, together with its affiliates, are the sole or majority lender of these unitranche secured loans, which can afford the Company additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance.

(ac) This term loan is subject to a prime rate cap of 1.10%.

n/a not applicable

See Notes to Consolidated Financial Statements.

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# MONROE CAPITAL CORPORATION

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

## Note 1. Organization and Principal Business

Monroe Capital Corporation ( Monroe Capital and together with its subsidiaries, the Company ) was formed in February 2011 to act as an externally managed non-diversified, 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 secured (a combination of senior secured and junior secured debt in the same facility in which the Company syndicates a first out portion of the loan to an investor and retains a last out portion of the loan) debt and, to a lesser extent, unsecured subordinated debt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC ( MC Advisors ), a registered investment adviser under the Investment Advisers Act of 1940, as amended. In addition, for U.S. federal income tax purposes, Monroe Capital has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 28, 2014, the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013. As of June 30, 2018, MRCC SBIC had $57,624 in leverageable capital and $115,000 in SBA-guaranteed debentures outstanding. See Note 7 for additional information.

## Note 2. Summary of Significant Accounting Policies

## Basis of Presentation

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

# 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, MRCC Holding Company I, LLC, MRCC Holding Company II, LLC, and MRCC Holding Company III, LLC, in its consolidated financial statements. All intercompany balances and transactions have been eliminated. The Company does not consolidate its non-controlling interest in MRCC Senior Loan Fund I, LLC ( SLF ). See further description of the Company s investment in SLF in Note 3.

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# MONROE CAPITAL CORPORATION

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

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

## Fair Value of Financial Instruments

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

## Revenue Recognition

The Company s revenue recognition policies are as follows:

*Investments and related investment income:* Interest and dividend income are recorded on the accrual basis to the extent that the Company expects to collect such amounts. Interest 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 fees on loans based on the determination of whether the fee is considered a yield enhancement or payment for a service. If the fee is considered a yield enhancement associated with a funding of cash on a loan, the fee is generally deferred and recognized into interest income using the effective interest method if captured in the cost basis or using the straight-line method if the loan is unfunded and therefore there is no cost basis. If the fee is not considered a yield enhancement because a service was provided, and the fee is payment for that service, the fee is deemed earned and recognized as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions

from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the three and six months ended June 30, 2018, the Company received return of capital distributions from the Company s investment in LLC equity interest in SLF of zero and $9,500, respectively. For the three and six months ended June 30, 2017, the Company did not receive return of capital distributions from the Company s investment in LLC equity interest in SLF, as the Company did not make its investment in SLF until November 2017.

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 $6,140 and $8,005 as of June 30, 2018 and December 31, 2017, respectively. Upfront loan origination and closing fees received for the three and six months ended June 30, 2018 totaled $623 and $939, respectively. For the three and six months ended June 30, 2017, upfront loan origination and closing fees received totaled $1,287 and $1,977, respectively. For the three and six months ended June 30, 2018, interest income included $524 and $1,556 of accretion of loan origination fees, original issue discounts and market discounts or premiums, respectively. For the three and

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# MONROE CAPITAL CORPORATION

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

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

six months ended June 30, 2017, interest income included $358 and $746 of accretion of loan origination fees, original issue discounts and market discounts or premiums, respectively. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. For the three and six months ended June 30, 2018, interest income included $312 and $445 of unamortized discount or loan origination fees recorded as interest income upon prepayment of a loan or debt security, respectively. For the three and six months ended June 30, 2017, interest income included $322 and $974 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 and six months ended June 30, 2018, interest income included $327 and $656 of PIK interest, respectively. For the three and six months ended June 30, 2017, interest income included $405 and $1,018 of PIK interest, respectively. For the three and six months ended June 30, 2018, dividend income included $265 and $525 of PIK dividends, respectively. For the three and six months ended June 30, 2017, dividend income did not include PIK dividends. 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 losses 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 gain (loss) 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. Additionally, any original issue discount and market discount are no longer accreted to interest income as of the date the loan is placed on non-accrual status. 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. The fair value of the Company s investments on non-accrual status totaled $9,822 and $8,516 at June 30, 2018 and December 31, 2017, respectively.

*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

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# MONROE CAPITAL CORPORATION

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

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

valuation policy, are included as changes in unrealized gain (loss) 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 generally 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 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 stockholders 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 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 activity. 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.

## Restricted Cash

Restricted cash includes amounts held within MRCC SBIC. Cash held within an SBIC is generally restricted to the originations of new loans from the SBIC and the payment of SBA debentures and related interest expense.

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# MONROE CAPITAL CORPORATION

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

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

## Unamortized Deferred Financing Costs

Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company s borrowings. As of June 30, 2018 and December 31, 2017, the Company had unamortized deferred financing costs of $4,462 and $4,670, respectively, presented as a direct reduction of the carrying amount of debt on the consolidated statements of assets and liabilities. These amounts are amortized and included in interest expense in the consolidated statements of operations over the estimated average life of the borrowings. Amortization of deferred financing costs for the three and six months ended June 30, 2018 was $315 and $596, respectively. Amortization of deferred financing costs for the three and six months ended June 30, 2017 was $255 and $486, 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 June 30, 2018 and December 31, 2017, other assets on the consolidated statements of assets and liabilities included $537 and $494, respectively, of deferred offering costs which will be charged against the proceeds from future equity offerings when received.

## Investments Denominated in Foreign Currency

As of June 30, 2018, the Company held investments in two portfolio companies that were denominated in Great Britain pounds.

At each balance sheet date, portfolio company investments denominated in foreign currencies are translated into U.S. dollars using the spot exchange rate on the last business day of the period. Purchases and sales of foreign portfolio company investments, and any income from such investments, are translated into U.S. dollars using the rates of exchange prevailing on the respective dates of such transactions.

Although the fair values of foreign portfolio company investments and the fluctuation in such fair values are translated into U.S. dollars using the applicable foreign exchange rates described above, the Company does not isolate that portion of the change in fair values resulting from foreign currency exchange rates fluctuations from the change in fair values of the underlying investment. All fluctuations in fair value are included in net change in unrealized gain (loss)

of investments in the Company s consolidated statements of operations.

Investments denominated in foreign currencies and foreign currency transactions may involve certain consideration and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. dollar.

# 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 stockholders, 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 stockholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes

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# MONROE CAPITAL CORPORATION

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

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

on income. The Company will also be subject to nondeductible federal excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which it paid no federal income taxes. To the extent that the Company determines that its estimated current year annual taxable income may exceed estimated current year dividend distributions, the Company accrues excise tax, if any, calculated as 4% of the estimated excess taxable income as taxable income is earned. For the three and six months ended June 30, 2018, zero and $11, respectively, were recorded on the consolidated statements of operations for U.S. federal excise taxes. For the three and six months ended June 30, 2017, zero and zero, respectively, were recorded on the consolidated statements of operations for U.S. federal excise taxes. As of June 30, 2018 and December 31, 2017, payables for excise taxes of zero and $80, respectively, were included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

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 June 30, 2018. The 2014 through 2017 tax years remain subject to examination by U.S. federal and state tax authorities.

## Subsequent Events

The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the consolidated financial statements were issued. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of and for the six months ended June 30, 2018.

## Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) ( ASU 2014-09 ). The core principle of ASU 2014-09 is that an entity should recognize

revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 also specified the accounting for some costs to obtain or fulfill a contract with a customer. In addition, ASU 2014-09 requires that an entity disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The initial effective date of ASU 2014-09 was for fiscal periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC Topic 606): *Deferral of the Effective Date*, which deferred the effective date to fiscal periods beginning after December 15, 2017. The Company has adopted ASU 2014-09, and the adoption did not have a material impact on the Company s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it

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# MONROE CAPITAL CORPORATION

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

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

significantly revises an entity s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. The Company has adopted ASU 2016-01, and the adoption did not have a material impact on the Company s consolidated financial statements.

## Note 3. Investments

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **Amortized Cost:** | | | | |
| Senior secured loans | $ 405,020 | 77.5 % | $ 399,770 | 78.8 % |
| Unitranche secured loans | 51,879 | 9.9 | 40,661 | 8.0 |
| Junior secured loans | 29,636 | 5.7 | 40,449 | 8.0 |
| LLC equity interest in SLF | 17,850 | 3.4 | 9,500 | 1.8 |
| Equity securities | 18,349 | 3.5 | 17,200 | 3.4 |
| Total | $ 522,734 | 100.0 % | $ 507,580 | 100.0 % |

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **Fair Value:** | | | | |
| Senior secured loans | $ 387,639 | 77.8 % | $ 387,874 | 78.5 % |
| Unitranche secured loans | 51,485 | 10.3 | 40,295 | 8.2 |
| Junior secured loans | 28,515 | 5.7 | 38,549 | 7.8 |
| LLC equity interest in SLF | 18,693 | 3.8 | 9,640 | 1.9 |
| Equity securities | 11,903 | 2.4 | 17,780 | 3.6 |
| Total | $ 498,235 | 100.0 % | $ 494,138 | 100.0 % |

The following tables show 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:

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **Amortized Cost:** | | | | |
| International | $ 18,885 | 3.6 % | $ 13,858 | 2.7 % |
| Midwest | 98,704 | 18.9 | 91,160 | 18.0 |
| Northeast | 149,107 | 28.5 | 142,742 | 28.1 |
| Southeast | 83,066 | 15.9 | 84,108 | 16.6 |
| Southwest | 58,746 | 11.2 | 59,335 | 11.7 |
| West | 114,226 | 21.9 | 116,377 | 22.9 |
| Total | $ 522,734 | 100.0 % | $ 507,580 | 100.0 % |

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| **Fair Value:** | | | | | | |
| International | $ 19,517 | 3.9 | % | $ 14,632 | 3.0 | % |
| Midwest | 99,399 | 20.0 | | 90,399 | 18.3 | |
| Northeast | 149,899 | 30.1 | | 143,942 | 29.1 | |
| Southeast | 82,459 | 16.5 | | 85,293 | 17.3 | |
| Southwest | 36,904 | 7.4 | | 47,968 | 9.7 | |
| West | 110,057 | 22.1 | | 111,904 | 22.6 | |
| Total | $ 498,235 | 100.0 | % | $ 494,138 | 100.0 | % |

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

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| **Amortized Cost:** | | | | | | |
| Aerospace & Defense | $ | | % | $ 4,943 | 1.0 | % |
| Banking, Finance, Insurance & Real Estate | 60,682 | 11.6 | | 60,519 | 11.9 | |
| Beverage, Food & Tobacco | 17,797 | 3.4 | | 17,888 | 3.5 | |
| Capital Equipment | 2,923 | 0.6 | | | | |
| Chemicals, Plastics & Rubber | 12,708 | 2.4 | | 8,734 | 1.7 | |
| Construction & Building | 17,469 | 3.4 | | 17,851 | 3.5 | |
| Consumer Goods: Durable | 15,313 | 2.9 | | 11,625 | 2.3 | |
| Consumer Goods: Non-Durable | 36,721 | 7.0 | | 29,982 | 5.9 | |
| Containers, Packaging & Glass | 8,513 | 1.6 | | 5,084 | 1.0 | |
| Energy: Oil & Gas | 2,265 | 0.4 | | 2,372 | 0.5 | |
| Environmental Industries | 4,309 | 0.8 | | 4,359 | 0.9 | |
| Healthcare & Pharmaceuticals | 60,243 | 11.5 | | 59,613 | 11.7 | |
| High Tech Industries | 54,434 | 10.4 | | 46,124 | 9.1 | |
| Hotels, Gaming & Leisure | 25,147 | 4.8 | | 41,924 | 8.2 | |
| Investment Funds & Vehicles | 17,850 | 3.4 | | 9,500 | 1.9 | |
| Media: Advertising, Printing & Publishing | 25,945 | 5.0 | | 22,647 | 4.5 | |
| Media: Broadcasting & Subscription | 14,803 | 2.8 | | 15,712 | 3.1 | |
| Media: Diversified & Production | 4,951 | 1.0 | | 4,947 | 1.0 | |
| Retail | 59,900 | 11.5 | | 60,005 | 11.8 | |

| | | | | |
|---|---|---|---|---|
| Services: Business | 32,923 | 6.3 | 33,350 | 6.6 |
| Services: Consumer | 18,720 | 3.6 | 21,263 | 4.2 |
| Telecommunications | | | 3,089 | 0.6 |
| Utilities: Electric | 2,760 | 0.5 | 2,759 | 0.5 |
| Utilities: Water | 932 | 0.2 | | |
| Wholesale | 25,426 | 4.9 | 23,290 | 4.6 |
| Total | $ 522,734 | 100.0 % | $ 507,580 | 100.0 % |

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

| | June 30, 2018 | | December 31, 2017 | | |
|---|---|---|---|---|---|
| **Fair Value:** | | | | | |
| Aerospace & Defense | $ | % | $ 5,000 | 1.0 | % |
| Banking, Finance, Insurance & Real Estate | 61,442 | 12.3 | 61,407 | 12.4 | |
| Beverage, Food & Tobacco | 17,340 | 3.5 | 17,770 | 3.6 | |
| Capital Equipment | 2,969 | 0.6 | | | |
| Chemicals, Plastics & Rubber | 12,785 | 2.6 | 8,860 | 1.8 | |
| Construction & Building | 17,652 | 3.5 | 18,049 | 3.7 | |
| Consumer Goods: Durable | 15,551 | 3.1 | 11,808 | 2.4 | |
| Consumer Goods: Non-Durable | 31,773 | 6.4 | 24,717 | 5.0 | |
| Containers, Packaging & Glass | 8,382 | 1.7 | 4,928 | 1.0 | |
| Energy: Oil & Gas | 2,234 | 0.4 | 2,352 | 0.5 | |
| Environmental Industries | 4,364 | 0.9 | 4,457 | 0.9 | |
| Healthcare & Pharmaceuticals | 63,972 | 12.8 | 65,582 | 13.3 | |
| High Tech Industries | 53,931 | 10.8 | 46,239 | 9.4 | |
| Hotels, Gaming & Leisure | 26,209 | 5.3 | 42,744 | 8.6 | |
| Investment Funds & Vehicles | 18,693 | 3.8 | 9,640 | 2.0 | |
| Media: Advertising, Printing & Publishing | 26,830 | 5.4 | 23,264 | 4.7 | |
| Media: Broadcasting & Subscription | 15,003 | 3.0 | 15,965 | 3.2 | |
| Media: Diversified & Production | 5,006 | 1.0 | 5,006 | 1.0 | |
| Retail | 33,141 | 6.6 | 41,644 | 8.4 | |
| Services: Business | 33,094 | 6.6 | 33,732 | 6.8 | |
| Services: Consumer | 18,207 | 3.7 | 21,474 | 4.3 | |
| Telecommunications | | | 3,152 | 0.6 | |
| Utilities: Electric | 2,785 | 0.6 | 2,792 | 0.6 | |
| Utilities: Water | 932 | 0.2 | | | |
| Wholesale | 25,940 | 5.2 | 23,556 | 4.8 | |
| Total | $ 498,235 | 100.0 % | $ 494,138 | 100.0 | % |

## MRCC Senior Loan Fund I, LLC

The Company co-invests with NLV Financial Corporation ( NLV ), in senior secured loans through SLF, an unconsolidated Delaware limited liability company. SLF is capitalized as underlying investment transactions are completed, taking into account available debt and equity commitments available for funding these investments. All portfolio and investment decisions in respect to SLF must be approved by the SLF investment committee, consisting

of one representative from the Company and one representative from NLV. SLF may cease making new investments upon notification of either member, but operations will continue until all investments have been sold or paid-off in the normal course of business. Investments held by SLF are measured at fair value using the same valuation methodologies as described in Note 4. The Company s investment is illiquid in nature as SLF does not allow for withdrawal from the LLC or the sale of a member s interest unless approved by the board of members of SLF. The full withdrawal of a member would result in an orderly wind-down of SLF.

SLF s profits and losses are allocated to the Company and NLV in accordance with their respective ownership interests. As of both June 30, 2018 and December 31, 2017, the Company and NLV each owned 50.0% of the LLC equity interests of SLF. As of June 30, 2018, SLF had $100,000 in equity commitments

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

from its members (in the aggregate), of which $35,700 was funded. As of December 31, 2017, SLF had $100,000 in commitments from its members (in the aggregate), of which $19,000 was funded.

As of both June 30, 2018 and December 31, 2017, the Company had committed to fund $50,000 of LLC equity interest subscriptions to SLF. As of June 30, 2018 and December 31, 2017, $17,850 and $9,500 of the Company s LLC equity interest subscriptions to SLF had been called and contributed, net of return of capital distributions subject to recall, respectively.

For the three and six months ended June 30, 2018, the Company received $350 and $525 dividend income from the SLF LLC equity interests, respectively. For the three and six months ended June 30, 2017, the Company did not receive dividend income from the SLF LLC equity interests, as the Company did not make its investment in SLF until November 2017.

SLF has entered into a senior secured revolving credit facility (as amended, the SLF Credit Facility ) with Capital One, N.A., through its wholly-owned subsidiary MRCC Senior Loan Fund I Financing SPV, LLC ( SLF SPV ), which as of June 30, 2018 allowed SLF SPV to borrow up to $100,000 at any one time, subject to leverage and borrowing base restrictions. Borrowings under the SLF Credit Facility bear interest at an annual rate of LIBOR (three-month) plus 2.25%. The maturity date on the SLF Credit Facility is March 22, 2023.

SLF does not pay any fees to MC Advisors or its affiliates; however, SLF has entered into an administration agreement with MC Management, pursuant to which certain loan servicing and administrative functions are delegated to MC Management. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF through June 30, 2018. There are no agreements or understandings by which we guarantee any SLF obligations.

As of June 30, 2018 and December 31, 2017, SLF had total assets at fair value of $98,627 and $41,641, respectively. As of June 30, 2018 and December 31, 2017, SLF had zero and zero portfolio company investments on non-accrual status, respectively. The portfolio companies in SLF are in industries and geographies similar to those in which the Company may invest directly. Additionally, as of June 30, 2018 and December 31, 2017, SLF had commitments to fund various undrawn revolvers and delayed draw investments to its portfolio companies totaling $5,205 and $2,083, respectively.

Below is a summary of SLF s portfolio, followed by a listing of the individual investments in SLF s portfolio as of June 30, 2018 and December 31, 2017:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Senior secured loans[1] | 94,729 | 29,438 |
| Weighted average current interest rate on senior secured loans[2] | 7.5 % | 7.1 % |
| Number of borrowers in SLF | 28 | 8 |

(1) Represents outstanding principal amount, excluding unfunded commitments.

(2) Computed as the (a) annual stated interest rate on accruing senior secured loans divided by (b) total senior secured loans at outstanding principal amount.

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

# MRCC SENIOR LOAN FUND I, LLC

# CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) June 30, 2018

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Aerospace & Defense** | | | | | |
| MAG Aerospace Industries, Inc.[c] | L+4.75 % | 6.84 % | 6/06/2025 | 3,300 | $ 3,292 |
| The KEYW Corporation | L+4.50 % | 6.53 % | 5/08/2024 | 1,600 | 1,614 |
| | | | | 4,900 | 4,906 |
| **Automotive** | | | | | |
| Wheel Pros, LLC | L+4.75 % | 6.75 % | 4/04/2025 | 4,000 | 3,990 |
| | | | | 4,000 | 3,990 |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| MTC Intermediate Holdco, Inc. | L+4.75 % | 6.84 % | 1/30/2023 | 4,988 | 4,988 |
| Zenith Merger Sub, Inc | L+5.50 % | 7.83 % | 12/13/2023 | 3,731 | 3,731 |
| | | | | 8,719 | 8,719 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50 % | 8.59 % | 11/10/2022 | 4,947 | 4,944 |
| US Salt, LLC | L+4.75 % | 6.84 % | 11/30/2023 | 3,491 | 3,491 |
| | | | | 8,438 | 8,435 |
| **Capital Equipment** | | | | | |
| Analogic Corp | L+6.00 % | 8.08 % | 6/24/2024 | 5,000 | 4,950 |
| | | | | 5,000 | 4,950 |

| | | | | | |
|---|---|---|---|---|---|
| **Chemicals, Plastics & Rubber** | | | | | |
| Loparex International B.V. | L+4.25 % | 6.58 % | 4/11/2025 | 500 | 503 |
| Peach State Labs, LLC | L+6.25 % | 8.24 % | 6/30/2021 | 2,869 | 2,891 |
| | | | | 3,369 | 3,394 |
| **Construction & Building** | | | | | |
| Fastener Acquisition, Inc. | L+4.25 % | 6.34 % | 3/18/2025 | 1,330 | 1,333 |
| | | | | 1,330 | 1,333 |
| **Consumer Goods: Durable** | | | | | |
| International Textile Group, Inc. | L+5.00 % | 6.98 % | 5/1/2024 | 1,875 | 1,889 |
| | | | | 1,875 | 1,889 |
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50 % | 8.82 % | 9/11/2023 | 1,617 | 1,617 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50 % | 8.82 % | 9/11/2023 | 1,873 | 1,185 |
| | | | | 3,490 | 2,802 |
| **Containers, Packaging & Glass** | | | | | |
| Port Townsend Holdings Company, Inc. | L+4.75 % | 6.75 % | 4/03/2024 | 4,407 | 4,412 |
| | | | | 4,407 | 4,412 |

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Healthcare & Pharmaceuticals** | | | | | |
| LSCS Holdings, Inc. | L+4.25% | 6.34% | 3/17/2025 | 2,793 | 2,793 |
| LSCS Holdings, Inc. (Delayed Draw)[d] | L+4.25% | 6.34% | 3/17/2025 | 700 | 553 |
| Radiology Partners Holdings, LLC | P+4.75% | 9.75% | 12/04/2023 | 2,092 | 2,099 |
| Radiology Partners Holdings, LLC (Delayed Draw)[d] | P+4.75% | 9.75% | 12/04/2023 | 775 | |
| Solara Medical Supplies, LLC | L+6.00% | 8.31% | 5/31/2023 | 5,714 | 5,717 |
| Solara Medical Supplies, LLC (Delayed Draw)[d] | L+6.00% | 8.31% | 5/31/2023 | 1,071 | |
| Solara Medical Supplies, LLC (Revolver)[d] | L+6.00% | 8.31% | 5/31/2023 | 714 | |
| | | | | 13,859 | 11,162 |
| **High Tech Industries** | | | | | |
| Corel Corporation[c] | L+5.00% | 7.09% | 6/04/2024 | 2,500 | 2,512 |
| Gigamon, Inc. | L+4.50% | 6.83% | 12/27/2024 | 2,985 | 3,011 |
| | | | | 5,485 | 5,523 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC | L+5.50% | 7.86% | 12/20/2024 | 6,965 | 6,861 |
| | | | | 6,965 | 6,861 |
| **Services: Business** | | | | | |
| CHA Holdings, Inc. | L+4.50% | 6.58% | 4/10/2025 | 2,054 | 2,059 |
| CHA Holdings, Inc. (Delayed Draw)[d] | L+4.50% | 6.58% | 4/10/2025 | 446 | |
| Engage2Excel, Inc. | L+6.50% | 8.63% | 3/07/2023 | 4,364 | 4,392 |
| Engage2Excel, Inc. (Revolver)[d] | L+6.50% | 8.55% | 3/07/2023 | 545 | 36 |
| GI Revelation Acquisition LLC | L+5.00% | 7.09% | 4/16/2025 | 1,400 | 1,413 |
| Output Services Group, Inc. | L+4.25% | 6.34% | 3/27/2024 | 4,135 | 4,176 |
| Output Services Group, Inc. (Delayed Draw)[d] | L+4.25% | 6.34% | 3/27/2024 | 855 | |
| | | | | 13,799 | 12,076 |
| **Services: Consumer** | | | | | |
| EWC Ventures, LLC | L+5.50% | 7.59% | 1/18/2023 | 3,333 | 3,342 |
| LegalZoom.com, Inc. | L+4.50% | 6.59% | 11/21/2024 | 1,990 | 2,002 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 5,323 | 5,344 |
| **Telecommunications** | | | | | |
| Mavenir Systems, Inc. | L+6.00% | 8.03% | 5/08/2025 | 4,000 | 4,010 |
| | | | | 4,000 | 4,010 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc. | L+5.25% | 7.70% | 12/30/2024 | 4,975 | 5,012 |
| | | | | 4,975 | 5,012 |
| **TOTAL INVESTMENTS** | | | | | **$94,818** |

(a) All investments are U.S. companies, except for Loparex International B.V.

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

(b) The majority of investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ( LIBOR or L ) or Prime Rate ( Prime or P ) which reset daily, quarterly or semiannually. The Compa has provided the spread over LIBOR or Prime and the current contractual rate of interest in effect at June 30, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of June 30, 2018.

(d) All or a portion of this commitment was unfunded as of June 30, 2018. Principal reflects the commitment outstanding.

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

# MRCC SENIOR LOAN FUND I, LLC

# SCHEDULE OF INVESTMENTS December 31, 2017

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,056 | $1,045 |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,257 | 1,244 |
| Clearent Holdings LLC and Clearent, LLC[c][d] | P+3.75 % | 8.25 % | 1/02/2024 | 208 | |
| | | | | 2,521 | 2,289 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50 % | 8.07 % | 11/10/2022 | 5,000 | 5,008 |
| US Salt, LLC[c] | L+4.75 % | 6.18 % | 11/30/2023 | 3,500 | 3,500 |
| | | | | 8,500 | 8,508 |
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50 % | 8.02 % | 9/11/2023 | 1,625 | 1,625 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50 % | 8.02 % | 9/11/2023 | 1,875 | |
| | | | | 3,500 | 1,625 |
| **High Tech Industries** | | | | | |
| Gigamon, Inc.[c] | L+4.50 % | 6.03 % | 12/27/2024 | 3,000 | 2,985 |
| | | | | 3,000 | 2,985 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC[c] | L+5.50 % | 7.13 % | 12/20/2024 | 7,000 | 6,714 |
| | | | | 7,000 | 6,714 |

| | | | | | |
|---|---|---|---|---|---|
| **Services: Consumer** | | | | | |
| LegalZoom.com, Inc.[c] | L+4.50% | 5.94% | 11/21/2024 | 2,000 | 2,005 |
| | | | | 2,000 | 2,005 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc.[c] | L+5.25% | 6.94% | 12/28/2024 | 5,000 | 5,000 |
| | | | | 5,000 | 5,000 |
| **TOTAL INVESTMENTS** | | | | | **$29,126** |

(a) All investments are U.S. companies.

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

(b) The majority of investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ( LIBOR or L ) or Prime Rate ( Prime or P ) which reset daily, quarterly or semiannually. The Compa has provided the spread over LIBOR or Prime and the current contractual rate of interest in effect at December 31, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of December 31, 2017.

(d) All or a portion of this commitment was unfunded as of December 31, 2017. Principal reflects the commitment outstanding.

Below is certain summarized financial information for SLF as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017:

| | June 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Investments, at fair value | $ 94,818 | $ 29,126 |
| Cash | 471 | 12,504 |
| Restricted cash | 3,074 | |
| Interest receivable | 264 | 11 |
| **Total assets** | $ 98,627 | $ 41,641 |
| **Liabilities** | | |
| Revolving credit facility | $ 56,412 | $ |
| Less: Unamortized deferred financing costs | (1,244 ) | |
| Total debt, less unamortized deferred financing costs | 55,168 | |
| Payable for open trades | 5,742 | 22,304 |
| Interest payable | 223 | |
| Accounts payable and accrued expenses | 108 | 57 |
| **Total liabilities** | 61,241 | 22,361 |
| **Members capital** | 37,386 | 19,280 |
| **Total liabilities and members capital** | $ 98,627 | $ 41,641 |

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# MONROE CAPITAL CORPORATION

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

## Note 3. Investments (continued)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 (unaudited) | 2017[1] | 2018 (unaudited) | 2017[1] |
| **Investment income:** | | | | |
| Interest income | $ 1,399 | $ | $ 2,179 | $ |
| **Total investment income** | 1,399 | | 2,179 | |
| **Expenses:** | | | | |
| Interest and other debt financing expenses | 605 | | 649 | |
| Organizational costs | 5 | | 11 | |
| Professional fees | 22 | | 62 | |
| **Total expenses** | 632 | | 722 | |
| **Net investment income (loss)** | 767 | | 1,457 | |
| **Net gain (loss) on investments:** | | | | |
| Net change in unrealized gain (loss) on investments | 454 | | 999 | |
| **Net gain (loss) on investments** | 454 | | 999 | |
| **Net increase (decrease) in members capital** | $ 1,221 | $ | $ 2,456 | $ |

(1) SLF commenced operations on November 14, 2017.

## 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. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the assets or liabilities or market and the assets or liabilities complexity.

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 at the measurement date.

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

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

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. This includes situations where there is little, if any, market activity for the assets or liabilities. The inputs into the determination of fair value are based upon the best information available and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset s or liability s categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. All investments, with the exception of investments measured at fair value using net asset value ( NAV ), as of June 30, 2018 and December 31, 2017 were categorized as Level 3 investments.

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, but are generally received quarterly;
- 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 accompanying consolidated schedules of investments held by the Company consist primarily of private debt instruments ( Level 3 debt ). The Company generally uses the income 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 generally 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.

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

Under the income 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 income 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.

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.

In addition, for certain debt investments, the Company may base its valuation on indicative bid and ask prices provided by an independent third-party pricing service. Bid prices reflect the highest price that the Company and others may be willing to pay. Ask prices represent the lowest price that the Company and others may be willing to accept. The Company generally uses the midpoint of the bid/ask range as its best estimate of fair value of such investment.

## 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 gain (loss) 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.

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

## Fair Value Disclosures

The following table presents fair value measurements of investments and secured borrowings, by major class, as of June 30, 2018, according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Senior secured loans | $ | $ | $ 387,639 | $ 387,639 |
| Unitranche secured loans | | | 51,485 | 51,485 |
| Junior secured loans | | | 28,515 | 28,515 |
| Equity securities | | | 11,903 | 11,903 |
| Investments measured at NAV[(1)(2)] | | | | 18,693 |
| Total Investments | $ | $ | $ 479,542 | $ 498,235 |

(1) Certain investments that are measured at fair value using the NAV have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of assets and liabilities.

(2) Represents the Company s investment in LLC equity interests in SLF. The fair value of this investment has been determined using the NAV of the Company s ownership interest in members capital.

The following table presents fair value measurements of investments and secured borrowings, by major class, as of December 31, 2017, according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Senior secured loans | $ | $ | $ 387,874 | $ 387,874 |
| Unitranche secured loans | | | 40,295 | 40,295 |
| Junior secured loans | | | 38,549 | 38,549 |
| Equity securities | | | 17,780 | 17,780 |
| Investments measured at NAV[(1)(2)] | | | | 9,640 |

| | | | | |
|---|---|---|---|---|
| Total Investments | $ | $ | $ 484,498 | $ 494,138 |

(1) Certain investments that are measured at fair value using the NAV have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of assets and liabilities.

(2) Represents the Company s investment in LLC equity interests in SLF. The fair value of this investment has been determined using the NAV of the Company s ownership interest in members capital.

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. Excluding loans on non-accrual, the contractual interest rates on the loans ranged between 7.09% to 16.59% at June 30, 2018 and 6.57% to 15.00% at December 31, 2017. The maturity dates on the loans outstanding at June 30, 2018 range between September 2018 and August 2025.

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

The following tables provide a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the three and six months ended June 30, 2018:

| | Investments | | | | | |
|---|---|---|---|---|---|---|
| | Senior secured loans | Unitranche secured loans | Junior secured loans | Equity securities | Total investments | Secured borrowings |
| Balance as of March 31, 2018 | $380,115 | $45,976 | $38,578 | $15,032 | $479,701 | $ |
| Net change in unrealized gain (loss) on investments | (1,559) | 109 | 796 | (4,018) | (4,672) | |
| Net realized gain (loss) on investments | | | | | | |
| Purchases of investments and other adjustments to cost[1] | 32,886 | 5,501 | 46 | 889 | 39,322 | |
| Proceeds from principal payments and sales on investments[2] | (23,803) | (101) | (10,905) | | (34,809) | |
| Net change in unrealized gain (loss) on secured borrowings | | | | | | |
| Repayments on secured borrowings | | | | | | |
| Net realized (gain) loss on secured borrowings | | | | | | |
| Balance as of June 30, 2018 | $387,639 | $51,485 | $28,515 | $11,903 | $479,542 | $ |

| | Investments | | | | | |
|---|---|---|---|---|---|---|
| | Senior secured loans | Unitranche secured loans | Junior secured loans | Equity securities | Total investments | Secured borrowings |
| Balance as of December 31, 2017 | $387,874 | $40,295 | $38,549 | $17,780 | $484,498 | $ |
| Net change in unrealized gain (loss) on investments | (5,486) | (27) | 779 | (7,026) | (11,760) | |
| Net realized gain (loss) on investments | | | | | | |
| Purchases of investments and other adjustments to cost[1] | 44,910 | 11,520 | 93 | 1,149 | 57,672 | |
| | (39,659) | (303) | (10,906) | | (50,868) | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Proceeds from principal payments and sales on investments[2] | | | | | | |
| Net change in unrealized gain (loss) on secured borrowings | | | | | | |
| Repayments on secured borrowings | | | | | | |
| Net realized (gain) loss on secured borrowings | | | | | | |
| Balance as of June 30, 2018 | $387,639 | $51,485 | $28,515 | $11,903 | $479,542 | $ |

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

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

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

The following tables provide a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the three and six months ended June 30, 2017:

| | Investments | | | | | |
|---|---|---|---|---|---|---|
| | Senior secured loans | Unitranche secured loans | Junior secured loans | Equity securities | Total investments | Secured borrowings |
| Balance as of March 31, 2017 | $300,223 | $50,465 | $42,260 | $25,201 | $418,149 | $1,315 |
| Reclassifications[1] | (2,795) | | 382 | 2,413 | | |
| Net change in unrealized gain (loss) on investments | 384 | 938 | (25) | (8,567) | (7,270) | |
| Net realized gain (loss) on investments | | | | 2,161 | 2,161 | |
| Purchases of investments and other adjustments to cost[2] | 69,640 | 4,432 | 53 | | 74,125 | |
| Proceeds from principal payments and sales on investments[3] | (15,961) | (18,533) | (4,961) | (2,161) | (41,616) | |
| Net change in unrealized gain (loss) on secured borrowings | | | | | | 5 |
| Repayments on secured borrowings | | | | | | (1,254) |
| Net realized (gain) loss on secured borrowings | | | | | | (66) |
| Balance as of June 30, 2017 | $351,491 | $37,302 | $37,709 | $19,047 | $445,549 | $ |

| | Investments | | | | | |
|---|---|---|---|---|---|---|
| | Senior secured loans | Unitranche secured loans | Junior secured loans | Equity securities | Total investments | Secured borrowings |
| Balance as of December 31, 2016 | $275,253 | $51,638 | $59,366 | $26,663 | $412,920 | $1,314 |
| Reclassifications[1] | (2,795) | | 382 | 2,413 | | |
| Net change in unrealized gain (loss) on investments | (1,857) | 828 | 157 | (10,029) | (10,901) | |
| | 41 | | | 2,287 | 2,328 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net realized gain (loss) on investments | | | | | | |
| Purchases of investments and other adjustments to cost[2] | 111,796 | 4,664 | 202 | | 116,662 | |
| Proceeds from principal payments and sales on investments[3] | (30,947 ) | (19,828) | (22,398) | (2,287 ) | (75,460 ) | |
| Net change in unrealized gain (loss) on secured borrowings | | | | | | 6 |
| Repayments on secured borrowings | | | | | | (1,254) |
| Net realized (gain) loss on secured borrowings | | | | | | (66 ) |
| Balance as of June 30, 2017 | $351,491 | $37,302 | $37,709 | $19,047 | $445,549 | $ |

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

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

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

The total change in unrealized gain (loss) included in the consolidated statements of operations within net change in unrealized gain (loss) on investments for the three and six months ended June 30, 2018, attributable to Level 3 investments still held at June 30, 2018, was ($4,331) and ($10,580), respectively. The total change in unrealized gain (loss) included in the consolidated statements of operations within net change in unrealized gain (loss) on investments for the three and six months ended June 30, 2017, attributable to Level 3

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

investments still held at June 30, 2017, was ($7,373) and ($10,152), respectively. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of Level 3 as of the beginning of the period which the reclassifications occur. There were no transfers among Levels 1, 2 and 3 during the three and six months ended June 30, 2018 and 2017.

## 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 June 30, 2018 were as follows:

| | Fair Value | Valuation Technique | Unobservable Input | Weighted Average Mean | Range Minimum | Range Maximum |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Senior secured loans | $256,145 | Discounted cash flow | EBITDA multiples | 7.2x | 4.3x | 13.5x |
| | | | Market yields | 11.6% | 8.3% | 17.3% |
| Senior secured loans | 38,695 | Discounted cash flow | Revenue multiples | 2.7x | 0.4x | 3.8x |
| | | | Market yields | 11.6% | 9.0% | 17.8% |
| Senior secured loans | 15,941 | Waterfall | Delinquency ratio | 0.0% | 0.0% | 0.0% |
| Senior secured loans | 12,877 | Discounted cash flow | Tangible book value multiples | 1.4x | 1.4x | 1.4x |
| | | | Market yields | 16.3% | 14.7% | 18.8% |
| Senior secured loans | 9,533 | | | 7.4x | 6.8x | 8.3x |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Enterprise value | EBITDA multiples | | | |
| Senior secured loans | 188 | Liquidation | Net realizable value of assets | 33.8% | 33.8% | 33.8% |
| Senior secured loans | 22,003 | Enterprise value | Revenue multiples | 0.3x | 0.3x | 0.3x |
| Unitranche secured loans | 51,186 | Discounted cash flow | EBITDA multiples | 6.6x | 3.8x | 9.0x |
| | | | Market yields | 13.4% | 10.0% | 21.6% |
| Unitranche secured loans | 299 | Enterprise value | EBITDA multiples | 9.0x | 9.0x | 9.0x |
| Junior secured loans | 625 | Discounted cash flow | EBITDA multiples | 2.8x | 2.8x | 2.8x |
| | | | Market yields | 14.0% | 14.0% | 14.0% |
| Junior secured loans | 1,143 | Enterprise value | EBITDA multiples | 3.8x | 3.8x | 3.8x |
| Equity securities | 8,346 | Discounted cash flow | EBITDA multiples | 2.8x | 2.8x | 2.8x |
| | | | Market yields | 24.0% | 24.0% | 24.0% |
| Equity securities | 219 | Enterprise value | Revenue multiples | 2.5x | 0.3x | 2.5x |
| Equity securities | 2,335 | Enterprise value | EBITDA multiples | 7.1x | 4.3x | 10.5x |
| Equity securities | 161 | Enterprise value | Tangible book value multiples | 1.4x | 1.4x | 1.4x |
| **Total Level 3 Assets** | **$419,696** [(1)] | | | | | |

(1) Excludes loans of $59,846 at fair value where valuation (unadjusted) is obtained from a third-party pricing service for which such disclosure is not required.

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets and liabilities as of December 31, 2017 were as follows:

| | Fair Value | Valuation Technique | Unobservable Input | Weighted Average Mean | Range Minimum | Range Maximum |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Senior secured loans | $300,882 | Discounted cash flow | EBITDA multiples | 6.8x | 3.8x | 14.0x |
| | | | Market yields | 11.6% | 8.1% | 23.5% |
| Senior secured loans | 15,654 | Waterfall | Delinquency ratio | 0.0% | 0.0% | 0.0% |
| Senior secured loans | 12,967 | Discounted cash flow | Tangible book value multiples | 1.3x | 1.2x | 1.3x |
| | | | Market yields | 14.5% | 10.3% | 19.9% |
| Senior secured loans | 9,516 | Discounted cash flow | Revenue multiples | 4.0x | 3.8x | 4.3x |
| | | | Market yields | 8.8% | 8.4% | 9.2% |
| Senior secured loans | 8,718 | Enterprise value | EBITDA multiples | 7.5x | 6.0x | 9.3x |
| Senior secured loans | 8,516 | Enterprise value | Revenue multiples | 0.3x | 0.3x | 0.6x |
| Unitranche secured loans | 40,000 | Discounted cash flow | EBITDA multiples | 6.2x | 3.8x | 8.5x |
| | | | Market yields | 15.0% | 8.8% | 23.0% |
| Unitranche secured loans | 295 | Enterprise value | EBITDA multiples | 5.0x | 4.5x | 5.5x |
| Junior secured loans | 5,625 | Discounted cash flow | EBITDA multiples | 9.1x | 3.8x | 10.3x |
| | | | Market yields | 11.1% | 10.2% | 14.0% |
| Equity securities | 8,429 | Discounted cash flow | EBITDA multiples | 4.0x | 3.8x | 4.3x |
| | | | Market yields | 21.0% | 20.0% | 22.0% |
| Equity securities | 5,892 | | | 0.4x | 0.4x | 2.7x |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Enterprise value | Revenue multiples | | | |
| Equity securities | 1,767 | Enterprise value | EBITDA multiples | 6.8x | 4.5x | 9.0x |
| Equity securities | 353 | Enterprise value | Tangible book value multiples | 1.3x | 1.2x | 1.3x |
| **Total Level 3 Assets** | **$418,614**[(1)] | | | | | |

(1) Excludes loans of $65,884 at fair value where valuation (unadjusted) is obtained from a third-party pricing service for which such disclosure is not required.

The significant unobservable inputs used in the income approach of fair value measurement of the Company s 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. 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.

The significant unobservable inputs used in the market approach of fair value measurement of the Company s 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 or revenue 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 or revenue of the portfolio company (or other meaningful measure). 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.

## 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

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# MONROE CAPITAL CORPORATION

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

## Note 4. Fair Value Measurements (continued)

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 June 30, 2018 and December 31, 2017, the fair value of the Company s SBA debentures using Level 3 inputs were estimated at $115,000 and $109,520, respectively, 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 interest of 5% or more of its voting securities. A controlled affiliate company is a company in which the Company has an ownership interest of more than 25% of its voting securities. Please see the Company s consolidated schedule of investments for the type of investment, principal amount, interest rate including the spread, and the maturity date. Transactions related to the Company s investments with affiliates for the six months ended June 30, 2018 and 2017 were as follows:

| Portfolio Company | Fair value at December 31, 2017 | Transfers in (out) | Purchases (cost) | Sales and paydowns (cost) | PIK interest (cost) | Discount accretion | Net realized gain (loss) | Net unrealized gain (loss) | Fair value at June 30, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Non-controlled affiliate company investments: | | | | | | | | | |
| American Community Homes, Inc. | $7,441 | $ | $ | $(331 ) | $ | $22 | $ | $183 | $7,315 |
| American Community Homes, Inc. | 4,329 | | | (165 ) | 99 | 10 | | 57 | 4,330 |
| American Community Homes, Inc. | 542 | | | | 13 | 1 | | (1 ) | 555 |
| American Community Homes, Inc. | 431 | | | | | 2 | | 11 | 444 |
| American Community Homes, Inc. | 224 | | | | 5 | 2 | | 2 | 233 |
| American Community Homes, Inc. (Delayed Draw) | | | | | | | | | |
| American Community Homes, Inc. (Delayed Draw) | | | | | | | | | |
| American Community Homes, Inc. (warrant to purchase up to 9.0% of the equity) | 353 | | | | | | | (192 ) | 161 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 13,320 | (496 ) | 117 | 37 | 60 | 13,038 |
| Luxury Optical Holdings Co. | 3,697 | | 214 | 9 | (17 ) | 3,903 |
| Luxury Optical Holdings Co. (Delayed Draw) | 741 | (118 ) | | | (1 ) | 622 |
| Luxury Optical Holdings Co. (Revolver) | 170 | | 10 | | | 180 |
| Luxury Optical Holdings Co. (86 shares of common stock) | | | | | | |
| | 4,608 | (118 ) | 224 | 9 | (18 ) | 4,705 |
| Millennial Brands LLC | | | | | | |
| Millennial Brands LLC | | | | | | |
| Millennial Brands LLC | | | | | | |
| Millennial Brands LLC | 550 | | | | (362 ) | 188 |
| Millennial Brands LLC | | | | | | |
| Millennial Brands LLC (10 preferred units) | | | | | | |
| Millennial Brands LLC (75,502 common units) | | | | | | |
| | 550 | | | | (362 ) | 188 |
| Rockdale Blackhawk, LLC | 10,594 | | | 110 | 2,049 | 12,753 |
| Rockdale Blackhawk, LLC (Capex) | 533 | | | | 108 | 641 |
| Rockdale Blackhawk, LLC (Revolver) | 1,797 | | | | 362 | 2,159 |
| Rockdale Blackhawk, LLC (Revolver) | 3,145 | | | | 633 | 3,778 |

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# MONROE CAPITAL CORPORATION

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

## Note 5. Transactions with Affiliated Companies (continued)

| Portfolio Company | Fair value at December 31, 2017 | Transfers in (out) | Purchases (cost) | Sales and paydowns (cost) | PIK interest (cost) | Discount accretion | Net realized gain (loss) | Net unrealized gain (loss) | Fair value at June 30, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Rockdale Blackhawk, LLC (Revolver) | | | 2,288 | | | | | 384 | 2,672 |
| Rockdale Blackhawk, LLC LLC Units (22.65% of the LLC interest)[1] | 5,673 | | | | | | | (5,673) | |
| | 21,742 | | 2,288 | | | 110 | | (2,137) | 22,003 |
| SHI Holdings, Inc. | 2,625 | | | (13) | | 6 | | (7) | 2,611 |
| SHI Holdings, Inc. (Revolver) | 2,226 | | 614 | | | 3 | | (4) | 2,839 |
| SHI Holdings, Inc. (24 shares of common stock) | 786 | | | | | | | (230) | 556 |
| | 5,637 | | 614 | (13) | | 9 | | (241) | 6,006 |
| Summit Container Corporation | 3,421 | | | | 37 | 13 | | 24 | 3,495 |
| Summit Container Corporation | 1,507 | | | (1,523) | 15 | | | 1 | |
| Summit Container Corporation (Revolver) | | | 7,253 | (2,366) | | | | | 4,887 |
| Summit Container Corporation (warrant to purchase up to 19.50% of the equity) | | | | | | | | | |
| | 4,928 | | 7,253 | (3,889) | 52 | 13 | | 25 | 8,382 |
| TPP Operating, Inc.[2][3] | | | | | | | | | |
| TPP Operating, Inc.[2][3] | 3,373 | 724 | 63 | (42) | | | | (4,118) | |
| TPP Operating, Inc.[2][3] | 4,593 | (724) | 467 | (47) | | | | (4,289) | |
| TPP Operating, Inc. (24 shares of common stock)[2][3] | | | | | | | | | |
| TPP Operating, Inc. (16 shares of common stock)[2][3] | | | | | | | | | |
| | 7,966 | | 530 | (89) | | | | (8,407) | |
| Total non-controlled affiliate company investments | $58,751 | $ | $10,685 | $(4,605) | $393 | $178 | $ | $(11,080) | $54,322 |
| Controlled affiliate company investments: | | | | | | | | | |
| MRCC Senior Loan Fund I, LLC | $9,640 | $ | $17,850 | $(9,500) | $ | $ | $ | $703 | $18,693 |
| | 9,640 | | 17,850 | (9,500) | | | | 703 | 18,693 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total controlled affiliate company investments | $9,640 | $ | $17,850 | $(9,500) | $ | $ | $ | $703 | $18,693 |

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# MONROE CAPITAL CORPORATION

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

## Note 5. Transactions with Affiliated Companies (continued)

| | For the six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| Portfolio Company | Interest income | Dividend income | Fee income | Interest income | Dividend income | Fee income |
| Non-controlled affiliate company investments: | | | | | | |
| American Community Homes, Inc. | $568 | $ | $ | $387 | $ | $ |
| American Community Homes, Inc. | 426 | | | 310 | | |
| American Community Homes, Inc. | 54 | | | 38 | | |
| American Community Homes, Inc. | 35 | | | 5 | | |
| American Community Homes, Inc. | 23 | | | 4 | | |
| American Community Homes, Inc. (Delayed Draw) | | | | | | |
| American Community Homes, Inc. (Delayed Draw) | | | | | | |
| American Community Homes, Inc. (Warrant) | | | | | | |
| | 1,106 | | | 744 | | |
| Luxury Optical Holdings Co. | 222 | | | | | |
| Luxury Optical Holdings Co. (Delayed Draw) | 44 | | | | | |
| Luxury Optical Holdings Co. (Revolver) | 10 | | | | | |
| Luxury Optical Holdings Co. (Common stock) | | | | | | |
| | 276 | | | | | |

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# MONROE CAPITAL CORPORATION

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

## Note 5. Transactions with Affiliated Companies (continued)

| | For the six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| Portfolio Company | Interest income | Dividend income | Fee income | Interest income | Dividend income | Fee income |
| Millennial Brands LLC | | | | 32 | | |
| Millennial Brands LLC | | | | 13 | | |
| Millennial Brands LLC | | | | 10 | | |
| Millennial Brands LLC | | | | 71 | | |
| Millennial Brands LLC | | | | | | |
| Millennial Brands LLC (Preferred units) | | | | | | |
| Millennial Brands LLC (Common units) | | | | | | |
| | | | | 126 | | |
| Rockdale Blackhawk, LLC | 920 | | | 375 | | |
| Rockdale Blackhawk, LLC (Capex) | 41 | | | 33 | | |
| Rockdale Blackhawk, LLC (Revolver) | 137 | | | 100 | | |
| Rockdale Blackhawk, LLC (Revolver) | 240 | | | | | |
| Rockdale Blackhawk, LLC (Revolver) | 104 | | | | | |
| Rockdale Blackhawk, LLC (LLC interest) | | | | 381 | | |
| | 1,442 | | | 889 | | |
| SHI Holdings, Inc. | 165 | | | 147 | | |
| SHI Holdings, Inc. (Revolver) | 155 | | | 85 | | |
| SHI Holdings, Inc. (Common stock) | | | | | | |
| | 320 | | | 232 | | |
| Summit Container Corporation | 304 | | 83 | 316 | | |
| Summit Container Corporation | 108 | | | | | |
| Summit Container Corporation (Revolver) | 23 | | | | | |
| Summit Container Corporation (Warrant) | | | | | | |
| | 435 | | 83 | 316 | | |
| TPP Operating, Inc. | | | | | | |
| TPP Operating, Inc. | | | | | | |
| TPP Operating, Inc. | | | | | | |
| TPP Operating, Inc. (Common stock) | | | | | | |
| TPP Operating, Inc. (Common stock) | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-controlled affiliate company investments | $3,579 | $ | $ 83 | $2,307 | $ | $ |
| Controlled affiliate company investments: | | | | | | |
| MRCC Senior Loan Fund I, LLC | $ | $ 525 | $ | $ | $ | $ |
| TPP Acquisition, Inc. (Common stock) | | | | | | |
| TPP Operating, Inc. | | | | 143 | | |
| TPP Operating, Inc. | | | | 251 | | |
| | | 525 | | 394 | | |
| Total controlled affiliate company investments | $ | $ 525 | $ | $394 | $ | $ |

(1) The Company provided a follow-on investment to Rockdale Blackhawk, LLC ( Rockdale ) during the six months ended June 30, 2018. In conjunction with the follow-on investment, the Company also received an additional 4.62% of the equity of Rockdale, increasing total equity ownership to 22.65%.

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# MONROE CAPITAL CORPORATION

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

## Note 5. Transactions with Affiliated Companies (continued)

(2) In December 2017, the Company transferred 16% of the equity interest in TPP Operating, Inc. ( TPP ) shares to a wholly-owned entity, MCC Holdco Equity Manager I, LLC ( MCC Holdco ), which has an independent manager who has full control over the operations of MCC Holdco, including the right to vote the shares of TPP Holdco LLC, the holding company which owns the Company s equity interest in TPP. As a result, the Company then only controlled 24.0% of the voting interests in TPP and TPP Acquisition, Inc. was no longer considered a controlled affiliate company investment. As a result, TPP is presented as a non-controlled affiliate company investment for the six months ended June 30, 2018 and a controlled affiliate company investment for the six months ended June 30, 2017. During the three months ended June 30, 2018, TPP ceased operations and the Company, along with the other owners, appointed an assignee and pursuant to Delaware state law completed a General Assignment for the Benefit of Creditors to the assignee. The purpose of the assignment was to wind down the TPP business and distribute the assets to its creditors. The assignee has informed the Company that it will have de minimis assets, if any, to distribute to its creditors. As a result, while the Company still has debt and equity positions in TPP, the Company has valued these positions at zero as of June 30, 2018.

(3) On September 2, 2016, TPP Acquisition, Inc. filed for bankruptcy as part of a restructuring process. The existing lenders, including the Company, submitted a credit bid to purchase certain assets of TPP Acquisition, Inc., which was approved by the bankruptcy court. The sale closed on November 8, 2016. A new operating company, TPP Operating, Inc., was formed to acquire certain of the assets of TPP Acquisition, Inc. and continue business operations. These new operations are no longer encumbered by significant lease liabilities. The Company initially owned 40% of the equity interests in the new operating company, TPP Operating, Inc. and owned 40.0% of the equity interests in TPP Acquisition, Inc., the former operating company, until its dissolution during the year ended December 31, 2017.

## Note 6. Transactions with Related Parties

The Company has entered into an 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, which includes assets financed using leverage) and is payable in arrears. Base management fees for the three and six months ended June 30, 2018 were $2,202 and $4,365, respectively. Base management fees for the three and six months ended June 30, 2017 were $1,903 and $3,708, 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 pre-incentive fee net investment income will be payable except to the extent that 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters (the Incentive Fee Limitation ). 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 pre-incentive fee net investment income for such calendar quarter exceeds the 2% 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 pre-incentive fee net investment income, realized gains and losses and unrealized gains and losses 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

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# MONROE CAPITAL CORPORATION

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

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

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 and six months ended June 30, 2018 were $990 and $1,751, respectively. Incentive fees for the three and six months ended June 30, 2018, consisted solely of part one incentive fees (based on net investment income) of $990 and $1,751, respectively. The part one incentive fees include the effect of $790 and $1,874, respectively, of Incentive Fee Limitation as described above. Incentive fees for the three months ended June 30, 2017 consisted solely of part one incentive fees (based on net investment income) of $1,460. Incentive fees for the six months ended June 30, 2017, consisted of part one incentive fees of $2,925 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of ($175). Part two incentive fees reduced total incentive fees for the six months ended June 30, 2017, primarily as a result of net unrealized losses during the period. 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 gain (loss) 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 gain (loss). For the three and six months ended June 30, 2018, no incentive fees were waived. For the three and six months ended June 30, 2017, MC Advisors waived part one incentive fees of $250 and $250, respectively.

The Company has entered into an 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 and six months ended June 30, 2018, the Company incurred $849 and $1,656, respectively, in administrative expenses (included within Professional fees, Administrative service fees and General and administrative expenses on the consolidated statements of operations) under the Administration Agreement, of which $322 and $646, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. For the three and six months ended June 30, 2017, the Company incurred $846 and $1,676, respectively, in administrative expenses (included within Professional fees, Administrative service fees and General and administrative expenses on the consolidated statements of operations) under the Administration Agreement, of which $301 and $631, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. As of June 30, 2018 and December 31, 2017, $322 and $322, respectively, 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 June 30, 2018 December 31, 2017, the Company had no accounts payable to members of the Board, representing accrued and unpaid fees for their services.

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# MONROE CAPITAL CORPORATION

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

## Note 7. Borrowings

On June 20, 2018, the Company s stockholders approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the Investment Company Act to the Company. As a result of this approval, the Company is now permitted to borrow amounts such that its asset coverage ratio, as defined in the Investment Company Act, is at least 150% after such borrowing (if certain requirements are met), rather than 200%, as previously required. As of June 30, 2018 and December 31, 2017, the Company s asset coverage ratio based on aggregate borrowings outstanding was 312% and 334%, respectively.

*Revolving Credit Facility:* As of June 30, 2018, the Company had U.S. dollar borrowings of $105,950 and non-U.S. dollar borrowings denominated in Great Britain pounds of £14,800 ($19,546 in U.S. dollars) under its revolving credit facility with ING Capital LLC, as agent, to finance the purchase of the Company s assets. As of December 31, 2017, the Company had U.S. dollar borrowings of $105,200 and non-U.S. dollar borrowings denominated in Great Britain pounds of £8,800 ($11,892 in U.S. dollars) under its revolving credit facility with ING Capital LLC, as agent, to finance the purchase of the Company s assets. The borrowings denominated in Great Britain pounds may be positively or negatively affected by movements in the rate of exchange between the U.S. dollar and the Great Britain pound. These movements are beyond the control of the Company and cannot be predicted. The borrowings denominated in Great Britain pounds are translated into U.S. dollars based on the spot rate at each balance sheet date. The impact resulting from changes in foreign currency borrowings is included in net change in unrealized gain (loss) on foreign currency borrowings in the Company s consolidated statements of operations and totaled $795 and $353 for the three and six months ended June 30, 2018 and ($16) and ($16) for the three and six months ended June 30, 2017, respectively. As of June 30, 2018, the maximum amount the Company was able to borrow was $200,000 and this borrowing can be increased to $300,000 pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act). On February 22, 2017, the Company closed a $40,000 upsize to the revolving credit facility, bringing the maximum amount the Company is able to borrow from $160,000 to the now current maximum amount of $200,000, in accordance with the facility s accordion feature. The maturity date on the facility is December 14, 2020.

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 revolving credit facility is subject to availability under a defined borrowing base, which varies based on 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 2019 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 our discretion based on the term of the borrowing) plus 2.75% or at a daily rate equal to 1.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5%

or LIBOR plus 1.0%. In addition to the stated interest rate on borrowings under the revolving credit facility, 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 65% 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 65% of the then available maximum borrowing. As of June 30, 2018 and December 31, 2017, the outstanding borrowings were accruing at a weighted average interest rate of 4.6% and 4.4%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three and six months ended June 30, 2018 was 4.7% and 4.6%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the three and six months ended June 30, 2018 was 0.5% and 0.5%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three and six months ended June 30, 2017 was 4.0% and 4.1%, respectively. The

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# MONROE CAPITAL CORPORATION

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

## Note 7. Borrowings (continued)

weighted average fee rate on the unused portion of the revolving credit facility for the three and six months ended June 30, 2017 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 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 total net assets at least equal to the greater of (a) 40% of the consolidated total assets on the last day of each quarter or (b) $120,000 plus 65% of the net proceeds to the Company from sales of its securities after December 14, 2015; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.1 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The revolving 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 Monroe Capital Corporation and MC Advisors, failure to comply with financial and negative covenants, and failure to maintain our 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.

On April 25, 2018, the Company entered into an amendment to the revolving credit facility which, among other things, removes the pricing step-down related to the Company s net worth to fix the interest rate the revolving credit facility bears to LIBOR plus 2.75% and makes certain borrowing base changes to allow more flexibility under the revolving credit facility. The Company paid the lenders an amendment fee of $200 in conjunction with the amendment which has been capitalized within unamortized deferred financing costs and will be amortized into interest expense over the estimated average life of the borrowings.

The Company s revolving 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 revolving credit facility. Distributions in cash or property other than common stock are generally limited to 115% 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 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.

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# MONROE CAPITAL CORPORATION

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

## Note 7. Borrowings (continued)

SBA regulations currently limit the amount that an individual SBIC may borrow to a maximum of $150,000 when it has at least $75,000 in regulatory capital, receives a leverage commitment from the SBA and has been through an audit examination by the SBA subsequent to licensing. The SBA also historically limited a related group of SBICs (commonly referred to as a family of funds ) to a maximum of $225,000 in total borrowings. On December 18, 2015, this family of funds limitation was raised to $350,000 in total borrowings. As the Company has other affiliated SBICs already in operation, MRCC SBIC was historically limited to a maximum of $40,000 in borrowings. Pursuant to the increase in the family of funds limitation, the Company submitted a commitment application to the SBA and on April 13, 2016, MRCC SBIC was approved by the SBA for an additional $75,000 in SBA-guaranteed debentures, for a total of $115,000 in available debentures.

As of June 30, 2018, MRCC SBIC had $57,624 in leverageable capital and $115,000 in SBA-guaranteed debentures outstanding. As of December 31, 2017, MRCC SBIC had $57,624 in leverageable capital and $109,520 in SBA-guaranteed debentures outstanding.

As of June 30, 2018, MRCC SBIC had the following SBA-guaranteed debentures outstanding:

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 3.9 % | 18,520 |
| September 2028 | 3.3 %(1) | 2,180 |
| September 2028 | 3.4 %(1) | 2,200 |
| Total | | $ 115,000 |

As of December 31, 2017, MRCC SBIC had the following SBA-guaranteed debentures outstanding:

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |

| | | |
|---|---|---|
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 2.5 %(1) | 9,160 |
| March 2028 | 2.6 %(1) | 2,780 |
| March 2028 | 2.7 %(1) | 5,480 |
| Total | | $ 109,520 |

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

On October 2, 2014, the Company was granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the asset coverage test.

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# MONROE CAPITAL CORPORATION

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

## Note 7. Borrowings (continued)

*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 June 30, 2018 and December 31, 2017, there were no secured borrowings.

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

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest expense revolving credit facility | $ 1,551 | $ 1,385 |
| Interest expense SBA guaranteed debentures | 970 | 518 |
| Amortization of deferred financing costs | 315 | 255 |
| Interest expense secured borrowings | | 13 |
| Other | | 13 |
| Total interest and other debt financing expenses | $ 2,836 | $ 2,184 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Interest expense revolving credit facility | $ 3,108 | $ 2,730 |
| Interest expense SBA guaranteed debentures | 1,838 | 924 |
| Amortization of deferred financing costs | 596 | 486 |
| Interest expense secured borrowings | | 34 |
| Other | | 20 |
| Total interest and other debt financing expenses | $ 5,542 | $ 4,194 |

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# MONROE CAPITAL CORPORATION

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

## Note 8. Distributions

The Company s distributions are recorded on the record date. The following table summarizes distributions declared during the six months ended June 30, 2018 and 2017:

| Date Declared | Record Date | Payment Date | Amount Per Share | Cash Distribution | DRIP Shares Issued | DRIP Shares Value | DRIP Shares Repurchased in the Open Market | Cost of DRIP Shares Repurchased |
|---|---|---|---|---|---|---|---|---|
| **Six months ended June 30, 2018:** | | | | | | | | |
| March 1, 2018 | March 16, 2018 | March 30, 2018 | $ 0.35 | $ 7,084 | | $ | 23,908 | $ 301 |
| June 1, 2018 | June 15, 2018 | June 29, 2018 | 0.35 | 6,786 | 22,308 | 301 | | |
| Total distributions declared | | | $ 0.70 | $ 13,870 | 22,308 | $ 301 | 23,908 | $ 301 |
| **Six months ended June 30, 2017:** | | | | | | | | |
| March 7, 2017 | March 17, 2017 | March 31, 2017 | $ 0.35 | $ 5,549 | 16,217 | $ 254 | | $ |
| May 31, 2017 | June 15, 2017 | June 30, 2017 | 0.35 | 6,807 | 17,932 | 271 | | |
| Total distributions declared | | | $ 0.70 | $ 12,356 | 34,149 | $ 525 | | $ |

## Note 9. Stock Issuances and Repurchases

*Stock Issuances:* On July 1, 2016, the Company amended the ATM securities offering program with MLV & Co. LLC ( MLV ) and JMP Securities LLC ( JMP ) to replace MLV with FBR Capital Markets & Co. ( FBR ), an affiliate of MLV (the Prior ATM Program ). On May 12, 2017, the Company entered into new equity distribution agreements with each FBR and JMP that reference the Company s current registration statement (the ATM Program ). All other material terms of the Prior ATM Program remain unchanged under the ATM Program. During the six months ended June 30, 2017, the Company sold 173,939 shares at an average price of $15.71 per share for gross proceeds of $2,732 under the Prior ATM Program and no shares were sold under the ATM Program. Aggregate underwriters discounts and commissions were $41 and offering costs were $23, resulting in net proceeds of approximately $2,668. During the six months ended June 30, 2018, the Company sold 17,140 shares at an average price of $14.21 per share for gross

proceeds of $243 under the ATM Program. Aggregate underwriters discounts and commissions were $3 and offering costs were $31, resulting in net proceeds of approximately $209.

On June 9, 2017, the Company closed a public offering of 3,000,000 shares of its common stock at a public offering price of $15.00 per share, raising approximately $45,000 in gross proceeds. On June 14, 2017, pursuant to the underwriters exercise of the over-allotment option, the Company sold an additional 450,000 shares of its common stock, at a public offering price of $15.00 per share, raising an additional $6,750 in gross proceeds for a total of $51,750. Aggregate underwriters discounts and commissions were $2,070 and offering costs were $127, resulting in net proceeds of approximately $49,553.

# Note 10. Commitments and Contingencies

*Commitments*: As of June 30, 2018 and December 31, 2017, the Company had $38,350 and $41,238, respectively, in outstanding commitments to fund investments under undrawn revolvers, capital expenditure loans and delayed draw commitments. As described in Note 3, the Company had commitments up to $32,150 and $40,500, respectively, to SLF, as of June 30, 2018 and December 31, 2017 that may be contributed primarily for the purpose of funding new investments approved by the SLF investment committee.

*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

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# MONROE CAPITAL CORPORATION

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

## Note 10. Commitments and Contingencies (continued)

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 six months ended June 30, 2018 and 2017:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| **Per share data:** | | |
| Net asset value at beginning of period | $13.77 | $14.52 |
| Net investment income[1] | 0.81 | 0.71 |
| Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings[1] | (0.53) | (0.50) |
| Net increase in net assets from operations[1] | 0.28 | 0.21 |
| Stockholder distributions[2] | (0.70) | (0.70) |
| Effect of share issuances above (below) NAV[3] | | 0.02 |
| Net asset value at end of period | $13.35 | $14.05 |
| Net assets at end of period | $270,708 | $284,308 |
| Shares outstanding at end of period | 20,279,405 | 20,239,957 |

| | | | | |
|---|---|---|---|---|
| Per share market value at end of period | $13.48 | | $15.23 | |
| Total return based on market value[4] | 3.38 | % | 3.58 | % |
| Total return based on average net asset value[5] | 2.07 | % | 1.41 | % |
| **Ratio/Supplemental data:** | | | | |
| Ratio of net investment income to average net assets[6] | 12.69 | % | 10.59 | % |
| Ratio of total expenses to average net assets[6][7] | 9.21 | % | 8.62 | % |
| Average debt outstanding | $237,567 | | $184,799 | |
| Average debt outstanding per share | $11.74 | | $10.88 | |
| Portfolio turnover[8] | 12.17 | % | 17.73 | % |

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

(2) Management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent the Company s taxable

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# MONROE CAPITAL CORPORATION

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

## Note 11. Financial Highlights (continued)

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 end of the fiscal year. However, if the character of such distributions were determined as of June 30, 2018 and 2017, none of the distributions 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.

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

(4) Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s DRIP. Total return based on market value does not reflect brokerage commissions. Return calculations are not annualized.

(5) Total return based on average net asset value is calculated by dividing the net increase in net assets from operations by the average net asset value. Return calculations are not annualized.

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

(7) The following is a schedule of supplemental ratios for the six months ended June 30, 2018 and 2017. These ratios have been annualized unless otherwise noted.

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Ratio of interest and other debt financing expenses to average net assets | 4.08 % | 3.32 % |
| Ratio of total expenses (without incentive fees) to average net assets | 8.57 % | 7.64 % |
| Ratio of incentive fees, net of incentive fee waiver, to average net assets (not annualized)[9] | 0.64 % | 0.98 % |

(8) Ratios are not annualized.

(9) The ratio of waived incentive fees to average net assets was zero and 0.10% for six months ended June 30, 2018 and 2017, respectively.

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# PROSPECTUS

# $300,000,000

# Monroe Capital Corporation

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

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

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

We may offer, from time to time, in one or more offerings or series, together or separately, up to $300,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities (consisting of debentures, notes or other evidence of indebtedness), subscription rights or debt securities, which we refer to, collectively, as the securities. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus.

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

Our common stock is listed on The Nasdaq Global Select Market under the symbol MRCC. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering. On May 23, 2018, the last reported sale price of our stock on The Nasdaq Global Select Market was $13.88 per share. Our net asset value as

of March 31, 2018 was $13.49 per share.

**Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering.** On June 21, 2017, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of twelve months subject to certain conditions. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See Risk Factors and Sales of Common Stock Below Net Asset Value.

**An investment in our securities is subject to risks, including a risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. Substantially all of the debt instruments in which we invest (i) have and will have variable interest rate provisions that may make it more difficult for borrowers to make debt repayments to us in a rising interest rate environment and (ii) will likely have a principal amount outstanding at maturity, that may lead to a substantial loss to us if the borrower is unable to refinance or repay. See Risk Factors beginning on page 13 to read about factors you should consider, including the risk of leverage, before investing in our securities.**

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

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

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

The date of this prospectus is June 1, 2018

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# ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to $300,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities (consisting of debentures, notes or other evidence of indebtedness) on the terms to be determined at the time of the offering. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

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

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# SUMMARY

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

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

*we, us and our refer to Monroe Capital Corporation, a Maryland corporation;*
*MC Advisors refers to Monroe Capital BDC Advisors, LLC, our investment advisor and a Delaware limited liability company;*
*MC Management refers to Monroe Capital Management Advisors, LLC, our administrator and a Delaware limited liability company;*
*Monroe Capital refers to Monroe Capital LLC, a Delaware limited liability company, and its subsidiaries and affiliates;*
*SLF refers to MRCC Senior Loan Fund I, LLC, an unconsolidated Delaware limited liability company, in which we co-invest with NLV Financial Corporation ( NLV ) primarily in senior secured loans. SLF is capitalized as transactions are completed and all portfolio and investment decisions in respect of SLF must be approved by representatives of each of the members. As of December 31, 2017, we owned 50.0% of the LLC equity interests of SLF. As of December 31, 2017, SLF had LLC equity interest subscriptions from its members totaling $100.0 million, of which we have committed to fund $50.0 million;*
*MRCC SBIC refers to Monroe Capital Corporation SBIC, LP, a Delaware limited partnership, our wholly-owned subsidiary that operates as a small business investment company pursuant to a license received from the United States Small Business Administration; and*
*LIBOR refers to the one-month, three-month or six-month London Interbank Offered Rate as reported by the British Bankers Association. Unless stated otherwise herein, LIBOR refers to the one-month rate.*

## Monroe Capital Corporation

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

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

provide us with enhanced influence over our borrowers, direct access to borrower management and improved information flow.

In this prospectus, the term middle-market generally refers to companies having annual revenue of between $20 million and $500 million and/or annual earnings before interest, taxes, depreciation and

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amortization, or EBITDA, of between $3 million and $50 million. Within the middle-market, we consider companies having annual revenues of less than $250 million and/or EBITDA of less than $25 million to be in the lower middle-market.

# Portfolio Update

Since the consummation of the initial public offering in October 2012, we have grown the fair value of our portfolio of investments to approximately $496.0 million as of March 31, 2018. As of March 31, 2018, our portfolio consisted of 72 different portfolio companies, comprised of approximately 76.6% senior secured debt, 9.3% unitranche secured debt, 7.8% junior secured debt and 6.3% equity securities. As of March 31, 2018, the weighted average annualized effective yield on portfolio investments (which represents the expected annualized effective yield to be generated by us on our portfolio based on the composition of our portfolio as of such date) prior to leverage was 10.6% based on the par value of our debt investments and the cost basis of our preferred equity investments. For the quarter ended March 31, 2018, our total return based on net asset value was 0.5% and our total return based on market value was (8.1)%.

Our weighted average annualized effective yield on portfolio investments may be higher than an investor s yield on an investment in shares of our common stock. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of the Company s fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors. In addition, total return figures disclosed above do not consider the effect of any sales load that may be incurred in connection with the sale of shares of our common stock. Our estimated weighted average annualized effective yield on portfolio investments and total return based on net asset value do not represent actual investment returns to stockholders. Our weighted average annualized effective yield on portfolio investments and total return figures are subject to change and, in the future, may be greater or less than the rates set forth above. See Risk Factors for a discussion of the uncertainties, risks and assumptions associated with these statements. See footnotes 3, 4 and 5 to the table included in Selected Consolidated Financial Data for information regarding the calculation of our total return based on market value, total return based on average net asset value, and weighted average annualized effective yield on portfolio investments, respectively.

# Asset Coverage Approval

On March 27, 2018, our board of directors unanimously approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Small Business Credit Availability Act (the SBCAA ). As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective March 27, 2019. On March 27, 2018, our board of directors also recommended the submission of a proposal for stockholders to vote in favor of us to immediately become subject to a minimum asset coverage ratio of at least 150%, permitting us to double the amount of debt we may incur earlier than the current effective date of March 27, 2019, pursuant to the SBCAA. If this proposal is approved by stockholders at our annual stockholder meeting, we would become subject to an asset coverage ratio of at least 150% the day after such meeting instead of on March 27, 2019.

# Our Investment Advisor

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

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

Under the investment advisory and management agreement with MC Advisors, or the Investment Advisory Agreement, we pay MC Advisors a base management fee and an incentive fee for its services. See Management and Other Agreements Investment Advisory Agreement Management and Incentive Fee for a discussion of the base management fee and incentive fee payable by us to MC Advisors. While not expected to review or approve each investment, our independent directors periodically review MC Advisors

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services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors consider whether our fees and expenses (including those related to leverage) remain appropriate.

MC Advisors seeks to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of Monroe Capital s investment professionals. The senior management team of Monroe Capital, including Theodore L. Koenig and Aaron D. Peck, provides investment services to MC Advisors pursuant to a staffing agreement, or the Staffing Agreement, between MC Management, an affiliate of Monroe Capital, and MC Advisors. Messrs. Koenig and Peck have developed a broad network of contacts within the investment community and average more than 25 years of experience investing in debt and equity securities of lower middle-market companies. In addition, Messrs. Koenig and Peck have extensive experience investing in assets that constitute our primary focus and have expertise in investing throughout all periods of the economic cycle. MC Advisors is an affiliate of Monroe Capital and is supported by experienced investment professionals of Monroe Capital under the terms of the Staffing Agreement. Monroe Capital s core team of investment professionals has an established track record in sourcing, underwriting, executing and monitoring transactions. From Monroe Capital s formation in 2004 through March 31, 2018, Monroe Capital s investment professionals invested in over 1,200 loan and related investments with an aggregate principal value of over $8.0 billion.

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

Messrs. Koenig and Peck are joined on the investment committee of MC Advisors by Michael J. Egan and Jeremy T. VanDerMeid, each of whom is a senior investment professional at Monroe Capital. Mr. Egan has more than 30 years of experience in commercial finance, credit administration and banking at organizations including Hilco Capital, The CIT Group/Business Credit, Inc., The National Community Bank of New Jersey (The Bank of New York) and KeyCorp. Mr. VanDerMeid has more than 15 years of lending and corporate finance experience at organizations including Morgan Stanley Investment Management, Dymas Capital Management Company, LLC and Heller Financial. See Management Biographical Information Investment Committee.

# About Monroe Capital

Monroe Capital, a Delaware limited liability company that was founded in 2004, is a leading lender to middle-market companies. As of March 31, 2018, Monroe Capital had approximately $5.5 billion in assets under management. Monroe Capital has maintained a continued lending presence in the lower middle-market throughout the most recent economic downturn. The result is an established lending platform that we believe generates consistent primary and secondary deal flow from a network of proprietary relationships and additional deal flow from a diverse portfolio of over 450 current investments. From Monroe Capital s formation in 2004 through March 31, 2018, Monroe Capital s investment professionals invested in over 1,200 loan and related investments with an aggregate principal value of over $8.0 billion. The senior investment team of Monroe Capital averages more than 25 years of experience and has developed a proven investment and portfolio management process that has performed through multiple market cycles. In addition, Monroe Capital s investment professionals are supported by administrative and back-office personnel

focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management.

## Market Opportunity

We invest primarily in senior, unitranche and junior secured debt issued to lower middle-market companies in the United States and, to a lesser extent and in accordance with the limitations on foreign investments in the 1940 Act, Canada. We believe that U.S. and Canadian lower middle-market companies comprise a large, growing and fragmented market that offers attractive financing opportunities. We believe that

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there exists a large number of prospective lending opportunities for lenders, which should allow us to generate substantial investment opportunities and build an attractive portfolio of investments. See Business.

# Investment Strategy

Our investment objective is to maximize the total return to our stockholders in the form of current income and capital appreciation primarily through investments in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity. We also seek to invest opportunistically in attractively priced, broadly syndicated loans, which should enhance our geographic and industry portfolio diversification and increase our portfolio s liquidity. We do not target any specific industry, however, as of March 31, 2018, our investments in the healthcare & pharmaceuticals; banking, finance, insurance & real estate; and high tech industries represented approximately 13.2%, 12.2% and 10.3%, respectively, of the fair value of our portfolio. To achieve our investment objective, we utilize the following investment strategy:

***Attractive Current Yield on Investment Portfolio.*** We believe our sourcing network allows us to enter into transactions with attractive yields and investment structures. Based on current market conditions and our pipeline of new investments, we expect our target directly originated senior and unitranche secured debt will have an average maturity of three to five years and interest rates of 7% to 13%, and we expect our target directly originated junior secured debt and unsecured subordinated debt will have an average maturity of four to seven years and interest rates of 10% to 15%. In addition, based on current market conditions and our pipeline of new investments, we expect that our target debt investments will typically have a variable coupon (with a LIBOR floor), may include payment-in-kind, or PIK, interest (interest that is not received in cash, but added to the principal balance of the loan), and that we will typically receive upfront closing fees of 1% to 4%. We may also receive warrants or other forms of upside equity participation. Our transactions are generally secured and supported by a lien on all assets and/or a pledge of company stock in order to provide priority of return and to influence any corporate actions. Although we will target investments with the characteristics described in this paragraph, we cannot assure you that our new investments will have these characteristics and we may enter into investments with different characteristics as the market dictates. For a description of the characteristics of our current investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity. Until investment opportunities can be found, we may invest our undeployed capital in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

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

***Predictability of Returns.*** Beyond conservative structuring and protection of capital, we seek a predictable exit from our investments. We seek to invest in situations where there are a number of potential exit options that can result in full repayment or a modest refinance of our investment. We seek to structure the majority of our transactions as secured loans with a covenant package that provides for full or partial repayment upon the completion of asset sales and restructurings. Because we seek to structure these transactions to provide for contractually determined, periodic payments of principal and interest, we are less

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likely to depend on merger and acquisition activity or public equity markets to exit our debt investments. As a result, we believe that we can achieve our target returns even in a period when public markets are depressed.

## Competitive Strengths

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

***Deep, Experienced Management Team.*** We are managed by MC Advisors, which has access through the Staffing Agreement to Monroe Capital s experienced team comprised of over 90 professionals, including seven senior partners that average more than 25 years of direct lending experience. We are led by our Chairman and Chief Executive Officer, Theodore L. Koenig, and Aaron D. Peck, our Chief Financial Officer and Chief Investment Officer. This extensive experience includes the management of investments with borrowers of varying credit profiles and transactions completed in all phases of the credit cycle. Monroe Capital s senior investment professionals provide us with a difficult-to-replicate sourcing network and a broad range of transactional, financial, managerial and investment skills. This expertise and experience is supported by administrative and back office personnel focused on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. From Monroe Capital s formation in 2004 through March 31, 2018, Monroe Capital s investment professionals invested in more than 1,200 loan and related investments with an aggregate principal value of over $8.0 billion.

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

***Extensive Institutional Platform for Originating Middle-Market Deal Flow.*** Monroe Capital s broad network of relationships and significant origination resources enable us to review numerous lending opportunities, permitting us to exercise a high degree of selectivity in terms of loans to which we ultimately commit. Monroe Capital estimates that it reviewed approximately 2,000 investment opportunities during 2017. Monroe Capital s over 1,200 previously executed transactions, over 450 of which are with current borrowers, offer us another source of deal flow, as these debt investments reach maturity or seek refinancing. We are also positioned to benefit from Monroe Capital s established brand name, strong track record in partnering with industry participants and reputation for closing deals on time and as committed. Monroe Capital s senior investment professionals are complemented by extensive experience in capital markets transactions, risk management and portfolio monitoring.

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

***Established Credit Risk Management Framework.*** We seek to manage our credit risk through a well-defined portfolio strategy and credit policy. In terms of credit monitoring, MC Advisors assigns each loan to a particular

portfolio management professional and maintains an internal credit rating analysis for all loans. MC Advisors then employs ongoing review and analysis, together with monthly investment committee meetings to review the status of certain complex and challenging loans and a comprehensive quarterly review of all loan transactions. MC Advisors investment professionals also have significant turnaround and debt work-out experience, which gives them perspective on the risks and possibilities throughout the entire credit cycle. We believe this careful approach to investment and monitoring enables us to identify problems early and gives us an opportunity to assist borrowers before they face difficult liquidity constraints. By anticipating

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possible negative contingencies and preparing for them, we believe that we diminish the probability of underperforming assets and loan losses.

# Credit Facility

We have a credit facility with ING Capital LLC, or the Lender, as agent, which as of March 31, 2018 consisted of a revolving line of credit of $200.0 million, which may be increased to up to $300.0 million pursuant to an accordion feature.

We may make draws under the revolver from time-to-time through December 2019 to make or purchase additional investments or for general working capital purposes until the maturity date of the credit facility, or the earliest to occur of (a) December 14, 2020, subject to extension as mutually agreed by us and the Lender, (b) the termination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and the Lender. 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. The material terms of the credit facility are as follows:

total borrowing capacity currently equal to $200.0 million and up to $300.0 million pursuant to an accordion feature, subject to, among other things, availability under a defined borrowing base, which varies based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as valuation methodologies;
an interest rate equal to, at our election, (a) LIBOR (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 2.75% per annum, or (b) a daily rate equal to 1.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%;
in addition to the stated interest rate on borrowings under the revolving credit facility, we are required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 65% 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 65% of the then available maximum borrowing; and
customary financial covenants and negative covenants and events of default.

As of March 31, 2018, we had U.S. dollar borrowings of $113.3 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £8.8 million ($12.3 million in U.S. dollars) under our revolving credit facility and availability of $74.4 million.

# MRCC SBIC

On February 28, 2014, our wholly-owned subsidiary, MRCC SBIC received a license from the U.S. Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Company Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As our wholly-owned subsidiary, MRCC SBIC relies on one or more exclusions from the definition of investment company under the 1940 Act and does not elect to be regulated as business development company under the 1940 Act. MRCC SBIC has an investment objective substantially similar to ours and makes similar types of investments in accordance with SBIC regulations.

On April 13, 2016, MRCC SBIC was approved by the SBA for an additional $75.0 million in SBA-guaranteed debentures, for a total of $115.0 million in available debentures. As of March 31, 2018, MRCC SBIC had $57.6 million in leverageable capital (approximately 11.2% of our total assets) and $112.8 million in SBA-guaranteed debentures outstanding.

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

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# Operating and Regulatory Structure

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

As a business development company, we are required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of notes, other borrowings and shares of preferred stock, our ability to use leverage is limited in significant respects. We are required to maintain an asset coverage ratio, as defined in the 1940 Act, of at least 200% until March 26, 2019 and an asset coverage ratio of 150% beginning on March 27, 2019. However, we may be able to maintain an asset coverage ratio of at least 150% prior to March 27, 2019 if stockholders approve a proposal for the authorization thereof at our annual meeting of stockholders. See Regulation. Any decision on our part to use leverage will depend upon our assessment of the attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. See Risk Factors Risks Relating to Our Business and Structure We maintain a revolving credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to risks typically associated with leverage and increases the risk of investing in us and Risk Factors Risks Relating to Our Business and Structure Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in us.

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

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

# Conflicts of Interests

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

Affiliates of MC Advisors manage other assets in five closed-end funds, two small business investment companies and 12 private funds that also have an investment strategy focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt to lower middle-market companies. In addition, MC Advisors and/or its affiliates may manage other entities in the future with an investment focus similar to ours. To the extent that we compete with entities managed by MC Advisors or any of its affiliates for a particular investment opportunity, MC Advisors seeks to allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal conflict of

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interest and allocation policies, (b) the requirements of the Advisers Act and (c) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates. MC Advisors allocation policies are intended to ensure that we may generally share equitably with other investment funds or other investment vehicles managed by MC Advisors or its affiliates in investment opportunities, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer, which may be suitable for us and such other investment funds or other investment vehicles.

MC Advisors and/or its affiliates may in the future sponsor or manage investment funds, accounts or other investment vehicles with similar or overlapping investment strategies, and MC Advisors has put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors seeks to ensure an equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. We received exemptive relief from the SEC on October 15, 2014 that permits us greater flexibility relating to co-investments, subject to certain conditions. When we invest alongside such other accounts as permitted under the 1940 Act, pursuant to SEC staff interpretations or our exemptive relief from the SEC that permits greater flexibility relating to co-investments, such investments will be made consistent with such relief and MC Advisors allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including a majority of our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors, including a majority of our independent directors. It is our policy to base our determinations as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors, or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures, which will generally require that such opportunities be offered to eligible accounts on a basis that is fair and equitable over time, including, for example, through random or rotational methods. See Related Party Transactions and Certain Relationships.

# Corporate History and Additional Information

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

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

## Sale of Common Stock Below NAV

We may offer, and have in the past offered, shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on June 21, 2017, July 14, 2016, June 24, 2015, June 27, 2014 and July 9, 2013. Our board of directors has in the past

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determined that it would be in our and our stockholders best interests to issue shares of our common stock below net asset value. See Risk Factors and Sales of Common Stock Below Net Asset Value.

# Risk Factors

The value of our assets, as well as the market price of our shares will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. A material portion of our portfolio may have exposure to specific industries. See Risk Factors beginning on page 13 of this prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our common stock.

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# FEES AND EXPENSES

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

| | | |
|---|---|---|
| Stockholder transaction expenses: | | |
| Sales load (as a percentage of offering price) | | %(1) |
| Offering expenses (as a percentage of offering price) | | %(2) |
| Dividend reinvestment plan expenses | | %(3) |
| Total stockholder transaction expenses (as a percentage of offering price) | | %(2) |
| Estimated annual expenses (as a percentage of net assets attributable to common stock): | | |
| Base management fee | 3.14 | %(4) |
| Incentive fees payable under the Investment Advisory Agreement | 2.68 | %(5) |
| Interest payments on borrowed funds | 3.92 | %(6) |
| Other expenses (estimated) | 1.22 | %(7) |
| Acquired fund fees and expenses | 0.06 | %(8) |
| Total annual expenses (estimated) | 11.04 | %(9) |

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

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

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

(4) Our base management fee is 1.75% of our total assets (which includes assets purchased with borrowed amounts but does not include cash and cash equivalents). For the purposes of this table, we have assumed that the base management fee will remain at 1.75% as set forth in the Investment Advisory Agreement. We may from time to time decide it is appropriate to change the terms of the Investment Advisory Agreement. Under the 1940 Act, any material change to the Investment Advisory Agreement generally must be submitted to our stockholders for approval. The base management fee percentage is calculated as a percentage of net assets attributable to common stockholders, rather than total assets, including assets that have been funded with borrowed monies, because common stockholders bear all of this cost. The base management fee in the table above assumes the base management fee remains consistent with fees incurred for the three months ended March 31, 2018 of $2.2 million, based on average total assets (excluding cash) for the period of $501.4 million, as a percentage of our average net assets for the period of $275.9 million. See Management and Other Agreements Investment Advisory Agreement.

(5) Estimated assuming that annual incentive fees earned by MC Advisors remains consistent with the incentive fees earned, gross of the Incentive Fee Limitation due to the total return requirement, for the three months ended March 31, 2018 of $1.8 million, as a percentage of our average net assets of $275.9 million for the period. For information about our Incentive Fee Limitation and incentive fee waiver, see Management and Other Agreements Investment Advisory Agreement and Consolidated Statements of Operations in our financial statements included in this prospectus.

The incentive fee consists of two parts:

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

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then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, MC Advisors will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply. The first component of the incentive fee will be computed and paid on income that includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Since the hurdle rate is fixed, as interest rates rise, it will be easier for the MC Advisors to surpass the hurdle rate and receive an incentive fee based on net investment income. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our pre-incentive fee net investment income will be payable except to the extent that 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (i) 20% of the amount by which our pre-incentive fee net investment income for such calendar quarter exceeds the 2% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of our pre-incentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters.

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

See Management and Other Agreements Investment Advisory Agreement.

(6) We may borrow funds from time to time to make investments to the extent we determine that it is appropriate to do so. The costs associated with any outstanding borrowings are indirectly borne by our investors. The table assumes borrowings are consistent with the average borrowings for the three months ended March 31, 2018 of $232.5 million, no preferred stock issued or outstanding and average net assets of $275.9 million. For the three months ended March 31, 2018, we had interest expense of $2.7 million (including fees for unused portions of commitments). As of March 31, 2018, the weighted average interest rate of our revolving credit facility (excluding debt issuance costs) was 4.6% and the weighted average interest rate on our SBA-guaranteed debentures (excluding debt issuance costs) was 3.3%. Although we do not have any current plans to issue debt securities or preferred stock in the next twelve months, we may issue debt securities or preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

(7) Includes our estimated overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by MC Management. The table above assumes other expenses remain consistent with the $0.9 million incurred during the three months ended March 31, 2018 and average net assets for the period of $275.9 million.

(8) Our stockholders indirectly bear the expenses of our investment in SLF. SLF does not pay any fees to MC Advisors or its affiliates; however, SLF has entered into an administration agreement with MC Management, pursuant to which certain loan servicing and administrative functions are delegated to MC Management. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF for the three months ended March 31, 2018. The table

above assumes acquired fund fees and expenses remain consistent with the $43 thousand of expenses incurred on an annualized basis for the three months ended March 31, 2018 and average net assets for the period of $275.9 million. Future expenses for SLF may be substantially higher or lower because certain expenses may fluctuate over time.

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(9) Total annual expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. We calculate the total annual expenses percentage as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been purchased with borrowed amounts. The terms of our indebtedness may be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Borrowings. If the total annual expenses percentage were calculated instead as a percentage of consolidated total assets, our total annual expenses would be 6.36% of consolidated total assets. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets after such borrowing (which coverage ratio may be lowered to 150% of total assets in certain circumstances in accordance with law). We have received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities for the purposes of the 200% asset coverage ratio. We have included our estimated leverage expenses (consistent with the assumptions in footnote (7)) in total annual expenses.

# Example

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

| You would pay the following expenses on a $1,000 investment | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation) | $ 84 | $ 251 | $ 418 | $ 836 |
| Assuming a 5% annual return (assumes entire return is from realized capital gains and thus subject to the capital gains incentive fee) | $ 94 | $ 282 | $ 473 | $ 962 |

This table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. As incentive fees vary based on the character of the 5% return, the example above provides (i) expenses assuming no return from capital gains (therefore not meeting the hurdle rate for the first part of the incentive fee) and (ii) expenses assuming the entire return is from realized capital gains (resulting in a capital gains incentive fee). For the three months ended March 31, 2018, our return included net realized and unrealized capital losses. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

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

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# RISK FACTORS

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

## Risks Relating to Our Business and Structure

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

We do not have any internal management capacity or employees. We depend on the investment expertise, skill and network of business contacts of the senior investment professionals of MC Advisors, who evaluate, negotiate, structure, execute, monitor and service our investments in accordance with the terms of the Investment Advisory Agreement. Our success depends to a significant extent on the continued service and coordination of the senior investment professionals of MC Advisors, particularly Messrs. Koenig, Peck, Egan and VanDerMeid. These individuals may have other demands on their time now and in the future, and we cannot assure you that they will continue to be actively involved in our management. Each of these individuals is an employee of MC Management and is not subject to an employment contract. The departure of any of these individuals or competing demands on their time in the future could have a material adverse effect on our ability to achieve our investment objective.

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

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

you that MC Advisors will enforce the Staffing Agreement or that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of Monroe Capital and its affiliates or their information and deal flow.

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



We depend upon MC Advisors senior management for our success, and uponits access to the investment profess

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

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

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

Our ability to achieve our investment objective and grow depends on our ability to manage our business. This depends, in turn, on MC Advisors ability to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives depends upon MC Advisors execution of our investment process, its ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. MC Advisors has substantial responsibilities under the Investment Advisory Agreement. The senior origination professionals and other personnel of MC Advisors and its affiliates may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. Our results of operations depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies, it could negatively impact our ability to pay dividends or other distributions and you may lose all or part of your investment.

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

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

its allocation policy.

Affiliates of MC Advisors manage other assets in five closed-end funds, two small business investment companies and 12 private funds that also have an investment strategy focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt to lower middle-market companies. None of these funds are registered with the SEC. In addition, although we are currently the only entity managed by MC Advisors, MC Advisors and/or its affiliates may manage other entities in the future with an investment strategy that has the same or similar focus as ours.

Monroe Capital and its affiliates seek to allocate investment opportunities among eligible accounts made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors, including our independent directors. It is the policy of Monroe Capital and its affiliates to base the determinations as to the amount of capital available for investment on such factors as the amount of cash



There may be conflicts related to obligations that MC Advisors seniorinvestment professionals and members of its

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

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

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

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

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

The part of the incentive fee payable to MC Advisors that relates to our net investment income is computed and paid on income that may include interest income that has been accrued but not yet received in cash. This fee structure may be considered to involve a conflict of interest for MC Advisors to the extent that it may encourage MC Advisors to favor debt financings that provide for deferred interest, rather than current cash payments of interest. MC Advisors may have an incentive to invest in PIK interest securities in circumstances where it would not have done so but for the

opportunity to continue to earn the incentive fee even when the issuers of the deferred interest securities would not be able to make actual cash payments to us on such securities. This risk could be increased because MC Advisors is not obligated to reimburse us for any incentive fees received even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. In addition, the part of the incentive fee payable to MC Advisors that relates to our net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Any net investment income incentive fee would not be subject to repayment.



Our management and incentive fee structure may create incentives for MCAdvisors that are not fully aligned with th

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

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

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

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

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

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

We may, however, co-invest with MC Advisors and its affiliates other clients in certain circumstances where doing so is consistent with applicable law and SEC staff interpretations. For example, we may co-invest with such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that MC Advisors, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also co-invest with MC Advisors affiliates other clients as otherwise permissible under regulatory guidance, applicable regulations, exemptive relief granted to us by the SEC on October 15, 2014 and MC Advisors allocation policy, which the investment committee of MC Advisors maintains in writing. Under this allocation policy, a fixed percentage of each opportunity,

which may vary based on asset class and from time to time, is offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our board of directors, including our independent directors. The allocation policy further provides that allocations among us and these other accounts are generally made pro rata based on each account s capital available for investment, as determined, in our case, by our board of directors. It is our policy to base our determinations as to the amount of capital available for investment based on such factors as: the amount of cash on-hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our board of directors or imposed by applicable laws, rules, regulations or interpretations. We expect that these determinations will be made similarly for other accounts. However, we can offer no assurance that investment opportunities will be allocated to us fairly or equitably in the short-term or over time.



Our ability to enter into transactions with our affiliates is restricted, which maylimit the scope of investment opportunitiesavailabl

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

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

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

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

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

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

We elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ended December 31, 2012, have qualified in each taxable year since, and intend to qualify annually hereafter; however, no assurance can be given that we will be able to qualify for and maintain RIC status. To receive RIC tax treatment under the Code and to be relieved of federal taxes on income and gains distributed to our stockholders, we must meet certain requirements, including source-of-income, asset diversification and distribution requirements. The annual distribution requirement applicable to RICs is satisfied if we distribute at least 90% of our net ordinary income and net short-term

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capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. In addition, we will be subject to a 4% nondeductible federal excise tax to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar year basis. To the extent we use debt financing, we will be subject to certain asset coverage ratio requirements under the 1940 Act and may be subject to financial covenants under loan and credit agreements, each of which could, under certain circumstances, restrict us from making annual distributions necessary to receive RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to be taxed as a RIC and, thus, may be subject to corporate-level federal income tax on our entire taxable income without regard to any distributions made by us. In order to be taxed as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to be taxed as a RIC for any reason and become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distributions to stockholders and the amount of our distributions and the amount of funds available for new investments. Such a failure would have a material adverse effect on us and our stockholders. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

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

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

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

## We may need to raise additional capital to grow because we must distribute most of our income.

We may need additional capital to fund new investments and grow our portfolio of investments. We intend to access the capital markets periodically to issue debt or equity securities or borrow from financial institutions in order to obtain such additional capital. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. A reduction in the availability of new capital could limit our ability to grow. In addition, we are required to distribute each taxable year an amount at least equal to 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if

any, to our stockholders to continue to be taxed as a RIC. As a result, these earnings are not available to fund new investments. An inability to access the capital markets successfully could limit our ability to grow our business and execute our business strategy fully and could decrease our earnings, if any, which may have an adverse effect on the value of our securities.

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

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, or through contracted PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Original issue discount,

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which could be significant relative to our overall investment activities, or increases in loan balances as a result of contracted PIK arrangements, will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

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

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

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a business development company to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of total assets (other than the SBA debentures of an SBIC subsidiary, as permitted by exemptive relief we have been granted by the SEC) less all liabilities and indebtedness not represented by senior securities, immediately after each issuance of senior securities (other than the SBA debentures of an SBIC subsidiary, as permitted by exemptive relief we have been granted by the SEC) until March 26, 2019 and 150% of total assets beginning March 27, 2019 (or prior to March 27, 2019 if stockholders approve a proposal authorizing a minimum asset coverage ratio of at least 150% at our annual meeting of stockholders). If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. This could have a material adverse effect on our operations and we may not be able to make distributions in an amount sufficient to be subject to taxation as a RIC, or at all. In addition, issuance of securities could dilute the percentage ownership of our current stockholders in us.

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

We may have difficulty paying our required distributions if we recognizeincome before, or without, receiving cash re

As a business development company, we generally are not able to issue our common stock at a price below net asset value per share without first obtaining the approval of our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then percentage ownership of our stockholders at that time would



Regulations governing our operation as a business development companyaffect our ability to and the way in which

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decrease, and you might experience dilution. We have stockholder approval to sell our common stock below net asset value through June 21, 2018. On April 27, 2018, we filed a definitive proxy statement for our annual meeting of stockholders, to be held on June 20, 2018. The definitive proxy statement sets forth a proposal to be voted upon at the annual meeting that, if approved by stockholders, would have the effect of extending this approval to the one-year anniversary of the date of the annual meeting. We may seek further stockholder approval to sell shares below net asset value in the future.

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

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

our common stock is exposed to an increased risk of loss because a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use leverage;
if we do not appropriately match the assets and liabilities of our business, adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;
our ability to pay distributions on our common stock may be restricted if our asset coverage ratio, as provided in the 1940 Act, is not at least 200% (or 150%, if lowered in accordance with law) and any amounts used to service indebtedness or preferred stock would not be available for such distributions;
any credit facility is subject to periodic renewal by its lenders, whose continued participation cannot be guaranteed;
our revolving credit facility with ING Capital LLC, as agent, is, and any other credit facility we may enter into would be, subject to various financial and operating covenants, including that our portfolio of investments satisfies certain eligibility and concentration limits as well as valuation methodologies;
such securities would be governed by an indenture or other instrument containing covenants restricting our operating flexibility;
we bear the cost of issuing and paying interest or distributions on such securities, which costs are entirely borne by our common stockholders; and
any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock.

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

| | Assumed Return on Our Portfolio (Net of Expenses)[1] | | | | |
|---|---|---|---|---|---|
| | -10% | -5% | 0% | 5% | 10% |
| Corresponding return to common stockholder[2] | -22.30 % | -12.90 % | -3.51 % | 5.89 % | 15.28 % |

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

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(2) Assumes $513.0 million in total assets, $240.0 million in debt outstanding, $273.0 million in net assets and an average cost of funds of 4.0%, which was the weighted average interest rate of borrowings on our revolving credit facility and SBA-guaranteed debentures as of March 31, 2018. The interest rate on our revolving credit facility is a variable rate. See Summary Credit Facility.

## Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in us.

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). However, on March 23, 2018, the SBCAA was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCAA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150% (i.e. the amount of debt may not exceed 66.7% of the value of our total assets), if certain requirements are met. Under the SBCAA, we are allowed to reduce our asset coverage requirement to 150%, and thereby increase our leverage capacity, if shareholders representing at least a majority of the votes cast, when quorum is met, approve a proposal to do so. If we receive stockholder approval, we would be allowed to reduce our asset coverage requirement to 150% on the first day after such approval. Alternatively, the SBCAA allows the majority of our independent directors to approve the reduction in our asset coverage requirement to 150%, and such approval would become effective after one year. In either case, we would be required to make certain disclosures on our website and in SEC filings regarding, among other things, the receipt of approval to reduce our asset coverage requirement to 150%, our leverage capacity and usage, and risks related to leverage.

On March 27, 2018, our board of directors unanimously approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective March 27, 2019. On March 27, 2018, our board of directors also recommended the submission of a proposal for stockholders to approve the application of the 150% minimum asset coverage requirements at our annual meeting. If stockholders approve this proposal, we would become subject to the 150% minimum asset coverage ratio the day after the annual meeting. Our board of directors values the opinions of our stockholders and will reconvene to reconsider its approval of the modified asset coverage requirements if this proposal is not approved by stockholders. There can be no assurance that our board of directors would rescind its approval if this proposal is not approved by stockholders. If this proposal is not approved by the stockholders and our board of directors does not rescind its approval, we will be subject to the 150% asset coverage ratio, beginning March 27, 2019.

Leverage is generally considered a speculative investment technique and increases the risk of investing in our securities. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. If we incur additional leverage, you will experience increased risks of investing in our common stock. See Risk Factors Risks Relating to Our Business and Structure We maintain a revolving credit facility and may use other borrowed funds to make investments or fund our business operations, which exposes us to

risks typically associated with leverage and increases the risk of investing in us.

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

Our revolving credit facility, as amended, imposes certain conditions that may limit the amount of our distributions to stockholders. Distributions payable in our common stock under our dividend reinvestment plan are not limited by the revolving credit facility. Distributions in cash or property other than our common stock

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are generally limited to 115% of the amount of distributions required to maintain our ability to be subject to taxation as a RIC. We are required under the revolving credit facility to maintain our ability to be subject to taxation as a RIC.

The revolving credit facility requires us to comply with certain financial and operational covenants, including asset and interest coverage ratios, a minimum net worth and minimum number of portfolio investments. For example, the revolving credit facility requires that we maintain an asset coverage ratio of at least 2.10 to 1 at all times and a consolidated interest coverage ratio of at least 2.50 to 1 as of the last day of any fiscal quarter. We may divert cash to pay the lenders in amounts sufficient to cause these tests to be satisfied. Our compliance with these covenants depends on many factors, some of which, such as market conditions, are beyond our control.

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

Availability of borrowings under the revolving credit facility is linked to the valuation of the collateral pursuant to a borrowing base mechanism. As such, declines in the fair market value of our investments which are collateral to the revolving credit facility may reduce availability under our revolving credit facility.

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

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

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

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. Because the statements made by the head of the United Kingdom Financial Conduct Authority are recent in nature, there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined.

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

Interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could have an adverse impact on our net investment income while an increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates and increase our interest expense,

thereby decreasing our net income. An increase in interest rates available to investors could also make investment in our common stock less attractive unless we are able to increase our dividend rate. In addition, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations.

## MRCC SBIC is subject to SBA regulations.

Under current SBA regulations, a licensed SBIC can invest in entities that have a tangible net worth not exceeding $19.5 million and an average annual net income after U.S. federal income taxes (excluding any

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carryover losses) not exceeding $6.5 million for the two most recent fiscal years. In addition, a licensed SBIC must invest 25.0% of its capital in those entities that have a tangible net worth not exceeding $6.0 million and an average annual net income after U.S. federal income taxes (excluding any carryover losses) not exceeding $2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on either the number of employees or the gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in certain prohibited industries. Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA staff to determine its compliance with the relevant SBA regulations. Compliance with these SBA requirements may cause MRCC SBIC to forego attractive investment opportunities that are not permitted under the SBA regulations, and may cause MRCC SBIC to make investments it otherwise would not make in order to remain in compliance with these regulations.

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

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

The SBA regulations currently limit the amount that is available to be borrowed by any SBIC and guaranteed by the SBA to 300.0% of an SBIC s regulatory capital or $150.0 million, whichever is less. For two or more SBICs under common control (commonly referred to as a family of funds ), the maximum amount of outstanding SBA debentures cannot exceed $350.0 million (prior to December 18, 2015, this limitation was $225.0 million). As Monroe Capital has other affiliated SBICs in operation, MRCC SBIC was historically limited to a maximum of $40.0 million in borrowings. Pursuant to the recent increase in the family of funds leverage limitation, we submitted a commitment application to the SBA and on April 13, 2016 MRCC SBIC was approved for $75.0 million in additional SBA-guaranteed debentures, for a total of $115.0 million in available debentures. If MRCC SBIC borrows the maximum amount from the SBA and thereafter requires additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

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

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



SBA regulations limit the amount that may be borrowed from the SBA by anSBIC.

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

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

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

As a business development company, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See Regulation Qualifying Assets. We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to business development companies. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies which could result in the dilution of our position or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

Under the 1940 Act, we are required to carry our portfolio investments at market value or if there is no readily available market value, at fair value as determined by our board of directors. Many of our portfolio investments may take the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable, and we value these securities at fair value as determined in good

faith by our board of directors, including to reflect significant events affecting the value of our securities. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

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



Many of our portfolio investments are recorded at fair value as determined ingood faith by our board of directors and

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the markets in which the portfolio company does business; and
changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

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

We adjust quarterly the valuation of our portfolio to reflect the determination of our board of directors of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our consolidated statements of operations as net change in unrealized gain (loss) on investments.

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

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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

We and our portfolio companies are subject to regulation at the local, state and federal level. These laws and regulations, as well as their interpretation, may change from time to time, including as the result of interpretive guidance or other directives from the U.S. President and others in the executive branch, and new laws, regulations and interpretations may also come into effect, including those governing the types of investments we or our portfolio

companies are permitted to make, any of which could have a material adverse effect on our business. In particular, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became law. The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of many implementing regulations. The effects of Dodd-Frank on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them and the approaches taken in implementing regulations. President Trump and certain members of Congress have indicated that they will seek to amend or



Changes in laws or regulations governing our operations may adversely affectour business or cause us to alter our

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repeal portions of the Dodd-Frank Act, among other federal laws, and drastically reduce the role of regulatory agencies, such as the Consumer Financial Protection Bureau, which may create regulatory uncertainty in the near term. While the impact of the Dodd-Frank Act, and recently-enacted federal tax reform legislation on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act and federal tax reform, including future rules implementing their provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. In addition, if we do not comply with applicable laws and regulations, we could lose any licenses that we then hold for the conduct of our business and may be subject to civil fines and criminal penalties.

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

Over the last several years, there also has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether any regulation will be implemented or what form it will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business, financial condition and results of operations.

## Legislative or other actions relating to taxes could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service ( IRS ) and the U.S. Treasury Department. On December 22, 2017, the U.S. House of Representatives and U.S. Senate enacted An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (the 2017 Tax Act ). The 2017 Tax Act was signed by the President on December 23, 2017. Such legislation makes many changes to the Internal Revenue Code, including, among other things, significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. While we do not foresee that the 2017 Tax Act or any additional tax legislation will have any impact on our ability to qualify for tax treatment as a RIC, we cannot predict with certainty how any changes in the tax laws, U.S. Treasury regulations, administrative interpretations or court decisions interpreting such legislation might affect us, investors or our portfolio investments.

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

Our board of directors has the authority, except as otherwise prohibited by the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. However, absent

stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. Under Maryland law, we also cannot be dissolved without prior stockholder approval except by judicial action. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the price value of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions.



Our board of directors may change our investment objective, operatingpolicies and strategies without prior notice or

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

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

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

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

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

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

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



Efforts to comply with the Sarbanes-Oxley Act involve significantexpenditures, and non-compliance with the Sarban

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## The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning, could impair our ability to conduct business effectively.

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

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

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

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

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

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

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

# Risks Related to Our Investments

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

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

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A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of its loans and foreclosure on its assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. It is possible that we could become subject to a lender liability claim, including as a result of actions taken if we or MC Advisors render significant managerial assistance to the borrower. Furthermore, if one of our portfolio companies were to file for bankruptcy protection, even though we may have structured our investment as senior secured debt, depending on the facts and circumstances, including the extent to which we or MC Advisors provided managerial assistance to that portfolio company or otherwise exercise control over it, a bankruptcy court might re-characterize our debt as a form of equity and subordinate all or a portion of our claim to claims of other creditors.

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

In the past, the global capital markets experienced periods of disruption resulting in increasing spreads between the yields realized on riskier debt securities and those realized on securities perceived as being risk-free and a lack of liquidity in parts of the debt capital markets, significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broadly syndicated market. These events, along with the deterioration of the housing market, illiquid market conditions, declining business and consumer confidence and the failure of major financial institutions in the United States, led to a general decline in economic conditions. This economic decline materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and to financial firms in particular. If such a period of disruption were to occur in the future, to the extent that we wish to use debt to fund our investments, the debt capital that will be available to us, if at all, may be at a higher cost, and on terms and conditions that may be less favorable, than what we expect, which could negatively affect our financial performance and results. A prolonged period of market illiquidity may cause us to reduce the volume of loans we originate and/or fund below historical levels and adversely affect the value of our portfolio investments, which could have a material and adverse effect on our business, financial condition, and results of operations. The spread between the yields realized on riskier debt securities and those realized on securities perceived as being risk-free has remained narrow on a relative basis recently. If these spreads were to widen or if there were deterioration of market conditions, these events could materially and adversely affect our business.

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

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

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

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

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

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

may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;
are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
typically have more limited access to the capital markets, which may hinder their ability to refinance borrowings;
will be unable to refinance or repay at maturity the unamortized loan balance as we structure our loans such that a significant balance remains due at maturity;
generally have less predictable operating results, may be particularly vulnerable to changes in customer preferences or market conditions, depend on one or a limited number of major customers;
may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
generally have less publicly available information about their businesses, operations and financial condition. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

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

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

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

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

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

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

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

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

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

## Our portfolio may be exposed in part to one or more specific industries, which may subject us to a risk of significant loss in a particular investment or investments if there is a downturn in that particular industry.

Our portfolio may be exposed in part to one or more specific industries. A downturn in any particular industry in which we are invested could significantly impact the aggregate returns we realize. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

As of March 31, 2018, our investments in the healthcare & pharmaceuticals; banking, finance, insurance & real estate; and high tech industries represented approximately 13.2%, 12.2% and 10.3%, respectively, of the fair value of our portfolio and are subject to certain risks particular to these industries. The laws and rules governing the business of companies in these industries and interpretations of those laws and rules are subject to frequent change and broad latitude is given to the agencies administering those regulations. Existing or future laws and rules could force our portfolio companies operating in these industries to change how they do business, restrict revenue, increase costs,

change reserve levels and change business practices. Policy changes on the local, state and federal level, such as the expansion of the government s role in these industries, health insurance reform and alternative assessments and changes to tax laws affecting the healthcare industry or real estate in particular, could fundamentally change the dynamics of these industries. Healthcare companies often must obtain and maintain regulatory approvals to market many of their products, change prices for certain regulated products and to consummate some of their acquisitions and divestitures. In addition, various changes in real estate conditions, such as housing supply and demand, credit availability, the attractiveness of real estate investments and zoning and tax considerations, among other things, may impact our real estate related investments. We have invested and will continue investing in technology companies, many of which may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses), and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related markets are generally characterized by abrupt



Our portfolio may be exposed in part to one or more specific industries, whichmay subject us to a risk of significant

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business cycles and intense competition, where the leading companies in any particular category may hold a highly concentrated percentage of the overall market share. Any of these factors could materially adversely affect the operations of a portfolio company in these industries and, in turn, impair our ability to timely collect principal and interest payments owed to us.

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

Our investments include original issue discount, or OID, components and may include PIK interest or PIK dividend components. For the three months ended March 31, 2018, PIK interest and PIK dividends comprised approximately 3.9% of our investment income. To the extent original issue discount constitutes a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

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

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

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

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

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

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

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

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

We have not yet identified potential investments for our portfolio that we may acquire with the proceeds of an offering. Privately negotiated investments in illiquid securities or private middle-market companies require substantial

due diligence and structuring, and we cannot assure you that we will achieve our anticipated investment pace. You will be unable to evaluate any future portfolio company investments prior to purchasing our securities. Additionally, MC Advisors will select our investments subsequent to the closing of an offering, and our stockholders will have no input with respect to such investment decisions. These factors increase the uncertainty, and thus the risk, of investing in our securities.



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

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

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

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

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

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

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

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

increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or

preserve or enhance the value of our investment.

We have discretion to make follow-on investments, subject to the availability of capital resources and the provisions of the 1940 Act. Failure on our part to make follow-on investments may, in some circumstances,

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

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

Although we may do so in the future, we do not currently hold controlling equity positions in the majority of our portfolio companies. Our debt investments may provide limited control features such as restrictions, for example, on the ability of a portfolio company to assume additional debt, or to use the proceeds of our investment for other than certain specified purposes. Control under the 1940 Act is presumed at more than 25% equity ownership, and may also be present at lower ownership levels where we provide managerial assistance. When we do not acquire a controlling equity position in a portfolio company, we may be subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

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

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

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

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

We generally seek to invest capital in senior, unitranche and junior secured loans and, to a lesser extent, unsecured subordinated debt and equity. The portfolio companies in which we invest usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying senior creditors, the portfolio company

may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Additionally, certain loans that we make to portfolio companies may be secured on a second-priority basis by the same collateral securing senior secured debt of such companies. The first-priority liens on the collateral will secure the portfolio company s obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the portfolio company under the agreements



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

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

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

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

We may not have the ability to control or direct such actions, even if our rights are adversely affected. In addition, a bankruptcy court may choose not to enforce an intercreditor agreement or other agreement with creditors.

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

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

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

From time to time, our investments may consist of syndicated loans. Under the documentation for such loans, a

financial institution or other entity typically is designated as the administrative agent and/or collateral agent. This agent is granted a lien on any collateral on behalf of the other lenders and distributes payments on the indebtedness as they are received. The agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two-thirds in commitments and/or principal amount of the associated indebtedness. In most cases, we do not expect to hold

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a sufficient amount of the indebtedness to be able to compel any actions by the agent. Accordingly, we may be precluded from directing such actions unless we act together with other holders of the indebtedness. If we are unable to direct such actions, we cannot assure you that the actions taken will be in our best interests.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the associated indebtedness and/or direct the agent to take actions against the related obligor or the collateral securing the associated indebtedness and actions to realize on proceeds of payments made by obligors that are in the possession or control of any other financial institution. In addition, we may be unable to remove the agent in circumstances in which removal would be in our best interests. Moreover, agented loans typically allow for the agent to resign with certain advance notice.

## The disposition of our investments may result in contingent liabilities.

A significant portion of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

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

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

## We may be subject to additional risks if we engage in hedging transactions and/or invest in foreign securities.

The 1940 Act generally requires that 70% of our investments be in issuers each of whom, in addition to other requirements, is organized under the laws of, and has its principal place of business in, any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the United States. Our investment strategy does not contemplate a significant number of investments in securities of non-U.S. companies. We expect that these investments would focus on the same investments that we intend to make in U.S. middle-market companies and, accordingly, would be complementary to our overall strategy and enhance the diversity of our holdings.

To the extent that these investments are denominated in a foreign currency, we may engage in hedging transactions. Engaging in either hedging transactions or investing in foreign securities would entail additional risks to our

stockholders. We may, for example, use instruments such as interest rate swaps, caps, collars and floors, forward contracts or currency options or borrow under a revolving credit facility in foreign currencies to minimize our foreign currency exposure. In each such case, we generally would seek to hedge against fluctuations of the relative values of our portfolio positions from changes in market interest rates or currency exchange rates. Hedging against a decline in the values of our portfolio positions would not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of the positions declined. However, such hedging could establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions could also limit the opportunity for gain if the values of the underlying portfolio positions increased.



We may be subject to additional risks if we engage in hedging transactionsand/or invest in foreign securities.

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Moreover, it might not be possible to hedge against an exchange rate or interest rate fluctuation that was so generally anticipated that we would not be able to enter into a hedging transaction at an acceptable price. Our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the U.S. Commodity Futures Trading Commission.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

### We may not realize gains from our equity investments.

We currently hold and we may in the future make investments that include warrants or other equity or equity-related securities. In addition, we may from time to time make non-control, equity co-investments in companies in conjunction with private equity sponsors. Our goal is ultimately to realize gains upon our disposition of such equity interests.

However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these put rights for the consideration provided in our investment documents if the issuer is in financial distress.

## Risks Relating to Offerings Pursuant to this Prospectus

### Investing in our securities may involve an above-average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and, therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

### Shares of closed-end investment companies, including business development companies, often trade at a discount to their net asset value.

Shares of closed-end investment companies, including business development companies, may trade at a discount from net asset value. This characteristic of closed-end investment companies and business development companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our

common stock will trade at, above or below net asset value.

## Investors in our equity securities may not receive distributions or our distributions may not grow over time and a portion of our distributions may be a return of capital.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this prospectus. For example, due to the asset coverage test applicable to us under the 1940 Act as a business development company, we may be limited in our ability to make distributions. To the extent that we make

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distributions to stockholders that include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders investment. Although such return of capital may not be taxable, such distribution may decrease the investor s basis in our common stock and increase an investor s tax liability for capital gains upon the future sale of the stock.

## If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

The issuance or sale by us of shares of our common stock at a price per share, after offering expenses and commission, that is a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades.

## We may not be able to pay distributions, our distributions may not grow over time and/or a portion of our distributions may be a return of capital.

We have paid and intend to continue to pay distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to sustain a specified level of cash distributions or make periodic increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company could limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable business development company regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will continue to pay distributions to our stockholders.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor s basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain.

## We may choose to pay a portion of our dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash pursuant to such plan. See Dividend Reinvestment Plan. We may distribute taxable dividends that are payable in part in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain or qualified dividend income to the extent such distribution is properly reported as such) to the extent of our current and accumulated earnings and profits for federal income tax purposes. The tax rate for ordinary income will vary depending on a stockholder s particular characteristics. For individuals, the top marginal federal

ordinary income tax rate effective beginning in 2018 is 37%. To the extent distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions generally will be eligible for a maximum qualified dividend federal tax rate of 20%. However, in this regard, it is anticipated that distributions paid by us will generally not be attributable to such dividends and, therefore, generally will not qualify for the preferential federal tax rate. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains currently at a maximum federal tax rate of 20%. See Material U.S. Federal Income Tax Consequences for a more detailed discussion.



We may choose to pay a portion of our dividends in our own stock, in whichcase you may be required to pay tax in

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As a result of receiving dividends in the form of our common stock, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold federal tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares of our common stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of shares of our common stock.

In addition, as discussed above, our loans may contain a PIK interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To avoid the imposition of corporate-level tax, we will need to make sufficient distributions, a portion of which may be paid in shares of our common stock, regardless of whether our recognition of income is accompanied by a corresponding receipt of cash.

## Provisions of the Maryland General Corporation Law and our charter and bylaws could deter takeover attempts and have an adverse effect on the price of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. See Description of Our Capital Stock Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Maryland Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board of directors, including approval by a majority of our independent directors. If the resolution exempting business combinations is repealed or our board of directors does not approve a business combination, the Maryland Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

The SEC staff has taken the position that, under the 1940 Act, an investment company may not avail itself of the Maryland Control Share Acquisition Act. As a result, we will amend our bylaws to be subject to the Maryland Control Share Acquisition Act only if the board of directors determines that it would be in our best interests and, after notification, the SEC staff does not object to our determination that our being subject to the Maryland Control Share Acquisition Act does not conflict with the 1940 Act. If such conditions are met, and we amend our bylaws to repeal the exemption from the Maryland Control Share Acquisition Act, the Maryland Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such a transaction.

We have adopted certain measures that may make it difficult for a third-party to obtain control of us, including provisions of our charter classifying our board of directors in three staggered terms and authorizing our board of directors to classify or reclassify shares of our capital stock in one or more classes or series and to cause the issuance of additional shares of our stock. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

## The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which is not necessarily related to the operating performance of these companies;
changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
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loss of RIC or business development company status;
the ability of MRCC SBIC, or any other SBIC subsidiary we may form, to obtain and maintain an SBIC license;
changes or perceived changes in earnings or variations in operating results;
changes or perceived changes in the value of our portfolio of investments;
changes in accounting guidelines governing valuation of our investments;
any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
departure of MC Advisors key personnel;
operating performance of companies comparable to us;
general economic trends and other external factors; and
loss of a major funding source.

## We may allocate the net proceeds from our offerings in ways with which you may disagree.

We will have significant flexibility in investing the proceeds of offerings pursuant to this prospectus and may use the proceeds from such offerings in ways with which you may disagree or for purposes other than those contemplated at the time of the offering. We will also pay operating expenses, and may pay other expenses such as due diligence expenses of potential new investments, from net proceeds.

## Our stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that do not participate in our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

## Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

## Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a

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result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

These dilutive effects may be exacerbated if we were to conduct multiple subscription rights offerings, particularly if such offerings were to occur over a short period of time. In addition, subscription rights offerings and the prospect of future subscription rights offerings may create downward pressure on the secondary market price of our common stock due to the potential for the issuance of shares at a price below our net asset value, without a corresponding change to our net asset value.

## If we issue preferred stock, debt securities or convertible debt securities, the net asset value and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

## The trading market or market value of our publicly issued debt securities may fluctuate.

If we issue publicly issued debt securities, they may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

the time remaining to the maturity of these debt securities;
the outstanding principal amount of debt securities with terms identical to these debt securities;
the ratings assigned by national statistical ratings agencies;
the general economic environment;
the supply of debt securities trading in the secondary market, if any;
the redemption or repayment features, if any, of these debt securities;



The trading market or market value of our publicly issued debt securities mayfluctuate.

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the level, direction and volatility of market interest rates generally; and
market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

## Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may also be required to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

## Our credit ratings, if any, may not reflect all risks of an investment in our debt securities or any convertible debt securities.

Our credit ratings, if any, will be an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of any publicly issued debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed herein about the market value of, or trading market for, any publicly issued debt securities.

## Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

As of March 31, 2018 we had 20,239,957 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

## The issuance of subscription rights, warrants or convertible debt that are exchangeable for our common stock, will cause the interests of our common stockholders in us to be diluted as a result of any such rights, warrants or convertible debt offering.

Stockholders who do not fully exercise rights, warrants or convertible debt issued to them in any offering of subscription rights, warrants or convertible debt to purchase our common stock should expect that they will, at the completion of the offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights, warrants or convertible debt. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price, warrant price or convertible debt price is less than our net asset value per share of common stock at the time of such offering, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any such decrease in net asset value is not predictable because it is not known at this time what the subscription price, warrant price, convertible debt price or net asset value per share will be on the expiration date of such offering or what proportion of our common stock will be purchased as a result of any such offering. The risk of dilution is greater if there are multiple rights offerings. However, our board of directors will make a good faith determination that any offering of subscription rights, warrants or convertible debt would result in a net benefit to existing stockholders.



The issuance of subscription rights, warrants or convertible debt that areexchangeable for our common stock, will c

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# SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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# USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use all or substantially all of the net proceeds from the sale of our securities to invest in portfolio companies directly in accordance with our investment objective and strategies and for general corporate purposes. We will also pay operating expenses, including management and administrative fees, and may pay other expenses from the net proceeds of any offering of our securities.

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

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

The prospectus supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

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# PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock began trading on The Nasdaq Global Market under the ticker symbol MRCC on October 25, 2012. Prior to that date, there was no established trading market for our common stock. Our common stock is now traded on the Nasdaq Global Select Market. Our common stock has historically traded both above and below net asset value ( NAV ).

The following table sets forth the high and low closing sales prices of our common stock, the closing sales price as a percentage of our NAV and the distributions declared by us since January 1, 2016.

| | NAV[1] | Closing Sales Price | | Premium (Discount) of High Sales Price to NAV[2] | Premium (Discount) of Low Sales Price to NAV[2] | Declared Distributions[3] |
|---|---|---|---|---|---|---|
| | | High | Low | | | |
| Year ending December 31, 2018 | | | | | | |
| Second Quarter (through May 23, 2018) | [4] | $13.99 | $12.31 | [4] | [4] | |
| First Quarter | $13.49 | $14.28 | $12.20 | 5.9 % | (9.6 )% | $ 0.35 [5] |
| Year ending December 31, 2017 | | | | | | |
| Fourth Quarter | $13.77 | $14.70 | $13.75 | 6.8 % | (0.1 )% | $ 0.35 [6] |
| Third Quarter | $14.01 | $15.22 | $13.50 | 8.6 % | (3.6 )% | $ 0.35 [6] |
| Second Quarter | $14.05 | $16.14 | $14.92 | 14.9 % | 6.2 % | $ 0.35 [6] |
| First Quarter | $14.34 | $16.09 | $15.18 | 12.2 % | 5.9 % | $ 0.35 [6] |
| Year ending December 31, 2016 | | | | | | |
| Fourth Quarter | $14.52 | $15.63 | $13.77 | 7.6 % | (5.2 )% | $ 0.35 [7] |
| Third Quarter | $14.42 | $16.25 | $14.91 | 12.7 % | 3.4 % | $ 0.35 [7] |
| Second Quarter | $14.50 | $14.83 | $13.11 | 2.3 % | (9.6 )% | $ 0.35 [7] |
| First Quarter | $14.45 | $14.32 | $10.82 | (0.9 )% | (25.1 )% | $ 0.35 [7] |

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

(2) Calculated by taking the respective high or low closing sales price divided by the quarter end NAV and subtracting 1.

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

(4) NAV calculation is not yet available.

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

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

(6) There was no return of capital for tax purposes for the year ended December 31, 2017.

(7) There was no return of capital for tax purposes for the year ended December 31, 2016.

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

We elected to be treated as a RIC under the Code beginning with our taxable year ending December 31, 2012, have qualified in each taxable year since, and intend to qualify annually hereafter. To obtain and maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our net capital gains in

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excess of capital losses for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

We currently intend to distribute net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually out of the assets legally available for such distributions. However, we may decide in the future to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated for U.S. federal income tax purposes as if you had received an actual distribution of the capital gains that we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations. We cannot assure you that we will achieve results that will permit us to continue to pay any cash distributions, and if we issue senior securities, we will be prohibited from making distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if such distributions are limited by the terms of any of our borrowings.

Our management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent that our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders. The tax character of distributions will be determined at the end of the fiscal year. A return of capital distribution is not a distribution from earnings and profits, but is rather a return of the money initially invested and while it may not be currently taxable, it lowers the stockholder s basis in the stock, which may result in higher capital gains when the stockholder s investment in us is ultimately sold.

Unless you elect to receive your dividends in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash in lieu of shares of our common stock. Any dividends reinvested through the issuance of shares through our dividend reinvestment plan will increase our assets on which the base management fee and the incentive fee are determined and paid to MC Advisors. See Dividend Reinvestment Plan.

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# SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 are derived from our consolidated financial statements that have been audited by RSM US LLP, our independent registered public accounting firm. We derived the selected consolidated financial data as of and for the three months ended March 31, 2018 and 2017 from our unaudited interim consolidated financial statements. In the opinion of the Company, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been made. Interim results are subject to variation and are not indicative of the results of operations to be expected for a full fiscal year. This consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

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(1) For the three months ended March 31, 2018 and 2017, no incentive fees were waived. During the years ended December 31, 2017, 2016, 2015, 2014 and 2013, MC Advisors waived part one incentive fees (based on net investment income) of $0.3 million, $0.3 million, zero, zero and zero, respectively.

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

(3) In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 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 statements of assets and liabilities as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted ASU 2015-03 during the year ended December 31, 2016 and the consolidated statement of assets and liabilities for prior years was also revised to reflect this presentation.

(4) Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under our dividend reinvestment plan ( DRIP ). Total return based on market value does not reflect brokerage commissions.

(5) Total return based on average net asset value is calculated by dividing the net increase in net assets from operations by the average net asset value.

(6) The weighted average annualized effective yield on portfolio investments at year end is computed by dividing (a) interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end effective rate for each investment by (b) the par value of our debt investments and the cost basis of our preferred equity investments. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of our fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors.

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# SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial information for the quarter ended March 31, 2018 and each quarter in our two most recent fiscal years, which were the calendar years ended December 31, 2017 and 2016. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
| | (in thousands, except per share data) | | | | |
| Total investment income | $14,950 | $13,364 | $13,469 | $12,268 | $12,006 |
| Net investment income | $8,465 | $6,995 | $6,887 | $6,088 | $6,034 |
| Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings | $(7,075) | $(4,754) | $(569) | $(5,064) | $(3,465) |
| Net increase (decrease) in net assets resulting from operations | $1,390 | $2,241 | $6,318 | $1,024 | $2,569 |
| Net investment income per share basic and diluted | $0.42 | $0.35 | $0.34 | $0.35 | $0.36 |
| Net increase (decrease) in net assets resulting from operations per share basic and diluted | $0.07 | $0.11 | $0.31 | $0.06 | $0.15 |
| Net asset value per share at period end | $13.49 | $13.77 | $14.01 | $14.05 | $14.34 |

| | For the quarter ended | | | |
|---|---|---|---|---|
| | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 |
| | (in thousands, except per share data) | | | |
| Total investment income | $11,233 | $11,128 | $11,118 | $11,539 |
| Net investment income | $5,377 | $5,583 | $5,759 | $5,787 |
| Net gain (loss) on investments and secured borrowings | $2,155 | $(1,971) | $(482) | $2,157 |
| Net increase (decrease) in net assets resulting from operations | $7,532 | $3,612 | $5,277 | $7,944 |
| Net investment income per share basic and diluted | $0.32 | $0.36 | $0.44 | $0.44 |
| Net increase (decrease) in net assets resulting from operations per share basic and diluted | $0.45 | $0.23 | $0.41 | $0.61 |
| Net asset value per share at period end | $14.52 | $14.42 | $14.50 | $14.45 |

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes thereto. The following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under Risk Factors and Special Note Regarding Forward-Looking Statements appearing elsewhere in this prospectus.*

## Overview

Monroe Capital Corporation is an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (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 and Canada. We provide customized financing solutions focused primarily on senior secured, junior secured and unitranche secured (a combination of senior secured and junior secured debt in the same facility in which we syndicate a first out portion of the loan to an investor and retain a last out portion of the loan) 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 Select 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 secured 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 secured and junior secured debt of middle-market companies. Our investments in senior, unitranche and junior secured debt and other investments generally will range between $2.0 million and $18.0 million each, although this investment size may vary proportionately with the size of our capital base. As of March 31, 2018, our portfolio included approximately 76.6% senior secured debt, 9.3% unitranche secured debt, 7.8% junior secured debt and 6.3% equity securities, compared to December 31, 2017, when our portfolio included approximately 78.5% senior secured debt, 8.2% unitranche secured debt, 7.8% junior secured debt and 5.5% equity securities. We expect that the companies in which we invest may be leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in certain cases, will not be rated by national ratings agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies.

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

companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

On February 28, 2014, our wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Act of 1958. MRCC SBIC commenced operations on September 16, 2013. As of March 31, 2018, MRCC SBIC had $57.6 million in leverageable capital and $112.8 million in SBA-guaranteed debentures outstanding. As of December 31, 2017, MRCC SBIC had $57.6 million in leverageable capital and $109.5 million in SBA-guaranteed debentures outstanding. See *SBA Debentures* below for more information.

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## Investment income

We generate interest income on the debt investments in portfolio 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. As the frequency or volume of the repayments which trigger these prepayment premiums and prepayment gains (losses) may fluctuate significantly from period to period, the associated interest income recorded may also fluctuate significantly from period to period. Interest and fee income is recorded on the accrual basis to the extent we expect to collect such amounts. Interest 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. We record fees on loans based on the determination of whether the fee is considered a yield enhancement or payment for a service. If the fee is considered a yield enhancement associated with a funding of cash on a loan, the fee is generally deferred and recognized into interest income using the effective interest method if captured in the cost basis or using the straight-line method if the loan is unfunded and therefore there is no cost basis. If the fee is not considered a yield enhancement because a service was provided, and the fee is payment for that service, the fee is deemed earned and recognized as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. The frequency and volume of the distributions on common equity securities and LLC and LP investments may fluctuate significantly from period to period.

## 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, our SBA-guaranteed debentures and our secured borrowings. We bear all other out-of-pocket costs and expenses of our operations and transactions.

## Net gain (loss) on investments, secured borrowings and foreign currency transactions

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 without regard to unrealized gains or losses previously recognized. We record current period changes in fair value of investments, secured borrowings, and foreign currency transactions within net change in unrealized gain (loss) on investments, secured borrowings, and foreign currency borrowings in the consolidated statements of operations.

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# Portfolio and Investment Activity

During the three months ended March 31, 2018, we invested $4.9 million in one new portfolio company and $27.6 million in 12 existing portfolio companies and had $25.6 million in aggregate amount of sales and principal repayments, resulting in net investments of $6.9 million for the period.

During the three months ended March 31, 2017, we invested $27.3 million in two new portfolio companies and $14.2 million in 14 existing portfolio companies and had $33.8 million in aggregate amount of sales and principal repayments, resulting in net investments of $7.7 million for the period.

During the year ended December 31, 2017, we invested $200.4 million in 27 new portfolio companies and $64.0 million in 31 existing portfolio companies and had $173.4 million in aggregate amount of sales and principal repayments, resulting in net investments of $91.0 million for the year.

During the year ended December 31, 2016, we invested $105.2 million in 21 new portfolio companies and $42.6 million in 16 existing portfolio companies and had $81.4 million in aggregate amount of sales and principal repayments, resulting in net investments of $66.4 million for the year.

During the year ended December 31, 2015, we invested $144.8 million in 24 new portfolio companies and $48.8 million in 16 existing portfolio companies and had $88.4 million in aggregate amount of sales and principal repayments, resulting in net investments of $105.2 million for the year.

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

| | March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | | Weighted Average Annualized Contractual Coupon Yield[1] | | Weighted Average Annualized Effective Yield[2] | |
| Senior secured loans | $ 380,115 | 76.6 | % | 10.0 | % | 10.5 | % |
| Unitranche secured loans | 45,976 | 9.3 | | 10.4 | | 11.6 | |
| Junior secured loans | 38,578 | 7.8 | | 9.8 | | 9.8 | |
| LLC equity interest in SLF | 16,333 | 3.3 | | | | | |
| Equity securities | 15,032 | 3.0 | | 10.8 | | 10.8 | |
| Total | $ 496,034 | 100.0 | % | 10.0 | % | 10.6 | % |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | | Weighted Average Annualized Contractual Coupon Yield[1] | | Weighted Average Annualized Effective Yield[2] | |
| Senior secured loans | $ 387,874 | 78.5 | % | 9.6 | % | 9.6 | % |
| Unitranche secured loans | 40,295 | 8.2 | | 9.3 | | 11.3 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Junior secured loans | 38,549 | 7.8 | | 9.4 | | 9.4 | |
| LLC equity interest in SLF | 9,640 | 1.9 | | | | | |
| Equity securities | 17,780 | 3.6 | | 10.8 | | 10.8 | |
| Total | $ 494,138 | 100.0 | % | 9.8 | % | 10.0 | % |

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| | December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | Percentage of Total Portfolio | | Weighted Average Annualized Contractual Coupon Yield[1] | | Weighted Average Annualized Effective Yield[2] | | |
| Senior secured loans | $ 275,253 | 66.7 | % | 9.2 | % | 9.2 | % | |
| Unitranche secured loans | 51,638 | 12.5 | | 10.9 | | 11.4 | | |
| Junior secured loans | 59,366 | 14.4 | | 9.7 | | 9.7 | | |
| Equity securities | 26,663 | 6.4 | | 10.8 | | 10.8 | | |
| Total | $ 412,920 | 100.0 | % | 9.5 | % | 9.6 | % | |

(1) The weighted average annualized contractual coupon yield at period end is computed by dividing (a) the interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end contractual coupon rate for each investment by (b) the par value of our debt investment and the cost basis of our preferred equity investments.

(2) The weighted average annualized effective yield on portfolio investments at period end is computed by dividing (a) interest income on debt investments and preferred equity investments (with a stated coupon rate) at the period end effective rate for each investment by (b) the par value of our debt investments and the cost basis of our preferred equity investments. The weighted average annualized effective yield on portfolio investments is a metric on the investment portfolio alone and does not represent a return to stockholders. This metric is not inclusive of our fees and expenses, the impact of leverage on the portfolio or sales load that may be paid by investors.

Our March 31, 2018 portfolio composition remained relatively consistent with December 31, 2017, with the largest shift in portfolio composition a result of the additional investments made in SLF during the three months ended March 31, 2018. The increase in contractual interest rates is primarily a result of general increases in LIBOR. The increase in effective yield was also influenced by discount amortization on our investment in Gibson Brands, Inc., which was purchased at a significant discount.

The shift in portfolio composition from December 31, 2016 primarily reflects our investment of a substantial portion of the capital from our public offering during the year ended December 31, 2017 into senior secured loan assets. The increase in contractual and effective interest rates is primarily a result of general increases in LIBOR.

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

## 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

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

Our investment performance 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.

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The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of March 31, 2018 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ 3,548 | 0.7 % |
| 2 | 406,650 | 82.0 |
| 3 | 51,139 | 10.3 |
| 4 | 30,508 | 6.2 |
| 5 | 4,189 | 0.8 |
| Total | $ 496,034 | 100.0 % |

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of December 31, 2017 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ 3,445 | 0.7 % |
| 2 | 415,094 | 84.0 |
| 3 | 57,547 | 11.6 |
| 4 | 18,052 | 3.7 |
| 5 | | |
| Total | $ 494,138 | 100.0 % |

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale as of December 31, 2016 (dollars in thousands):

| Investment Performance Rating | Investments at Fair Value | Percentage of Total Investments |
|---|---|---|
| 1 | $ | % |
| 2 | 360,338 | 87.3 |
| 3 | 40,192 | 9.7 |
| 4 | 12,390 | 3.0 |
| 5 | | |
| Total | $ 412,920 | 100.0 % |

As of March 31, 2018, we had two borrowers with loans and preferred equity securities on non-accrual status (Millennial Brands LLC and TPP Operating, Inc.), which comprised 0.8% of our total investments at fair value. As of December 31, 2017, we had two borrowers with loans and preferred equity securities on non-accrual status (Millennial Brands LLC and TPP Operating, Inc.), which comprised 1.7% of our total investments at fair value. 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. As of December 31, 2016, we had three borrowers with loans and preferred equity securities on non-accrual status (Answers Corporation, Millennial Brands LLC and TPP Operating, Inc.), which comprised 2.5% of our total investments at fair value.

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# Results of Operations

Operating results were as follows (in thousands):

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Total investment income | $ 14,950 | $ 12,006 |
| Total expenses | 6,485 | 5,972 |
| Net investment income | 8,465 | 6,034 |
| Net realized gain (loss) on investments | | 167 |
| Net realized gain (loss) on foreign currency transactions | 12 | |
| Net change in unrealized gain (loss) on investments | (6,645 ) | (3,631 ) |
| Net change in unrealized gain (loss) on secured borrowings | | (1 ) |
| Net change in unrealized gain (loss) on foreign currency borrowings | (442 ) | |
| Net increase (decrease) in net assets resulting from operations | $ 1,390 | $ 2,569 |

## Investment Income

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

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $ 12,626 | $ 10,388 |
| Dividend income | 435 | 250 |
| Fee income | 724 | 328 |
| Prepayment gain (loss) | 133 | 652 |
| Accretion of discounts and amortization of premium | 1,032 | 388 |
| Total investment income | $ 14,950 | $ 12,006 |

The increase in investment income of $2.9 million during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, is primarily due to an increase in average outstanding loan balances and an increase in the effective rate on the portfolio. The increase in the effective rate on the portfolio is driven in part by increases in underlying LIBOR rates as well as an increase in net accretion of discounts. These increases were partially offset by a decrease in prepayment gain (loss) as a result of a reduction in the volume of loan payoff activity. The increase in dividend income during the three months ended March 31, 2018, as compared to the prior year period, is driven by an increase in dividend income from our investment in SLF of $0.2 million.

## Operating Expenses

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

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |

| | | |
|---|---|---|
| Interest and other debt financing expenses | $ 2,706 | $ 2,010 |
| Base management fees | 2,163 | 1,805 |
| Incentive fees[1] | 761 | 1,290 |
| Professional fees | 307 | 291 |
| Administrative service fees | 324 | 330 |
| General and administrative expenses | 176 | 209 |
| Excise taxes | 11 | |
| Directors fees | 37 | 37 |
| Total expenses | $ 6,485 | $ 5,972 |

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(1) During the three months ended March 31, 2018 and 2017, no incentive fees were waived. Incentive fees during the three months ended March 31, 2018 were limited by $1.1 million due to the Incentive Fee Limitation. During the three months ended March 31, 2017, incentive fees were not limited. See Note 6 in our attached consolidated financial statements for additional information on the Incentive Fee Limitation.

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

| | | Three months ended March 31, | |
|---|---|---|---|
| | | 2018 | 2017 |
| Interest expense | revolving credit facility | $ 1,557 | $ 1,345 |
| Interest expense | SBA guaranteed debentures | 868 | 406 |
| Amortization of deferred financing costs | | 281 | 231 |
| Interest expense | secured borrowings | | 21 |
| Other | | | 7 |
| Total interest and other debt financing expenses | | $ 2,706 | $ 2,010 |

The increase in expenses of $0.5 million during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, is primarily due to an increase in base management fees due to the growth in invested assets and an increase in interest expense as a result of additional borrowings (including SBA-guaranteed debentures) required to support the growth of the portfolio, partially offset by a decrease in incentive fees due to the Incentive Fee Limitation during the three months ended March 31, 2018.

## Net Realized Gain (Loss) on Investments and Foreign Currency Transactions

During the three months ended March 31, 2018 and 2017, we had sales of investments of zero and $2.1 million, respectively, resulting in zero and $0.2 million of net realized gains (losses), respectively.

During the three months ended March 31, 2018 and 2017, we had $12 thousand and zero of net realized gains on foreign currency transactions, respectively.

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

For the three months ended March 31, 2018 and 2017, our investments had ($6.6) million and ($3.6) million of net change in unrealized gain (loss), respectively. The net change in unrealized gain (loss) includes both unrealized gain on investments in our portfolio with mark-to-market gains during the period and unrealized loss on investments in our portfolio with mark-to-market losses during the period. The largest contributor to the net unrealized mark-to-market losses during the three months ended March 31, 2018 was our common equity ownership in Rockdale Blackhawk, LLC of ($2.3) million, and our debt investment in TPP Operating, Inc. of ($4.8) million.

For the three months ended March 31, 2018 and 2017, our secured borrowings had zero and ($1) thousand of net change in unrealized gain (loss), respectively.

For the three months ended March 31, 2018 and 2017, our foreign currency borrowings had ($442) thousand and zero of net change in unrealized gain (loss), respectively.

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

For the three months ended March 31, 2018 and 2017, the net increase in net assets from operations was $1.4 million and $2.6 million, respectively. Based on the weighted average shares of common stock outstanding for the three months ended March 31, 2018 and 2017, our per share net increase in net assets resulting from operations was $0.07 and $0.15, respectively. The $1.2 million decrease during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, is primarily the result of an increase in net unrealized mark-to-market losses on investments in the portfolio partially offset by an increase in net investment income.

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## Comparison of the Years Ended December 31, 2017, 2016 and 2015

Operating results are as follows (dollars in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Total investment income | $51,107 | $45,018 | $36,898 |
| Total expenses, net of incentive fee waiver | 25,103 | 22,512 | 18,157 |
| Net investment income | 26,004 | 22,506 | 18,741 |
| Net realized gain (loss) on investments | (439) | 587 | 304 |
| Net realized gain (loss) on secured borrowings | 66 | | |
| Net realized gain (loss) on foreign currency transactions | 1 | | |
| Net change in unrealized gain (loss) on investments | (13,120) | 1,325 | (1,085) |
| Net change in unrealized gain (loss) on secured borrowings | (6) | (53) | (68) |
| Net change in unrealized gain (loss) on foreign currency borrowings | (354) | | |
| Net increase (decrease) in net assets resulting from operations | $12,152 | $24,365 | $17,892 |

## Investment Income

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Interest income | $ 44,565 | $ 36,448 | $ 32,536 |
| Dividend income | 1,002 | 4,548 | 626 |
| Fee income | 1,890 | 1,471 | 1,401 |
| Prepayment gain (loss) | 1,790 | 995 | 1,230 |
| Accretion of discounts and amortization of premiums | 1,860 | 1,556 | 1,105 |
| Total investment income | $ 51,107 | $ 45,018 | $ 36,898 |

The increase in investment income of $6.1 million during the year ended December 31, 2017 is primarily due to an increase in average outstanding loan balances and an increase in prepayment loan activity, partially offset by a decrease in dividend income. The decrease in dividend income during the year ended December 31, 2017, as compared to the prior years, is driven by a decrease in dividend income from our investment in Rockdale Blackhawk, LLC ( Rockdale ) of $3.5 million. While we have received significant equity distributions from our investment in Rockdale in the past, the timing and amount of these distributions are not within our control and are difficult to predict and may fluctuate significantly from period to period. The increase in investment income of $8.1 million during the year ended December 31, 2016 is primarily due to an increase in average outstanding loan balances and an increase in dividend income, partially offset by declines in the effective yield on the investment portfolio.

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## Operating Expenses

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Interest and other debt financing expenses | $ 8,312 | $ 6,782 | $ 5,400 |
| Base management fees | 7,726 | 6,347 | 5,129 |
| Incentive fees, net of incentive fee waiver[1] | 5,378 | 5,504 | 4,685 |
| Professional fees | 1,243 | 988 | 835 |
| Administrative service fees | 1,248 | 1,287 | 1,078 |
| General and administrative expenses | 948 | 779 | 799 |
| Excise taxes | 100 | 679 | 83 |
| Directors fees | 148 | 146 | 148 |
| Total expenses, net of incentive fee waiver | $ 25,103 | $ 22,512 | $ 18,157 |

(1) During the years ended December 31, 2017 and 2016, MC Advisors waived part one incentive fees (based on net investment income) of $0.3 million and $0.3 million, respectively. Incentive fees during the year ended December 31, 2017 were limited by $0.4 million due to the Incentive Fee Limitation. See Note 6 in our attached consolidated financial statements for additional information on the Incentive Fee Limitation.

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Interest expense revolving credit facility | $ 4,771 | $ 4,422 | $ 3,290 |
| Interest expense SBA guaranteed debentures | 2,434 | 1,340 | 1,080 |
| Amortization of deferred financing costs | 1,042 | 820 | 742 |
| Interest expense secured borrowings | 34 | 123 | 198 |
| Other | 31 | 77 | 90 |
| Total interest and other debt financing expenses | $ 8,312 | $ 6,782 | $ 5,400 |

The increase in expenses of $2.6 million during the year ended December 31, 2017, is primarily due to an increase in base management fees due to the growth in invested assets and an increase in interest expense as a result of additional borrowings (including SBA-guaranteed debentures) required to support the growth of the portfolio. These increases were partially offset by a decline in the accrual for excise taxes for the year ended December 31, 2017 as a result of lower undistributed taxable income.

The increase in expenses of $4.4 million during the year ended December 31, 2016 is primarily due to an increase in base management fees and incentive fees primarily due to the growth in invested assets. Increases in interest expense also contributed to the increase in expenses during the year ended December 31, 2016 as a result of additional borrowings (including SBA-guaranteed debenture borrowings) required to support the growth of the portfolio.

## Net Realized Gain (Loss) on Investments, Secured Borrowings and Foreign Currency Transactions

During the years ended December 31, 2017, 2016 and 2015, we had sales of investments of $16.9 million, $0.6 million and $0.4 million, respectively, resulting in ($0.4) million, $0.6 million and $0.3 million of net realized gains (losses), respectively. During the year ended December 31, 2017, the net realized losses on the portfolio were primarily driven by the exit of our investment in Fabco Automotive Corporation ( Fabco ).

During the years ended December 31, 2017, 2016 and 2015, we had sales of secured borrowings of $1.3 million, zero and zero resulting in $66 thousand, zero and zero of net realized gains, respectively.

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During the years ended December 31, 2017, 2016 and 2015, we had $1 thousand, zero and zero of net realized gains on foreign currency transactions, respectively.

## Net Change in Unrealized Gain (Loss) on Investments, Secured Borrowings and Foreign Currency Borrowings

For the years ended December 31, 2017, 2016 and 2015, our investments had ($13.1) million, $1.3 million and ($1.1) million of net change in unrealized gain (loss), respectively. The net change in unrealized gain (loss) includes both unrealized gain on investments in our portfolio with mark-to-market gains during the year and unrealized loss on investments in our portfolio with mark-to-market losses during the year. The net change in unrealized losses during the year ended December 31, 2017 was primarily attributable to mark-to-market losses on our common equity investment in Rockdale of ($9.7) million and our debt investment in TPP Operating, Inc. of ($5.3) million. The mark-to-market losses on our common equity investment in Rockdale during the year ended December 31, 2017 are primarily attributable to the significant reductions in reported and projected revenue and EBITDA for Rockdale. These reductions were primarily attributable to significant reductions in insurance reimbursement rates and an ongoing dispute with Rockdale s most significant insurance company payor, which resulted in increased operating losses at several of Rockdale s hospitals and clinics. During the year ended December 31, 2016, TPP Operating, Inc. (formerly TPP Acquisition, Inc., collectively TPP ) filed for bankruptcy and underwent a restructuring process. Net change in unrealized loss on our investments in TPP were ($5.1) million and ($5.7) million during the years ended December 31, 2016 and 2015, respectively. See Note 5 in our attached consolidated financial statements for additional information on the TPP restructuring and the valuation of these investments.

For the years ended December 31, 2017, 2016 and 2015, our secured borrowings had ($6) thousand, ($53) thousand and ($68) thousand of net change in unrealized gain (loss), respectively. For the years ended December 31, 2017, 2016 and 2015, our foreign currency borrowings had ($354) thousand, zero and zero of net change in unrealized gain (loss), respectively.

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

For the years ended December 31, 2017, 2016 and 2015, the net increase in net assets from operations was $12.2 million, $24.4 million and $17.9 million, respectively. Based on the weighted average shares of common stock outstanding for the years ended December 31, 2017, 2016 and 2015, our per share net increase in net assets resulting from operations was $0.65, $1.68 and $1.53, respectively. The $12.2 million decrease during the year ended December 31, 2017, is primarily the result of an increase in net unrealized mark-to-market losses on investments in the portfolio, partially offset by an increase in net investment income due to portfolio growth. The increase of $6.5 million during the year ended December 31, 2016 is primarily the result of increases in net investment income due to portfolio growth and increases in net unrealized gain in the investment portfolio.

# Liquidity and Capital Resources

As of March 31, 2018, we had $3.1 million in cash, $7.1 million in cash at MRCC SBIC, $125.6 million of total debt outstanding on our revolving credit facility and $112.8 million in outstanding SBA-guaranteed debentures. We had $74.4 million available for additional borrowings on our revolving credit facility and $2.2 million in available SBA-guaranteed debentures.

As of December 31, 2017, we had $4.3 million in cash, $2.9 million in cash at MRCC SBIC, $117.1 million of total

debt outstanding on our revolving credit facility and $109.5 million in outstanding SBA-guaranteed debentures. We had $82.9 million available for additional borrowings on our revolving credit facility and $5.5 million in available SBA-guaranteed debentures. See *Borrowings* below for additional information.

## Cash Flows

For the three months ended March 31, 2018 and 2017, we experienced a net increase in cash and restricted cash of $3.0 million and $7.7 million, respectively. For the three months ended March 31, 2018, operating activities used $1.2 million, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. For the three months ended March 31,

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2017, operating activities used $3.4 million, 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, 2018, we generated $4.2 million from financing activities, primarily as a result of net proceeds from net borrowings on our revolving credit facility and SBA debenture borrowings, partially offset by distributions to stockholders. During the three months ended March 31, 2017, we generated $11.1 million from financing activities primarily as a result of net proceeds from capital raises, borrowings on our revolving credit facility and SBA debentures, partially offset by distributions to stockholders.

For the year ended December 31, 2017, we experienced a net decrease in cash and restricted cash of $1.1 million. During the same period we used $69.6 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $68.4 million from financing activities, primarily as a result of net proceeds from capital raises and SBA debenture borrowings, partially offset by net repayments on our revolving credit facility and distributions to stockholders.

For the year ended December 31, 2016, we experienced a net decrease in cash and restricted cash of $5.5 million. During the same period we used $51.9 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same year, we generated $46.3 million from financing activities, principally from net proceeds from our capital raises during the period, net borrowings on our revolving credit facility and SBA-guaranteed debenture borrowings, partially offset by distributions to stockholders and decreases in secured borrowings.

For the year ended December 31, 2015, we experienced a net increase in cash and restricted cash of $8.1 million. During the same period we used $82.7 million in operating activities, primarily as a result of purchases of portfolio investments, partially offset by sales of and principal repayments on portfolio investments. During the same period, we generated $90.8 million from financing activities, principally from net proceeds from our capital raises during the period, net borrowings on our revolving credit facility and SBA-guaranteed debenture borrowings, partially offset by distributions to stockholders and decreases in secured borrowings.

## Capital Resources

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

As a BDC, we are generally not permitted to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our Board, including independent directors, determines that such sale is in the best interests of us and our stockholders, and if our stockholders have approved such sales. On July 14, 2016, 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. On July 21, 2017 our stockholders once again 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, 2018, and December 31, 2017 and 2016, we had 20,239,957, 20,239,957 and 16,581,869 shares outstanding, respectively.

On June 24, 2015, our stockholders approved a proposal to authorize us to issue warrants, options or rights to subscribe to, convert to, or purchase our common stock in one or more offerings. This is a standing authorization and does not require annual re-approval by our stockholders.

On March 27, 2018, our Board approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective March 27, 2019 (or prior to March 27, 2019 if stockholders approve a proposal authorizing a minimum asset coverage ratio of at least 150% at our annual meeting of

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stockholders). As of March 31, 2018, December 31, 2017 and December 31, 2016, our asset coverage ratio was 313.8%, 334.0% and 281.6%, respectively.

*Stock Issuances*: On February 6, 2015, we entered into an at-the-market ( ATM ) securities offering program with MLV & Co. LLC ( MLV ) and JMP Securities LLC ( JMP ) through which we could sell, by means of ATM offerings from time to time, up to $50.0 million of our common stock. During the year ended December 31, 2015, we sold 672,597 shares at an average price of $14.88 per share for gross proceeds of $10.0 million under the ATM program. Aggregate underwriters discounts and commissions were $0.2 million and offering costs were $83 thousand, resulting in net proceeds of approximately $9.8 million.

On April 20, 2015, we 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 $36.4 million in gross proceeds. On May 18, 2015, we sold an additional 367,500 shares of our common stock, at a public offering price of $14.85 per share, raising approximately $5.5 million in gross proceeds pursuant to the underwriters exercise of the over-allotment option. Aggregate underwriters discounts and commissions were $1.7 million and offering costs were $0.3 million, resulting in net proceeds of $39.9 million on these non-ATM program issuances during the year ended December 31, 2015.

On July 1, 2016, we amended the ATM securities offering program with MLV and JMP to replace MLV with FBR Capital Markets & Co. ( FBR ), an affiliate of MLV (the Prior ATM Program ). On May 12, 2017, we entered into new equity distribution agreements with each of FBR and JMP that reference our current registration statement (the ATM Program ). All other material terms of the Prior ATM Program remain unchanged under the ATM Program. During the year ended December 31, 2016, there were no stock issuances under the Prior ATM Program. During the three months ended March 31, 2017, we sold 113,600 shares at an average price of $15.70 per share for gross proceeds of $1.8 million under the Prior ATM program. Aggregate underwriters discounts and commissions were $27 thousand and offering costs were $21 thousand, resulting in net proceeds of approximately $1.7 million. During the year ended December 31, 2017, we sold 173,939 shares at an average price of $15.71 per share for gross proceeds of $2.7 million under the Prior ATM Program and no shares were sold under the ATM Program. Aggregate underwriters discounts and commissions were $41 thousand and offering costs were $23 thousand, resulting in net proceeds of approximately $2.7 million.

On July 25, 2016, we closed a public offering of 3,100,000 shares of our common stock at a public offering price of $15.50 per share, raising approximately $48.1 million in gross proceeds. On August 3, 2016, we sold an additional 465,000 shares of our common stock, at a public offering price of $15.50 per share, raising approximately $7.2 million in gross proceeds pursuant to the underwriters exercise of the over-allotment option. Aggregate underwriters discounts and commissions were $2.2 million and offering costs were $0.5 million, resulting in net proceeds of $52.5 million.

On June 9, 2017, we closed a public offering of 3,000,000 shares of our common stock at a public offering price of $15.00 per share, raising approximately $45.0 million in gross proceeds. On June 14, 2017, pursuant to the underwriters exercise of the over-allotment option, we sold an additional 450,000 shares of our common stock, at a public offering price of $15.00 per share, raising an additional $6.8 million in gross proceeds for a total of $51.8 million. Aggregate underwriters discounts and commissions were $2.1 million and offering costs were $0.1 million, resulting in net proceeds of approximately $49.6 million.

There were no stock issuances during the three months ended March 31, 2018.

## Borrowings

*Revolving Credit Facility:* As of March 31, 2018, we had U.S. dollar borrowings of $113.3 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £8.8 million ($12.3 million in U.S. dollars) under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase of our assets. The borrowings denominated in Great Britain pounds may be positively or negatively affected by movements in the rate of exchange between the U.S. dollar and the Great Britain pound. These movements are beyond our control and cannot be predicted. The borrowings denominated in Great Britain pounds are translated into U.S. dollars based on the spot rate at each balance sheet date. The impact resulting from changes in foreign currency borrowings is included in net change in unrealized gain (loss) on foreign currency borrowings in our consolidated statements of operations and

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totaled ($0.4) million and zero for the three months ended March 31, 2018 and 2017, respectively. As of December 31, 2017, we had U.S. dollar borrowings of $105.2 million and non-U.S. dollar borrowings denominated in Great Britain pounds of £8.8 million ($11.9 million in U.S. dollars) under our revolving credit facility. As of December 31, 2016, we had U.S. dollar borrowings of $129.0 million outstanding under the revolving credit facility. The net change in unrealized gain (loss) on foreign currency borrowings in our consolidated statements of operations totaled ($0.4) million and zero for the years ended December 31, 2017 and 2016, respectively. As of March 31, 2018, the maximum amount we were able to borrow was $200.0 million and this borrowing can be increased to $300.0 million pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act). On February 22, 2017, we closed a $40.0 million upsize to the revolving credit facility, bringing the maximum amount we are able to borrow from $160.0 million to the now current maximum amount of $200.0 million, in accordance with the facility s accordion feature. The maturity date on the facility is December 14, 2020.

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 revolving credit facility is subject to availability under a defined borrowing base, which varies based on 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 2019 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 3.00% (or 2.75% if our net worth (excluding investments in MRCC SBIC) exceeds $225.0 million) or at a daily rate equal to 2.00% (or 1.75% if our net worth (excluding investments in MRCC SBIC) exceeds $225.0 million) 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 65% 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 65% of the then available maximum borrowing. As of March 31, 2018, and December 31, 2017 and 2016, the outstanding borrowings were accruing at a weighted average interest rate of 4.6%, 4.4% and 3.8%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the three months ended March 31, 2018 and 2017 was 4.6% and 4.1%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the years ended December 31, 2017, 2016 and 2015 was 4.2%, 3.6% and 3.6%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the three months ended March 31, 2018 and 2017 was 0.5% and 0.5%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the years ended December 31, 2017, 2016 and 2015 was 0.5%, 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 total net assets at least equal to the greater of (a) 40% of the consolidated total assets on the last day of each quarter or (b) $120.0 million plus 65% of the net proceeds to us from sales of our securities after December 14, 2015; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.1 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The revolving credit facility also requires us to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the 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

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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 revolving 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 revolving credit facility. Distributions in cash or property other than common stock are generally limited to 115% of the amount of distributions required to maintain our status as a RIC.

See Recent Developments for additional disclosure regarding an amendment to the revolving credit facility which occurred on April 25, 2018.

*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 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.

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 historically limited a related group of SBICs (commonly referred to as a family of funds ) to a maximum of $225.0 million in total borrowings. On December 18, 2015, this family of funds limitation was raised to $350.0 million in total borrowings. As we have other affiliated SBICs already in operation, MRCC SBIC was historically limited to a maximum of $40.0 million in borrowings. Pursuant to the increase in the family of funds limitation, we submitted a commitment application to the SBA and on April 13, 2016 we were approved for $75.0 million in additional SBA-guaranteed debentures for MRCC SBIC for a total of $115.0 million in available debentures.

As of March 31, 2018, MRCC SBIC had $57.6 million in leverageable capital and $112.8 million in SBA-guaranteed debentures outstanding. As of December 31, 2017, MRCC SBIC had $57.6 million in leverageable capital and $109.5 million in SBA-guaranteed debentures outstanding. As of December 31, 2016, MRCC SBIC had $41.0 million in leverageable capital and $51.5 million in SBA-guaranteed debentures outstanding. As of March 31, 2018, we have made all required leverageable capital contributions to MRCC SBIC in order to access the remaining $2.2 million in available SBA-guaranteed debentures.

As of March 31, 2018, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |

| | | |
|---|---|---|
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 3.2 % | 18,520 |
| September 2028 | 3.3 %(1) | 2,180 |
| Total | | $ 112,800 |

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

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As of December 31, 2017, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 3.5 % | 20,000 |
| September 2027 | 3.2 % | 32,100 |
| March 2028 | 2.5 %(1) | 9,160 |
| March 2028 | 2.6 %(1) | 2,780 |
| March 2028 | 2.7 %(1) | 5,480 |
| Total | | $ 109,520 |

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

As of December 31, 2016, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

| Maturity Date | Interest Rate | Amount |
|---|---|---|
| September 2024 | 3.4 % | $ 12,920 |
| March 2025 | 3.3 % | 14,800 |
| March 2025 | 2.9 % | 7,080 |
| September 2025 | 3.6 % | 5,200 |
| March 2027 | 2.1 %(1) | 9,200 |
| March 2027 | 2.0 %(1) | 2,300 |
| Total | | $ 51,500 |

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

On October 2, 2014, the Company was granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the 200% asset coverage test.

*Secured Borrowings:* Certain partial loan sales do not qualify for sale accounting under Accounting Standards Codification ( ASC ) Topic 860 *Transfers and Servicing* ( ASC Topic 860 ) because these sales do not meet the definition of a participating interest, as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment on 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, 2018 and December 31, 2017, there were no secured borrowings. As of December 31, 2016, secured borrowings at fair value totaled $1.3 million and the fair value of the loans that are associated with these secured borrowings was $5.8 million. These secured borrowings were created as a result of our completion of partial loan sales of certain unitranche secured loan assets 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 three months ended March 31, 2018 or the years ended December 31, 2017 and 2016. During the years ended December 31, 2017, 2016 and 2015, repayments on secured borrowings totaled $1.3 million,

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$1.2 million and $1.6 million, respectively. The weighted average interest rate on our secured borrowings was approximately zero and 6.3% as of December 31, 2017 and 2016, respectively.

## 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, 2018 and 2017, totaled $7.1 million ($0.35 per share) and $5.8 million ($0.35 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, 2018 and 2017, no portion of these distributions would have been characterized as a tax return of capital to stockholders. Distributions to stockholders for years ended December 31, 2017, 2016 and 2015 totaled $27.0 million ($1.40 per share), $20.7 million ($1.40 per share) and $16.7 million ($1.40 per share), respectively, none of which represented return of capital.

We have adopted an opt out dividend reinvestment plan ( DRIP ) for our common stockholders. As a result, if we declare a distribution, our stockholders cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes.

# MRCC Senior Loan Fund I, LLC

We co-invest with NLV Financial Corporation ( NLV ), in senior secured loans through SLF, an unconsolidated Delaware limited liability company. SLF is capitalized as underlying investment transactions are completed, taking into account available debt and equity commitments available for funding these investments. All portfolio and investment decisions in respect to SLF must be approved by the SLF investment committee, consisting of one representative of each of us and NLV. SLF may cease making new investments upon notification of either member, but operations will continue until all investments have been sold or paid-off in the normal course of business. Investments held by SLF are measured at fair value using the same valuation methodologies as described below. The Company s investment is illiquid in nature as SLF does not allow for withdrawal from the LLC or the sale of a member s interest unless approved by the board of members of SLF. The full withdrawal of a member would result in an orderly wind-down of SLF.

SLF s profits and losses are allocated to us and NLV in accordance with the respective ownership interests. As of March 31, 2018, we and NLV owned 50.0% and 50.0%, respectively, of the LLC equity interests. As of March 31, 2018, SLF had $100.0 million in commitments from its members (in the aggregate), of which $31.5 million was funded. As of December 31, 2017, we and NLV owned 50.0% and 50.0%, respectively, of the LLC equity interests. As of December 31, 2017, SLF had $100.0 million in commitments from its members (in the aggregate), of which $19.0 million was funded.

SLF has entered into a senior secured revolving credit facility (as amended, the SLF Credit Facility ) with Capital One, N.A., through its wholly-owned subsidiary MRCC Senior Loan Fund I Financing SPV, LLC ( SLF SPV ), which as of March 31, 2018 allowed SLF SPV to borrow up to $100.0 million at any one time outstanding, subject to leverage and borrowing base restrictions. Borrowings under the SLF Credit Facility bear interest at an annual rate of LIBOR (three-month) plus 2.25%. The maturity date on the SLF Credit Facility is March 22, 2023.

SLF does not pay any fees to MC Advisors or its affiliates; however, SLF has entered into an administration agreement with MC Management, pursuant to which certain loan servicing and administrative functions are delegated to MC Management. SLF may reimburse MC Management for its allocable share of

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overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF through March 31, 2018. There are no agreements or understandings by which we guarantee any SLF obligations.

As of March 31, 2018 and December 31, 2017, SLF had total assets at fair value of $60.5 million and $41.6 million, respectively. As of March 31, 2018 and December 31, 2017, SLF had zero and zero portfolio company investments on non-accrual status, respectively. The portfolio companies in SLF are in industries and geographies similar to those in which we may invest directly. Additionally, as of March 31, 2018 and December 31, 2017, SLF had commitments to fund various undrawn revolving credit and delayed draw loans to its portfolio companies totaling $3.8 million and $2.1 million, respectively.

Below is a summary of SLF s portfolio, followed by a listing of the individual investments in SLF s portfolio as of March 31, 2018 and December 31, 2017 (in thousands):

| | As of March 31, 2018 | December 31, 2017 |
|---|---|---|
| Senior secured loans[1] | 58,207 | 29,438 |
| Weighted average current interest rate on senior secured loans[2] | 7.4 % | 7.1 % |
| Number of borrowers in SLF | 17 | 8 |

(1) Represents outstanding principal amount, excluding unfunded commitments.

(2) Computed as the (a) annual stated interest rate on accruing senior secured loans divided by (b) total senior secured loans at outstanding principal amount.

# MRCC SENIOR LOAN FUND I, LLC
# SCHEDULE OF INVESTMENTS
# March 31, 2018
# (in thousands)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| MTC Intermediate Holdco, Inc. | L+4.75% | 6.63 % | 1/30/2023 | 5,000 | $ 4,998 |
| | | | | 5,000 | 4,998 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50% | 8.38 % | 11/10/2022 | 4,973 | 4,973 |
| US Salt, LLC | L+4.75% | 6.63 % | 11/30/2023 | 3,500 | 3,500 |
| | | | | 8,473 | 8,473 |
| **Chemicals, Plastics & Rubber** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loparex International B.V.[c] | L+4.25% | 6.13 % | 4/09/2025 | 500 | 498 |
| Peach State Labs, LLC, and Flow Polymers, LLC | L+6.25% | 7.92 % | 6/30/2021 | 2,876 | 2,891 |
| | | | | 3,376 | 3,389 |
| **Construction & Building** | | | | | |
| Fastener Acquisition, Inc.[c] | L+4.25% | 6.13 % | 3/23/2025 | 1,333 | 1,338 |
| | | | | 1,333 | 1,338 |

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| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50% | 8.53 % | 9/09/2023 | 1,621 | 1,621 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50% | 8.53 % | 9/09/2023 | 1,875 | 838 |
| | | | | 3,496 | 2,459 |
| **Healthcare & Pharmaceuticals** | | | | | |
| LSCS Holdings, Inc.[c] | L+4.25% | 6.40 % | 3/16/2025 | 2,800 | 2,786 |
| LSCS Holdings, Inc. (Delayed Draw)[c][d] | L+4.25% | 6.40 % | 3/16/2025 | 700 | |
| Radiology Partners Holdings, LLC | L+5.75% | 7.69 % | 12/04/2023 | 1,701 | 1,704 |
| Radiology Partners Holdings, LLC (Delayed Draw)[d] | L+5.75% | 7.69 % | 12/04/2023 | 1,170 | 396 |
| | | | | 6,371 | 4,886 |
| **High Tech Industries** | | | | | |
| Gigamon, Inc. | L+4.50% | 6.80 % | 12/19/2024 | 2,993 | 3,022 |
| | | | | 2,993 | 3,022 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC | L+5.50% | 7.86 % | 12/06/2024 | 6,983 | 6,950 |
| | | | | 6,983 | 6,950 |
| **Services: Business** | | | | | |
| Engage2Excel, Inc. | L+6.50% | 8.54 % | 3/07/2023 | 4,375 | 4,288 |
| Engage2Excel, Inc. (Revolver)[d] | L+6.50% | 8.21 % | 3/07/2023 | 545 | 98 |
| Output Services Group, Inc.[c] | L+4.25% | 6.13 % | 3/27/2024 | 4,145 | 4,166 |
| Output Services Group, Inc. (Delayed Draw)[c][d] | L+4.25% | 6.13 % | 3/27/2024 | 855 | |
| | | | | 9,920 | 8,552 |
| **Services: Consumer** | | | | | |
| EWC Ventures, LLC | L+5.50% | 7.17 % | 1/18/2023 | 3,350 | 3,358 |
| LegalZoom.com, Inc. | L+4.50% | 6.34 % | 11/21/2024 | 1,995 | 2,012 |
| Zenith Merger Sub, Inc. | L+5.50% | 7.80 % | 12/13/2023 | 3,741 | 3,741 |
| | | | | 9,086 | 9,111 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc. | L+5.25% | 7.70 % | 12/28/2024 | 4,988 | 5,000 |
| | | | | 4,988 | 5,000 |
| **TOTAL INVESTMENTS** | | | | | **$58,178** |

(a) All investments are U.S. companies, except Loparex International B.V.

(b) The majority of investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ( LIBOR or L ) or Prime Rate ( Prime or P ) which reset daily, quarterly or semiannually. The Compa has provided the spread over LIBOR or Prime and the current contractual rate of interest in effect at March 31, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of March 31, 2018.

(d) All or a portion of this commitment was unfunded as of March 31, 2018. Principal reflects the commitment outstanding.

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# MRCC SENIOR LOAN FUND I, LLC
# SCHEDULE OF INVESTMENTS
# December 31, 2017
# (in thousands)

| Portfolio Company[a] | Spread Above Index[b] | Interest Rate[b] | Maturity | Principal | Fair Value |
|---|---|---|---|---|---|
| **Non-Controlled/Non-Affiliate Company Investments** | | | | | |
| **Senior Secured Loans** | | | | | |
| **Banking, Finance, Insurance & Real Estate** | | | | | |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,056 | $ 1,045 |
| Clearent Holdings LLC and Clearent, LLC[c] | P+3.75 % | 8.25 % | 1/02/2024 | 1,257 | 1,244 |
| Clearent Holdings LLC and Clearent, LLC[c][d] | P+3.75 % | 8.25 % | 1/02/2024 | 208 | |
| | | | | 2,521 | 2,289 |
| **Beverage, Food & Tobacco** | | | | | |
| Il Fornaio (America) Corporation | L+6.50 % | 8.07 % | 11/10/2022 | 5,000 | 5,008 |
| US Salt, LLC[c] | L+4.75 % | 6.18 % | 11/30/2023 | 3,500 | 3,500 |
| | | | | 8,500 | 8,508 |
| **Consumer Goods: Non-Durable** | | | | | |
| Solaray, LLC | L+6.50 % | 8.02 % | 9/09/2023 | 1,625 | 1,625 |
| Solaray, LLC (Delayed Draw)[d] | L+6.50 % | 8.02 % | 9/09/2023 | 1,875 | |
| | | | | 3,500 | 1,625 |
| **High Tech Industries** | | | | | |
| Gigamon, Inc.[c] | L+4.50 % | 6.03 % | 12/19/2024 | 3,000 | 2,985 |
| | | | | 3,000 | 2,985 |
| **Media: Diversified & Production** | | | | | |
| Research Now Group, Inc. and Survey Sampling International, LLC[c] | L+5.50 % | 7.13 % | 12/06/2024 | 7,000 | 6,714 |
| | | | | 7,000 | 6,714 |
| **Services: Consumer** | | | | | |
| LegalZoom.com, Inc.[c] | L+4.50 % | 5.94 % | 11/21/2024 | 2,000 | 2,005 |
| | | | | 2,000 | 2,005 |
| **Wholesale** | | | | | |
| BMC Acquisition, Inc.[c] | L+5.25 % | 6.94 % | 12/28/2024 | 5,000 | 5,000 |
| | | | | 5,000 | 5,000 |
| **TOTAL INVESTMENTS** | | | | | **$ 29,126** |

(a) All investments are U.S. companies.

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

2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

(c) Investment position or portion thereof unsettled as of December 31, 2017.

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(d) All or a portion of this commitment was unfunded as of December 31, 2017. Principal reflects the commitment outstanding.

As of March 31, 2018 and December 31, 2017, we have committed to fund $50.0 million and $50.0 million of LLC equity interest subscriptions to SLF, respectively. As of March 31, 2018 and December 31, 2017, $15.8 million and $9.5 million of our LLC equity interest subscriptions to SLF had been called and contributed, respectively. For the three months ended March 31, 2018 and 2017, we received $0.2 million and zero dividend income from the SLF LLC equity interests, respectively.

Below is certain summarized financial information for SLF as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017 (dollars in thousands):

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Investments, at fair value | $ 58,178 | $ 29,126 |
| Cash | 858 | 12,504 |
| Restricted cash | 1,287 | |
| Receivable for open trades | 48 | |
| Interest receivable | 139 | 11 |
| **Total assets** | $ 60,510 | $ 41,641 |
| **Liabilities** | | |
| Revolving credit facility | $ 20,297 | $ |
| Less: Unamortized deferred financing costs | (1,310 ) | |
| Total debt, less unamortized deferred financing costs | 18,987 | |
| Payable for open trades | 8,735 | 22,304 |
| Interest payable | 36 | |
| Accounts payable and accrued expenses | 87 | 57 |
| **Total liabilities** | 27,845 | 22,361 |
| **Members capital** | 32,665 | 19,280 |
| **Total liabilities and members capital** | $ 60,510 | $ 41,641 |

| | Three months ended | |
|---|---|---|
| | March 31, 2018 | March 31, 2017[1] |
| **Investment income:** | | |
| Interest income | $ 780 | $ |
| **Total investment income** | 780 | |
| **Expenses:** | | |
| Interest and other debt financing expenses | 44 | |
| Organizational costs | 6 | |
| Professional fees | 40 | |
| **Total expenses** | 90 | |
| **Net investment income (loss)** | 690 | |
| **Net gain (loss) on investments:** | | |
| Net change in unrealized gain (loss) on investments | 545 | |

| | | |
|---|---|---|
| **Net gain (loss) on investments** | 545 | |
| **Net increase (decrease) in members capital** | $ 1,235 | $ |

(1) SLF commenced operations on November 14, 2017.

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## 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.

SLF has an Administration Agreement with MC Management to provide SLF with certain loan servicing and administrative functions. SLF may reimburse MC Management for its allocable share of overhead and other expenses incurred by MC Management. No such expenses have been incurred or charged to SLF through March 31, 2018.

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 and Chief Investment 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 MC Advisors officers, directors and employees. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and Maryland General Corporation Law.

# Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our significant contractual payment obligations for repayment as of December 31, 2017 (dollars in thousands):

| | Total | Less than 1 year | 1 3 years | 3 5 years | More than 5 years |
|---|---|---|---|---|---|
| Revolving credit facility | $ 117,092 | $ | $ 117,092 | $ | $ |
| SBA guaranteed debentures payable | 109,520 | | | | 109,520 |
| Unfunded commitments[(1)] | 41,238 | 41,238 | | | |
| Total contractual obligations | $ 267,850 | $ 41,238 | $ 117,092 | $ | $ 109,520 |

(1) Unfunded commitments represent all amounts unfunded, excluding our investments in SLF, as of December 31, 2017. These amounts may or may not be funded to the borrowing party now or in the future. The unfunded commitments relate to loans with various maturity dates, but we are showing this amount in the less than one year category as this entire amount was eligible for funding to the borrowers as of December 31, 2017.

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the consolidated statements of assets and liabilities. As of March 31, 2018 and December 31, 2017, we had $36.6 million and $41.2 million, respectively, in outstanding commitments to fund investments under undrawn revolvers, capital expenditure loans and delayed draw commitments. As of December 31, 2016, we had outstanding commitments to

fund investments, excluding investments in SLF, totaling $37.7 million. As described in Note 3 to the consolidated financial statements, we had commitments up to $34.3 million and $40.5 million, respectively, to SLF, as of March 31, 2018 and December 31, 2017 that may

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be contributed primarily for the purpose of funding new investments approved by the SLF investment committee. Drawdowns of the commitments to SLF require explicit authorization of our representatives on SLF s board of managers. 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.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase.

## 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 $10.0 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 BDC 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 BDC 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 25, 2018, we entered into an amendment to our revolving credit agreement (the Amendment ). The Amendment amends our revolving credit agreement to, among other things, (i) remove the pricing step-down related to our net worth to set the interest rate the revolving credit facility bears to the stepped-down interest rate of the one-month LIBOR plus 2.75%; (ii) increase the weighted average leverage

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ratio from 4.50:1 to 4.75:1; and (iii) add to the borrowing base on a limited basis investments structured based on loan-to-value metrics, with corresponding adjustments to the eligibility criteria and concentration limits.

# Asset Coverage Approval

On March 27, 2018, our board of directors unanimously approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective March 27, 2019. On March 27, 2018, our board of directors also recommended the submission of a proposal for stockholders to vote in favor of us to immediately become subject to a minimum asset coverage ratio of at least 150%, permitting us to double the amount of debt we may incur earlier than the current effective date of March 27, 2019, pursuant to the SBCAA. If this proposal is approved by stockholders at our annual stockholder meeting, we would become subject to an asset coverage ratio of at least 150% the day after such meeting instead of on March 27, 2019.

# Significant Accounting Estimates and Critical Accounting Policies

## Revenue Recognition

We record interest and fee 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 are 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. Interest 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. We record fees on loans based on the determination of whether the fee is considered a yield enhancement or payment for a service. If the fee is considered a yield enhancement associated with a funding of cash on a loan, the fee is generally deferred and recognized into interest income using the effective interest method if captured in the cost basis or using the straight-line method if the loan is unfunded and therefore there is no cost basis. If the fee is not considered a yield enhancement because a service was provided, and the fee is payment for that service, the fee is deemed earned and recognized as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment.

## Valuation of Portfolio Investments

As a BDC, 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 of America ( 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 are valued at fair value as determined in

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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.

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. 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 the investment committee;
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.

The Board, together with our independent valuation firms, generally uses the yield approach to determine fair value for loans where market quotations are not readily available, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, we 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 under the market approach or the proceeds that would be received in a liquidation analysis. We generally consider our debt to be performing 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 debt, we consider 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 debt instrument is not performing, as defined above, we will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the loan.

Under the yield approach, we utilize discounted cash flow models to determine the present value of the future cash flow streams of our 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, we also consider 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.

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Under the market approach, we typically use 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 we derive a single estimate of enterprise value. In estimating the enterprise value of a portfolio company, we analyze 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.

In addition, for certain debt investments, we may base our valuation on indicative bid and ask prices provided by an independent third-party pricing service. Bid prices reflect the highest price that we and others may be willing to pay. Ask prices represent the lowest price that we and others may be willing to accept. We generally use the midpoint of the bid/ask range as our best estimate of fair value of such investment.

## Net Realized Gains or Losses and Net Change in Unrealized Gain or Loss

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 gain or loss previously recognized. Net change in unrealized gain or loss reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized gain or loss, when gains or losses are realized. Additionally, we do not isolate the portion of the change in fair value resulting from foreign currency exchange rate fluctuations from the changes in fair values of the underlying investment. All fluctuations in fair value are included in net change in unrealized gain (loss) on investments in fair value on our consolidated statements of operations. 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 gain (loss) on secured borrowings in the consolidated statements of operations. The impact resulting from changes in foreign exchange rates on the revolving credit facility borrowings is included in change in unrealized gain (loss) on foreign currency borrowings.

## 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). This fee equals 20% 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, 2018 and March 31, 2017, we had a reduction in accrued capital gains incentive fees of zero and $0.2 million, respectively, primarily as a result of net declines in portfolio valuations during the period. During the year ended December 31, 2017, we had a reduction in accrued capital gains incentive fees of $0.2 million, primarily as a result of net declines in portfolio valuations. During the year ended December 31, 2016, we accrued capital gains incentive fees of $0.2 million

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based on the performance of our portfolio, none of which was payable to MC Advisors. During the year ended December 31, 2015, we did not accrue any capital gains incentive fees based on the performance of our portfolio.

## New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) ( ASU 2014-09 ). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 also specified the accounting for some costs to obtain or fulfill a contract with a customer. In addition, ASU 2014-09 requires that an entity disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The initial effective date of ASU 2014-09 was for fiscal periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC Topic 606): *Deferral of the Effective Date*, which deferred the effective date to fiscal periods beginning after December 15, 2017. We have adopted ASU 2014-09, and the adoption did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments *Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. We have adopted ASU 2016-01, and the adoption did not have a material impact on our consolidated financial statements for the periods presented.

In October 2016, the U.S. Securities and Exchange Commission ( SEC ) adopted new rules and amended rules (together final rules ) intended to modernize the reporting and disclosures of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. We have adopted the final rules, as applicable, and the revised presentation is reflected in our consolidated financial statements for the periods presented.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* ( ASU 2016-18 ). ASU 2016-18 requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new guidance is effective for annual and interim periods, beginning after December 15, 2017, and early adoption is permitted and is to be applied on a retrospective basis. We have adopted ASU 2016-18 and the

revised presentation is reflected in our consolidated financial statements for the periods presented.

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# 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, 2018 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.

| Change in Interest Rates | Increase (decrease) in interest income | Increase (decrease) in interest expense | Net increase (decrease) in investment income |
|---|---|---|---|
| | *(in thousands)* | | |
| Down 25 basis points | $ (1,145 ) | $ (314 ) | $ (831 ) |
| Up 100 basis points | 4,558 | 1,256 | 3,302 |
| Up 200 basis points | 9,103 | 2,512 | 6,591 |
| Up 300 basis points | 13,648 | 3,768 | 9,880 |

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.

We may also have exposure to foreign currencies (currently the Great Britain pound) related to certain investments. Such investments are translated into U.S. dollars based on the spot rate at each balance sheet date, exposing us to movements in the exchange rate. In order to reduce our exposure to fluctuations in exchange rates, we generally borrow in Great Britain pounds under our revolving credit facility to finance such investments. As of March 31, 2018, we have non-U.S. dollar borrowings denominated in Great Britain pounds of £8.8 million ($12.3 million U.S. dollars) outstanding under the revolving credit facility.

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# Senior Securities

Information about our senior securities is shown in the following table as of December 31, 2017 and for the years indicated in the table (dollars in thousands). This annual information has been derived from our audited consolidated financial statements for each respective period, which have been audited by RSM US LLP, our independent registered public accounting firm, and are included elsewhere in this prospectus. RSM US LLP s report on the senior securities table as of December 31, 2017 is attached as an exhibit to the registration statement of which this prospectus is a part.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities | Asset Coverage per Unit[1] | Involuntary Liquidating Preference per Unit[2] | Average Market Value per Unit[3] |
|---|---|---|---|---|
| Revolving Credit Facility | | | | |
| December 31, 2017 | $ 117,092 | $ 3,380 | | N/A |
| December 31, 2016 | 129,000 | 2,877 | | |