FIRST CAPITAL INC
Form 10-Q
May 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File No. 0-25023

First Capital, Inc.

(Exact name of registrant as specified in its charter)

Indiana	**35-2056949**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

220 Federal Drive NW, Corydon, Indiana 47112

(Address of principal executive offices) (Zip Code)

Registrant s telephone number including area code 1-812-738-2198

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-accelerated Filer	¨	Smaller Reporting Company	x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 2,784,997 shares of common stock were outstanding as of April 30, 2013.

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FIRST CAPITAL, INC.

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PART I FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(In thousands)	
ASSETS		
Cash and due from banks	$ 7,923	$ 11,277
Interest bearing deposits with banks	2,703	1,975
Federal funds sold	18,412	9,959
Total cash and cash equivalents	29,038	23,211
Securities available for sale, at fair value	116,586	122,973
Securities-held to maturity	11	12
Loans, net	275,674	280,407
Loans held for sale	4,918	3,609
Federal Home Loan Bank stock, at cost	2,820	2,820
Foreclosed real estate	557	295
Premises and equipment	10,700	10,757
Accrued interest receivable	1,722	1,757
Cash value of life insurance	6,214	6,172
Goodwill	5,386	5,386
Other assets	1,991	1,733
Total Assets	$ 455,617	$ 459,132
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 57,693	$ 56,715
Interest-bearing	326,228	327,628
Total deposits	383,921	384,343
Retail repurchase agreements	10,579	14,092
Advances from Federal Home Loan Bank	5,100	5,100
Accrued interest payable	260	290
Accrued expenses and other liabilities	2,489	2,371
Total liabilities	402,349	406,196
EQUITY		
First Capital, Inc. stockholders equity:		
Preferred stock of $.01 par value per share		
Authorized 1,000,000 shares; none issued	0	0
Common stock of $.01 par value per share		
Authorized 5,000,000 shares; issued 3,164,416 shares	32	32
Additional paid-in capital	24,313	24,313

Retained earnings-substantially restricted	34,738	34,101
Accumulated other comprehensive income	1,396	1,704
Less treasury stock, at cost - 379,419 shares	(7,326)	(7,326)
Total First Capital, Inc. stockholders equity	53,153	52,824
Noncontrolling interest in subsidiary	115	112
Total equity	53,268	52,936
Total Liabilities and Equity	$ 455,617	$ 459,132

See accompanying notes to consolidated financial statements.

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PART I FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In thousands, except per share data)	
INTEREST INCOME		
Loans, including fees	$ 3,924	$ 4,023
Securities:		
Taxable	348	434
Tax-exempt	267	233
Federal Home Loan Bank dividends	25	23
Federal funds sold and interest bearing deposits with banks	12	8
Total interest income	4,576	4,721
INTEREST EXPENSE		
Deposits	404	586
Retail repurchase agreements	8	12
Advances from Federal Home Loan Bank	46	105
Total interest expense	458	703
Net interest income	4,118	4,018
Provision for loan losses	250	475
Net interest income after provision for loan losses	3,868	3,543
NONINTEREST INCOME		
Service charges on deposit accounts	721	687
Commission income	119	44
Gain on sale of securities	21	0
Other than temporary impairment loss on securities	0	0
Gain on sale of loans	223	258
Mortgage brokerage fees	11	13
Increase in cash value of life insurance	42	48
Other income	25	25
Total noninterest income	1,162	1,075
NONINTEREST EXPENSE		
Compensation and benefits	1,751	1,886
Occupancy and equipment	321	306
Data processing	346	324
Professional fees	168	153
Advertising	38	47
Other expenses	698	617

Total noninterest expense		3,322		3,333
Income before income taxes		1,708		1,285
Income tax expense		511		363
Net Income		1,197		922
Less: net income attributable to the noncontrolling interest in subsidiary		3		3
Net Income Attributable to First Capital, Inc.	$	1,194	$	919
Earnings per common share attributable to First Capital, Inc.:				
Basic	$	0.43	$	0.33
Diluted	$	0.43	$	0.33
Dividends per share on common shares	$	0.20	$	0.19

See accompanying notes to consolidated financial statements.

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PART I FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In thousands)	
Net Income	$ 1,197	$ 922
OTHER COMPREHENSIVE LOSS		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period	(488)	(564)
Income tax benefit	193	224
Net of tax amount	(295)	(340)
Less: reclassification adjustment for realized gains included in net income	(21)	
Income tax expense	8	
Net of tax amount	(13)	
Other Comprehensive Loss, net of tax	(308)	(340)
Comprehensive Income	889	582
Less: comprehensive income attributable to the noncontrolling interest in subsidiary	3	3
Comprehensive Income Attributable to First Capital, Inc.	$ 886	$ 579

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PART I FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

(In thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interest	Total
Balances at January 1, 2012	$ 32	$ 24,313	$ 32,297	$ 1,612	$ (7,312)	$ 111	$ 51,053
Net income	0	0	919	0	0	3	922
Other comprehensive loss	0	0	0	(340)	0	0	(340)
Cash dividends	0	0	(530)	0	0	0	(530)
Balances at March 31, 2012	$ 32	$ 24,313	$ 32,686	$ 1,272	$ (7,312)	$ 114	$ 51,105
Balances at January 1, 2013	$ 32	$ 24,313	$ 34,101	$ 1,704	$ (7,326)	$ 112	$ 52,936
Net income	0	0	1,194	0	0	3	1,197
Other comprehensive loss	0	0	0	(308)	0	0	(308)
Cash dividends	0	0	(557)	0	0	0	(557)
Balances at March 31, 2013	$ 32	$ 24,313	$ 34,738	$ 1,396	$ (7,326)	$ 115	$ 53,268

See accompanying notes to consolidated financial statements.

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PART I FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,197	$ 922
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Amortization of premiums and accretion of discounts on securities, net	245	239
Depreciation and amortization expense	176	208
Deferred income taxes	110	48
Increase in cash value of life insurance	(42)	(48)
Gain on sale of securities	(21)	0
Provision for loan losses	250	475
Proceeds from sales of loans	12,040	10,125
Loans originated for sale	(13,126)	(8,651)
Gain on sale of loans	(223)	(258)
Decrease in accrued interest receivable	35	74
Increase (decrease) in accrued interest payable	(30)	6
Net change in other assets/liabilities	(78)	323
Net Cash Provided By Operating Activities	533	3,463
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(6,021)	(16,516)
Proceeds from maturities of securities available for sale	8,164	13,547
Proceeds from sales of securities available for sale	246	1,004
Principal collected on mortgage-backed obligations	3,295	3,997
Net decrease in loans receivable	4,195	3,358
Proceeds from sale of foreclosed real estate	26	395
Purchase of premises and equipment	(119)	(90)
Net Cash Provided By Investing Activities	9,786	5,695
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(422)	4,070
Net decrease in advances from Federal Home Loan Bank		(1,425)
Net decrease in retail repurchase agreements	(3,513)	(30)
Dividends paid	(557)	(530)
Net Cash Provided By (Used In) Financing Activities	(4,492)	2,085
Net Increase in Cash and Cash Equivalents	5,827	11,243
Cash and cash equivalents at beginning of period	23,211	18,923
Cash and Cash Equivalents at End of Period	$ 29,038	$ 30,166

See accompanying notes to consolidated financial statements.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

First Capital, Inc. (Company) is the savings and loan holding company for First Harrison Bank (Bank). The information presented in this report relates primarily to the Bank s operations. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are wholly-owned Nevada corporate subsidiaries of the Bank that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. (REIT) was incorporated as a wholly-owned subsidiary of First Harrison Holdings, Inc. to hold a portion of the Bank s real estate mortgage loan portfolio. On January 21, 2009, the REIT issued 105 shares of 12.5% redeemable cumulative preferred stock with an aggregate liquidation value of $105,000 in a private placement offering in order to satisfy certain ownership requirements to qualify as a real estate investment trust. At March 31, 2013, this noncontrolling interest represented 0.2% ownership of the REIT.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of March 31, 2013, and the results of operations and cash flows for the three months ended March 31, 2013 and 2012. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company s annual audited consolidated financial statements and related footnotes for the year ended December 31, 2012 included in the Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Investment Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management s intent. Investment securities at March 31, 2013 and December 31, 2012 are summarized as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013				
Securities available for sale:				
Agency mortgage-backed securities	$ 21,258	$ 393	$ 22	$ 21,629
Agency CMO	22,275	238	4	22,509
Other debt securities:				
Agency notes and bonds	34,118	252	4	34,366
Municipal obligations	32,425	1,537	221	33,741
Subtotal - debt securities	110,076	2,420	251	112,245
Mutual funds	4,325	28	12	4,341
Total securities available for sale	$ 114,401	$ 2,448	$ 263	$ 116,586
Securities held to maturity:				
Agency mortgage-backed securities	$ 11	$ 0	$ 0	$ 11
Total securities held to maturity	$ 11	$ 0	$ 0	$ 11
December 31, 2012				
Securities available for sale:				
Agency mortgage-backed securities	$ 22,762	$ 456	$ 12	$ 23,206
Agency CMO	22,458	225	23	22,660
Other debt securities:				
Agency notes and bonds	38,273	290	10	38,553
Municipal obligations	32,605	1,800	88	34,317
Subtotal - debt securities	116,098	2,771	133	118,736
Mutual funds	4,213	40	16	4,237
Total securities available for sale	$ 120,311	$ 2,811	$ 149	$ 122,973
Securities held to maturity:				
Agency mortgage-backed securities	$ 12	$ 0	$ 0	$ 12
Total securities held to maturity	$ 12	$ 0	$ 0	$ 12

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2 continued)

Agency notes and bonds, agency mortgage-backed securities and agency collateralized mortgage obligations (CMO) include securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Home Loan Bank (FHLB), which are government-sponsored enterprises.

The amortized cost and fair value of debt securities as of March 31, 2013, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Securities Available for Sale		Securities Held to Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 55	$ 55	$ 0	$ 0
Due after one year through five years	8,144	8,249	0	0
Due after five years through ten years	19,152	19,634		
Due after ten years	39,192	40,169	0	0
	66,543	68,107	0	0
Mortgage-backed securities and CMO	43,533	44,138	11	11
	$ 110,076	$ 112,245	$ 11	$ 11

Information pertaining to investment securities available for sale with gross unrealized losses at March 31, 2013, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows:

(Dollars in thousands)	Number of Investment Positions	Fair Value	Gross Unrealized Losses
Continuous loss position less than twelve months:			
Agency notes and bonds	2	$ 1,967	$ 4
Agency CMO	4	4,217	4
Agency mortgage-backed securities	4	4,813	22
Muncipal obligations	21	9,250	221
Total less than twelve months	31	20,247	251
Continuous loss position more than twelve months:			

Mutual fund	1	389	12
Total more than twelve months	1	389	12
Total securities available for sale	32	$ 20,636	$ 263

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2 continued)

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recover in fair value.

At March 31, 2013, the 31 U.S. government agency debt securities, including agency notes and bonds, mortgage-backed securities and CMO, and municipal obligations in a loss position had depreciated approximately 1.2% from the amortized cost basis. All of the U.S. government agency securities and municipal obligations are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues. These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition. As the Company has the ability to hold the debt securities until maturity, or the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the three months ended March 31, 2013, the Company realized gross gains on sales of available for sale municipal securities of $21,000. The Company did not sell any available for sale securities during the three months ended March 31, 2012.

3. Loans and Allowance for Loan Losses

The Company s loan and allowance for loan loss policies are as follows:

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Company grants real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans to customers in southern Indiana. The ability of the Company s customers to honor their loan agreements is dependent upon the real estate and general economic conditions in this area.

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety (90) days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Company applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss on the loan is remote.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

For portfolio segments other than consumer loans, the Company s practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower s failure to meet repayment terms, the borrower s deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan s classification as a loss by regulatory examiners, or for other reasons. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs on nonperforming and impaired loans are included in the Company s historical loss experience used to estimate the general component of the allowance for loan losses as discussed below. Specific reserves are not considered charge-offs in management s analysis of the allowance for loan losses because they are estimates and the outcome of the loan relationship is undetermined. At March 31, 2013, the Company had nine loans on which partial charge-offs of $473,000 had been recorded.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 45 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon.

The allowance for loan losses reflects management s judgment of probable loan losses inherent in the loan portfolio at the balance sheet date. Additions to the allowance for loan losses are made by the provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company uses a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment or loans otherwise classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

The general component covers non-classified loans and classified loans that are found, upon individual evaluation, to not be impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent twelve calendar quarters unless the historical loss experience is not considered indicative of the level of risk in the remaining balance of a particular portfolio segment, in which case an adjustment is determined by management. The Company s historical loss experience is then adjusted by an overall loss factor weighting adjustment based on a qualitative analysis prepared by management and reviewed on a quarterly basis. The overall loss factor considers changes in underwriting standards, economic conditions, changes and trends in past due and classified loans and other internal and external factors.

Management also applies additional loss factor multiples to loans classified as watch, special mention and substandard that are not individually evaluated for impairment. The loss factor multiples for classified loans are based on management s assessment of historical trends regarding losses experienced on classified loans in prior periods. See below for additional discussion of the overall loss factor and loss factor multiples for classified loans as of March 31, 2013 and December 31, 2012, as well as a discussion of changes in management s allowance for loan losses methodology from 2012 to 2013.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

Management utilizes the following portfolio segments in its analysis of the allowance for loan losses: residential real estate, land, construction, commercial real estate, commercial business, home equity and second mortgage, and other consumer loans. Additional discussion of the portfolio segments and the risks associated with each segment can be found in the Company s 2012 Annual Report on Form 10-K for the year ended December 31, 2012.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other factors. New appraisals are generally obtained for all significant properties when a loan is identified as impaired, and a property is considered significant if the value of the property is estimated to exceed $200,000. Subsequent appraisals are obtained as needed or if management believes there has been a significant change in the market value of the property. In instances where it is not deemed necessary to obtain a new appraisal, management bases its impairment and allowance for loan loss analysis on the original appraisal with adjustments for current conditions based on management s assessment of market factors and management s inspection of the property.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

The following table provides the components of the Company s recorded investment in loans for each portfolio segment at March 31, 2013:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Recorded Investment in Loans:								
Principal loan balance	$ 105,344	$ 9,395	$ 11,777	$ 69,400	$ 18,333	$ 35,202	$ 30,795	$ 280,246
Accrued interest receivable	405	40	49	190	49	129	148	1,010
Net deferred loan origination fees and costs	53	2	(11)	(22)	(9)	207	0	220
Recorded investment in loans	$ 105,802	$ 9,437	$ 11,815	$ 69,568	$ 18,373	$ 35,538	$ 30,943	$ 281,476
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$ 1,974	$ 130	$ 260	$ 1,406	$ 1,776	$ 274	$ 0	$ 5,820
Collectively evaluated for impairment	103,828	9,307	11,555	68,162	16,597	35,264	30,943	275,656
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	$ 105,802	$ 9,437	$ 11,815	$ 69,568	$ 18,373	$ 35,538	$ 30,943	$ 281,476

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

The following table provides the components of the Company s recorded investment in loans for each portfolio segment at December 31, 2012:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Recorded Investment in Loans:								
Principal loan balance	$ 108,097	$ 9,607	$ 11,746	$ 68,731	$ 18,612	$ 36,962	$ 31,186	$ 284,941
Accrued interest receivable	444	48	29	188	53	147	184	1,093
Net deferred loan origination fees and costs	62	2	(12)	(17)	(10)	177	0	202
Recorded investment in loans	$ 108,603	$ 9,657	$ 11,763	$ 68,902	$ 18,655	$ 37,286	$ 31,370	$ 286,236
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$ 2,370	$ 125	$ 403	$ 2,836	$ 1,776	$ 73	$ 0	$ 7,583
Collectively evaluated for impairment	106,233	9,532	11,360	66,066	16,879	37,213	31,370	278,653
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	$ 108,603	$ 9,657	$ 11,763	$ 68,902	$ 18,655	$ 37,286	$ 31,370	$ 286,236

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3 continued)

An analysis of the allowance for loan losses as of March 31, 2013 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 143	$ 6	$ 0	$ 258	$ 1,065	$ 25	$ 0	$ 1,497
Collectively evaluated for impairment	797	63	50	1,033	161	861	330	3,295
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	$ 940	$ 69	$ 50	$ 1,291	$ 1,226	$ 886	$ 330	$ 4,792

An analysis of the allowance for loan losses as of December 31, 2012 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 213	$ 0	$ 0	$ 275	$ 1,098	$ 66	$ 0	$ 1,652
Collectively evaluated for impairment	709	71	0	1,035	125	853	291	3,084
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	$ 922	$ 71	$ 0	$ 1,310	$ 1,223	$ 919	$ 291	$ 4,736

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FIRST CAPITAL, INC.

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(3 continued)

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2013 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Allowance for loan losses:								
Beginning balance	$ 922	$ 71	$ 0	$ 1,310	$ 1,223	$ 919	$ 291	$ 4,736
Provisions for loan losses	213	(2)	50	(33)	(46)	(33)	101	250
Charge-offs	(198)	0	0	0	0	(14)	(105)	(317)
Recoveries	3	0	0	14	49	14	43	123
Ending balance	$ 940	$ 69	$ 50	$ 1,291	$ 1,226	$ 886	$ 330	$ 4,792

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2012 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
Allowance for loan losses:								
Beginning balance	$ 828	$ 93	$ 33	$ 1,269	$ 1,160	$ 400	$ 399	$ 4,182
Provisions for loan losses	498	10	2	(345)	12	361	(63)	475
Charge-offs	(276)	(4)	0	0	0	(114)	(91)	(485)
Recoveries	10	0	0	0	3	4	39	56
Ending balance	$ 1,060	$ 99	$ 35	$ 924	$ 1,175	$ 651	$ 284	$ 4,228

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During the quarter ended March 31, 2013, management increased the overall qualitative factor for each portfolio segment from 1.15 times Company s historical loss factors to 1.18 times the Company s historical loss factors. The increase in the overall qualitative factor was based on management s analysis of changes and trends in the following qualitative factors:

Underwriting Standards Management reviews the findings of periodic internal audit loan reviews, independent outsourced loan reviews and loan reviews performed by the banking regulators to evaluate the risk associated with changes in underwriting standards. At March 31, 2013 and December 31, 2012, management assessed the risk associated with this component as neutral, requiring no adjustment to the historical loss factors.

Economic Conditions Management analyzes trends in housing and unemployment data in the Harrison, Floyd and Clark counties of Indiana, the Company s primary market area, to evaluate the risk associated with economic conditions. Due to a decrease in new home construction and an increase in unemployment in the Company s primary market area, management assigned a risk factor of 1.20 for this component at March 31, 2013 and December 31, 2012.

Past Due Loans Management analyzes trends in past due loans for the Company to evaluate the risk associated with delinquent loans. In general, past due loan ratios have remained at elevated levels compared to historical amounts since 2007, and management assigned a risk factor of 1.20 for this component at March 31, 2013 and December 31, 2012.

Other Internal and External Factors This component includes management s consideration of other qualitative factors such as loan portfolio composition. The Company has focused on the origination of commercial business and real estate loans in an effort to convert the Company s balance sheet from that of a traditional thrift institution to a commercial bank. In addition, the Company has increased its investment in mortgage loans in which it does not hold a first lien position. Commercial loans and second mortgage loans generally entail greater credit risk than residential mortgage loans secured by a first lien. As a result of changes in the loan portfolio composition and other factors, management has increased its risk factor from 1.20 at December 31, 2012 to 1.30 at March 31, 2013.

Each of the four factors above was assigned an equal weight to arrive at an average for the overall qualitative factor of 1.18 and 1.15 at March 31, 2013 and December 31, 2012, respectively. The effect of the overall qualitative factor was to increase the estimated allowance for loan losses by $483,000 and $419,000 at March 31, 2013 and December 31, 2012, respectively. The effect of the increase in the overall qualitative factor from 1.15 at December 31, 2012 to 1.18 at March 31, 2013 was to increase the estimated allowance for loan losses by approximately $74,000.

Management also adjusts the historical loss factors for loans classified as watch, special mention and substandard that are not individually evaluated for impairment. The adjustments consider the increased likelihood of loss on classified loans based on the Company s separate historical experience for classified loans. The effect of the adjustments for classified loans was to increase the estimated allowance for loan losses by $648,000 and $664,000 at March 31, 2013 and December 31, 2012, respectively.

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(Unaudited)

(3 continued)

The following table summarizes the Company s impaired loans by class of loans as of March 31, 2013 and for the three months ended March 31, 2013 and 2012:

	At March 31, 2013			Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized - Cash Method	Average Recorded Investment	Interest Income Recognized	Interest Recognized - Cash Method
	(In thousands)								
Loans with no related allowance recorded:									
Residential	$ 1,365	$ 1,732	$ 0	$ 1,396	$ 2	$ 1	$ 1,254	$ 1	$ 1
Land	124	129	0	125	0	0	23	0	0
Construction	260	272	0	332	0	0	257	0	0
Commercial real estate	72	73	0	804	0	0	1,233	0	0
Commercial business	0	0	0	0	0	0	0	0	0
Home Equity/2nd mortgage	242	242	0	121	1	0	86	1	0
Other consumer	0	0	0	0	0	0	0	0	0
	2,063	2,448	0	2,778	3	1	2,853	2	1
Loans with an allowance recorded:									
Residential	609	684	143	776	0	0	921	0	0
Land	6	6	6	3	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0
Commercial real estate	1,334	1,453	258	1,318	0	0	1,574	0	0
Commercial business	1,776	1,909	1,065	1,776	0	0	1,928	0	0
Home Equity/2nd mortgage	32	32	25	53	0	0	94	0	1
Other consumer	0	0	0	0	0	0	0	0	0
	3,757	4,084	1,497	3,926	0	0	4,517	0	1
Total:									
Residential	1,974	2,416	143	2,172	2	1	2,175	1	1
Land	130	135	6	128	0	0	23	0	0
Construction	260	272	0	332	0	0	257	0	0
Commercial real estate	1,406	1,526	258	2,122	0	0	2,807	0	0
Commercial business	1,776	1,909	1,065	1,776	0	0	1,928	0	0
Home Equity/2nd mortgage	274	274	25	174	1	0	180	1	1
Other consumer	0	0	0	0	0	0	0	0	0
	$ 5,820	$ 6,532	$ 1,497	$ 6,704	$ 3	$ 1	$ 7,370	$ 2	$ 2

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(3 continued)

The following table summarizes the Company s impaired loans by class of loans as of December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Loans with no related allowance recorded:			
Residential	$ 1,427	$ 1,760	$ 0
Land	125	126	0
Construction	403	413	0
Commercial real estate	1,535	1,944	0
Commercial business	0	0	0
HE/2nd mortgage	0	0	0
Other consumer	0	0	0
	3,490	4,243	0
Loans with an allowance recorded:			
Residential	943	1,020	213
Land	0	0	0
Construction	0	0	0
Commercial real estate	1,301	1,394	275
Commercial business	1,776	1,909	1,098
HE/2nd mortgage	73	73	66
Other consumer	0	0	0
	4,093	4,396	1,652
Total:			
Residential	2,370	2,780	213
Land	125	126	0
Construction	403	413	0
Commercial real estate	2,836	3,338	275
Commercial business	1,776	1,909	1,098
Home Equity/2nd mortgage	73	73	66
Other consumer	0	0	0
	$ 7,583	$ 8,639	$ 1,652

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Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans by class of loans at March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	(In thousands)					
Residential	$ 1,974	$ 219	$ 2,193	$ 2,370	$ 215	$ 2,585
Land	130	11	141	125	0	125
Construction	260	0	260	403	0	403
Commercial real estate	1,406	0	1,406	2,836	0	2,836
Commercial business	1,776	0	1,776	1,776	0	1,776
Home Equity/2nd mortgage	274	53	327	73	56	129
Other consumer	0	9	9	0	18	18
Total	$ 5,820	$ 292	$ 6,112	$ 7,583	$ 289	$ 7,872

The following table presents the aging of the recorded investment loans by class of loans at March 31, 2013:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Residential	$ 3,989	$ 347	$ 1,587	$ 5,923	$ 99,879	$ 105,802
Land	187	135	136	458	8,979	9,437
Construction	0	0	111	111	11,704	11,815
Commercial real estate	178	334	125	637	68,931	69,568
Commercial business	237	0	0	237	18,136	18,373
Home Equity/2nd mortgage	411	0	263	674	34,864	35,538
Other consumer	287	26	9	322	30,621	30,943
Total	$ 5,289	$ 842	$ 2,231	$ 8,362	$ 273,114	$ 281,476

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The following table presents the aging of the recorded investment in loans by class of loans at December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
Residential	$ 4,085	$ 871	$ 1,644	$ 6,600	$ 102,003	$ 108,603
Land	343	0	119	462	9,195	9,657
Construction	171	0	113	284	11,479	11,763
Commercial real estate	360	0	335	695	68,207	68,902
Commercial business	36	0	0	36	18,619	18,655
Home Equity/2nd mortgage	1,206	102	97	1,405	35,881	37,286
Other consumer	510	30	18	558	30,812	31,370
Total	$ 6,711	$ 1,003	$ 2,326	$ 10,040	$ 276,196	$ 286,236

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Company uses the following regulatory definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution s books as an asset is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the described process are considered to be pass rated loans.

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The following table presents the recorded investment in loans by risk category and class of loans as of the date indicated:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
				(In thousands)				
March 31, 2013								
Pass	$ 100,748	$ 6,916	$ 11,306	$ 65,293	$ 15,236	$ 34,489	$ 30,921	$ 264,909
Special Mention	879	115	249	1,097	903	515	14	3,772
Substandard	2,201	2,276	0	1,772	458	260	8	6,975
Doubtful	1,974	130	260	1,406	1,776	274	0	5,820
Loss	0	0	0	0	0	0	0	0
Ending balance	$ 105,802	$ 9,437	$ 11,815	$ 69,568	$ 18,373	$ 35,538	$ 30,943	$ 281,476
December 31, 2012								
Pass	$ 102,618	$ 7,220	$ 11,244	$ 63,095	$ 15,026	$ 36,035	$ 31,302	$ 266,540
Special Mention	958	17	116	1,018	1,354	553	25	4,041
Substandard	2,657	2,295	0	1,953	499	625	43	8,072
Doubtful	2,370	125	403	2,836	1,776	73	0	7,583
Loss	0	0	0	0	0	0	0	0
Ending balance	$ 108,603	$ 9,657	$ 11,763	$ 68,902	$ 18,655	$ 37,286	$ 31,370	$ 286,236

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(3 continued)

The following table summarizes the Company s troubled debt restructurings (TDRs) by class of loan and accrual status as of March 31, 2013 and December 31, 2012:

	March 31, 2013				December 31, 2012			
	Accruing	Nonaccrual	Total	Related Allowance for Loan Losses	Accruing	Nonaccrual	Total	Related Allowance for Loan Losses
	(In thousands)							
Troubled debt restructurings:								
Residential real estate	$ 198	$ 362	$ 560	$ 57	$ 180	$ 588	$ 768	$ 87
Land	0	0	0	0	0	0	0	0
Construction	0	111	111	0	0	170	170	0
Commercial real estate	1,218	334	1,552	83	0	1,534	1,534	83
Commercial business	0	1,776	1,776	1,065	0	1,776	1,776	1,098
Home equity and 2nd mortgage	41	31	72	25	41	31	72	25
Consumer	0	0	0	0	0	0	0	0
Total	$ 1,457	$ 2,614	$ 4,071	$ 1,230	$ 221	$ 4,099	$ 4,320	$ 1,293

At March 31, 2013 and December 31, 2012, there were no commitments to lend additional funds to debtors whose loan terms have been modified in a TDR.

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FIRST CAPITAL, INC.

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(3 continued)

There were no TDRs that were restructured during the three months ended March 31, 2013. The following table summarizes information in regard to TDRs that were restructured during the three months ended March 31, 2012:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
		(Dollars in thousands)	
Troubled debt restructurings:			
Residential real estate	1	$ 88	$ 88
Home equity & 2nd mortgage	1	25	25
Construction	0	0	0
Commercial real estate	0	0	0
Commercial business	0	0	0
Construction	0	0	0
Consumer	0	0	0
Total	2	$ 113	$ 113

For the TDRs listed above, the terms of modification included temporary interest-only payment periods, reduction of the stated interest rate and the deferral of past due principal and interest until maturity, or the consolidation of outstanding loans at a reduced interest rate. There were no principal charge-offs recorded as a result of TDRs during the three months ended March 31, 2012 and there was no specific allowance for loan losses related to TDRs modified during the three months ended March 31, 2012.

There were no TDRS modified within the previous 12 months for which there was a subsequent payment default (defined as the loan becoming more than 90 days past due, being moved to nonaccrual status, or the collateral being foreclosed upon) during the three months ended March 31, 2013 and 2012. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

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4. Supplemental Disclosure for Earnings Per Share

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands, except for share and per share data)	
Basic and Diluted:		
Earnings:		
Net income attributable to First Capital, Inc.	$ 1,194	$ 919
Shares:		
Weighted average common shares outstanding	2,784,997	2,785,693
Net income attributable to First Capital, Inc. per common share, basic and diluted	$ 0.43	$ 0.33

5. Stock Option Plan

For the three month periods ended March 31, 2013 and 2012, the Company did not recognize any compensation expense related to its stock option plans. Expense is recognized ratably over the five-year vesting period of the options. At March 31, 2013, there was no unrecognized compensation expense related to nonvested stock options to be recognized over the remaining vesting period. The Black-Scholes option pricing model was used to determine the fair value of the options granted in prior periods.

6. Supplemental Disclosures of Cash Flow Information

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In thousands)	
Cash payments for:		
Interest	$ 488	$ 696
Taxes	159	0
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	352	358

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7. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820*, Fair Value Measurements,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth on the following page. These valuation methodologies were applied to all of the Company s financial and nonfinancial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of March 31, 2013 and December 31, 2012. The Company had no liabilities measured at fair value as of March 31, 2013 or December 31, 2012.

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	Carrying Value			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
March 31, 2013				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	$ 0	$ 21,629	$ 0	$ 21,629
Agency CMO	0	22,509	0	22,509
Agency notes and bonds	0	34,366	0	34,366
Municipal obligations	0	33,741	0	33,741
Mutual funds	4,341	0	0	4,341
Total securities available for sale	$ 4,341	$ 112,245	$ 0	$ 116,586
Assets Measured on a Nonrecurring Basis				
Impaired loans:				
Residential real estate	$ 0	$ 0	$ 1,831	$ 1,831
Land	0	0	124	124
Construction	0	0	260	260
Commercial real estate	0	0	1,148	1,148
Commercial business	0	0	711	711
Home equity and second mortgage	0	0	249	249
Total impaired loans	$ 0	$ 0	$ 4,323	$ 4,323
Loans held for sale	$ 0	$ 4,918	$ 0	$ 4,918
Foreclosed real estate:				
Residential real estate	$ 0	$ 0	$ 520	$ 520
Land	0	0	37	37
Total foreclosed real estate	$ 0	$ 0	$ 557	$ 557
December 31, 2012				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	$ 0	$ 23,206	$ 0	$ 23,206
Agency CMO	0	22,660	0	22,660
Agency notes and bonds	0	38,553	0	38,553
Municipal obligations	0	34,317	0	34,317
Mutual funds	4,237	0	0	4,237
Total securities available for sale	$ 4,237	$ 118,736	$ 0	$ 122,973
Assets Measured on a Nonrecurring Basis				
Impaired loans:				

Residential real estate	$ 0	$ 0	$ 2,157	$ 2,157
Land	0	0	125	125
Construction	0	0	403	403
Commercial real estate	0	0	2,561	2,561
Commercial business	0	0	678	678
Home equity and second mortgage	0	0	7	7
Total impaired loans	$ 0	$ 0	$ 5,931	$ 5,931
Loans held for sale	$ 0	$ 3,609	$ 0	$ 3,609
Foreclosed real estate:				
Residential real estate	$ 0	$ 0	$ 258	$ 258
Land	0	0	37	37
Total foreclosed real estate	$ 0	$ 0	$ 295	$ 295

FIRST CAPITAL, INC.

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Fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association s standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security s terms and conditions, among other factors. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect.

Impaired Loans. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

Impaired loans are carried at the present value of estimated future cash flows using the loan s effective interest rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent. At March 31, 2013 and December 31, 2012, all impaired loans were considered to be collateral dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. The fair value of the collateral is generally determined based on real estate appraisals or other independent evaluations by qualified professionals, adjusted for estimated costs to sell the property, costs to complete or repair the property and other factors to reflect management s estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At March 31, 2013, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 10% to 20% for estimates of changes in market conditions and the condition of the collateral, and estimated costs to sell the collateral ranging from 10% to 15%. The Company recognized provisions for loan losses of $45,000 for the three months ended March 31, 2013 for impaired loans.

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Loans Held for Sale. Loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2.

Foreclosed Real Estate. Foreclosed real estate is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of foreclosed real estate is classified as Level 3 in the fair value hierarchy.

Foreclosed real estate is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management s estimate of the fair value of the property given current market conditions and the condition of the collateral. At March 31, 2013, the significant unobservable inputs used in the fair value measurement of foreclosed real estate included a discount from appraised value ranging from 10% to 48% for estimates of changes in market conditions and the condition of the collateral, and estimated costs to sell the property ranging from 10% to 15%. The Company recognized charges of $32,000 to write down foreclosed real estate to fair value for the three months ended March 31, 2013.

There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the three months ended March 31, 2013. There were no transfers into or out of the Company s Level 3 financial assets for the three months ended March 31, 2013. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three months ended March 31, 2013.

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(Unaudited)

(7 continued)

GAAP requires disclosure of the fair value of financial assets and financial liabilities, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair values of the Company s financial instruments are as follows:

	Carrying	Fair	Fair Vale Measurements Using		
n thousands)	Value	Value	Level 1	Level 2	Lev 3
arch 31, 2013:					
nancial assets:					
ash and cash equivalents	$ 29,038	$ 29,038	$ 29,038	$ 0	$ (
curities available for sale	116,586	116,586	4,341	112,245	(
curities held to maturity	11	11	0	11	(

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

n July 9, 2013, our stockholders authorized us, subject to approval of our Board of Directors and certain mitations set forth below, to sell or otherwise issue shares of our common stock at a discount from net asset lue per share for a period of twelve months. In order to sell shares pursuant to this authorization a majority of r directors who have no financial interest in the sale or issuance and a majority of our independent directors ust (a) find that the sale or issuance is in our best interests and in the best interests of our stockholders, and) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a me either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase ch shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold otherwise issued is not less than a price which closely approximates the market value of such shares, less any stributing commission or discount. Any offering of common stock below net asset value per share will be esigned to raise capital for investment in accordance with our investment objective.

making a determination that an offering below net asset value per share is in our and our stockholders best terests, 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;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

ales or other issuances by us of our common stock at a discount from net asset value pose potential risks for our isting stockholders whether or not they participate in the offering, as well as for new investors who participate the offering.

he following three headings and accompanying tables will explain and provide hypothetical examples on the npact of an offering at a price less than net asset value per share on three different set of investors:

- existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

npact On Existing Stockholders Who Do Not Participate in the Offering

ur existing stockholders who do not participate in an offering below net asset value per share or who do not ny additional shares in the secondary market at the same or lower price we obtain in the offering (after

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penses and commissions) face the greatest potential risks. These stockholders will experience an immediate crease (often called dilution) in the net asset value of the shares they hold and their net asset value per share. nese stockholders will also experience a disproportionately greater decrease in their participation in our rnings and assets and their voting power than the increase we will experience in our assets, potential earning ower and voting interests due to the offering. These stockholders may also experience a decline in the market ice of their shares, which often reflects to some degree announced or potential increases and decreases in net set value per share. This decrease could be more pronounced as the size of the offering and level of discounts creases.

ne following table illustrates the level of net asset value dilution that would be experienced by a nparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount om net asset value per share, although it is not possible to predict the level of market price decline that may cur. Actual sales prices and discounts may differ from the presentation below.

ne examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, $15,000,000 in tal assets and $5,000,000 in total liabilities. The current net asset value and net asset value per share are thus 0,000,000 and $10.00. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an fering of 50,000 shares (5.0% of the outstanding shares) at $9.50 per share after offering expenses and mmission (a 5.0% discount from net asset value), (2) an offering of 100,000 shares (10.0% of the outstanding ares) at $9.00 per share after offering expenses and commissions (a 10.0% discount from net asset value) and) an offering of 200,000 shares (20.0% of the outstanding shares) at $8.00 per share after offering expenses and mmissions (a 20.0% discount from net asset value). The acronym NAV stands for net asset value.

	Prior to Sale Below NAV	Example 1 5.0% Offering at 5.0% Discount Following Sale	% Change	Example 2 10.0% Offering at 10.0% Discount Following Sale	% Change	Example 3 20.0% Offering at 20.0% Discount Following Sale	% Change
fering Price							
ice per Share to blic		$ 10.00		$ 9.47		$ 8.42	
et Proceeds per are to Issuer		$ 9.50		$ 9.00		$ 8.00	
ecrease to NAV							
tal Shares utstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
AV per Share	$ 10.00	$ 9.98	(0.24)%	$ 9.91	(0.91)%	$ 9.67	(3.33)%
lution to ockholder							
ares Held by ockholder A	10,000	10,000		10,000		10,000	
rcentage Held by ockholder A	1.0%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%
tal Asset Values							
tal NAV Held by ockholder A	$ 100,000	$ 99,762	(0.24)%	$ 99,091	(0.91)%	$ 96,667	(3.33)%
tal Investment by ockholder A ssumed to Be 0.00 per Share)	$ 100,000	$ 100,000		$ 100,000		$ 100,000	
tal Dilution to ockholder A (Total AV Less Total vestment)		$ (238)		$ (909)		$ (3,333)	
r Share Amounts							
AV per Share Held Stockholder A	$ 10.00	$ 9.98		$ 9.91		$ 9.67	
vestment per Share eld by ockholder A	$ 10.00	$ 10.00		$ 10.00		$ 10.00	

ssumed to be 0.00 per Share on ares Held Prior to le)			
lution per Share eld by ockholder A (NAV r Share Less vestment per are)	$ (0.02)	$ (0.09)	$ (0.33)
rcentage Dilution Stockholder A Dilution per Share vided by vestment per are)	(0.24)%	(0.91)%	(3.33)%

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npact On Existing Stockholders Who Do Participate in the Offering

ur existing stockholders who participate in an offering below net asset value per share or who buy additional ares in the secondary market at the same or lower price as we obtain in the offering (after expenses and ommissions) will experience the same types of net asset value dilution as the nonparticipating stockholders, beit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as eir interest in our shares immediately prior to the offering. The level of net asset value dilution will decrease as e number of shares such stockholders purchase increases. Existing stockholders who buy more than such rcentage will experience net asset value dilution but will, in contrast to existing stockholders who purchase ss than their proportionate share of the offering, experience an increase (often called accretion) in net asset lue per share over their investment per share and will also experience a disproportionately greater increase in eir participation in our earnings and assets and their voting power than our increase in assets, potential earning ower and voting interests due to the offering. The level of accretion will increase as the excess number of ares such stockholder purchases increases. Even a stockholder who over participates will, however, be subject the risk that we may make additional discounted offerings in which such stockholder does not participate, in hich case such a stockholder will experience net asset value dilution as described above in such subsequent ferings. These stockholders may also experience a decline in the market price of their shares, which often flects to some degree announced or potential increases and decreases in net asset value per share. This decrease uld be more pronounced as the size of the offering and the level of discounts increases.

e following table illustrates the level of dilution and accretion in the hypothetical 20.0% discount offering om the prior table (Example 3) for a stockholder that acquires shares equal to (1) 50.0% of its proportionate are of the offering (i.e., 1,000 shares, which is 0.5% of an offering of 200,000 shares) rather than its 1.0% oportionate share and (2) 150% of such percentage (i.e. 3,000 shares, which is 1.5% of an offering of 0,000 shares rather than its 1.0% proportionate share). The prospectus supplement pursuant to which any scounted offering is made will include a table for these examples based on the actual number of shares in such fering and the actual discount from the most recently determined net asset value per share. It is not possible to edict the level of market price decline that may occur. Actual sales prices and discounts may differ from the esentation below.

	Prior to Sale Below NAV	50.0% Participation Following Sale	50.0% Participation % Change	150.0% Participation Following Sale	150.0% Participation % Change
ffering Price					
ice per Share to Public		$ 8.42		$ 8.42	
et Proceeds per Share to suer		$ 8.00		$ 8.00	
ecrease/Increase to NAV					
tal Shares Outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
AV per Share	$ 10.00	$ 9.67	(3.33)%	$ 9.67	(3.33)%
ilution/Accretion to articipating Stockholder					
ares Held by Stockholder A	10,000	11,000	10.00%	13,000	30.00%
rcentage Held by ockholder A	1.0%	0.92%	(8.33)%	1.08%	8.33%
otal Asset Values					
otal NAV Held by ockholder A	$ 100,000	$ 106,333	6.33%	$ 125,667	25.67%
otal Investment by ockholder A (Assumed to Be 0.00 per Share on Shares eld Prior to Sale)	$ 100,000	$ 108,421		$ 125,263	
otal Dilution/Accretion to ockholder A (Total NAV ss Total Investment)		$ (2,088)		$ 404	

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	Prior to Sale Below NAV	50.0% Participation Following Sale	% Change	150.0% Participation Following Sale	% Change
er Share Amounts					
AV per Share Held by Stockholder A	$ 10.00	$ 9.67		$ 9.67	
vestment per Share Held by ockholder A (Assumed to be $10.00 per hare on Shares Held Prior to Sale)	$ 10.00	$ 9.86		$ 9.64	
ilution/Accretion per Share Held by ockholder A (NAV per Share Less vestment per Share)		$ (0.19)		$ 0.03	
rcentage Dilution / Accretion to ockholder A (Dilution/Accretion per hare Divided by Investment per Share)			(1.93)%		0.32%

npact On New Investors

vestors who are not currently stockholders and who participate in an offering below net asset value but whose vestment per share is greater than the resulting net asset value per share due to selling compensation and penses paid by the issuer will experience an immediate decrease, albeit small, in the net asset value of their ares and their net asset value per share compared to the price they pay for their shares. Investors who are not rrently stockholders and who participate in an offering below net asset value per share and whose investment r share is also less than the resulting net asset value per share due to selling compensation and expenses paid the issuer being significantly less than the discount per share will experience an immediate increase in the net set value of their shares and their net asset value per share compared to the price they pay for their shares. hese investors will experience a disproportionately greater participation in our earnings and assets and their ting power than our increase in assets, potential earning power and voting interests. These investors will, owever, be subject to the risk that we may make additional discounted offerings in which such new stockholder es not participate, in which case such new stockholder will experience dilution as described above in such bsequent offerings. These investors may also experience a decline in the market price of their shares, which ten reflects to some degree announced or potential increases and decreases in net asset value per share. This crease could be more pronounced as the size of the offering and level of discounts increases.

he following table illustrates the level of dilution or accretion for new investors that would be experienced by a w investor in the same hypothetical 5.0%, 10.0% and 20.0% discounted offerings as described in the first table ove. The illustration is for a new investor who purchases the same percentage (1.0%) of the shares in the fering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus pplement pursuant to which any discounted offering is made will include a table for these examples based on e actual number of shares in such offering and the actual discount from the most recently determined net asset lue per share. It is not possible to predict the level of market price decline that may occur. Actual sales prices d discounts may differ from the presentation below.

	Prior to Sale Below NAV	Example 1 5.0% Offering at 5.0% Discount Following Sale	% Change	Example 2 10.0% Offering at 10.0% Discount Following Sale	% Change	Example 3 20.0% Offering at 20.0% Discount Following Sale	% Change
ffering Price							
ice per Share to blic		$ 10.00		$ 9.47		$ 8.42	
et Proceeds per Share Issuer		$ 9.50		$ 9.00		$ 8.00	
ecrease/Increase to AV							
tal Shares utstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
AV per Share	$ 10.00	$ 9.98	(0.24)%	$ 9.91	(0.91)%	$ 9.67	(3.33)%
ilution/Accretion to ew Investor A							
ares Held by vestor A		500		1,000		2,000	
rcentage Held by vestor A		0.05%		0.09%		0.17%	
tal Asset Values							
tal NAV Held by vestor A		$ 4,988		$ 9,909		$ 19,333	
tal Investment by vestor A (At Price Public)		$ 5,000		$ 9,474		$ 16,842	
tal Dilution / ccretion to vestor A (Total NAV ss Total Investment)		$ (12)		$ 435		$ 2,491	
r Share Amounts							
AV per Share Held Investor A		$ 9.98		$ 9.91		$ 9.67	
vestment per Share ld by Investor A		$ 10.00		$ 9.47		$ 8.42	
lution / Accretion r Share Held by vestor A (NAV per are Less Investment r Share)		$ (0.02)		$ 0.44		$ 1.25	
rcentage Dilution / ccretion to Investor (Dilution per Share vided by Investment r Share)			(0.24)%		4.60%		14.79%

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DIVIDEND REINVESTMENT PLAN

e have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other stributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a sult, if our board of directors authorizes, and we declare, a cash dividend or other distribution, then our ockholders who have not opted out of our dividend reinvestment plan will have their cash distribution tomatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

o action is required on the part of a registered stockholder to have their cash dividend or other distribution invested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in sh by notifying American Stock Transfer & Trust, LLC, the plan administrator and our transfer agent and gistrar, in writing so that such notice is received by the plan administrator no later than the record date for stributions to stockholders. The plan administrator will set up an account for shares acquired through the plan r each stockholder who has not elected to receive dividends or other distributions in cash and hold such shares non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than) days prior to the record date, the plan administrator will, instead of crediting shares to the participant s count, issue a certificate registered in the participant s name for the number of whole shares of our common ock and a check for any fractional share.

hose stockholders whose shares are held by a broker or other financial intermediary may receive dividends and her distributions in cash by notifying their broker or other financial intermediary of their election.

e intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a emium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market connection with our implementation of the plan. The number of shares to be issued to a stockholder is termined by dividing the total dollar amount of the distribution payable to such stockholder by the market ice per share of our common stock at the close of regular trading on The Nasdaq Global Market on the date for ch distribution. Market price per share on that date will be the closing price for such shares on The Nasdaq lobal Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The umber of shares of our common stock to be outstanding after giving effect to payment of the dividend or other stribution cannot be established until the value per share at which additional shares will be issued has been termined and elections of our stockholders have been tabulated.

here will be no brokerage charges or other charges to stockholders who participate in the plan. The plan lministrator s fees will be paid by us. If a participant elects by written notice to the plan administrator to have e plan administrator sell part or all of the shares held by the plan administrator in the participant s account and mit the proceeds to the participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus $0.10 per share brokerage commissions from the proceeds.

ockholders who receive dividends and other distributions in the form of stock are subject to the same U.S. deral, state and local tax consequences as are stockholders who elect to receive their distributions in cash; owever, since their cash dividends will be reinvested, such stockholders will not receive cash with which to pay y applicable taxes on reinvested dividends. A stockholder s basis for determining gain or loss upon the sale of ock received in a dividend or other distribution from us will be equal to the total dollar amount of the stribution payable to the stockholder. Any stock received in a dividend or other distribution will have a new olding period for tax purposes commencing on the day following the day on which the shares are credited to the .S. stockholder s account.

articipants may terminate their accounts under the plan by notifying the plan administrator via its website at ww.amstock.com, by filling out the transaction request form located at bottom of their statement and sending it the plan administrator.

he plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any cord date for the payment of any dividend by us. All correspondence concerning the plan should be directed to e plan administrator by mail at Post Office Box 922, Wall Street Station, New York, New York 10269-0560, by the Plan Administrator s Interactive Voice Response System at 1 (888) 430-5746.

you withdraw or the plan is terminated, you will receive the number of whole shares in your account under the an and a cash payment for any fraction of a share in your account.

you hold your common stock with a brokerage firm that does not participate in the plan, you will not be able to rticipate in the plan and any dividend reinvestment may be effected on different terms than those described ove. Consult your financial advisor for more information.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

he following discussion is a general summary of the material U.S. federal income tax considerations applicable us and to an investment in our shares of common stock. This summary does not purport to be a complete scription of the income tax considerations applicable to such an investment. For example, we have not scribed certain considerations that may be relevant to certain types of holders subject to special treatment nder U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt ganizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, U.S. ockholders (as defined below) whose functional currency is not the U.S. dollar, persons who mark-to-market ares of our common stock and persons who hold our shares as part of a straddle, hedge or conversion ansaction. This summary assumes that investors hold our common stock as capital assets (within the meaning the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial terpretations, each as of the date of this prospectus and all of which are subject to change, possibly troactively, which could affect the continuing validity of this discussion. We have not sought and will not seek y ruling from the Internal Revenue Service, or the IRS, regarding this offering. This summary does not discuss y aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment sets.

r purposes of this discussion, a U.S. stockholder means a beneficial owner of shares of our common stock that for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if either a U.S. court can exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or the trust was in existence on August 20, 1996, was treated as a U.S. person prior to that date, and has made a valid election to be treated as a U.S. person.

r purposes of this discussion, a Non-U.S. stockholder means a beneficial owner of shares of our common ock that is not a U.S. stockholder.

a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of r common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the rtner and the activities of the partnership. A prospective investor that is a partner in a partnership that will hold ares of our common stock should consult its tax advisors with respect to the purchase, ownership and sposition of shares of our common stock.

ax matters are very complicated and the tax consequences to an investor of an investment in our shares common stock will depend on the facts of his, her or its particular situation. We urge investors to nsult their own tax advisors regarding the specific consequences of such an investment, including tax porting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the enefits of any applicable tax treaty, and the effect of any possible changes in the tax laws.

lection to Be Taxed as a RIC

s a business development company, we intend to elect to be treated as a RIC under Subchapter M of the Code. s a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or pital gains that we timely distribute to our stockholders as dividends. To qualify as a RIC, we must, among her things, meet certain source-of-income and asset diversification requirements (as described below). In ldition, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company xable income, which is generally our net ordinary income plus the excess of realized net short-term capital ins over realized net long-term capital losses (the Annual Distribution Requirement).

axation as a RIC

we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

en we will not be subject to U.S. federal income tax on the portion of our investment company taxable income d net capital gain, defined as net long-term capital gains in excess of net short-term capital losses, we stribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any net come or net capital gain not distributed (or deemed distributed) to our stockholders.

e will be subject to a 4% nondeductible federal excise tax on our undistributed income unless we distribute in timely manner an amount at least equal to the sum of (a) 98% of our ordinary income for each calendar year,) 98.2% of our capital gain net income (both long-term and short-term) for the one-year period ending ctober 31 in that calendar year and (c) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirement). For this purpose, however, any ordinary income or capital gain net income tained by us that is subject to corporate income tax for the tax year ending in that calendar year will be onsidered to have been distributed by year end. We currently intend to make sufficient distributions each xable year to satisfy the Excise Tax Avoidance Requirement.

order to qualify as a RIC for federal income tax purposes, we must, among other things:

- elect to be treated as a RIC;
- meet the Annual Distribution Requirement;
- qualify to be treated as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities, and net income derived from interests in qualified publicly traded partnerships (partnerships that are traded on an established securities market or tradable on a secondary market, other than partnerships that derive 90% of their income from interest, dividends and other permitted RIC income) (the 90% Income Test); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the

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outstanding voting securities of the issuer (which for these purposes includes the equity securities of a qualified publicly traded partnership); and

no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (the Diversification Tests).

o the extent that we invest in entities treated as partnerships for federal income tax purposes (other than a qualified publicly traded partnership), we generally must include the items of gross income derived by the rtnerships for purposes of the 90% Income Test, and the income that is derived from a partnership (other than qualified publicly traded partnership) will be treated as qualifying income for purposes of the 90% Income Test nly to the extent that such income is attributable to items of income of the partnership which would be ualifying income if realized by us directly. In addition, we generally must take into account our proportionate are of the assets held by partnerships (other than a qualified publicly traded partnership) in which we are a rtner for purposes of the Diversification Tests.

order to prevent our receipt of income that would not satisfy the 90% Income Test, we may establish one or ore special purpose corporations to hold assets from which we do not anticipate earning dividend, interest or her qualifying income under the 90% Income Test. Any investments held through a special purpose rporation would generally be subject to federal income taxes and other taxes, and therefore would be expected achieve a reduced after-tax yield.

e may be required to recognize taxable income in circumstances in which we do not receive a corresponding yment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having iginal issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing terest rates or issued with warrants), we must include in income each year a portion of the original issue scount that accrues over the life of the obligation, regardless of whether cash representing such income is ceived by us in the same taxable year. We may also have to include in our income other amounts that we have t yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are id in non-cash compensation such as warrants or stock. We anticipate that a portion of its income may nstitute original issue discount or other income required to be included in taxable income prior to receipt of sh.

ecause any original issue discount or other amounts accrued will be included in our investment company xable income for the year of the accrual, we may be required to make a distribution to our stockholders in order satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash nount. As a result, we may have difficulty meeting the Annual Distribution Requirement. We may have to sell me of our investments at times and/or at prices we do not consider advantageous, raise additional debt or uity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other urces, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level federal income x.

ain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such arrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or ort-term, depending on how long we held a particular warrant.

ur investments in non-U.S. securities may be subject to non-U.S. income, withholding and other taxes. In that se, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a edit or deduction with respect to non-U.S. taxes paid by us.

we purchase shares in a passive foreign investment company, (a PFIC), we may be subject to federal income x on a portion of any excess distribution or gain from the disposition of such shares even if such income is stributed as a taxable dividend by us to our stockholders. Additional charges in the nature of interest may be nposed on us in respect of deferred taxes arising from such distributions or gains. If we invest in a PFIC and ect to treat the PFIC as a qualified electing fund under the Code (a QEF), in lieu of the foregoing requirements, e will be required to include in income each year a portion of the ordinary earnings and net capital gain of the EF, even if such income is not distributed to us. Alternatively, we can elect to mark-to-market at the end of ch taxable year our shares in a PFIC; in that case, we will recognize as ordinary income any increase in the lue of such shares and as ordinary loss any decrease in such value to the extent it does not exceed prior creases included in income. Under either election, we may be required to recognize in a year income in excess our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and such come will be taken into account for purposes of the Annual Distribution Requirement and the 4% federal cise tax.

nder Section 988 of the Code, gain or loss attributable to fluctuations in exchange rates between the time we crue income, expenses, or other liabilities denominated in a foreign currency and the time we actually collect ch income or pay such expenses or liabilities is generally treated as ordinary income or loss. Similarly, gain or ss on foreign currency forward contracts and the disposition of debt denominated in a foreign currency, to the tent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated ordinary income or loss.

we use leverage, we may be subject to certain financial covenants that could limit our ability to make stributions to our stockholders. In addition, under the 1940 Act, we are not permitted to make distributions to ir stockholders while our debt obligations and other senior securities are outstanding unless certain asset overage tests are met. If we are unable to make sufficient distributions to satisfy the Annual Distribution equirement, we may fail to qualify as RIC.

lthough we do not expect to do so, we will be authorized (subject to our financial covenants and 1940 Act asset overage tests) to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and to iminate or minimize our liability for federal income tax and the 4% federal excise tax. However, our ability to spose of assets to make distributions may be limited by (1) the illiquid nature of our portfolio and/or (2) other quirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order meet the Annual Distribution Requirement or to avoid the 4% federal excise tax, we may make such spositions at times that, from an investment standpoint, are not advantageous.

we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable ear, and certain relief provisions are not available, we will be subject to tax in that year on all of our taxable come, regardless of whether we make any distributions to our stockholders. In that case, all of such income ill be subject to corporate-level federal income tax, reducing the amount available to be distributed to our ockholders. See Failure To Qualify as a RIC.

s a RIC, we will not be allowed to carry forward or carry back a net operating loss for purposes of computing ir investment company taxable income in other taxable years. We generally are permitted to carry forward for indefinite period any capital losses not used to offset capital gains. However, future transactions that we gage in may cause our ability to use any capital loss carryforwards, and unrealized losses once realized, to be mited under Section 382 of the Code.

ertain of our investment practices may be subject to special and complex federal income tax provisions that ay, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions,) convert lower taxed long-term capital gain and qualified dividend income into higher taxed short-term capital in or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of hich is more limited), (iv) cause us to recognize income or gain without a corresponding receipt cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, i) adversely alter the characterization of certain complex financial transactions, and (vii) produce income that ill not be qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may ake certain tax elections in order to mitigate the effect of these provisions.

s described above, to the extent that we invest in equity securities of entities that are treated as partnerships for deral income tax purposes, the effect of such investments for purposes of the 90% Income Test and the iversification Tests will depend on whether or not the partnership is a qualified publicly traded partnership (as fined in the Code). If the partnership is a qualified publicly traded partnership, the net income derived from ch investments will be qualifying income for purposes of the 90% Income Test and will be securities for rposes of the Diversification Tests. If the partnership, however, is not treated as a qualified publicly traded rtnership, then the consequences of an investment in the partnership will depend upon the amount and type of come and assets of the partnership allocable to us. The income derived from such investments may not be alifying income for purposes of the 90% Income Test and, therefore, could adversely affect our qualification a RIC. We intend to monitor our investments in equity securities of entities that are treated as partnerships for deral income tax purposes to prevent our disqualification as a RIC.

ailure to Qualify as a RIC

we fail the 90% Income Test or the Diversification Tests for any taxable year or quarter of such taxable year, e may nevertheless continue to qualify as a RIC for such year if certain relief provisions of the Code apply hich, among other things may require us to pay certain corporate-level federal taxes or to dispose of certain sets). If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable come at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they required to be made. In the event of such a failure to qualify, distributions, including distributions of net ng-term capital gain, would generally be taxable to our stockholders as ordinary dividend income (currently nerally eligible for the 20% maximum rate in the case of U.S. individual stockholders) to the extent of our rrent and accumulated earnings and profits. Subject to certain limitations under the Code, corporate stributees would be eligible for the dividends received deduction. Distributions in excess of our current and cumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax sis, and any remaining distributions would be treated as a capital gain. If we fail to qualify as a RIC for two or ore taxable years, to qualify as a RIC in a subsequent year we may be subject to regular corporate tax on any t built-in gains with respect to certain of our assets (*i.e.*, the excess of the aggregate gains, including items of come, over aggregate losses that would have been realized with respect to such assets if we had been quidated) that we elect to recognize on requalification or when recognized over the next ten years.

e remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution equirement.

axation of U.S. Stockholders

hether an investment in shares of our common stock is appropriate for a U.S. stockholder will depend upon at person s particular circumstances. An investment in shares of our common stock by a U.S. stockholder may ve adverse tax consequences. The following summary generally describes certain federal income tax nsequences of an investment in shares of our common stock by taxable U.S. stockholders and not by U.S. ockholders that are generally exempt from federal income taxation. U.S. stockholders should consult their own x advisors before making an investment in our common stock.

istributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions our investment company taxable income (which is, generally, our net ordinary income plus net short-term pital gains in excess of net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to e extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional ares of our common stock. To the extent such distributions paid by us to non-corporate ockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified reign corporations, such distributions generally will be eligible for a maximum federal tax rate of either 15% 20% (depending on whether the stockholder s income exceeds certain threshold amounts). However, in this gard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, nerally will not qualify for the preferential federal tax rate. Distributions of our net capital gains (which is nerally our realized net long-term capital gains in excess of realized net short-term capital losses) properly ported by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains urrently generally at a maximum federal tax rate of either 15% or 20% (depending on whether the stockholder s come exceeds certain threshold amounts) in the case of individuals, trusts or estates, regardless of the U.S. ockholder s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. ockholder s adjusted tax basis in such stockholder s common stock and, after the adjusted basis is reduced to ro, will constitute capital gains to such U.S. stockholder. Stockholders receiving dividends or distributions in e form of additional shares of our common stock purchased in the market should be treated for U.S. federal come tax purposes as receiving a distribution in an amount equal to the amount of money that the stockholders ceiving cash dividends or distributions will receive, and should have a cost basis in the shares received equal to ch amount. Stockholders receiving dividends in newly issued shares of our common stock will be treated as ceiving a distribution equal to the value of the shares received, and should have a cost basis of such amount.

lthough we currently intend to distribute any net long-term capital gains at least annually, we may in the future ecide to retain some or all of our net long-term capital gains but designate the retained amount as a deemed stribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. ockholder will be required to include their share of the deemed distribution in income as if it had been stributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal their locable share of the federal corporate income tax paid on the deemed distribution by us. The amount of the emed distribution net of such tax will be added to the U.S. stockholder s tax basis for their common stock. nce we expect to pay federal corporate income tax on any retained capital gains at our regular federal corporate come tax rate, and since that rate is currently in excess of the maximum federal income tax rate currently yable by individuals on long-term capital gains, the amount of federal corporate income tax that individual ockholders will be treated as having paid and for which they will receive a credit will exceed the federal come tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against e U.S. stockholder s other federal income tax obligations or may be refunded to the extent it exceeds a ockholder s liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise quired to file a federal income tax return would be required to file a federal income tax return on the propriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution proach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of e relevant taxable year. We cannot treat any of our investment company taxable income as a deemed stribution.

or purposes of determining (a) whether the Annual Distribution Requirement is satisfied for any year and) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a vidend that is paid during the following taxable year as if it had been paid during the taxable year in question. we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable ar in which the distribution is made. However, any dividend declared by us in October, November or ecember of any calendar year, payable to stockholders of record on a specified date in such a month and tually paid during January of the following year, will be treated as if it had been received by our U.S. ockholders on December 31 of the year in which the dividend was declared.

'e will have the ability to declare a large portion of a distribution in shares of our common stock to satisfy the nnual Distribution Requirement. If a portion of such distribution is paid in cash and certain requirements are et, the entire distribution to the extent of our current and accumulated earnings and profits will be treated as a vidend for federal income tax purposes. As a result, U.S. stockholders will be taxed on the distribution as if the tire distribution was cash distribution, even though most of the distribution was paid in shares of our common ock.

an investor purchases shares of our common stock shortly before the record date of a distribution, the price of e shares of our common stock will include the value of the distribution and the investor will be subject to tax the distribution even though it represents a return of their investment.

U.S. stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of eir shares of our common stock. Any gain arising from such sale or disposition generally will be treated as ng-term capital gain or loss if the stockholder has held their shares of common stock for more than one year. therwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the le or disposition of shares of our common stock held for six months or less will be treated as long-term capital ss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, ith respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our ommon stock may be disallowed if other shares of our common stock are purchased (whether through investment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis the common stock acquired will be increased to reflect the disallowed loss.

general, individual U.S. stockholders currently are subject to a maximum federal income tax rate of either % or 20% (depending on whether the stockholder s income exceeds certain threshold amounts) on their net pital gain, *i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a xable year, including a long-term capital gain derived from an investment in our shares of common stock. Such te is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. ockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also plied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.*, net capital losses excess of net capital gains) generally may deduct up to $3,000 of such losses against their ordinary income ch year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried rward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct y net capital losses for a year, but may carryback such losses for three years or carry forward such losses for ve years.

addition, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing intly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which enerally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other an certain amounts earned from trades or businesses).

e will provide estimated guidance of the tax characteristics of any distributions we make in our periodic ports filed with the SEC. We will send to each of our U.S. stockholders, as promptly as possible after the end each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such S. stockholder s taxable income for such year as ordinary income and as long-term capital gain. In addition, the deral tax status of each year s distributions generally will be reported to the IRS. Distributions may also be bject to additional state, local and foreign taxes depending on a U.S. stockholder s particular situation. ividends distributed by us generally will not be eligible for the dividends-received deduction or the lower tax tes applicable to certain qualified dividends.

e may be required to withhold federal income tax (backup withholding) currently at a rate of 28% from all xable distributions to any non-corporate U.S. stockholder (a) who fails to furnish us with a correct taxpayer entification number or a certificate that such stockholder is exempt from backup withholding or (b) with spect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and vidend income to the IRS and to respond to notices to that effect. An individual s taxpayer identification umber is his or her social security number. Any amount withheld under backup withholding is allowed as a edit against the U.S. stockholder s federal income tax liability and may entitle such stockholder to a refund, ovided that proper information is timely provided to the IRS.

a U.S. stockholder recognizes a loss with respect to shares of our common stock of $2 million or more for an dividual stockholder or $10 million or more for a corporate stockholder, the stockholder must file with the IRS disclosure statement on Form 8886. Direct stockholders of portfolio securities are in many cases exempted om this reporting requirement, but under current guidance, stockholders of a RIC are not exempted.

he fact that a loss is reportable under these regulations does not affect the legal determination of whether the xpayer s treatment of the loss is proper. U.S. stockholders should consult their tax advisors to determine the pplicability of these regulations in light of their specific circumstances.

axation of Non-U.S. Stockholders

hether an investment in the shares of our common stock is appropriate for a Non-U.S. stockholder will depend on that person s particular circumstances. An investment in the shares of our common stock by a Non-U.S. ockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisors before vesting in our common stock.

the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, or, if an come tax treaty applies, attributable to a permanent establishment in the United States, in which case the stributions will be subject to federal income tax at the rates applicable to U.S. persons, we will not be required withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure quirements. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or foreign trust, and such entities are urged to consult their own tax advisors.

istributions of our investment company taxable income to Non-U.S. stockholders that are not effectively onnected with a U.S. trade or business carried on by the Non-U.S. stockholder, will generally be subject to ithholding of federal income tax at a rate of 30% (or lower rate provided by an applicable treaty) to the extent our current and accumulated earnings and profits. Under a provision applicable for taxable years beginning efore January 1, 2014, properly designated dividends received by a Non-U.S. stockholder are generally exempt om U.S. federal withholding tax when they (a) were paid in respect of our qualified net interest income enerally, our U.S. source interest income, other than certain contingent interest and interest from obligations of corporation or partnership in which we are at least a 10% stockholder, reduced by expenses that are allocable to ch income), or (b) were paid in connection with our qualified short-term capital gains (generally, the excess of ur net short-term capital gain over our long-term capital loss for such taxable year). Although this provision is longer in effect, and there is currently no pending legislation to reenact the provision, Congress has in the past troactively reinstated these provisions and it is possible they will do so again. We emphasize that there is no surance that Congress will take such action, but only note the possibility since it has occurred previously when is provision expired. If the provision is reinstated and depending on the circumstances, we may designate all, me or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term pital gains, or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In der to qualify for this exemption from withholding, a Non-U.S. stockholder must comply with applicable rtification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN an acceptable substitute or successor form). In the case of shares held through an intermediary, the termediary could withhold even if we designate the payment as qualified net interest income or qualified ort-term capital gain. Non-U.S. stockholders should contact their intermediaries with respect to the application these rules to their accounts.

ctual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a on-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and nerally will not be subject to federal income tax unless the distributions or gains, as the case may be, are fectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty plies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United ates or, in the case of an individual Non-U.S. stockholder, the stockholder is present in the United States for 3 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

we distribute our net capital gains in the form of deemed rather than actual distributions (which we may do in e future), a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the ockholder s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a deral income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. xpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, stributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively onnected with a U.S. trade or business may, under certain circumstances, be subject to an additional branch ofits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, an investment in e shares of our common stock may not be appropriate for a Non-U.S. stockholder.

e will have the ability to declare a large portion of a distribution in shares of our common stock to satisfy the nnual Distribution Requirement. If a portion of such distribution is paid in cash and certain requirements are et, the entire distribution to the extent of our current and accumulated earnings and profits will be treated as a vidend for federal income tax purposes. As a result, Non-U.S. stockholders will be taxed on the distribution as the entire distribution was cash distribution, even though most of the distribution was paid in shares of our ommon stock.

he tax consequences to a Non-U.S. stockholder entitled to claim the benefits of an applicable tax treaty may ffer from those described herein. Non-U.S. stockholders are advised to consult their own tax advisors with spect to the particular tax consequences to them of an investment in shares of our common stock.

Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of deral income tax, may be subject to information reporting and backup withholding of federal income tax on vidends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN r an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

ffective January 1, 2014, we will be required to withhold U.S. tax (at a 30% rate) on payments of dividends and ffective January 1, 2017) redemption proceeds made to certain non-U.S. entities that fail to comply with tensive new reporting and withholding requirements designed to inform the U.S. Department of the Treasury U.S.-owned foreign investment accounts. Stockholders may be requested to provide additional information to e funds to enable the funds to determine whether withholding is required.

on-U.S. persons should consult their own tax advisors with respect to the U.S. federal income tax and ithholding tax, and state, local and foreign tax consequences of an investment in the shares of our common ock, including the possible application of the U.S. estate tax.

DESCRIPTION OF OUR CAPITAL STOCK

he following description is based on relevant portions of the Maryland General Corporation Law and on our harter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General orporation Law and our charter and bylaws for a more detailed description of the provisions summarized elow.

apital Stock

s of the date of this prospectus, our authorized stock consists of 100,000,000 shares of stock, par value .001 per share, and no shares of preferred stock. We do not anticipate issuing any shares of preferred stock in e first 12 months following the completion of our initial public offering. Our common stock is listed on The asdaq Global Market under the ticker symbol MRCC. There are no outstanding options or warrants to purchase ur stock. No stock has been authorized for issuance under any equity compensation plan. Under Maryland law, ur stockholders generally are not personally liable for our debts or obligations.

he following are our outstanding classes of securities as of June 30, 2013:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by us or for Our Account	(4) Amount Outstanding Exclusive of Amounts Shown Under (3)
Common Stock	100,000,000	0	5,778,072
Preferred Stock	0	0	0

nder our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into her classes or series of stock and authorize the issuance of the shares of stock without obtaining stockholder pproval. As permitted by the Maryland General Corporation Law, our charter provides that the board of rectors, without any action by our stockholders, may amend the charter from time to time to increase or ecrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we ave authority to issue.

ommon Stock

ll shares of our common stock have equal rights as to earnings, assets, voting, and dividends and other stributions and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. istributions may be paid to the holders of our common stock if, as and when authorized by our board of rectors and declared by us out of funds legally available therefor. Shares of our common stock have no eemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is stricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or inding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally ailable for distribution after we pay all debts and other liabilities and subject to any preferential rights of olders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common ock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. xcept as provided with respect to any other class or series of stock, the holders of our common stock will ossess exclusive voting power. There is no cumulative voting in the election of directors, which means that olders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less an a majority of such shares will be unable to elect any director.

referred Stock

ur charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other asses or series of stock, including preferred stock. The cost of any such reclassification would be borne by our isting common stockholders. Prior to issuance of shares of each class or series, the board of directors is

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quired by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting owers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of demption for each class or series. Thus, the board of directors could authorize the issuance of shares of eferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a ansaction or a change in control that might involve a premium price for holders of our common stock or herwise be in their best interest. You should note, however, that any issuance of preferred stock must comply ith the requirements of the 1940 Act. The 1940 Act limits our flexibility as to certain rights and preferences of e preferred stock that our charter may provide and requires, among other things, that (1) immediately after suance and before any dividend or other distribution is made with respect to our common stock and before any urchase of common stock is made, such preferred stock together with all other senior securities must not exceed amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase ice, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a ass to elect two directors at all times and to elect a majority of the directors if and so long as dividends on such eferred stock are in arrears by two full years or more. Certain matters under the 1940 Act require the separate te of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would te separately from the holders of common stock on a proposal to cease operations as a business development mpany. We believe that the availability for issuance of preferred stock will provide us with increased exibility in structuring future financings and acquisitions. However, we do not currently have any plans to issue eferred stock.

mitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

aryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its rectors and officers to the corporation and its stockholders for money damages except for liability resulting om (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate shonesty established by a final judgment as being material to the cause of action. Our charter contains such a ovision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, bject to the requirements of the 1940 Act.

ur charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of e 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our rector or officer and at our request, serves or has served another corporation, real estate investment trust, rtnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, om and against any claim or liability to which that person may become subject or which that person may incur reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law d subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any dividual who, while serving as our director or officer and at our request, serves or has served another rporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other terprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the oceeding by reason of his or her service in that capacity from and against any claim or liability to which that rson may become subject or which that person may incur by reason of his or her service in any such capacity d to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our laws also provide that, to the maximum extent permitted by Maryland law, with the approval of our board of rectors and provided that certain conditions described in our bylaws are met, we may pay certain expenses curred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an dertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately termined that indemnification of such expenses is not authorized under our bylaws. In accordance with the 40 Act, we will not indemnify any person for any liability to which such person would be subject by reason of ch person s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the nduct of his or her office.

aryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to demnify a director or officer who has been successful, on the merits or otherwise, in the defense of any oceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that pacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among hers, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in nnection with any proceeding to which they may be made, or threatened to be made, a party by reason of their rvice in those or other capacities unless it is established that (a) the act or omission of the director or officer as material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in oney, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable use to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation ay not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of bility on the basis that a personal benefit was improperly received unless, in either, case a court orders demnification, and then only for expenses. In addition, Maryland law permits a corporation to advance asonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation s ceipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met e standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or r or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately termined that the standard of conduct was not met.

e have entered into indemnification agreements with our directors. The indemnification agreements provide r directors the maximum indemnification permitted under Maryland law and the 1940 Act.

ur insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out activities that our present or former directors or officers have performed for another entity at our request. ere is no assurance that such entities will in fact carry such insurance. However, we note that we do not expect request our present or former directors or officers to serve another entity as a director, officer, partner or ustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses at may arise out of their activities while serving in such capacities.

ertain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

e Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more fficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These ovisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to courage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that e benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition oposals because, among other things, the negotiation of such proposals may improve their terms.

lassified Board of Directors

ur board of directors is divided into three classes of directors serving staggered three-year terms. The initial rms of the first, second and third classes will expire in 2013, 2014 and 2015, respectively, and in each case, ose directors will serve until their successors are duly elected and qualify. Upon expiration of their initial rms, directors of each class will be elected to serve for three-year terms and until their successors are duly ected and qualify and each year one class of directors will be elected by the stockholders. A classified board ay render a change in control of us or removal of our incumbent management more difficult. We believe, wever, that the longer time required to elect a majority of a classified board of directors will help to ensure the ntinuity and stability of our management and policies.

lection of Directors

ur charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of ock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a uorum is present will be required to elect a director. Pursuant to our charter, our board of directors may amend e bylaws to alter the vote required to elect directors.

umber of Directors; Vacancies; Removal

ur charter provides that the number of directors will be set by the board of directors in accordance with our ylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease e number of directors. However, unless our bylaws are amended, the number of directors may never be less an one nor more than twelve. Our charter provides that, at such time as we have at least three independent rectors and our common stock is registered under the Exchange Act, we elect to be subject to the provision of ubtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of rectors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of y class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the firmative vote of a majority of the remaining directors in office, even if the remaining directors do not onstitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the rectorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any pplicable requirements of the 1940 Act.

ur charter provides that a director may be removed only for cause, as defined in our charter, and then only by e affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

ction by Stockholders

nder the Maryland General Corporation Law, stockholder action can be taken only at an annual or special eeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for ockholder action by less than unanimous written consent, which our charter does not). These provisions, ombined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until e next annual meeting.

dvance Notice Provisions for Stockholder Nominations and Stockholder Proposals

ur bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election the board of directors and the proposal of business to be considered by stockholders may be made only) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to ote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to ecial meetings of stockholders, only the business specified in our notice of the meeting may be brought before e meeting. Nominations of persons for election to the board of directors at a special meeting may be made only) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors s determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the eeting and who has complied with the advance notice provisions of the bylaws.

he purpose of requiring stockholders to give us advance notice of nominations and other business is to afford ur board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the lvisability of any other proposed business and, to the extent deemed necessary or desirable by our board of rectors, to inform stockholders and make recommendations about such qualifications or business, as well as to ovide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our oard of directors any power to disapprove stockholder nominations for the election of directors or proposals commending certain action, they may have the effect of precluding a contest for the election of directors or the nsideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a ird-party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own oposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial us and our stockholders.

alling of Special Meetings of Stockholders

ur bylaws provide that special meetings of stockholders may be called by our board of directors and certain of ur officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and formational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be lled by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a ajority of all the votes entitled to be cast at such meeting.

pproval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

nder Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or bstantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary ourse of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of e votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for proval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter so provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, erger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation dissolution requires the approval of the stockholders entitled to cast at least 80% of the votes entitled to be st on such matter. However, if such amendment or proposal is approved by 75% or more of our continuing rectors (in addition to approval by our board of directors), such amendment or proposal may be approved by a ajority of the votes entitled to be cast on such a matter. The continuing directors are defined in our charter as) our current directors, (2) those directors whose nomination for election by the stockholders or whose election the directors to fill vacancies is approved by a majority of our current directors then on the board of directors (3) any successor directors whose nomination for election by the stockholders or whose election by the rectors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors en in office.

ur charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter, amend repeal any provision of our bylaws and to make new bylaws.

o Appraisal Rights

xcept with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act scussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders ill not be entitled to exercise appraisal rights unless a majority of the board of directors shall determine such ghts apply.

ontrol Share Acquisitions

he Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a ontrol share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes titled to be cast on the matter (the Control Share Acquisition Act). Shares owned by the acquiror, by officers by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. ontrol shares are voting shares of stock which, if aggregated with all other shares of stock

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vned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting ower (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in ecting directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;

- one-third or more but less than a majority; or

- a majority or more of all voting power.

ne requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of oting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as result of having previously obtained stockholder approval. A control share acquisition means the acquisition of ontrol shares, subject to certain exceptions.

person who has made or proposes to make a control share acquisition may compel the board of directors of the orporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting ghts of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain onditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the orporation may itself present the question at any stockholders meeting.

voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person atement as required by the statute, then the corporation may redeem for fair value any or all of the control ares, except those for which voting rights have previously been approved. The right of the corporation to deem control shares is subject to certain conditions and limitations, including, as provided in our bylaws ompliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the ontrol shares, as of the date of the last control share acquisition by the acquirer or of any meeting of ockholders at which the voting rights of the shares are considered and not approved. If voting rights for control ares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares ntitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined r purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the ontrol share acquisition.

ne Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share xchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the harter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share cquisition Act any and all acquisitions by any person of our shares of stock. There can be no assurance that ch provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in ur best interests and if the SEC staff does not object to our determination that our being subject to the Control hare Acquisition Act does not conflict with the 1940 Act.

usiness Combinations

nder Maryland law, business combinations between a corporation and an interested stockholder or an affiliate an interested stockholder are prohibited for five years after the most recent date on which the interested ockholder becomes an interested stockholder (the Business Combination Act). These business combinations clude a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or suance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s outstanding voting stock; or

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an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

person is not an interested stockholder under this statute if the board of directors approved in advance the nsaction by which the stockholder otherwise would have become an interested stockholder. However, in proving a transaction, the board of directors may provide that its approval is subject to compliance, at or after e time of approval, with any terms and conditions determined by the board.

fter the five-year prohibition, any business combination between the corporation and an interested stockholder nerally must be recommended by the board of directors of the corporation and approved by the affirmative te of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

hese super-majority vote requirements do not apply if the corporation s common stockholders receive a inimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the me form as previously paid by the interested stockholder for its shares.

e statute permits various exemptions from its provisions, including business combinations that are exempted the board of directors before the time that the interested stockholder becomes an interested stockholder. Our ard of directors has adopted a resolution that any business combination between us and any other person is empted from the provisions of the Business Combination Act, provided that the business combination is first proved by the board of directors, including a majority of the directors who are not interested persons as fined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time. However, our ard of directors will adopt resolutions so as to make us subject to the provisions of the Business Combination ct only if the board of directors determines that it would be in our best interests and if the SEC staff does not ject to our determination that our being subject to the Business Combination Act does not conflict with the 40 Act. If this resolution is repealed, or the board of directors does not otherwise approve a business mbination, the statute may discourage others from trying to acquire control of us and increase the difficulty of nsummating any offer.

nflict with the 1940 Act

r bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, cluding the Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business mbination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the plicable provision of the 1940 Act will control.

REGULATION

e are a business development company under the 1940 Act and intend to elect to be treated as a RIC under the ode. The 1940 Act contains prohibitions and restrictions relating to transactions between business development mpanies and their affiliates (including any investment advisors), principal underwriters and affiliates of those filiates or underwriters and requires that a majority of the directors of a business development company be rsons other than interested persons, as that term is defined in the 1940 Act. In addition, the 1940 Act provides at we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business evelopment company unless approved by a majority of our outstanding voting securities.

e may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated ansactions. With respect to such securities, we may, for the purpose of public resale, be deemed an underwriter that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to anage risks associated with the publicly traded securities of our portfolio companies, except that we may enter to hedging transactions to manage the risks associated with interest rate fluctuations. However, we may rchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection ith acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire ghts to require the issuers of acquired securities or their affiliates to repurchase them under certain rcumstances. We also do not intend to acquire securities issued by any investment company that exceed the mits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the total tstanding voting stock of any registered investment company, invest more than 5% of the value of our total sets in the securities of one investment company or invest, in the aggregate, more than 10% of the value of our tal assets in the securities of more than one investment company. With regard to that portion of our portfolio vested in securities issued by investment companies, it should be noted that such investments might subject our ockholders to additional expenses. None of these policies is fundamental and may be changed without ockholder approval.

ualifying Assets

nder the 1940 Act, a business development company may not acquire any asset other than assets of the type sted in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the quisition is made, qualifying assets represent at least 70% of the company s total assets. The principal tegories of qualifying assets relevant to our proposed business are the following:

(a) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer that:

is organized under the laws of, and has its principal place of business in, the United States;

is not an investment company (other than a small business investment company wholly-owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

satisfies either of the following:

does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a $250 million market capitalization maximum; or

is controlled by a business development company or a group of companies including a business development company, and such business development company actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the business development company has an affiliated person who is a director of the eligible portfolio company.

(b) Securities of any eligible portfolio company which we control.

(c) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident to such a private transaction, if the issuer is in bankruptcy and subject to reorganization, or, if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(d) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity securities of the eligible portfolio company.

(e) Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.

(f) Cash, cash equivalents, U.S. government securities or high-quality debt securities that mature in one year or less from the date of investment.

ne regulations defining qualifying assets may change over time. We may adjust our investment focus as needed comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area. the extent we invest in the securities of companies domiciled in or with their principal places of business ıtside of the United States, we intend to limit those investments to companies domiciled or with their principal ace of business in Canada. Any investments in Canadian companies will not be qualifying assets, meaning that accordance with Section 55(a) of the 1940 Act, we cannot invest more than 30% of our assets in Canadian curities and other non-qualifying assets.

lanagerial Assistance to Portfolio Companies

business development company must have been organized and have its principal place of business in the nited States and must be operated for the purpose of making investments in the types of securities described in), (b) or (c) above. However, in order to count portfolio securities as qualifying assets for the purpose of the)% test, a business development company must either control the issuer of securities or must offer to make ailable to the issuer of the securities significant managerial assistance. However, when a business development ompany purchases securities in conjunction with one or more other persons acting together, one of the other rsons in the group may make available such managerial assistance. Making available managerial assistance eans any arrangement whereby the business development company, through its directors, officers, employees agents offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the anagement, operations or business objectives and policies of a portfolio company. MC Advisors or its affiliates ill provide such managerial assistance on our behalf to portfolio companies that request this assistance.

emporary Investments

ending investment in other types of qualifying assets, as described above, our investments may consist of cash, sh equivalents, U.S. government securities and high-quality debt investments that mature in one year or less om the date of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets

e qualifying assets or temporary investments. Typically, we will invest in U.S. Treasury bills or in repurchase
greements, so long as the agreements are fully collateralized by cash or securities issued by the U.S.

overnment or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a ecified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. owever, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we ould not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. ccordingly, we do not intend to enter into repurchase agreements with a single counterparty in excess of this mit. MC Advisors will monitor the creditworthiness of the counterparties with which we enter into repurchase greement transactions.

enior Securities

e are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock nior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% mediately after each such issuance. In addition, while any Senior Securities remain outstanding, we must ake provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares nless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also orrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to set coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our usiness and Structure Regulations governing our operation as a business development company will affect our bility to and the way in which we raise additional capital.

odes of Ethics

e and MC Advisors have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that tablishes procedures for personal investments and restricts certain personal securities transactions. Personnel bject to each code may invest in securities for their personal investment accounts, including securities that may purchased or held by us, so long as such investments are made in accordance with the code s requirements. ou may read and copy the code of ethics at the SEC s Public Reference Room in Washington, D.C. You may btain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In ldition, each code of ethics is attached as an exhibit to the registration statement of which this prospectus is a rt, and is available on the EDGAR Database on the SEC s website at *www.sec.gov*. You may also obtain copies each code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: *ublicinfo@sec.gov*, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, .C. 20549.

roxy Voting Policies and Procedures

e have delegated our proxy voting responsibility to MC Advisors. The proxy voting policies and procedures of C Advisors are set out below. The guidelines are reviewed periodically by MC Advisors and our directors who e not interested persons, and, accordingly, are subject to change. For purposes of these proxy voting policies d procedures described below, we, our and us refer to MC Advisors.

troduction

s an investment advisor registered under the Advisers Act, we have a fiduciary duty to act solely in the best terests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner ee of conflicts of interest and in the best interests of our clients.

hese policies and procedures for voting proxies for our investment advisory clients are intended to comply with ection 206 of, and Rule 206(4)-6 under, the Advisers Act.

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roxy Policies

e vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients ockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its fect on the portfolio securities held by our clients. In most cases we will vote in favor of proposals that we lieve are likely to increase the value of the portfolio securities held by our clients. Although we will generally te against proposals that may have a negative effect on our clients portfolio securities, we may vote for such a oposal if there exist compelling long-term reasons to do so.

ur proxy voting decisions are made by those senior officers who are responsible for monitoring each of our ients investments. To ensure that our vote is not the product of a conflict of interest, we require that (a) anyone volved in the decision-making process disclose to our chief compliance officer any potential conflict that he or e is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and) employees involved in the decision-making process or vote administration are prohibited from revealing how e intend to vote on a proposal in order to reduce any attempted influence from interested parties. Where nflicts of interest may be present, we will disclose such conflicts to our client, including with respect to onroe Capital Corporation, those directors who are not interested persons and we may request guidance from ch persons on how to vote such proxies for their account.

roxy Voting Records

ou may obtain information about how we voted proxies for Monroe Capital Corporation by making a written quest for proxy voting information to: Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, hicago, Illinois 60606, Attention: Investor Relations, or by calling Monroe Capital Corporation at 12) 258-8300. The SEC also maintains a website at *http://www.sec.gov* that contains such information.

rivacy Principles

e are committed to maintaining the privacy of our stockholders and to safeguarding their nonpublic personal formation. The following information is provided to help you understand what personal information we llect, how we protect that information and why, in certain cases, we may share information with select other rties.

enerally, we do not receive any nonpublic personal information relating to our stockholders, although certain npublic personal information of our stockholders may become available to us. We do not disclose any npublic personal information about our stockholders or former stockholders to anyone, except as permitted by w or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third-party lministrator).

e restrict access to nonpublic personal information about our stockholders to employees of MC Advisors and affiliates with a legitimate business need for the information. We will maintain physical, electronic and ocedural safeguards designed to protect the nonpublic personal information of our stockholders.

ther

e are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us ainst larceny and embezzlement. Furthermore, as a business development company, we are prohibited from otecting any director or officer against any liability to Monroe Capital Corporation or our stockholders arising om willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct such person s office.

'e and MC Advisors are each be required to adopt and implement written policies and procedures reasonably signed to prevent violation of relevant federal securities laws, obtain approval of the board of directors of ese policies and procedures, review these policies and procedures annually for their adequacy and the fectiveness of their implementation and designate a chief compliance officer to be responsible for lministering the policies and procedures.

'e may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our filiates without the prior approval of our board of directors who are not interested persons and, in some cases, ior approval by the SEC. The SEC has interpreted the business development company prohibition on ansactions with affiliates to prohibit all joint transactions between entities that share a common investment lvisor. The staff of the SEC has granted no-action relief permitting purchases of a single class of privately aced securities provided that the advisor negotiates no term other than price and certain other conditions are et. As a result, we only expect to co-invest on a concurrent basis with other funds advised by MC Advisors hen each of us will own the same securities of the issuer and when no term is negotiated other than price. Any ch investment would be made, subject to compliance with existing regulatory guidance, applicable regulations d our allocation procedures. If opportunities arise that would otherwise be appropriate for us and for another nd advised by MC Advisors to invest in different securities of the same issuer, MC Advisors will need to cide which fund will proceed with the investment. Moreover, except in certain circumstances, we will be able to invest in any issuer in which another fund advised by MC Advisors has previously invested.

arbanes-Oxley Act of 2002

he Sarbanes-Oxley Act imposes a wide variety of regulatory requirements on publicly held companies and their siders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 under the Exchange Act, our principal executive officer and principal financial officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 under Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 under the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

he Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we omply with the Sarbanes-Oxley Act and the regulations promulgated under such Act. We will continue to onitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions cessary to ensure that we are in compliance with that Act.

SHARES ELIGIBLE FOR FUTURE SALE

pon completion of this offering, 9,778,072 shares of our common stock will be outstanding, assuming no ercise of the underwriters over-allotment option. Of these shares, approximately 9,670,771 shares (assuming exercise of the underwriters over-allotment option), less any shares purchased by our affiliates in this fering, will be freely tradable without restriction or limitation under the Securities Act. Any shares purchased our affiliates, as defined in the Securities Act, will be subject to the public information, manner of sale and lume limitations of Rule 144 under the Securities Act. 100 shares of our common stock sold in connection ith our formation transactions are restricted securities under the meaning of Rule 144 promulgated under the curities Act and may not be sold in the absence of registration under the Securities Act unless an exemption om registration is available, including exemptions contained in Rule 144.

general, under Rule 144 as currently in effect, if six months have elapsed since the date of acquisition of stricted securities from us or any of our affiliates and we are subject to the Exchange Act periodic reporting quirements for at least three months prior to the sale, the holder of such restricted securities can sell such curities. However, the number of securities sold by such person within any three-month period cannot exceed e greater of:

1% of the total number of securities then outstanding; or

the average weekly trading volume of our securities during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

les under Rule 144 by our efforts also are subject to certain manners of sale provisions, notice requirements d the availability of current public information about us. No assurance can be given as to (a) the likelihood that active market for our common stock will develop, (b) the liquidity of any such market, (c) the ability of our ockholders to sell our securities or (d) the prices that stockholders may obtain for any of our securities. No ediction can be made as to the effect, if any, that future sales of securities, or the availability of securities for ture sales, will have on the market price prevailing from time to time. Sales of substantial amounts of our curities, or the perception that such sales could occur, may affect adversely prevailing market prices of our mmon stock. See Risk Factors Risks Relating to This Offering.

e, our executive officers and directors, MC Advisors and MC Management have entered into lock-up reements with the underwriters. Under these agreements, subject to certain exceptions we and each of these rsons may not, without the prior written approval of Robert W. Baird & Co. Incorporated, offer, sell, contract sell, pledge, or otherwise dispose of, directly or indirectly, or hedge our common stock or securities nvertible into or exchangeable or exercisable for our common stock, except in the circumstances described low. These restrictions will be in effect for a period of 180 days after the date of this prospectus, which period subject to extension in the circumstances described in the paragraph below. At any time and without public tice, Robert W. Baird & Co. Incorporated may, in its sole discretion, release some or all the securities from ese lock-up agreements.

otwithstanding the above, if: (a) during the period beginning on the date that is 15 calendar days plus three siness days before the last day of the 180-day period described in the paragraph above, or the initial lock-up riod, and ends on the last day of the initial lock-up period, we issue an earnings release or material news or a aterial event relating to us occurs; or (b) prior to the expiration of the initial lock-up period, we announce that e will release earnings results during the 16-day period beginning on the last day of the initial lock-up period, en the restrictions imposed by these lock-up agreements will continue to apply until the expiration of the date at is 15 calendar days plus three business days after the date on which the issuance of the earnings release or e material news or material event occurs.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

ur securities are held by U.S. Bank National Association pursuant to a custody agreement. The principal usiness address of U.S. Bank National Association is Corporate Trust Services, One Federal Street, 3rd Floor, oston, MA 02110, telephone: (617) 603-6538. American Stock Transfer & Trust Company, LLC serves as our ansfer agent, distribution paying agent and registrar. The principal business address of American Stock ransfer & Trust Company, LLC is 59 Maiden Lane, Plaza Level, New York, New York 10038, telephone: 00) 937-5449.

BROKERAGE ALLOCATION AND OTHER PRACTICES

nce we will acquire and dispose of many of our investments in privately negotiated transactions, many of the ansactions that we engage in will not require the use of brokers or the payment of brokerage commissions. ubject to policies established by our board of directors, MC Advisors is primarily responsible for selecting okers and dealers to execute transactions with respect to the publicly traded securities portion of our portfolio ansactions and the allocation of brokerage commissions. MC Advisors does not expect to execute transactions rough any particular broker or dealer but will seek to obtain the best net results for us under the circumstances, king into account such factors as price (including the applicable brokerage commission or dealer spread), size order, difficulty of execution and operational facilities of the firm and the firm s risk and skill in positioning ocks of securities. MC Advisors generally seeks reasonably competitive trade execution costs but will not ecessarily pay the lowest spread or commission available. Subject to applicable legal requirements and onsistent with Section 28(e) of the Exchange Act, MC Advisors may select a broker based upon brokerage or search services provided to MC Advisors and us and any other clients. In return for such services, we may pay higher commission than other brokers would charge if MC Advisors determines in good faith that such ommission is reasonable in relation to the services provided.

UNDERWRITING

e are offering the shares of our common stock described in this prospectus through the underwriters named low. Robert W. Baird & Co. Incorporated, William Blair & Company, L.L.C. and RBC Capital Markets, LLC e acting as the book-running managers of this offering and as representatives of the underwriters. We have tered into an underwriting agreement with the representatives. Subject to the terms and conditions of the derwriting agreement, each of the underwriters has severally agreed to purchase and we have agreed to sell to e underwriters, the number of shares of common stock listed next to its name in the following table.

nderwriters	Number of shares
obert W. Baird & Co. Incorporated	
illiam Blair & Company, L.L.C.	
BC Capital Markets, LLC	
B&T Capital Markets, a division of BB&T Securities, LLC	
nney Montgomery Scott LLC	
ppenheimer & Co. Inc.	
ephens Inc.	
underlich Securities, Inc.	
denburg Thalmann & Co. Inc.	
otal	4,000,000

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

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

receipt and acceptance of our common stock by the underwriters; and

the underwriters right to reject orders in whole or in part.

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

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

ne address of the underwriters are: Robert W. Baird & Co. Incorporated, 777 East Wisconsin Avenue, ilwaukee, Wisconsin 53202; William Blair & Company, L.L.C., 222 West Adams Street, Chicago, Illinois 0606; RBC Capital Markets, LLC, 3 World Financial Center, 200 Vesey Street, 8th Floor, New York, New ork 10281; BB&T Capital Markets, a division of BB&T Securities, LLC, 901 East Byrd Street, Suite 410, chmond, Virginia 23219; Janney Montgomery Scott LLC, 1717 Arch Street, Philadelphia, Pennsylvania 0103; Oppenheimer & Co. Inc., 85 Broad Street, New York, New York 10004; Stephens Inc., 111 Center reet, Suite 2400, Little Rock, Arkansas 72201; Wunderlich Securities, Inc., 6000 Poplar Avenue, Suite 150, emphis, Tennessee; Ladenburg Thalmann & Co. Inc., 520 Madison Avenue, 9th Floor, New York, New York 0022.

ver-Allotment Option

e have granted the underwriters an option to buy up to an aggregate of 600,000 additional shares of our mmon stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if y, made in connection with this offering. The underwriters have 30 days from the date of this prospectus to

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ercise this option. If the underwriters exercise this option, they will each purchase additional shares pproximately in proportion to the amounts specified in the table above.

ommissions and Discounts

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

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

	Per Share	No Exercise	Full Exercise
nderwriting discounts and commissions			

accordance with the rules and regulations of the Financial Industry Regulatory Authority, the total amount of l items of compensation from whatever source, including compensation paid from offering proceeds and in the rm of trail commissions, payable to underwriters, broker-dealers or affiliates thereof will not exceed an amount at equals 10% of the gross proceeds of this offering. In addition, we have agreed to reimburse the reasonable gal fees and other disbursements of counsel to the Underwriters relating to FINRA matters, which is estimated be approximately $10,000.

o Sales of Similar Securities

e, our executive officers and directors, MC Advisors and MC Management have entered into lock-up reements with the underwriters. Under these agreements, we and each of these persons may not, without the ior written approval of Robert W. Baird & Co. Incorporated, offer, sell, contract to sell, pledge, or otherwise spose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable or ercisable for our common stock, except in the circumstances described below. These restrictions will be in fect for a period of 180 days after the date of this prospectus, which period is subject to extension in the rcumstances described in the paragraph below. At any time and without public notice, Robert W. Baird & Co. corporated may, in its sole discretion, release some or all the securities from these lock-up agreements.

otwithstanding the above, if (i) during the period beginning on the date that is 17 calendar days before the last y of the 180-day period described in the paragraph above, or the initial lock-up period, and ends on the last y of the initial lock-up period, we issue an earnings release or material news or a material event relating to us curs; or (ii) prior to the expiration of the initial lock-up period, we announce that we will release earnings sults during the 16-day period beginning on the last day of the initial lock-up period, then the restrictions nposed by these lock-up agreements will continue to apply until the expiration of the date that is 18 calendar ys after the date on which the issuance of the earnings release or the material news or material event occurs.

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

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

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

in the case of a corporation, limited liability company or partnership, a transfer to a wholly-owned subsidiary thereof, or to the direct or indirect stockholders, members or partners or other affiliates thereof; provided, that (a) such transfer does not involve a disposition for value, (b) the transferee executes a lock-up agreement for the remainder of the lock-up period, and (c) no filing pursuant to Section 16 of the Exchange Act is required as a result of such transfer;

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

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

ndemnification

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

ASDAQ Global Market Quotation

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

rice Stabilization; Short Positions

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

stabilizing transactions;

short sales;

purchases to cover positions created by short sales;

imposition of penalty bids; and

syndicate covering transactions.

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

he underwriters may close out any covered short position by either exercising their over-allotment option, in hole or in part, or by purchasing shares in the open market. In making this determination, the

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nderwriters will consider, among other things, the price of shares available for purchase in the open market as ompared to the price at which they may purchase shares through the over-allotment option.

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

he underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the nderwriters a portion of the underwriting discount received by it because the representative has repurchased ares sold by or for the account of that underwriter in stabilizing or short covering transactions.

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

etermination of Offering Price

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

the information set forth in this prospectus and otherwise available to representative;

our history and prospects and the history and prospects for the industry in which we compete;

our past and present financial performance and an assessment of our management;

our prospects for future earnings and the present state of our development;

the general condition of the securities market at the time of this offering;

the recent market prices of, and demand for, our publicly traded common stock; and

other factors deemed relevant by the underwriters and us.

ffiliations

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

otice to Investors

otice to Prospective Investors in the European Economic Area

relation to each Member State of the European Economic Area, or EEA, which has implemented the ospectus Directive (each, a Relevant Member State), with effect from, and including, the date on which the

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ospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an fer to the public of our securities which are the subject of the offering contemplated by this prospectus may not made in that Relevant Member State, except that, with effect from, and including, the Relevant nplementation Date, an offer to the public in that Relevant Member State of our securities may be made at any me under the following exemptions under the Prospectus Directive, if they have been implemented in that elevant Member State:

to legal entities which are authorized or regulated to operate in the financial markets, or, if not so authorized or regulated, whose corporate purpose is solely to invest in our securities;

to any legal entity which has two or more of: (i) an average of at least 250 employees during the last (or, in Sweden, the last two) financial year(s); (ii) a total balance sheet of more than 43 million and (iii) an annual net turnover of more than 50 million, as shown in its last (or, in Sweden, the last two) annual or consolidated accounts;

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

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

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

he EEA selling restriction is in addition to any other selling restrictions set out in this prospectus.

otice to Prospective Investors in France

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

released, issued, distributed or caused to be released, issued or distributed to the public in France; or

used in connection with any offer for subscription or sale of our securities to the public in France.

ch offer, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1 through D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

to investment services providers authorized to engage in portfolio management on behalf of third parties;
or

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in a transaction that, in accordance with article L.411-2-II of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*offre au public*).
ur securities may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 d L.621-8 through L.621-8-3 of the French Code monétaire et financier.

otice to Prospective Investors in the United Kingdom

his prospectus is only being distributed to and is only directed at: (i) persons who are outside the United ingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 000 (Financial Promotion) Order 2005 (the Order); or (iii) high net worth companies, and other persons to hom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons lling within (i)-(iii) together being referred to as relevant persons). The shares are only available to, and any vitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only ith, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any its contents.

otice to prospective Investors in Switzerland

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

otice to Prospective Investors in Australia

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

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

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

otice to Prospective Investors in Hong Kong

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

otice to Prospective Investors in Japan

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

otice to Prospective Investors in Singapore

his document has not been registered as a prospectus with the Monetary Authority of Singapore and in ngapore, the offer and sale of our securities is made pursuant to exemptions provided in sections 274 and 275 the Securities and Futures Act, Chapter 289 of Singapore (SFA). Accordingly, this prospectus and any other ocument or material in connection with the offer or sale, or invitation for subscription or purchase, of our curities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a levant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person ursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the FA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of e SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this ocument is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to e content of prospectuses would not apply. Prospective investors in Singapore should consider carefully hether an investment in our securities is suitable for them.

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

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

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

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

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

where no consideration is given for the transfer; or

where the transfer is by operation of law.

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

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LEGAL MATTERS

ertain legal matters regarding the securities offered by this prospectus will be passed upon for us by Nelson ullins Riley & Scarborough LLP, Washington D.C. Nelson Mullins Riley & Scarborough LLP also represents C Advisors. Certain legal matters in connection with the offering will be passed upon for the underwriters by echert LLP, Washington, D.C.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

he financial statements appearing in this Prospectus and Registration Statement have been audited by cGladrey LLP, an independent registered public accounting firm located at One South Wacker Drive, Suite 00, Chicago, IL 60606, as stated in their report appearing elsewhere herein, and are included in reliance upon ch report and upon the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

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

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

INDEX TO FINANCIAL STATEMENTS

onroe Capital Corporation

atements of Assets And Liabilities

n thousands, except per share data)

	March 31, 2013 (unaudited)	December 31, 2012
ssets		
vestments, at fair value (cost of: $132,381 and $132,592, spectively)	$ 134,341	$ 132,752
ash and cash equivalents	6,503	4,060
eferred financing costs, net	1,635	1,750
terest receivable	552	503
ther assets	494	166
otal assets	143,525	139,231
abilities		
evolving credit facility	47,000	55,000
cured borrowings, at fair value (proceeds of: $9,707 and $0, spectively)	9,730	
anagement fees payable	587	318
centive fees payable	438	6
ccounts payable and accrued expenses	501	222
terest payable on credit facility	75	51
otal liabilities	58,331	55,597
et assets	$ 85,194	$ 83,634
nalysis of Net Assets		
ommon stock, $0.001 par value, 100,000 shares authorized, 764 and 5,750 shares issued and outstanding, respectively	$ 6	$ 6
apital in excess of par value	84,848	84,633
ccumulated distributions in excess of net investment income	(1,617)	(1,165)
ccumulated net realized gain on investments	21	
ccumulated net unrealized appreciation on investments and cured borrowings	1,936	160
otal net assets	$ 85,194	$ 83,634
et asset value per share	$ 14.78	$ 14.54

e accompanying notes to financial statements.

onroe Capital Corporation

atements of Operations (unaudited)

n thousands, except per share data)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012 (1)
vestment income:		
terest income	$ 3,719	$
otal investment income	3,719	
perating expenses:		
terest and other debt financing expenses	694	
ase management fee	587	
centive fees	431	
ofessional fees	216	
dministrative service fee	178	
eneral and administrative expenses	110	
otal expenses	2,216	
et investment income	1,503	
et gain on investments and secured borrowings:		
et realized gain from investments	21	
et change in unrealized appreciation on vestments and secured borrowings	1,776	
et gain on investments and secured borrowings	1,797	
et increase in net assets resulting from operations	$ 3,300	$
er common share data:		
et investment income per share basic and diluted	$ 0.26	$
et increase in net assets resulting from operations r share basic and diluted	$ 0.57	$
eighted average common stock outstanding basic d diluted	5,751	

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

e accompanying notes to financial statements.

onroe Capital Corporation

atements of Changes In Net Assets (unaudited)

n thousands, except per share data)

	Common Stock					
	Number of shares	**Par value**	**Capital in excess of par value**	**Accumulated distributions in excess of net investment income**	**Accumulated net realized and unrealized appreciation on investments and secured borrowings**	**Total net assets**
alances at ecember 31, 2011 (1)		$	$ 10	$	$	$ 10
ockholder stributions paid, cluding stock issued connection with vidend reinvestment an						
et increase in net sets resulting from perations						
alances at March 31, 012 (1)		$	$ 10	$	$	$ 10
alances at ecember 31, 2012	5,750	$ 6	$ 84,633	$ (1,165)	$ 160	$ 83,634
ockholder stributions paid, cluding stock issued connection with vidend reinvestment an	14		215	(1,955)		(1,740)
et increase in net sets resulting from perations				1,503	1,797	3,300
alances at March 31, 013	5,764	$ 6	$ 84,848	$ (1,617)	$ 1,957	$ 85,194

)

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

ee accompanying notes to financial statements.

onroe Capital Corporation

atements of Cash Flows (unaudited)

n thousands, except per share data)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012 (1)
ash flows from operating activities:		
et increase in net assets resulting from operations	$ 3,300	$
djustments to reconcile net increase in net assets resulting from perations to net cash provided by operating activities:		
aid-in-kind interest income	(31)	
et accretion of loan origination costs	(52)	
mortization of debt financing costs	115	
incipal repayments received on debt securities	6,555	
urchase of investments	(6,240)	
et realized gain on investments	(21)	
et change in unrealized appreciation on investments and secured orrowings	(1,776)	
hanges in operating assets and liabilities:		
terest receivable	(49)	
ther assets	(329)	
anagement fees payable	269	
centive fees payable	432	
ccounts payable and accrued expenses	279	
terest payable	24	
et cash provided by operating activities	$ 2,476	
ash flows from financing activities		
oceeds from issuance of shares of common stock, net of nderwriting costs	215	
orrowings on credit facility	5,000	
epayments on credit facility	(13,000)	
crease in secured borrowings, proceeds	9,707	
ockholder distributions paid	(1,955)	
et cash used in financing activities	(33)	
et increase in cash and cash equivalents	2,443	
ash and cash equivalents, beginning of period	4,060	10
ash and cash equivalents, end of period	$ 6,503	$ 10
upplemental disclosure of cash flow information:		
ash interest paid during the period	$ 474	$

) The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering.
e accompanying notes to financial statements.

onroe Capital Corporation

chedule of Investments (unaudited)

arch 31, 2013

n thousands, except for units)

rtfolio ompany (a)	**Industry**	**Spread Above Index (b)**	**Interest Rate**	**Maturity**	**Principal Amount**	**Cost**	**Fair Value (c)**	**% of Net Assets (d)**
nior Secured oans								
nerican Dental rtners, Inc.	Healthcare & Pharmaceuticals	L + 5.75%	7.25%	2/9/2018	$ 2,944	$ 2,944	$ 2,958	3.5%
RC/CASCO utomotive oup, Inc. equa)	Automotive	L + 5.00%	6.25%	11/15/2018	2,993	2,964	3,015	3.5%
neline chnologies, Inc.	Consumer Goods: Non-Durable	L + 6.75%	8.00%	5/6/2017	4,572	4,572	4,572	5.4%
shNet Security, c.	High Tech Industries	L + 6.50%	7.75%	11/30/2017	1,995	1,976	1,995	2.3%
dson Products oldings, Inc.	Capital Equipment	L + 5.75%	7.00%	6/7/2017	3,000	2,972	3,030	3.6%
tional eterinary sociates, Inc.	Services: Consumer	L + 5.00%	6.25%	12/5/2017	2,000	1,981	1,975	2.3%
orthland Cable levision, Inc. d Affiliates	Telecommunications	L + 6.00%	7.75%	12/30/2016	3,840	3,840	3,840	4.5%
illips & Temro dustries, Inc.	Automotive	L + 5.75%	7.25%	2/9/2017	3,850	3,850	3,850	4.5%
T Management, C (ProPT)	Healthcare & Pharmaceuticals	L + 7.00%	8.50%	10/31/2016	4,638	4,638	4,638	5.4%
e-Paid Legal rvices, Inc.	Services: Consumer	L + 6.00%	7.50%	12/31/2016	2,937	2,937	2,974	3.5%
liance mmunications, C	High Tech Industries	L + 7.00%	8.00%	12/18/2017	3,290	3,258	3,258	3.8%
liance mmunications, C	High Tech Industries	L + 11.50%	12.50%	12/18/2017	1,667	1,651	1,662	2.0%
cket Dog ands, LLC	Consumer Goods: Non-Durable	L + 8.50%	10.50%	3/31/2014	195	195	185	0.2%
cket Dog ands, LLC	Consumer Goods: Non-Durable	L + 8.50%	10.50%	3/31/2014	2,992	2,992	2,838	3.3%
b Total Senior cured Loans					40,913	40,770	40,790	47.9%
nitranche oans								
llaborative euroscience twork, LLC (e)	Healthcare & Pharmaceuticals	L + 10.00%	11.50%	12/27/2017	9,875	9,675	9,974	11.8%
nisus, LLC		L + 7.25%	8.50%	12/27/2017	7,600	7,353	7,570	8.9%

	Media: Advertising, Printing & Publishing							
nsolidated ass Holdings, c.	Capital Equipment	L + 10.50%	11.50%	4/17/2017	4,795	4,795	4,828	5.7%
bco tomotive Corp, LC	Automotive	L + 8.25%	9.25%	4/3/2017	7,781	7,704	7,851	9.2%
rbes Media LC	Media: Advertising, Printing & Publishing	L + 10.25%	11.75%	7/31/2017	7,000	7,000	6,863	8.1%
JFundChoice, LC	Banking, Finance, Insurance & Real Estate	L + 10.75%	12.25%	7/17/2017	3,000	3,000	3,045	3.6%
AI International, c.	Services: Business	L + 9.25%	10.75%	2/27/2017	4,000	4,000	4,024	4.7%
onte Nido esidential enter, LLC	Services: Consumer	L + 9.00%	10.00%	12/21/2017	9,879	9,663	9,834	11.5%
ooreCo, Inc. (g)	Consumer Goods: Durable	L + 13.50%	15.00%	12/27/2017	7,071	6,898	7,117	8.4%
aytime, LLC (f)	Hotels, Gaming & Leisure	L + 7.50%	9.00%	12/4/2017	7,700	7,554	7,804	9.2%
P Acquisition, c. (f)	Retail	L + 9.00%	10.50%	12/17/2017	6,732	6,570	6,769	7.9%

(Continued)

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onroe Capital Corporation

chedule of Investments (unaudited)

arch 31, 2013

n thousands, except for units)

ortfolio ompany (a)	Industry	Spread Above Index (b)	Interest Rate	Maturity	Principal Amount	Cost	Fair Value (c)	% of Net Assets (d)
odate, Inc. evolver) (h)	Services: Business	L + 7.75%	9.25%	3/14/2018	1,624	1,551	1,624	1.9%
odate, Inc.	Services: Business	L + 7.75%	9.25%	3/14/2018	4,100	4,008	4,094	4.8%
ub Total nitranche oans					81,157	79,771	81,397	95.5%
unior Secured oans								
onfie Seguros oldings II Co.	Banking, Finance, Insurance & Real Estate	L + 9.00%	10.25%	5/8/2019	3,000	2,969	3,075	3.6%
hn Henry oldings, Inc.	Containers, Packaging & Glass	L + 9.00%	10.25%	6/5/2019	3,000	2,926	3,037	3.6%
mTotal stems, LLC	High Tech Industries	L + 9.00%	10.25%	11/20/2017	2,250	2,210	2,236	2.6%
e Petroleum ace, Inc	Energy: Oil & Gas	L + 8.75%	10.00%	5/20/2019	3,500	3,464	3,535	4.1%
ub Total unior Secured oans					11,750	11,569	11,883	13.9%
quity curities (i)								
onte Nido esidential enter, LC Class A ommon Units ,726 units)	Services: Consumer					71	71	0.1%
aytime, LC Preferred nits (8,665 its)	Hotels, Gaming & Leisure					200	200	0.2%
ub Total quity curities						271	271	0.3%
otal vestments						$ 132,381	$ 134,341	157.7%

) All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940.
) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (LIBOR) L or Prime P which reset daily, monthly, quarterly, or semiannually. For each we have provided the spread over LIBOR or Prime and the weighted average current contractual interest rate in effect at March 31, 2013. Certain investments are subject to a LIBOR or Prime interest rate floor.
) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 to the financial statements).
) Percentages are based on net assets of $85,194 as of March 31, 2013.
) Collaborative Neuroscience Network, LLC contains a warrant to purchase up to 1.67 Member Units, which has no cost basis and is currently deemed to have no value.
The sale of a portion of this loan does not qualify for sale accounting under ASC 860, *Transfers and Servicing*, and therefore, the entire unitranche loan asset remains in the Schedule of Investments. (See Note 6 in the accompanying notes to the financial statements).
) MooreCo, Inc. interest rate consists of 12.50% in current cash interest and 2.50% in PIK interest.
) Revolving credit facility with total commitment of $3,248.
All investments are less than 5% ownership of the class and ownership of the portfolio company.

e accompanying notes to financial statements.

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onroe Capital Corporation

chedule of Investments

ecember 31, 2012

n thousands, except for units)

lio Company (a)	Industry	Spread Above Index (b)	Interest Rate	Maturity	Principal Amount	Cost	Fair Value (c)	% of Net Assets (d)
Secured Loans								
can Dental rs, Inc.	Healthcare & Pharmaceuticals	L + 5.75%	7.25%	2/9/2018	2,955	$ 2,955	$ 2,968	3.5%
CASCO otive Group, Inc.)	Automotive	L + 5.00%	6.25%	11/15/2018	3,000	2,970	2,985	3.6%
e Technologies,	Consumer Goods: Non-Durable	L + 6.75%	8.00%	5/6/2017	4,607	4,607	4,517	5.4%
t Security, Inc.	High Tech Industries	L + 6.50%	7.75%	11/30/2017	2,000	1,980	1,980	2.4%
Polymers, Inc.	Chemicals, Plastics and Rubber	L + 5.75%	7.25%	12/31/2016	4,414	4,414	4,414	5.3%
n Products gs, Inc.	Capital Equipment	Prime + 4.75%	8.00%	6/7/2017	3,000	2,970	3,011	3.6%
al Veterinary ates, Inc.	Services: Consumer	L + 5.00%	6.25%	12/5/2017	2,000	1,980	1,980	2.4%
and Cable sion, Inc. and tes	Telecommunications	L + 6.00%	7.75%	12/30/2016	3,840	3,840	3,840	4.6%
s & Temro ries, Inc.	Automotive	L + 5.75%	7.25%	2/9/2017	3,900	3,900	3,900	4.7%
anagement, LLC)	Healthcare & Pharmaceuticals	L + 7.00%	8.50%	10/31/2016	4,697	4,697	4,638	5.5%
id Legal es, Inc.	Services: Consumer	L + 6.00%	7.50%	12/31/2016	3,110	3,110	3,110	3.7%
ce unications, LLC	High Tech Industries	L + 7.00%	8.00%	12/18/2017	3,333	3,300	3,300	3.9%
ce unications, LLC	High Tech Industries	L + 11.50%	12.50%	12/18/2017	1,667	1,650	1,650	2.0%
Dog Brands, e)	Consumer Goods: Non-Durable	Prime + 5.50%	11.75%	2/25/2013	195	195	186	0.2%
Dog Brands, e)	Consumer Goods: Non-Durable	Prime + 5.50%	11.75%	2/25/2013	2,992	2,992	2,851	3.4%
otal Senior ed Loans					45,710	45,560	45,332	54.2%
anche Loans								
orative science Network,)	Healthcare & Pharmaceuticals	L + 10.00%	11.50%	12/27/2017	10,000	9,800	9,800	11.7%
s, LLC	Media: Advertising, Printing & Publishing	L + 7.25%	8.50%	12/27/2017	7,600	7,292	7,292	8.7%
idated Glass gs, Inc.	Capital Equipment	L + 10.50%	11.50%	4/17/2017	4,897	4,897	4,967	5.9%
Automotive LLC	Automotive	L + 9.25%	9.25%	4/3/2017	7,781	7,701	7,898	9.4%

Media LLC	Media: Advertising, Printing & Publishing	L + 10.25%	11.75%	7/31/2017	7,000	7,000	6,981	8.3%
ndChoice, LLC	Banking, Finance, Insurance & Real Estate	L + 10.75%	12.25%	7/17/2017	3,000	3,000	3,002	3.6%
ternational, Inc.	Services: Business	L + 9.25%	10.75%	2/27/2017	4,000	4,000	4,040	4.8%
Nido Residential , LLC	Services: Consumer	L + 9.00%	10.00%	12/21/2017	10,000	9,776	9,776	11.7%
Co, Inc. (g)	Consumer Goods: Durable	L + 13.50%	15.00%	12/28/2017	7,040	6,864	6,864	8.2%
ne, LLC ver) (h)	Hotels, Gaming & Leisure	L + 7.50%	9.00%	12/4/2017	400	392	392	0.5%
ne, LLC	Hotels, Gaming & Leisure	L + 7.50%	9.00%	12/4/2017	8,000	7,842	7,842	9.4%

(Continued)

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onroe Capital Corporation

chedule of Investments

ecember 31, 2012

n thousands, except for units)

olio Company (a)	Industry	Spread Above Index (b)	Interest Rate	Maturity	Principal Amount	Cost	Fair Value (c)	% of Net Assets (d)
Acquisition, Inc.	Retail	L + 9.00%	10.50%	12/17/2017	6,800	6,633	6,633	7.9%
Total Unitranche s					76,519	75,198	75,487	90.3%
or Secured Loans								
ie Seguros ings II Co.	Banking, Finance, Insurance & Real Estate	L + 9.00%	10.25%	5/8/2019	3,000	2,968	2,995	3.6%
Henry Holdings,	Containers, Packaging & Glass	L + 9.00%	10.25%	6/5/2019	3,000	2,925	2,940	3.5%
Total Systems,	High Tech Industries	L + 9.00%	10.25%	11/20/2017	2,250	2,206	2,228	2.7%
Petroleum Place,	Energy: Oil & Gas	L + 8.75%	10.00%	5/20/2019	3,500	3,463	3,500	4.2%
Total Junior red Loans					11,750	11,563	11,663	13.9%
ty Securities (i)								
e Nido Residential r, LLC Class A Common Units 6 units)	Services: Consumer					71	71	0.1%
ime, LLC Preferred (8,665 units)	Hotels, Gaming & Leisure					200	200	0.2%
Total Equity rities						271	271	0.3%
l Investments						$ 132,592	$ 132,752	158.7%

) All of our investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940.
) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (LIBOR) L or Prime P which reset daily, monthly, quarterly, or semiannually. For each we have provided the spread over LIBOR or Prime and the weighted average current contractual interest rate in effect at December 31, 2012. Certain investments are subject to a LIBOR or Prime interest rate floor.
) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the financial statements).
) Percentages are based on net assets of $83,634 as of December 31, 2012.

) Rocket Dog Brands, LLC interest rate consists of 8.75% in coupon interest and 3.0% in default interest.
Collaborative Neuroscience Network, LLC contains a warrant to purchase up to 1.67 Member Units, which has no cost basis and is currently deemed to have no value.
) MooreCo, Inc. interest rate consists of 12.50% in current cash interest and 2.5% in PIK interest.
) Revolving credit facility with total commitment of $1,200.
All investments are less than 5% ownership of the class and ownership of the portfolio company.

e Notes to Financial Statements

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onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 1. Organization and Principal Business

onroe Capital Corporation (Monroe Capital or the Company) was formed in February 2011 to act as an ternally-managed nondiversified, closed-end management investment company and has elected to be treated as business development company under the Investment Company Act of 1940, as amended (the 1940 Act). The ompany had no substantive operating activities prior to October 24, 2012, the date of its initial public offering, d accordingly March 31, 2012 balances are not presented in the footnotes. Monroe Capital s investment jective is to maximize the total return to its stockholders in the form of current income and capital appreciation rough investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated bt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC (the Advisor), registered investment adviser under the Investment Advisers Act of 1940, as amended. In addition, for U.S. deral income tax purposes, Monroe Capital has elected to be treated as a regulated investment company (RIC) der Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

ote 2. Summary of Significant Accounting Policies

se of Estimates: The preparation of the financial statements in conformity with U.S. generally accepted counting principles, or US GAAP, requires the Company to make estimates and assumptions that affect the ported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of e financial statements and the reported amounts of revenue and expenses during the reporting period. Actual sults could differ from those estimates.

asis of Presentation: The accompanying financial statements of the Company have been prepared in cordance with US GAAP. The accompanying financial statements of the Company and related financial formation have been prepared pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of egulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for nual financial statements. In the opinion of management, the financial statements reflect all adjustments and classifications consisting solely of normal accruals that are necessary for the fair presentation of financial sults as of and for the periods presented.

ash and Cash Equivalents: Cash and cash equivalents include cash in banks and highly liquid investments ith original maturity dates of three months or less. The Company deposits its cash in a financial institution and, times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. The ompany periodically evaluates the creditworthiness of this institution and has not experienced any losses on ch deposits.

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

SC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate ch value. The Company believes that the carrying amounts of its other financial instruments such as cash and sh equivalents, receivables and payables approximate the fair value of such items due to the short maturity of ch instruments. Fair value of the Company s revolving credit facility is estimated by discounting remaining

onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 2. Summary of Significant Accounting Policies (Continued)

yments using applicable market rates or market quotes for similar instruments at the measurement date, if ailable. The Company believes that the carrying value of its revolving credit facility approximates the fair lue.

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

evenue recognition: The Company s revenue recognition policies are as follows:

vestments and related investment income. Interest and dividend income is recorded on an accrual basis to the tent that the Company expects to collect such amounts. Interest and dividend income is accrued based upon e outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is crued on a daily basis. All other income is recorded into income when earned. The Company records epayment fees and amendment fees on loans as interest income. Dividend income is recorded as dividends hen declared or at the point an obligation exists for the portfolio company to make a distribution. Distributions earnings from portfolio companies are evaluated to determine if the distribution is income or a return of pital.

he Company has investments in its portfolio that contain a payment-in-kind income provision, which represents ntractual interest or dividends that are added to the principal balance and recorded as income. The Company ops accruing payment-in-kind income when it is determined that payment-in-kind income is no longer llectible. To maintain RIC tax treatment, and to avoid corporate tax, substantially all of this income must be id out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

connection with the Company s debt investments, the Company will sometimes receive warrants or other uity-related securities (Warrants). The Company determines the cost basis of Warrants based upon their spective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. ny resulting difference between the face amount of the debt and its recorded fair value resulting from the signment of value to the Warrants is treated as original issue discount (OID), and accreted into interest income sed on the effective interest method over the life of the debt security.

he Company receives upfront loan origination or closing fees in connection with investments. Such upfront an origination and closing fees are capitalized as unearned income offset against the investment cost basis on r statements of assets and liabilities and amortized as additional interest income over the life of the investment. pfront loan origination and closing fees received for the three months ended March 31, 2013 totaled $216.

ealized gains or losses on portfolio investments are calculated based upon the difference between the net oceeds from the disposition and the amortized cost basis of the investment, without regard to unrealized gains d losses previously recognized. Changes in the fair value of investments from the prior period, as determined our board of directors (the Board) through the application of the Company s valuation policy, are included as anges in unrealized appreciation or depreciation of investments in the statements of operations.

on-accrual. Loans or preferred equity securities are placed on non-accrual status when principal, interest or vidend payments become materially past due, or when there is reasonable doubt that principal, interest or vidends will be collected. Interest payments received on non-accrual loans may be recognized as income or oplied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status hen past due principal, interest or dividends are paid and, in management s judgment, are likely to remain urrent.

onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 2. Summary of Significant Accounting Policies (Continued)

rtial loan sales: The Company follows the guidance in ASC 860, *Transfers and Servicing* (ASC 860), when counting for loan participations and other partial loan sales. Such guidance requires a participation or other rtial loan sale to meet the definition of a participating interest, as defined in the guidance, in order for sale eatment to be allowed. Participations or other partial loan sales which do not meet the definition of a rticipating interest remain on the Company s statements of assets and liabilities and the proceeds are recorded a secured borrowing until the definition is met.

ividends and Distributions: Dividends and distributions to common stockholders are recorded on the record te. The amount, if any, to be paid as a dividend, is determined by the Board each quarter and is generally based on the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, though the Company may decide to retain such capital gains for investment.

e determination of the tax attributes for the Company s distributions is made annually, based upon its taxable come for the full year and distributions paid for the full year. Ordinary dividend distributions from a RIC do t qualify for the preferential tax rate on qualified dividend income from domestic corporations and qualified reign corporations, except to the extent that the RIC received the income in the form of qualifying dividends om domestic corporations and qualified foreign corporations. The tax attributes for dividends will generally clude both ordinary income and capital gains but may also include qualified dividends or return of capital.

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

eferred Financing Costs: Deferred financing costs represent fees and other direct incremental costs incurred connection with the Company s borrowings. As of March 31, 2013 the Company had deferred financing costs $1,635. These amounts are amortized over the estimated average life of the borrowings and included in terest expense in the statements of operations. Amortization expense for the three months ended March 31, 013 was $115.

come Taxes: The Company intends to elect to be treated for federal income tax purposes as a RIC under ubchapter M of the Code. To maintain qualification as a RIC, the Company must, among other things, meet rtain source-of-income and asset diversification requirements and distribute to shareholders, for each taxable ar, at least 90% of the Company s investment company taxable income, which is generally the Company s net dinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term pital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company ill not have to pay corporate-level federal income taxes on any income that the Company distributes to its areholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each ear and to avoid any federal income taxes on income. The Company will also be subject to nondeductible

onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 2. Summary of Significant Accounting Policies (Continued)

deral excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital in net income, if any, and any recognized and undistributed income from prior years for which it paid no deral income taxes.

ecent Accounting Pronouncements: In November 2011, the FASB issued ASU 2011-11, *Balance Sheet opic 210)*, containing new guidance that requires an entity to disclose information about offsetting and related rangements to enable users of its financial statements to understand the effect of those arrangements on its nancial position. This guidance is effective for annual and interim periods beginning on or after January 1, 013. An entity should provide the disclosures required by those amendments retrospectively for all comparative riods presented. The Company s effective date is January 1, 2013. The adoption of this guidance did not have a aterial impact on the Company s financial position.

ote 3. Investments

ne composition of our investments as of March 31, 2013 and December 31, 2012, at amortized cost and fair lue with corresponding percentage of total portfolio investments were as follows:

	March 31, 2013		December 31, 2012	
mortized Cost:				
nitranche loans	$ 79,771	60.3%	$ 75,198	56.6%
enior secured loans	40,770	30.8	45,560	34.4
nior secured loans	11,569	8.7	11,563	8.7
quity securities	271	0.2	271	0.3
otal	$ 132,381	100.0%	$ 132,592	100.0%

	March 31, 2013		December 31, 2012	
ir Value:				
nitranche loans	$ 81,397	60.6%	$ 75,487	56.9%
enior secured loans	40,790	30.4	45,332	34.2
nior secured loans	11,883	8.8	11,662	8.7
quity securities	271	0.2	271	0.2
otal	$ 134,341	100.0%	$ 132,752	100.0%

he following table shows the portfolio composition by geographic region at amortized cost and fair value as a
ercentage of total investments in portfolio companies. The geographic composition is determined by the

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onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 3. Investments (Continued)

cation of the corporate headquarters of the portfolio company, which may not be indicative of the primary urce of the portfolio company s business:

	March 31, 2013		December 31, 2012	
mortized Cost:				
est	$ 58,650	44.3%	$ 59,572	44.9%
id-Atlantic	23,088	17.4	17,593	13.3
outheast	21,930	16.6	22,002	16.6
outhwest	19,943	15.1	20,176	15.2
idwest	5,826	4.4	10,294	7.8
ortheast	2,944	2.2	2,955	2.2
otal	$ 132,381	100.0%	$ 132,592	100.0%

	March 31, 2013		December 31, 2012	
air Value:				
est	$ 59,684	44.4%	$ 59,646	44.9%
id-Atlantic	23,271	17.3	17,544	13.3
outheast	22,251	16.6	22,005	16.6
outhwest	20,332	15.1	20,294	15.2
idwest	5,845	4.4	10,295	7.8
ortheast	2,958	2.2	2,968	2.2
otal	$ 134,341	100.0%	$ 132,752	100.0%

he industry compositions our investments as of March 31, 2013 and December 31, 2012, at amortized cost and ir value were as follows:

	March 31, 2013		December 31, 2012	
mortized Cost:				
ealthcare & Pharmaceuticals	$ 17,256	13.0%	$ 17,452	13.2%
ervices: Consumer	14,653	11.1	14,937	11.2
utomotive	14,518	11.0	14,572	11.0

edia: Advertising, Printing & Publishing	14,353	10.8	14,292	10.8
ervices: Business	9,560	7.2	4,000	3.0
igh Tech Industries	9,094	6.9	9,137	6.9
apital Equipment	7,767	5.9	7,867	5.9
onsumer Goods: Non-durable	7,759	5.9	7,794	5.9
otels, Gaming & Leisure	7,754	5.8	8,434	6.4
onsumer Goods: Durable	6,898	5.2	6,864	5.2
etail	6,570	5.0	6,633	5.0
anking, Finance, Insurance & Real Estate	5,969	4.5	5,968	4.5
elecommunications	3,840	2.9	3,840	2.9
nergy: Oil & Gas	3,464	2.6	3,463	2.6
ontainers, Packaging & Glass	2,926	2.2	2,925	2.2
hemicals, Plastics and Rubber			4,414	3.3
otal	$ 132,381	100.0%	$ 132,592	100.0%

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ote 3. Investments (Continued)

	March 31, 2013		December 31, 2012	
air Value:				
ealthcare & Pharmaceuticals	$ 17,570	13.2%	$ 17,407	13.1%
ervices: Consumer	14,854	11.0	14,937	11.2
utomotive	14,716	10.9	14,783	11.0
edia: Advertising, Printing & Publishing	14,433	10.7	14,273	10.8
ervices: Business	9,742	7.2	4,040	3.0
igh Tech Industries	9,151	6.8	9,158	6.9
otels, Gaming & Leisure	8,004	6.0	8,434	6.4
apital Equipment	7,858	5.8	7,978	6.0
onsumer Goods: Non-durable	7,595	5.7	7,554	5.9
onsumer Goods: Durable	7,117	5.3	6,864	5.2
etail	6,769	5.0	6,633	5.0
anking, Finance, Insurance & Real Estate	6,120	4.6	5,997	4.5
elecommunications	3,840	2.9	3,840	2.9
nergy: Oil & Gas	3,535	2.6	3,500	2.6
ontainers, Packaging & Glass	3,037	2.3	2,940	2.2
hemicals, Plastics and Rubber			4,414	3.3
otal	$ 134,341	100.0%	$ 132,752	100.0%

or the three months ended March 31, 2013, the Company had no portfolio company investment that represented ore than 10% of investment income.

ote 4. Fair Value Measurements

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

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

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

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

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

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ote 4. Fair Value Measurements (Continued)

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

ith respect to investments for which market quotations are not readily available, the Company s Board ndertakes 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 the Company s Advisor 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 our investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, and for new portfolio companies, at least once in the twelve-month period subsequent to the initial investment;

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

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

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

ir value is a market-based measure considered from the perspective of a market participant rather than an tity-specific measure. Therefore, even when market assumptions are not readily available, Management s own

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ote 4. Fair Value Measurements (Continued)

sumptions are set to reflect those that market participants would use in pricing the asset or liability at the easurement date. Management uses prices and inputs that are current as of the measurement date, including eriods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be duced for many securities. This condition could cause a security to be reclassified to a lower level within the ir value hierarchy.

he accompanying schedule of investments held by the Company consists primarily of private debt instruments Level 3 debt), with the intent to hold them until maturity given that there is no natural market for such curities. Management generally uses the yield approach to determine fair value, as long as it is appropriate.

there is deterioration in credit quality or a debt investment is in workout status, Management may consider her factors in determining the fair value, including the value attributable to the debt investment from the nterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. anagement considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is mitting payments in a timely manner; the loan is in covenant compliance or is otherwise not deemed to be paired. In determining the fair value of the performing Level 3 debt, Management considers fluctuations in rrent interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the rrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a evel 3 debt instrument is not performing, as defined above, Management will evaluate the value of the llateral utilizing the same framework described above for a performing loan to determine the value of the evel 3 debt instrument.

enior, unitranche and junior secured loans are collateralized by tangible and intangible assets of the borrowers. hese investments include loans to entities that have some level of challenge in obtaining financing from other, ore conventional institutions, such as a bank. Interest rates on these loans are either fixed or floating, and are sed on current market conditions and credit ratings of the borrower. The current contractual interest rates on e loans range from 6.25% to 15.00% at March 31, 2013. The maturity dates on the loans outstanding at arch 31, 2013 range between March 2014 and June 2019. Management evaluates the collectability of the loans n an ongoing basis based upon various factors including, but not limited to, the credit history of the borrower, s financial status and its available collateral.

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

nder the income approach, Management prepares and analyzes discounted cash flow models based on
ojections of the future free cash flows (or earnings) of the portfolio company. In determining the fair value

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ote 4. Fair Value Measurements (Continued)

der the income approach, Management considers various factors including, but not limited to, the portfolio ompany s projected financial results, applicable market trading and transaction comparables, applicable market elds and leverage levels, the markets in which the portfolio company does business, and comparisons of nancial ratios of peer companies that are public.

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

ecured Borrowings: The Company has elected the fair value option under ASC 825, *Financial Instruments* ASC 825) relating to accounting for debt obligations at their fair value for its secured borrowings which arose e to partial loan sales which did not meet the criteria for sale treatment under ASC 860. The Company reports anges in the fair value of its secured borrowings as a component of the net change in unrealized appreciation investments and secured borrowings in the statements of operations. The net gain or loss reflects the fference between the fair value and the principal amount due on maturity.

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

he following table presents fair value measurements of investments, by major class, as of March 31, 2013, cording to the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
ssets:				
nitranche loans	$	$	$ 81,397	$ 81,397
enior secured loans			40,790	40,790

nior secured loans			11,883	11,883
quity securities			271	271
otal Assets	$	$	$ 134,341	$ 134,341
ecured borrowings	$	$	$ 9,730	$ 9,730

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ote 4. Fair Value Measurements (Continued)

he following table presents fair value measurements of investments, by major class, as of December 31, 2012, ccording to the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
ssets:				
nitranche loans	$	$	$ 75,487	$ 75,487
enior secured loans			45,332	45,332
nior secured loans			11,662	11,662
quity securities			271	271
otal Assets	$	$	$ 132,752	$ 132,752
cured borrowings	$	$	$	$

he following table provides a reconciliation of the beginning and ending balances for investments that use evel 3 inputs for the three months ended March 31, 2013:

	Investments in				Secured
	Unitranche loans	Senior secured loans	Junior secured loans	Equity securities	borrowings
alance as of ecember 31, 2012	$ 75,487	$ 45,332	$ 11,662	$ 271	$
urchases and other ljustments to cost	6,310	6	7		
ales and repayments	(1,757)	(4,799)			
et change in nrealized appreciation epreciation) on vestments	1,337	250	214		
et realized gains osses) from vestments	20	1			
et change in nrealized depreciation ppreciation) on cured borrowings					23
					9,707

crease in secured orrowings					
alance as of March 31, 013	$ 81,397	$ 40,790	$ 11,883	$ 271	$ 9,730

rchases and other adjustments to cost include purchases of new investments, effects of financing/restructuring, accretion/amortization of income from discount/premium on debt securities, and PIK.

ales and repayments represent net proceeds received from investments sold, and principal paydowns received, uring the period.

he net change in unrealized gain on investments held as of March 31, 2013 is $1,961 and is included in net nrealized appreciation on investments in the statements of operations.

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ote 4. Fair Value Measurements (Continued)

gnificant Unobservable Inputs

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

	Fair Value	Valuation Technique	Unobservable Input	Mean	Range Minimum	Range Maximum
ssets:						
enior secured loans	$ 29,776	Market comparable companies	EBITDA multiples	7.3x	4.5x	10.5x
		Discounted cash flow	Market Yields	10.1%	6.1%	18.2%
nitranche loans	$ 81,397	Market comparable companies	EBITDA multiples	7.4x	3.5x	10.3x
		Discounted cash flow	Market Yields	12.5%	8.1%	19.7%
quity securities	$ 271	Market comparable companies	EBITDA multiples	8.6x	8.5x	8.7x
abilities:						
ecured borrowings	$ 9,730	Discounted cash flow	Market Yields	2.8%	2.0%	3.6%

he remainder of our Level 3 investments are valued using indicative bid and ask prices provided by an dependent third party pricing service.

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

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

ote 5. Transactions with Related Parties

'e have entered into the Investment Advisory Agreement with the Advisor, under the Advisor, subject to the verall supervision of our board of directors, provides investment advisory services to us. We pay the Advisor a e for its services under the Investment Advisory Agreement consisting of two components a base management e and an incentive fee. The base management fee is calculated at an annual rate equal to 1.75% of

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ote 5. Transactions with Related Parties (Continued)

r invested assets (which includes assets purchased with borrowed amounts but does not include cash and cash uivalents). The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears d equals 20% of our pre-incentive fee net investment income for the immediately preceding quarter, subject to 2% (8% annualized) preferred return, or hurdle, and a catch up feature. The foregoing incentive fee is subject a total return requirement, which provides that no incentive fee in respect of our preincentive fee net vestment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets sulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative centive fees accrued and/or paid for the 11 preceding calendar quarters. Therefore, any ordinary income centive fee that is payable in a calendar quarter will be limited to the lesser of (1) 20% of the amount by which r preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (2) (x) 20% of the cumulative net increase in net assets resulting from operations for the en current and 11 preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for e 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting om operations is the sum of our preincentive fee net investment income, base management fees, realized gains d losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. he second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year in an mount equal to 20% of our realized capital gains, if any, on a cumulative basis from inception through the end the year, computed net of all realized capital losses on a cumulative basis and unrealized depreciation, less the gregate amount of any previously paid capital gain incentive fees. Base management and accrued incentive es for the three months ended March 31, 2013 were $587 and $431, respectively. Of the $431 in accrued centive fees, $169 is related to net unrealized gains and losses. The Company accrues, but does not pay, a pital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. If, on a mulative basis, the sum of net realized gains/(losses) plus net unrealized appreciation/(depreciation) decreases ring a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the mount of capital gains incentive fee accrued is no more than 20% of the sum of net realized gains/(losses) plus t unrealized appreciation/(depreciation).

e will reimburse Monroe Capital Management Advisors, LLC, or MC Management, under the Administration greement (subject to the review and approval of our Board) for our allocable portion of overhead and other penses, including the costs of furnishing us with office facilities and equipment and providing clerical, okkeeping, record-keeping and other administrative services at such facilities, and our allocable portion of the st of our chief financial officer and chief compliance officer and their respective staffs. To the extent that MC anagement outsources any of its functions, we will pay the fees associated with such functions on a direct sis, without incremental profit to MC Management. Amounts payable to MC Management in any quarter rough the quarter ending December 31, 2013 will not exceed the greater of (i) 0.375% of our average assets for ch quarter and (ii) $375. For the three months ended March 31, 2013, we incurred $504 in expenses under the dministration Agreement. As of March 31, 2013, we had accrued reimbursable expenses to MC Management $178 which are included in accounts payable and accrued expenses as of March 31, 2013.

e have entered into a license agreement with Monroe Capital, LLC under which Monroe Capital, LLC has greed to grant us a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in r business. Under this agreement, we will have a right to use the Monroe Capital name, subject to certain onditions, for so long as the Advisor or one of its affiliates remains our investment advisor. Other than with spect to this limited license, we have no legal right to the Monroe Capital name.

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ote 6. Borrowings

evolving Credit Facility: We obtained the proceeds to complete the acquisition of our initial portfolio of loans rough the use of the secured term loan portion of our credit facility with ING Capital, LLC, as agent, which we tered into on October 23, 2012. We repaid the secured term loan portion of our credit facility with the oceeds of our initial public offering on October 30, 2012. Our credit facility also includes a revolving loan rrently equal to $65,000 and up to $100,000 pursuant to an accordion feature, subject to maintaining 200% set coverage, as defined in the 1940 Act. As of March 31, 2013 and December 31, 2012, we had $47,000 and 5,000 outstanding under our revolving credit facility with ING Capital LLC, as agent, to finance the purchase our assets, respectively.

e credit facility is secured by a lien on all of our assets, including our initial portfolio of loans and all other sets, including cash on hand. Pursuant to the terms of the term loan portion of the credit facility, we used a rtion of the net proceeds from our initial public offering to pay the outstanding principal of, and accrued and paid interest on, the term loan as well as pay the reasonable transaction costs incurred by us and ING Capital, C in establishing the full credit facility. Upon repayment of the term loan, the revolving loan portion of the edit facility became available to us for a period of four years, and we may make draws under the facility for the st three years of the loan to make or purchase additional investments or for general working capital purposes til the maturity date of the revolving loan portion of the credit facility. Our ability to borrow under the volving loan portion of our credit facility is subject to availability under a defined borrowing base, which ries based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as quired valuation methodologies. The term loan accrued interest at a daily rate equal to 2.75% plus the greater the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0% and matured and was repaid on ctober 30, 2012. The revolving loan bears interest, at our election, at an annual rate of LIBOR plus 3.75% or at daily rate equal to 2.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% LIBOR plus 1.0%. The maturity date of the revolving loan credit facility will be the earliest to occur of) October 21, 2016, subject to extension as mutually agreed by us and ING Capital, LLC, as agent, (b) the rmination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and ING apital, LLC, as agent. The weighted average interest rate of our borrowings as of March 31, 2013 and ecember 31, 2012 was 4.3% and 4.0%, respectively.

connection with our execution of the credit facility, we made certain customary representations, warranties d covenants. Our ability to borrow under the revolving loan portion of our credit facility is subject to ailability under our borrowing base, which permits us to borrow up to 70% of the fair market value of our rtfolio company investments depending on the type of the security we hold and whether the security is quoted. ur ability to borrow is also subject to certain concentration limits, and our continued compliance with the presentations, warranties and covenants given by us under the facility. Our credit facility contains certain nancial and restrictive covenants, including, but not limited to, the maintenance of: (1) a minimum consolidated t worth at least equal to the greater of (a) 55% of our assets on the last day or each quarter or (b) 80% of the t proceeds to us from this offering plus 50% of the net proceeds of the sales of our securities after the fectiveness of the revolving note; (2) a ratio of our total assets (less total liabilities other than indebtedness) to tal indebtedness of not less than 2.25 times; and (3) a ratio of our earnings before interest and taxes to our terest expense of at least 2.5 times. The credit facility also requires us to undertake customary indemnification ligations with respect to ING Capital, LLC and other members of the lending group and to reimburse the nders for expenses associated with entering into the credit facility. We have agreed to pay certain fees to ING apital, LLC and other members of the lending group, including upfront commitment and arrangement fees and nused commitment fees. The credit facility also has customary provisions regarding events of default, including

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ote 6. Borrowings (Continued)

ents of default for nonpayment, change in control transactions, failure to comply with our financial and egative covenants, and failure to maintain our relationship with the Advisor, our chief executive officer or our hief investment officer. If we incur an event of default under our credit facility and fail to remedy such default nder any applicable grace period, if any, then our entire facility could become immediately due and payable, hich would materially and adversely affect our liquidity, financial condition, results of operations and cash ows.

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

uring the quarter ended March 31, 2013, the Company sold a portion of three unitranche loan assets which did t meet the definition of a participating interest in order for sale treatment to be allowed and as a result, the ompany recognized secured borrowings of $9,730 in fair value as of March 31, 2013. Fair value of the itranche loans that are associated with these secured borrowings was $24,547 as of March 31, 2013. There ere no such secured borrowings prior to January 1, 2013.

ote 7. Directors Fees

e independent directors, as well as any interested director who is not an employee of the Advisor or its filiates, receive an annual fee of $20. They also receive $1 plus reimbursement of reasonable out-of-pocket penses incurred in connection with attending each meeting. In addition, the chairman of the Audit Committee ceives an annual fee of $15 and the chairman of each other committee receives an annual fee of $5 for their ditional services in these capacities. In addition, we have purchased directors and officers liability insurance behalf of our directors and officers. Directors have the option to receive their directors fees in the form of our mmon stock issued at a price per share equal to the greater of net asset value or the market price at the time of yment. No compensation is paid to directors who are interested persons of the Company (as such term is fined in the 1940 Act) and are employed by the Advisor or its affiliates. For the three months ended March 31, 13 we made no payments for directors fees expense. As of March 31, 2013, we had not issued any common ock to our directors as compensation for their services.

ote 8. Dividends and Distributions

n March 6, 2013, the Company s Board declared a quarterly distribution of $0.34 per share payable on arch 28, 2013 to holders of record as of March 19, 2013. The Company s dividend and distributions are corded on the record date. We determine if a portion of our distributions may be deemed a tax return of capital our stockholders at the end of each fiscal year. However, if the character of such distribution were determined of March 31, 2013, we estimate that approximately $0.08 per share would have been characterized as a tax turn of capital to our stockholders.

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ote 8. Dividends and Distributions (Continued)

he following table summarizes dividends and distributions declared during the three months ended March 31, 013:

ate Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
arch 6, 2013	March 19, 2013	March 28, 2013	$ 0.34	$ 1,955	14,290	$ 214
otal dividends and stributions declared			$ 0.34	$ 1,955	14,290	$ 214

ote 9. Commitments and Contingencies

ommitments: The Company had outstanding commitments to fund investments totaling $1,624 under an ndrawn revolver as of March 31, 2013.

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

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

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

egal proceedings: In the normal course of business, the Company may be subject to legal and regulatory oceedings that are generally incidental to its ongoing operations. While there can be no assurance of the timate disposition of any such proceedings, the Company does not believe any disposition will have a material lverse effect on the Company s financial statements.

ote 10. Earnings Per Share

accordance with the provisions of FASB ASC 260, *Earnings per Share* (ASC 260), basic earnings per share is omputed by dividing earnings available to common shareholders by the weighted average number of shares utstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are onsidered when calculating earnings per share on a diluted basis. As of March 31, 2013, there were no otentially dilutive common shares issued.

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onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 10. Earnings Per Share (Continued)

he following information sets forth the computation of the weighted average basic and diluted net increase in t assets per share from operations for the three months ended March 31, 2013:

	March 31, 2013
Basic and diluted	
Net increase in net assets from operations	$ 3,300
Weighted average common shares outstanding	5,750,738
Earnings per common share-basic and diluted	$ 0.57

ote 11. Financial Highlights

he following is a schedule of financial highlights for the three months ended March 31, 2013:

	March 31, 2013
Per share data:	
Net asset value at beginning of period	$ 14.54
Net investment income (1)	0.26
Net change in unrealized appreciation on investments and secured borrowings (1)	0.31
Net increase in net assets from operations (1)	0.57
Stockholder dividends and distributions (2)	(0.34)
Other	0.01
Net asset value at end of period (3)	$ 14.78
Net assets at end of period	$ 85,194
Shares outstanding at end of period	5,764,393
Per share market value at end of period	$ 15.04
Total return based on market value (4)	3.71%
Total return based on net asset value (5)	3.95%
Ratio/Supplemental data:	
Ratio of net investment income to average net assets (6)	7.22%
Ratio of expenses (without incentive fees) to average net assets (6)	8.58%
Ratio of incentive fees to average net assets (7)	2.07%

Ratio of interest and other debt financing expenses to average net assets (6)		3.34%
Ratio of total expenses to average net assets (6)		10.65%
Average debt outstanding	$	47,311
Average debt outstanding per share	$	8.23
Portfolio turnover		4.88%

) Calculated using the weighted average shares outstanding during the period from January 1, 2013 to March 31, 2013.

onroe Capital Corporation

otes to Financial Statements (unaudited)

n thousands, except share and per share data)

ote 11. Financial Highlights (Continued)

) Management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent the Company s taxable earnings fall below the total amount of the Company s distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to the Company s stockholders. The tax character of distributions will be determined at the end of the fiscal year. However, if the character of such distributions were determined as of March 31, 2013, approximately $0.08 per share 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.
) Calculated using the shares outstanding at the end of the period.
) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.
) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.
) Ratios are annualized.
) Ratio is not annualized.

ote 12. Subsequent Events

n and effective as of April 29, 2013, the Board unanimously adopted resolutions taking the following actions:

Increasing the number of directors of the Company from five to seven;

Appointing Thomas J. Allison and Jorde M. Nathan as directors, each of whom is not an interested director for the purposes of the 1940 Act and independent for purposes of Nasdaq corporate governance regulations;

Appointing Mr. Allison to the Company s audit committee as its chairperson, replacing Jeffrey D. Steele on the audit committee; and

Appointing Mr. Nathan to the Company s nominating and corporate governance committee, replacing Mr. Steele on the nominating and corporate governance committee.

Report of Independent Registered Public Accounting Firm

o the Board of Directors and Stockholders

onroe Capital Corporation

e have audited the accompanying statements of assets and liabilities, including the schedule of investments, of onroe Capital Corporation (the Company) as of December 31, 2012 and 2011, and the related statements of perations, changes in net assets and cash flows for the year ended December 31, 2012 and for the period ebruary 9, 2011 (date of inception) to December 31, 2011. These financial statements are the responsibility of e Company s management. Our responsibility is to express an opinion on these financial statements based on r audits.

e conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about hether the financial statements are free of material misstatement. The Company is not required to have, nor ere we engaged to perform, an audit of its internal control over financial reporting. Our audits included nsideration of internal control over financial reporting as a basis for designing audit procedures that are propriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ompany s internal control over financial reporting. Accordingly, we express no such opinion. An audit also cludes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, sessing the accounting principles used and significant estimates made by management, as well as evaluating e overall financial statement presentation. Our procedures included confirmation of investments owned as of ecember 31, 2012, by correspondence with the custodian, loan agent or borrower. Our audit also included rforming such other procedures as we considered necessary in the circumstances. We believe that our audits ovide a reasonable basis for our opinion.

our opinion, the financial statements referred to above present fairly, in all material respects, the financial osition of Monroe Capital Corporation as of December 31, 2012 and 2011, and the results of its operations and cash flows for the year ended December 31, 2012 and for the period February 9, 2011 (date of inception) to ecember 31, 2011, in conformity with U.S. generally accepted accounting principles.

s explained in Note 4, the financial statements include investments valued at approximately $132,752,000 58.7% of net assets) as of December 31, 2012, whose fair values have been estimated by management in the sence of readily ascertainable fair values.

/ McGladrey LLP

hicago, Illinois

arch 8, 2013

onroe Capital Corporation

atements of Assets And Liabilities

n thousands, except per share data)

	December 31, 2012		December 31, 2011		
ssets					
vestments, at fair value (cost of: $132,592 and $0, spectively)	$	132,752	$		
ash and cash equivalents		4,060		10	
eferred financing costs, net		1,750			
terest receivable		503			
ther assets		166			
otal assets		139,231		10	
abilities					
evolving credit facility		55,000			
anagement fees payable		318			
centive fees payable		6			
ccounts payable and accrued expenses		222			
terest payable on credit facilities		51			
otal liabilities		55,597			
et assets	$	83,634	$	10	
nalysis of Net Assets					
ommon stock, $0.001 par value, 100,000 shares thorized, 5,750 and 0 shares issued and outstanding, spectively	$	6	$		
apital in excess of par value		84,633		10	(1)
ccumulated distributions in excess of net investment come		(1,165)			
ccumulated net unrealized appreciation on investments		160			
otal net assets	$	83,634	$	10	
et asset value per share	$	14.54	$	100.00	

) Value rounded to nearest thousand dollar; actual value of Common Stock equal to $0.10; actual value of capital in excess of par value equal to $9,999.90.

e accompanying notes to financial statements.

onroe Capital Corporation

atements of Operations

n thousands, except per share data)

	For the year ended December 31, 2012 (1)		For the period from February 9, 2011 (date of inception) to December 31, 2011 (1)
vestment income:			
terest income	$	1,706	$
otal investment income		1,706	
perating expenses:			
terest and other debt financing expenses		305	
ase management fee		318	
dministrative service fee		133	
ofessional fees		76	
eneral and administrative expenses		78	
centive fees		6	
otal expenses		916	
et investment income		790	
et gain on investments:			
et change in unrealized appreciation on investments		160	
et increase in net assets resulting from operations	$	950	$
er common share data:			
et investment income per share basic and diluted (2)	$	0.15	$
et increase in net assets resulting from operations er share basic and diluted (2)	$	0.18	$
ividends and distributions declared per common are	$	0.34	$
eighted average common stock outstanding basic d diluted (2)		5,386	

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

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

e accompanying notes to financial statements.

onroe Capital Corporation

atements of Changes in Net Assets

n thousands, except per share data)

	Common Stock					
	Number of shares	**Par value**	**Capital in excess of par value**	**Accumulated distributions in excess of net investment income**	**Accumulated net unrealized appreciation on investments**	**Total net assets**
alances at February 9, 2011 ate of inception)		$	$	$	$	$
suance of shares of common stock			10			10
alances at December 31, 2011			10			10
suance of shares of common ock, net of underwriting costs (1)	5,750	6	84,623			84,629
ockholder distributions paid				(1,955)		(1,955)
et increase in net assets resulting om operations				790	160	950
alances at December 31, 2012	5,750	$ 6	$ 84,633	$ (1,165)	$ 160	$ 83,634

) On October 24, 2012, Monroe Capital Corporation priced its initial public offering, selling 5,000 shares of its common stock at a public offering price of $15.00 per share. On November 26, 2012, an additional 750 shares were issued at $15.00 per share upon exercise of the underwriters' over-allotment option.

e accompanying notes to financial statements.

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onroe Capital Corporation

atements of Cash Flows

n thousands)

	For the year ended December 31, 2012 (1)	For the period from February 9, 2011 (date of inception) to December 31, 2011 (1)
ash flows from operating activities:		
et increase in net assets resulting from operations	$ 950	$
djustments to reconcile net increase in net assets sulting from operations to net cash used in perating activities:		
et accretion of loan origination costs	(8)	
mortization of debt financing costs	86	
incipal repayments received on debt securities	11,898	
urchase of investments	(144,482)	
et change in unrealized appreciation on vestments	(160)	
hanges in operating assets and liabilities:		
terest receivable	(503)	
ther assets	(166)	
anagement fees payable	318	
centive fees payable	6	
ccounts payable and accrued expenses	222	
terest payable	51	
et cash used in operating activities	(131,788)	
ash flows from financing activities		
roceeds from issuance of shares of common stock, t of underwriting costs	84,629	10
orrowings on debt	58,000	
epayments on debt	(3,000)	
yment of debt financing costs	(1,836)	
ockholder distributions paid	(1,955)	
et cash provided by financing activities	135,838	10
et increase in cash and cash equivalents	4,050	10
ash and cash equivalents, beginning of period	10	
ash and cash equivalents, end of period	$ 4,060	$ 10
upplemental disclosure of cash flow information:		
ash interest paid during the period	$ 167	$

) The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering.
e accompanying notes to financial statements.

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onroe Capital Corporation

chedule of Investments

ecember 31, 2012

n thousands)

ortfolio ompany (a)	Industry	Spread Above Index (b)	Interest Rate	Maturity	Principal Amount	Cost	Fair Value (c)	% of Net Assets (d)
nior Secured oans								
merican Dental rtners, Inc.	Healthcare & Pharmaceuticals	L + 5.75%	7.25%	2/9/2018	2,955	$ 2,955	$ 2,968	3.5%
RC/CASCO utomotive roup, Inc. equa)	Automotive	L + 5.00%	6.25%	11/15/2018	3,000	2,970	2,985	3.6%
neline echnologies, Inc.	Consumer Goods: Non-Durable	L + 6.75%	8.00%	5/6/2017	4,607	4,607	4,517	5.4%
shNet Security, c.	High Tech Industries	L + 6.50%	7.75%	11/30/2017	2,000	1,980	1,980	2.4%
ow Polymers, c.	Chemicals, Plastics and Rubber	L + 5.75%	7.25%	12/31/2016	4,414	4,414	4,414	5.3%
udson Products oldings, Inc.	Capital Equipment	Prime + 4.75%	8.00%	6/7/2017	3,000	2,970	3,011	3.6%
ational eterinary ssociates, Inc.	Services: Consumer	L + 5.00%	6.25%	12/6/2017	2,000	1,980	1,980	2.4%
orthland Cable levision, Inc. d Affiliates	Telecommunications	L + 6.00%	7.75%	12/30/2016	3,840	3,840	3,840	4.6%
illips & Temro dustries, Inc.	Automotive	L + 5.75%	7.25%	2/9/2017	3,900	3,900	3,900	4.7%
T Management, C (ProPT)	Healthcare & Pharmaceuticals	L + 7.00%	8.50%	10/31/2016	4,697	4,697	4,638	5.5%
e-Paid Legal rvices, Inc.	Services: Consumer	L + 6.00%	7.50%	12/30/2016	3,110	3,110	3,110	3.7%
eliance ommunications, C	High Tech Industries	L + 7.00%	8.00%	12/18/2017	3,333	3,300	3,300	3.9%
eliance ommunications, C	High Tech Industries	L + 11.50%	12.50%	12/18/2017	1,667	1,650	1,650	2.0%
cket Dog ands, LLC (e)	Consumer Goods: Non-Durable	Prime + 5.50%	11.75%	3/25/2013	195	195	186	0.2%
cket Dog ands, LLC (e)	Consumer Goods: Non-Durable	Prime + 5.50%	11.75%	3/25/2013	2,992	2,992	2,851	3.4%
b Total Senior cured Loans					45,710	45,560	45,332	54.2%
nitranche oans								
ollaborative euroscience	Healthcare & Pharmaceuticals	L + 10.00%	11.50%	12/27/2017	10,000	9,800	9,800	11.7%

etwork, LLC (f)								
onisus, LLC	Media: Advertising, Printing & Publishing	L + 7.25%	8.50%	12/27/2017	7,600	7,292	7,292	8.7%
onsolidated ass Holdings, c.	Capital Equipment	L + 10.50%	11.50%	4/17/2017	4,897	4,897	4,967	5.9%
bco Automotive orp, LLC	Automotive	L + 8.25%	9.25%	4/3/2017	7,781	7,701	7,898	9.4%
orbes Media LC	Media: Advertising, Printing & Publishing	L + 10.25%	11.75%	7/31/2017	7,000	7,000	6,981	8.3%
TJFundChoice, LC	Banking, Finance, Insurance & Real Estate	L + 10.75%	12.25%	7/17/2017	3,000	3,000	3,002	3.6%
AI International, c.	Services: Business	L + 9.25%	10.75%	2/27/2017	4,000	4,000	4,040	4.8%
onte Nido esidential enter, LLC	Services: Consumer	L + 9.00%	10.00%	12/21/2017	10,000	9,776	9,776	11.7%
ooreCo, Inc. (g)	Consumer Goods: Durable	L + 13.50%	15.00%	12/27/2017	7,040	6,864	6,864	8.2%
aytime, LLC evolver) (h)	Hotels, Gaming & Leisure	L + 7.50%	9.00%	12/4/2017	400	392	392	0.5%
aytime, LLC	Hotels, Gaming & Leisure	L + 7.50%	9.00%	12/4/2017	8,000	7,842	7,842	9.4%

(Continued)

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onroe Capital Corporation

chedule of Investments

ecember 31, 2012

n thousands)

ortfolio ompany (a)	**Industry**	**Spread Above Index (b)**	**Interest Rate**	**Maturity**	**Principal Amount**	**Cost**	**Fair Value (c)**	**% of Net Assets (d)**
PP cquisition, c.	Retail	L + 9.00%	10.50%	12/17/2017	6,800	6,633	6,633	7.9%
ub Total nitranche oans					76,519	75,198	75,487	90.3%
unior cured oans								
onfie guros oldings II o.	Banking, Finance, Insurance & Real Estate	L + 9.00%	10.25%	5/8/2019	3,000	2,968	2,995	3.6%
hn Henry oldings, Inc.	Containers, Packaging & Glass	L + 9.00%	10.25%	5/6/2019	3,000	2,925	2,940	3.5%
mTotal stems, LLC	High Tech Industries	L + 9.00%	10.25%	5/16/2019	2,250	2,206	2,228	2.7%
e Petroleum ace, Inc	Energy: Oil & Gas	L + 8.75%	10.00%	5/20/2019	3,500	3,463	3,500	4.2%
ub Total unior cured oans					11,750	11,563	11,663	13.9%
quity curities (i)								
onte Nido esidential enter, LC Class A nits ommon nits (1,726 its)	Services: Consumer					71	71	0.1%
aytime, LC Preferred nits (8,665 its)	Hotels, Gaming & Leisure					200	200	0.2%
ub Total quity curities						271	271	0.3%

otal Investments	$ 132,592	$ 132,752	158.7%

) All of our debt investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940.
) The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (LIBOR) L or Prime P which reset daily, monthly, quarterly, or semiannually. For each we have provided the spread over LIBOR or Prime and the weighted average current contractual interest rate in effect at December 31, 2012. Certain investments are subject to a LIBOR or Prime interest rate floor.
) Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the financial statements).
) Percentages are based on net assets of $83,634 as of December 31, 2012.
) Rocket Dog Brands, LLC interest rate consists of 8.75% in coupon interest and 3.0% in default interest.
Our investment in Collaborative Neuroscience Network, LLC includes warrants to purchase up to 1.67 Member Units, which has no cost basis and is currently deemed to have no value.
) MooreCo, Inc interest rate consists of 12.50% in current cash interest and 2.5% in PIK interest.
) Revolving credit facility with total commitment of $1,200.
All investments are less than 5% ownership of the class and ownership of the portfolio company.

e accompanying notes to financial statements.

onroe Capital Corporation

otes to Financial Statements

ote 1. Organization and Principal Business

onroe Capital Corporation (Monroe Capital or the Company) was formed in February 2011 to act as an ternally-managed nondiversified, closed-end management investment company and has elected to be treated as business development company under the Investment Company Act of 1940, as amended. Monroe Capital s vestment objective is to maximize the total return to its stockholders in the form of current income and capital preciation through investment in senior, unitranche and junior secured debt and, to a lesser extent, unsecured bordinated debt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC he Advisor), a registered investment adviser under the Investment Advisers Act of 1940, as amended. In ldition, for U.S. federal income tax purposes, Monroe Capital has elected to be treated as a regulated vestment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

ote 2. Summary of Significant Accounting Policies

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

asis of Presentation: The accompanying financial statements of the Company have been prepared in cordance with U.S. generally accepted accounting principles, or US GAAP. The accompanying financial atements of the Company and related financial information have been prepared pursuant to the requirements r reporting on Form 10-K and Articles 6 or 10 of Regulation S-X.

ash and Cash Equivalents: Cash and cash equivalents include cash in banks and highly liquid investments ith original maturity dates of three months or less. The Company deposits its cash in a financial institution and, times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. The ompany periodically evaluates the creditworthiness of this institution and has not experienced any losses on ch deposits.

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

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

evenue recognition: The Company s revenue recognition policies are as follows:

vestments and related investment income. Interest and dividend income is recorded on the accrual basis to the tent that the Company expects to collect such amounts. Interest and dividend income is accrued based upon e outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is crued on a daily basis. All other income is recorded into income when earned. The Company records epayment fees and amendment fees on loans as interest income. Dividend income is recorded as dividends hen declared or at

ote 2. Summary of Significant Accounting Policies (Continued)

onroe Capital Corporation

otes to Financial Statements

e point an obligation exists for the portfolio company to make a distribution. Distributions of earnings from rtfolio companies are evaluated to determine if the distribution is income or a return of capital.

he Company has investments in its portfolio that contain a payment-in-kind income provision, which represents ntractual interest or dividends that are added to the principal balance and recorded as income. The Company ops accruing payment-in-kind income when it is determined that payment-in-kind income is no longer llectible. To maintain RIC tax treatment, and to avoid corporate tax, substantially all of this income must be id out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

connection with the Company s debt investments, the Company will sometimes receive warrants or other uity-related securities (Warrants). The Company determines the cost basis of Warrants based upon their spective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. ny resulting difference between the face amount of the debt and its recorded fair value resulting from the signment of value to the Warrants is treated as original issue discount (OID), and accreted into interest income sed on the effective interest method over the life of the debt security.

he Company receives upfront loan origination or closing fees in connection with investments. Such upfront an origination and closing fees are capitalized as unearned income offset against the investment cost basis on r statement of assets and liabilities and amortized as additional interest income over the life of the investment. pfront loan origination and closing fees received for the year ended December 31, 2012 totaled $1,681.

ealized gains or losses on portfolio investments are calculated based upon the difference between the net oceeds from the disposition and the amortized cost basis of the investment, without regard to unrealized gains d losses previously recognized. Changes in the fair value of investments from the prior period, as determined our board of directors (the Board) through the application of the Company s valuation policy, are included as anges in unrealized appreciation or depreciation of investments in the statement of operations.

he Company follows the guidance in ASC 860, *Transfers and Servicing*, when accounting for loan rticipations and other partial loan sales. Such guidance requires a participation or other partial loan sale to eet the definition of a participating interest , as defined in the guidance, in order for sale treatment to be lowed. Participations or other partial loan sales which do not meet the definition of a participating interest ould remain on the Company s balance sheet and the proceeds recorded as a secured borrowing until the finition is met.

on-accrual. Loans or preferred equity securities are placed on non-accrual status when principal, interest or vidend payments become materially past due, or when there is reasonable doubt that principal, interest or vidends will be collected. Interest payments received on non-accrual loans may be recognized as income or plied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status hen past due principal, interest or dividends are paid and, in management s judgment, are likely to remain rrent.

ividends: Dividends and distributions to common stockholders are recorded on the record date. The amount, if y, to be paid as a dividend or distribution, is determined by the Board each quarter and is generally based upon e earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, though the Company may decide to retain such capital gains for investment.

he determination of the tax attributes for the Company s distributions is made annually, based upon its taxable come for the full year and distributions paid for the full year. Ordinary dividend distributions from a RIC do ot qualify for the preferential tax rate on qualified dividend income from domestic corporations and qualified reign corporations, except to the extent that the RIC received the income in the form of qualifying dividends

ote 2. Summary of Significant Accounting Policies (Continued)

onroe Capital Corporation

otes to Financial Statements

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

ne Company has adopted a dividend reinvestment plan (DRIP) that provides for the reinvestment of dividends behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if the ompany declares a cash dividend, the Company s stockholders who have not opted out of the DRIP at least ree days prior to the dividend payment date will have their cash dividend automatically reinvested into dditional shares of the Company s common stock. The Company has the option to satisfy the share requirements the DRIP through the issuance of new shares of common stock or through open market purchases of common ock by the DRIP plan administrator. Newly issued shares are valued based upon the final closing price of the ompany s common stock on a date determined by the Board. Shares purchased in the open market to satisfy the RIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP an administrator, before any associated brokerage or other costs. See Note 10 to the financial statements garding dividend declarations and distributions.

ffering Costs: Offering costs include, among other things, legal fees and other costs pertaining to the eparation of the Company s registration statement in connection with the public offering of the Company s hares. The Advisor paid all offering costs associated with the Company s initial public offering without imbursement from the Company.

eferred Financing Costs: Deferred financing costs represent fees and other direct incremental costs incurred connection with the Company s borrowings. As of December 31, 2012 the Company had deferred financing osts of $1,750. These amounts are amortized and included in interest expense in the statement of operations ver the estimated average life of the borrowings. Amortization expense for the period ended December 31, 012 was $86.

come Taxes: The Company intends to elect to be treated for federal income tax purposes as a RIC under ubchapter M of the Code. To maintain qualification as a RIC, the Company must, among other things, meet rtain source-of-income and asset diversification requirements and distribute to shareholders, for each taxable ear, at least 90% of the Company s investment company taxable income, which is generally the Company s net dinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term pital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company ill not have to pay corporate-level federal income taxes on any income that the Company distributes to its areholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each ear and to avoid any federal income taxes on income. The Company will also be subject to nondeductible deral excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital in net income, if any, and any recognized and undistributed income from prior years for which it paid no deral income taxes.

ecent Accounting Pronouncements: In May 2011, the FASB issued Accounting Standards Update (ASU) 011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and isclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)* (ASU 011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting andards Board (IASB) (collectively, the Standards Boards) on fair value measurement. The collective efforts the Standards Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for easuring fair value and for disclosing information about fair value measurements, including a

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ote 2. Summary of Significant Accounting Policies (Continued)

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nsistent meaning of the term fair value and enhanced disclosure requirements for investments that do not have adily determinable fair values. The Standards Boards have concluded the common requirements will result in eater comparability of fair value measurements presented and disclosed in financial statements prepared in cordance with GAAP and IFRSs. The amendments to the FASB Codification in ASU 2011-04 are to be plied prospectively. For public entities, the amendments are effective during interim and annual periods ginning after December 15, 2011. The Company adopted the amendments of ASU 2011-04 as of January 1, 12. See Note 4 to the financial statements for the related disclosures. The adoption of ASU 2011-04 did not ve a material impact on the Company s financial statements.

November 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210)*, containing new guidance that quires an entity to disclose information about offsetting and related arrangements to enable users of its nancial statements to understand the effect of those arrangements on its financial position. This guidance is fective for annual and interim periods beginning on or after January 1, 2013. An entity should provide the sclosures required by those amendments retrospectively for all comparative periods presented. The Company s fective date is January 1, 2013. The adoption of this guidance is not expected to have a material impact on the ompany s financial position.

ote 3. Investments

e composition of our investments as of December 31, 2012, at amortized cost and fair value were as follows:

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
nitranche loans	$ 75,198	56.6%	$ 75,487	56.9%
enior secured loans	45,560	34.4	45,332	34.2
nior secured loans	11,563	8.7	11,662	8.7
quity securities	271	0.3	271	0.2
tal	$ 132,592	100.0%	$ 132,752	100.0%

e following table shows the portfolio composition by geographic region at cost and fair value as a percentage total investments in portfolio companies. The geographic composition is determined by the location of the rporate headquarters of the portfolio company, which may not be indicative of the primary source of the rtfolio company s business:

egion	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio

est	$	59,572	44.9%	$	59,646	44.9%
outheast		22,002	16.6		22,005	16.6
outhwest		20,176	15.2		20,294	15.2
id-Atlantic		17,593	13.3		17,544	13.3
idwest		10,294	7.8		10,295	7.8
ortheast		2,955	2.2		2,968	2.2
otal	$	132,592	100.0%	$	132,752	100.0%

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ote 3. Investments (Continued)

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he industry compositions our investments as of December 31, 2012, at amortized cost and fair value were as llows:

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
ealthcare & Pharmaceuticals	$ 17,452	13.2%	$ 17,407	13.1%
ervices: Consumer	14,937	11.2	14,937	11.2
utomotive	14,572	11.0	14,783	11.0
edia: Advertising, Printing & ublishing	14,292	10.8	14,273	10.8
igh Tech Industries	9,137	6.9	9,158	6.9
otels, Gaming & Leisure	8,434	6.4	8,434	6.4
apital Equipment	7,867	5.9	7,978	6.0
onsumer Goods: Non-durable	7,794	5.9	7,554	5.9
onsumer Goods: Durable	6,864	5.2	6,864	5.2
etail	6,633	5.0	6,633	5.0
anking, Finance, Insurance & Real state	5,968	4.5	5,997	4.5
hemicals, Plastics and Rubber	4,414	3.3	4,414	3.3
ervices: Business	4,000	3.0	4,040	3.0
elecommunications	3,840	2.9	3,840	2.9
nergy: Oil & Gas	3,463	2.6	3,500	2.6
ontainers, Packaging & Glass	2,925	2.2	2,940	2.2
otal	$ 132,592	100.0%	$ 132,752	100.0%

or the year ended December 31, 2012, the Company had one portfolio company investment that represented ore than 10% of investment income. This investment represented approximately 14.8% of the investment come for the period.

ote 4. Fair Value Measurements

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

SC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price oservability of inputs used in measuring investments at fair value. Market price observability is affected by a umber of factors, including the type of investment and the characteristics specific to the investment.

vestments with readily available active quoted prices or for which fair value can be measured from actively
uoted prices generally will have a higher degree of market price observability and a lesser degree of judgment
ed in measuring fair value.

ote 4. Fair Value Measurements (Continued)

onroe Capital Corporation

otes to Financial Statements

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

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

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

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

ith respect to investments for which market quotations are not readily available, the Company s Board ndertakes 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 the Company s Advisor responsible for the portfolio investment;

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

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

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

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

he availability of valuation techniques and observable inputs can vary from security to security and is affected a wide variety of factors including the type of security, whether the security is new and not yet established in e marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on odels or inputs that are less observable or unobservable in the market, the determination of fair value requires ore judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized ue to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent ncertainty of valuation, those estimated values may be materially higher or lower than the values that would ve been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by

ote 4. Fair Value Measurements (Continued)

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anagement in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs ed to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure rposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is termined based on the lowest level input that is significant to the fair value measurement.

ir value is a market-based measure considered from the perspective of a market participant rather than an tity-specific measure. Therefore, even when market assumptions are not readily available, Management s own sumptions are set to reflect those that market participants would use in pricing the asset or liability at the easurement date. Management uses prices and inputs that are current as of the measurement date, including riods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be duced for many securities. This condition could cause a security to be reclassified to a lower level within the ir value hierarchy.

e accompanying schedule of investments held by Monroe Capital Corporation consists primarily of private bt instruments (Level 3 debt), with the intent to hold them until maturity given that there is no natural market r such securities. Management generally uses the yield approach to determine fair value, as long as it is propriate.

there is deterioration in credit quality or a debt investment is in workout status, Management may consider her factors in determining the fair value, including the value attributable to the debt investment from the terprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. anagement considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is mitting payments in a timely manner, the loan is in covenant compliance or is otherwise not deemed to be paired. In determining the fair value of the performing Level 3 debt, Management considers fluctuations in rrent interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the rrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a evel 3 debt instrument is not performing, as defined above, Management will evaluate the value of the llateral utilizing the same framework described above for a performing loan to determine the value of the evel 3 debt instrument.

enior, unitranche and junior secured loans are collateralized by tangible and intangible assets of the borrowers. ese investments include loans to entities that have some level of challenge in obtaining financing from other, ore conventional institutions, such as a bank. Interest rates on these loans are either fixed or floating, and are sed on current market conditions and credit ratings of the borrower. The interest rates on the loans range from 25% to 15.00% at December 31, 2012. The maturity dates on the loans outstanding at December 31, 2012 nge between February 2013 and May 2019. Management evaluates the collectability of the loans on an going basis based upon various factors including, but not limited to, the credit history of the borrower, its nancial status and its available collateral.

nder the market approach, Management typically uses the enterprise value methodology to determine the fair lue of an investment. There is no one methodology to estimate enterprise value and, in fact, for any one rtfolio company, enterprise value is generally best expressed as a range of values, from which Management rives a single estimate of enterprise value. In estimating the enterprise value of a portfolio company, anagement analyzes various factors consistent with industry practice, including but not limited to original ansaction multiples, the portfolio company s historical and projected financial results, applicable market trading nd transaction comparables, applicable market yields and leverage levels, the nature and realizable value of any ollateral, the markets in which the portfolio company does business, and comparisons of financial ratios of peer ompanies that are public. Typically, the enterprise values of private companies are based on multiples of BITDA, cash flows, net income, revenues, or in limited cases, book value.

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ote 4. Fair Value Measurements (Continued)

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

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

he following table presents fair value measurements of investments, by major class, as of December 31, 2012, cording to the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Unitranche loans	$	$	$ 75,487	$ 75,487
Senior secured loans			45,332	45,332
Junior secured loans			11,662	11,662
Equity securities			271	271
Total	$	$	$ 132,752	$ 132,752

he following table provides a reconciliation of the beginning and ending balances for investments that use evel 3 inputs for the year ended December 31, 2012:

	Unitranche loans	Senior secured loans	Junior secured loans	Equity securities	Total
alance as of December , 2011	$	$	$	$	$
et change in unrealized ppreciation	289	(229)	100		160

epreciation) on vestments					
urchase of investments	83,808	45,960	14,443	271	144,482
incipal repayments of bt securities	(8,615)	(400)	(2,883)		(11,898)
et accretion of loan igination costs	5	1	2		8
alance as of December , 2012	$ 75,487	$ 45,332	$ 11,662	$ 271	$ 132,752

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ote 4. Fair Value Measurements (Continued)

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rchases and other adjustments to cost include purchases of new investments, effects of financing/restructuring, accretion/amortization of income from discount/premium on debt securities, and PIK.

les and redemptions represent net proceeds received from investments sold, and principal paydowns received, ring the period.

e net change in unrealized gain on investments held as of December 31, 2012 is $160 and is included in net realized appreciation on investments in the Statement of Operations.

gnificant Unobservable Inputs: The valuation techniques and significant unobservable inputs used in curring Level 3 fair value measurements of assets as of December 31, 2012 were as follows:

					Range	
	Fair Value	Valuation Technique	Unobservable Input	Mean	Minimum	Maximum
enior secured ans	$ 48,410	Market comparable companies	EBITDA multiples	7.0x	4.0x	10.5x
		Discounted cash flow	Market Yields	8.9%	6.2%	19.0%
nitranche loans	$ 69,460	Market comparable companies	EBITDA multiples	7.3x	5.0x	10.8x
		Discounted cash flow	Market Yields	14.1%	10.8%	19.8%
quity securities	$ 271	Market comparable companies	EBITDA multiples	8.6x	8.5x	8.7x

e remainder of our Level 3 investments are valued using indicative bid and ask prices provided by an dependent third party pricing service.

e significant unobservable inputs used in the market approach of fair value measurement of our investments e the market multiples of earnings before income tax, depreciation and amortization (EBITDA) of the mparable guideline public companies. The independent valuation firm selects a population of public mpanies for each investment with similar operations and attributes of the subject company. Using these ideline public companies data, a range of multiples of enterprise value to EBITDA is calculated. The mpany selects percentages from the range of multiples for purposes of determining the subject company s timated enterprise value based on said multiple and generally the latest twelve months EBITDA of the subject mpany (or other meaningful measure). Significant increases or decreases in the multiple will result in an crease or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the vestment.

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

ther Financial Assets and Liabilities: ASC Topic 820 requires disclosure of the fair value of financial struments for which it is practical to estimate such value. The Company believes that the carrying amounts of

ote 4. Fair Value Measurements (Continued)

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other financial instruments such as cash and cash equivalents, receivables and payables approximate the fair lue of such items due to the short maturity of such instruments. Fair value of the Company s revolving credit cility is estimated by discounting remaining payments using applicable market rates or market quotes for milar instruments at the measurement date, if available. The Company believes that the carrying value of its volving credit facility approximates the fair value.

ote 5. Transactions with Related Parties

e have entered into the Investment Advisory Agreement with MC Advisors, under which MC Advisors, bject to the overall supervision of our board of directors, provides investment advisory services to us. We pay C Advisors a fee for its services under the Investment Advisory Agreement consisting of two components a se management fee and an incentive fee. The base management fee is calculated at an annual rate equal to 75% of our invested assets (which includes assets purchased with borrowed amounts but does not include cash d cash equivalents). The incentive fee consists of two parts. The first part is calculated and payable quarterly arrears and equals 20% of our pre-incentive fee net investment income for the immediately preceding quarter, bject to a 2% (8% annualized) preferred return, or hurdle, and a catch up feature. The foregoing incentive fee subject to a total return requirement, which provides that no incentive fee in respect of our preincentive fee net vestment income will be payable except to the extent that 20.0% of the cumulative net increase in net assets sulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative centive fees accrued and/or paid for the 11 preceding calendar quarters. Therefore, any ordinary income centive fee that is payable in a calendar quarter will be limited to the lesser of (1) 20% of the amount by which ur preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (2) (x) 20% of the cumulative net increase in net assets resulting from operations for the en current and 11 preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for e 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting om operations is the sum of our preincentive fee net investment income, base management fees, realized gains d losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. he second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year in an nount equal to 20% of our realized capital gains, if any, on a cumulative basis from inception through the end the year, computed net of all realized capital losses on a cumulative basis and unrealized depreciation, less the gregate amount of any previously paid capital gain incentive fees. The base management fee for the period as prorated for the period beginning October 24, 2012 and ending December 31, 2012. Prorated base anagement and incentive fees for the period ended December 31, 2012 were $318 and $6, respectively.

e will reimburse MC Management under the Administration Agreement (subject to the review and approval of r board of directors) for our allocable portion of overhead and other expenses, including the costs of furnishing with office facilities and equipment and providing clerical, bookkeeping, record-keeping and other lministrative services at such facilities, and our allocable portion of the cost of our chief financial officer and ief compliance officer and their respective staffs. To the extent that MC Management outsources any of its nctions, we will pay the fees associated with such functions on a direct basis, without incremental profit to MC anagement. Amounts payable to MC Management in any quarter through the quarter ending December 31, 013 will not exceed the greater of (i) 0.375% of our average assets for such quarter and (ii) $375. The prorated penses under the Administration Agreement for the period beginning October 24, 2012 and ending ecember 31, 2012 were $287. As of December 31, 2012, we had accrued reimbursable expenses to MC anagement of $133 which are included in accounts payable and accrued expenses as of December 31, 2012.

ote 5. Transactions with Related Parties (Continued)

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e have entered into a license agreement with Monroe Capital under which Monroe Capital has agreed to grant a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in our business. nder this agreement, we will have a right to use the Monroe Capital name, subject to certain conditions, for so ng as MC Advisors or one of its affiliates remains our investment advisor. Other than with respect to this mited license, we have no legal right to the Monroe Capital name.

n October 24, 2012, we purchased our initial portfolio of loans for $67,505 from two funds managed by onroe Capital, which was comprised of 16 loans that were either senior secured debt, junior secured debt or nitranche secured debt obligations of companies that we believe provided us with a sound foundation for our siness. Our board of directors determined the purchase price for our initial portfolio based on the aggregate ir value of the assets in the initial portfolio and the disinterested members of our board of directors approved e transaction as being fair to us.

ote 6. Credit Facility

e obtained the proceeds to complete the acquisition of our initial portfolio of loans through the use of the cured term loan portion of our credit facility with ING Capital, LLC, as agent, which we entered into on ctober 23, 2012. We repaid the secured term loan portion of our credit facility with the proceeds of our initial blic offering on October 30, 2012. Our credit facility also includes a revolving loan currently equal to $65,000 d up to $100,000 pursuant to an accordion feature, subject to maintaining 200% asset coverage, as defined in e 1940 Act. As of December 31, 2012, we have borrowed $55,000 under our revolving credit facility with ING apital LLC, as agent, to finance the purchase of our assets.

he credit facility is secured by a lien on all of our assets, including our initial portfolio of loans and all other sets, including cash on hand. Pursuant to the terms of the term loan portion of the credit facility, we used a rtion of the net proceeds from our initial public offering to pay the outstanding principal of, and accrued and paid interest on, the term loan as well as pay the reasonable transaction costs incurred by us and ING Capital, C in establishing the full credit facility. Upon repayment of the term loan, the revolving loan portion of the edit facility became available to us for a period of four years, and we may make draws under the facility for the st three years of the loan to make or purchase additional investments or for general working capital purposes til the maturity date of the revolving loan portion of the credit facility. Our ability to borrow under the volving loan portion of our credit facility is subject to availability under a defined borrowing base, which ries based on our portfolio characteristics and certain eligibility criteria and concentration limits, as well as quired valuation methodologies. The term loan accrued interest at a daily rate equal to 2.75% plus the greater the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0% and matured and was repaid on ctober 30, 2012. The revolving loan bears interest, at our election, at an annual rate of LIBOR plus 3.75% or at daily rate equal to 2.75% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% LIBOR plus 1.0%. The maturity date of the revolving loan credit facility will be the earliest to occur of) October 21, 2016, subject to extension as mutually agreed by us and ING Capital, LLC, as agent, (b) the rmination of the facility in accordance with its terms or (c) any other date mutually agreed to by us and ING apital, LLC, as agent. The weighted average interest rate of our borrowings as of December 31, 2012 was 0%.

connection with our execution of the credit facility, we made certain customary representations, warranties
d covenants. Our ability to borrow under the revolving loan portion of our credit facility is subject to
ailability under our borrowing base, which permits us to borrow up to 70% of the fair market value of our
rtfolio company investments depending on the type of the security we hold and whether the security is quoted.
ur ability to borrow is also subject to certain concentration limits, and our continued compliance with the

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ote 6. Credit Facility (Continued)

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presentations, warranties and covenants given by us under the facility. Our credit facility contains certain nancial and restrictive covenants, including, but not limited to, the maintenance of: (1) a minimum consolidated t worth at least equal to the greater of (a) 55% of our assets on the last day or each quarter or (b) 80% of the t proceeds to us from this offering plus 50% of the net proceeds of the sales of our securities after the fectiveness of the revolving note; (2) a ratio of our total assets (less total liabilities other than indebtedness) to tal indebtedness of not less than 2.25 times; and (3) a ratio of our earnings before interest and taxes to our terest expense of at least 2.5 times. The credit facility also requires us to undertake customary indemnification oligations with respect to ING Capital, LLC and other members of the lending group and to reimburse the nders for expenses associated with entering into the credit facility. We have agreed to pay certain fees to ING apital, LLC and other members of the lending group, including upfront commitment and arrangement fees and used commitment fees. The credit facility also has customary provisions regarding events of default, including ents of default for nonpayment, change in control transactions, failure to comply with our financial and gative covenants, and failure to maintain our relationship with our adviser, our chief executive officer or our ief investment officer. If we incur an event of default under our credit facility and fail to remedy such default der any applicable grace period, if any, then our entire facility could become immediately due and payable, hich would materially and adversely affect our liquidity, financial condition, results of operations and cash ows.

ote 7. Income Taxes

e Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as ch, will not be subject to federal income tax on the portion of taxable income and gains distributed to ockholders.

 qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to stributing at least 90% of its investment company taxable income, as defined by the Code. Because federal come tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net vestment income and realized gains recognized for financial reporting purposes. Differences may be permanent temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements reflect their tax character. Differences in classification may also result from the treatment of short-term gains ordinary income for tax purposes.

	December 31, 2012
Accumulated net investment income/(loss)	$
Accumulated net realized gains (losses) on investments	$
Capital in excess of par value	$ 83,474

r income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, ng term capital gains or a combination thereof. The tax character of distributions paid for the years ended ecember 31, 2012 was as follows:

	December 31, 2012
Ordinary income	$ 790
Capital gains	
Return of capital	1,165
Total	$ 1,955

ote 7. Income Taxes (Continued)

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or federal income tax purposes, as of December 31, 2012, the aggregate net unrealized appreciation for all curities is $160. The aggregate cost of securities for federal income tax purposes is $132,592.

n December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Modernization Act) as enacted, and the provisions with the Modernization Act are effective for the Company for the year ended ecember 31, 2012. The Modernization Act is the first major piece of legislation affecting RICs since 1986 and modernizes several of the federal income and excise tax provisions related to RICs. Some highlights of the acted provisions are as follows:

ew capital losses may now be carried forward indefinitely, and retain the character of the original loss. Under e-enactment law, capital losses could be carried forward for eight years, and carried forward as short-term pital, irrespective of the character of the original loss.

he Modernization Act contains simplification provisions, which are aimed at preventing disqualification of a C for inadvertent failures of the asset diversification and/or qualifying income tests. Additionally, the odernization Act exempts RICs from the preferential dividend rule, and repealed the 60-day designation quirement for certain types of pay-through income and gains.

nally, the Modernization Act contains several provisions aimed at preserving the character of distributions ade by a fiscal year RIC during the portion of its taxable year ending after October 31 or December 31, ducing the circumstances under which a RIC might be required to file amended Forms 1099 to restate eviously reported distributions.

ote 8. Directors Fees

he independent directors receive an annual fee of $20. They also receive $1 plus reimbursement of reasonable t-of-pocket expenses incurred in connection with attending each meeting. In addition, the chairman of the udit Committee receives an annual fee of $15 and the chairman of each other committee receives an annual fee $5 for their additional services in these capacities. In addition, we have purchased directors and officers bility insurance on behalf of our directors and officers. Independent directors have the option to receive their rectors fees in the form of our common stock issued at a price per share equal to the greater of net asset value the market price at the time of payment. No compensation is paid to directors who are interested persons of e Company (as such term is defined in the 1940 Act). For the year ended December 31, 2012 we paid $18 for rectors fees expense. As of December 31, 2012, we had not issued any common stock to our directors as mpensation for their services.

ote 9. Common Stock

n October 24, 2012, the Company completed its IPO of 5,000,000 shares of common stock, priced at $15.00 r share, before underwriting discounts and commissions. Gross proceeds received from the IPO were $75,000.

n November 26, 2012, the Company s underwriters exercised their over-allotment option of 750,000 shares of mmon stock, priced at $15.00 per share, before underwriting discounts and commissions. Gross proceeds ceived from the over-allotment option were $11,250.

ote 10. Dividends and Distributions

onroe Capital Corporation

otes to Financial Statements

n November 7, 2012, we declared a distribution of $0.34 per share payable on December 28, 2012, which cludes a return of capital for tax purposes of approximately $0.20 per share. The Company s dividend and stributions are recorded on the record date.

he following table summarizes dividends and distributions declared during the year ended December 31, 2012:

ate Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
ovember 7, 2012	December 14, 2012	December 28, 2012	$ 0.34	$ 1,955	3	$
otal dividends and stributions declared			$ 0.34	$ 1,955	3	$

ote 11. Commitments and Contingencies

ommitments: The Company had outstanding commitments to fund investments totaling $3,200 under various ndrawn revolvers as of December 31, 2012.

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

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

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

egal proceedings: In the normal course of business, the Company may be subject to legal and regulatory oceedings that are generally incidental to its ongoing operations. While there can be no assurance of the timate disposition of any such proceedings, the Company does not believe any disposition will have a material lverse effect on the Company s financial statements.

ote 12. Earnings Per Share

accordance with the provisions of FASB ASC 260, *Earnings per Share* (ASC 260), basic earnings per share is omputed by dividing earnings available to common shareholders by the weighted average number of shares utstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are onsidered when calculating earnings per share on a diluted basis. As of December 31, 2012, there were no otentially dilutive common shares issued.

ote 12. Earnings Per Share (Continued)

onroe Capital Corporation

otes to Financial Statements

he following information sets forth the computation of the weighted average basic and diluted net increase in t assets per share from operations for the year ended December 31, 2012:

	December 31, 2012
Basic and diluted	
Net increase in net assets from operations	$ 950
Weighted average common shares outstanding	5,386,130
Earnings per common share-basic and diluted	$ 0.18

ote 13. Financial Highlights

he following is a schedule of financial highlights for the year ended December 31, 2012:

	December 31, 2012
Per share data:	
Initial public offering price per share (1)	$ 15.00
Net dilution to stockholders participating in public offering (1)	(0.28)
Pro forma net asset value at beginning of period (1)	14.72
Net investment income (2)	0.15
Net change in unrealized appreciation on investments (2)	0.03
Net increase in net assets from operations (2)	0.18
Stockholder dividends and distributions (3)	(0.34)
Other	(0.01)
Net asset value at end of period (4)	$ 14.54
Net assets at end of period	$ 83,634
Shares outstanding at end of period	5,750,103
Per share market value at end of period	$ 14.83
Total return based on market value (5)	1.15%
Total return based on net asset value (6)	1.10%
Ratio/Supplemental data:	
Ratio of net investment income to average net assets (7)	5.00%
Ratio of expenses (without incentive fees) to average net assets (7)	5.76%

Ratio of incentive fees to average net assets (8)		0.01%
Ratio of credit facility related expenses to average net assets (7)		1.93%
Ratio of total expenses to average net assets (7)		5.80%
Average debt outstanding	$	31,056
Average debt outstanding per share	$	5.40
Portfolio turnover		11.88%

) Calculated using the shares outstanding at the time of the initial public offering.

) Calculated using the weighted average shares outstanding during the period from October 24, 2012 to December 31, 2012.

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ote 13. Financial Highlights (Continued)

Ionroe Capital Corporation

otes to Financial Statements

) Includes a return of capital for tax purposes of approximately $0.20 per share for the year ended December 31, 2012. 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 the Company s taxable earnings fall below the total amount of its 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 are determined at the end of the fiscal year.

) Calculated using the shares outstanding at the end of the period.

) Total investment return is calculated assuming a purchase of common shares at the initial public offering price on the first day and a sale at the current market value on the last day of the periods reported (October 24, 2012 to December 31, 2012). Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.

) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported (October 24, 2012 to December 31, 2012). Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company s dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.

) Ratios are annualized.

) Ratio is not annualized.

ote 14. Subsequent Events

n March 6, 2013, the Company s Board of Directors declared a quarterly distribution of $0.34 per share payable n March 28, 2013 to holders of record as of March 19, 2013.

4,000,000 Shares

Monroe Capital Corporation

Common Stock

PROSPECTUS

, 2013

Joint Book-Running Managers

Baird

William Blair

RBC Capital Markets

BB&T Capital Markets

Janney Montgomery Scott

Oppenheimer & Co.

Stephens Inc.

Wunderlich Securities

Ladenburg Thalmann & Co. Inc.

ntil , 2013 (25 days after the date of the prospectus), all dealers that buy, sell, or trade shares of our ommon stock, whether or not participating in this offering, may be required to deliver a prospectus. This elivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as nderwriters and with respect to their unsold allotments or subscriptions.

MONROE CAPITAL CORPORATION

PART C

Other Information

em 25. Financial Statements and Exhibits

) Financial Statements

he following financial statements are included in Part A Information Required to be in the Prospectus of the egistration Statement.

INDEX TO FINANCIAL STATEMENTS

) Exhibits

a)(1)	Amended and Restated Articles of Incorporation of Monroe Capital Corporation (Incorporated by reference to Exhibit (a)(1) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)
b)(1)	Bylaws of Monroe Capital Corporation (Incorporated by reference to Exhibit (b)(1) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)
c)	Not applicable
d)	Form of Stock Certificate of Monroe Capital Corporation (Incorporated by reference to Exhibit (d) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)
e)	Dividend Reinvestment Plan (Incorporated by reference to Exhibit (e) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

(f) Not applicable

(g) Investment Advisory Agreement between Registrant and MC Advisors (Incorporated by reference to Exhibit (g) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

(h) Form of Underwriting Agreement(1)

(i) Not applicable

(j) Form of Custodian Agreement (Incorporated by reference to Exhibit (j) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

(k)(1) Administration Agreement between Registrant and MC Management (Incorporated by reference to Exhibit (k)(1) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

(k)(2) License Agreement between the Registrant and Monroe Capital LLC (Incorporated by reference to Exhibit (k)(2) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

(k)(3) Senior Secured Revolving Credit Agreement between the Registrant and the Lenders(1) (Incorporated by reference to Exhibit (k)(3) of the Registrant s Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 25, 2012)

(k)(4) Senior Secured Term Loan Credit Agreement between Registrant and the Lender(1) Incorporated by reference to Exhibit (k)(4) of the Registrant s Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-172601) filed October 25, 2012)

(l) Opinion and Consent of Nelson Mullins Riley & Scarborough LLP(1)

(m) Not applicable

(n)(1) Consent of McGladrey LLP(1)

(o) Not applicable

(p) Not applicable

(q) Joint Code of Ethics of Registrant and MC Advisors (Incorporated by reference to Exhibit (q)(1) of the Registrant s Pre-Effective Amendment No. 8 to the Registration Statement on Form N-2 (File No. 333-172601) filed on October 18, 2012)

) Filed herewith.

em 26. Marketing Arrangements

ne information contained under the heading Underwriting on this Registration Statement is incorporated herein reference.

em 27. Other Expenses of Issuance and Distribution

Securities and Exchange Commission registration fee	$ 11,867
FINRA filing fee	$ 13,438
Nasdaq Global Market listing fees	$ 25,000[(1)]
Printing expenses	$ 65,000[(1)]
Legal fees and expenses	$ 260,000[(1)]
Accounting fees and expenses	$ 40,000[(1)]
Miscellaneous	$ 25,000[(1)]
Total	$ 440,305[(1)]

) These amounts are estimates.

em 28. Persons Controlled by or Under Common Control

one

em 29. Number of Holders of Securities

he following table sets forth the approximate number of record holders of our common stock as of June 30, 013.

tle of Class	Number of Record Holders
ommon Stock, $0.001 par value	3

em 30. Indemnification

aryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its rectors and officers to the corporation and its stockholders for money damages except for liability resulting om (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate shonesty established by a final judgment as being material to the cause of action. Our articles of incorporation ontain such a provision that eliminates directors and officers liability to the maximum extent permitted by aryland law, subject to the requirements of the 1940 Act.

ur charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of e 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or ficer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint enture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against y claim or liability to which such person may become subject or which such person may incur by reason of his her service in any such capacity and to pay or reimburse their reasonable expenses in advance of a final sposition of a proceeding.

ur bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of e 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or ficer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint enture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and gainst any claim or liability to which that person may become subject or which that person may incur by reason his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of a final sposition of a proceeding. Our bylaws also provide that, to the maximum extent permitted by Maryland law, ith the approval of our board of directors and provided that certain conditions described in our bylaws are met,

e may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a
oceeding

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oon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it ultimately determined that indemnification of such expenses is not authorized under our bylaws.

aryland law requires a corporation (unless its articles of incorporation provide otherwise, which our articles of corporation do not) to indemnify a director or officer who has been successful in the defense of any proceeding which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. aryland law permits a corporation to indemnify its present and former directors and officers, among others, gainst judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection ith any proceeding to which they may be made, or threatened to be made, a party by reason of their service in ose or other capacities unless it is established that (a) the act or omission of the director or officer was material the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and eliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, operty or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to elieve that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not demnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on e basis that a personal benefit was improperly received, unless in either case a court orders indemnification, d then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a rector or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her ood faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation d (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the rporation if it is ultimately determined that the standard of conduct was not met.

he Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in e performance of its duties or by reason of the reckless disregard of its duties and obligations, MC Advisors d its and its affiliates officers, directors, members, managers, stockholders and employees are entitled to demnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys fees and nounts reasonably paid in settlement) arising from the rendering of MC Advisors services under the Investment dvisory Agreement.

he Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the rformance of its duties or by reason of the reckless disregard of its duties and obligations, MC Management d its and its affiliates officers, directors, members, managers, stockholders and employees are entitled to demnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys fees and nounts reasonably paid in settlement) arising from the rendering of MC Management s services under the dministration Agreement or otherwise as our administrator.

e have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities ct.

sofar as indemnification for liability arising under the Securities Act may be permitted to directors, officers d controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, we have been lvised that in the opinion of the SEC such indemnification is against public policy as expressed in the curities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such abilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer controlling person in connection with the securities being registered, we will, unless in the opinion of our ounsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the uestion whether such indemnification by us is against public policy as expressed in the Securities Act and will governed by the final adjudication of such issue.

em 31. Business and Other Connections of Investment Advisor.

description of any other business, profession, vocation or employment of a substantial nature in which MC dvisors, and each managing director, director or executive officer of MC Advisors, is or has been during the st two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, rtner or trustee, is set forth in Part A of this Registration Statement in the sections entitled Management. dditional

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formation regarding the MC Advisors and its officers and directors is set forth in its Form ADV, as filed with e SEC
ile No. 801-72323), and is incorporated herein by reference.

em 32. Location of Accounts and Records.

ll accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act, and the les thereunder are maintained at the offices of:

) Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606;

) the Transfer Agent, American Stock Transfer & Trust Company, LLC 59 Maiden Lane, Plaza Level, New York, New York 10038;

) the Custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, Massachusetts 02110; and

) Monroe Capital BDC Advisors, LLC, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606.

em 33. Management Services

ot Applicable.

em 34. Undertakings

) We undertake to suspend the offering of shares until the prospectus is amended if (a) subsequent to the effective date of the registration statement, our net asset value declines more than 10% from our net asset value as of the effective date of the registration statement; or (b) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

) Not applicable.

) Not applicable.

) Not applicable.

) We undertake that:

(a) For the purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us pursuant to Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

) Not applicable.

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SIGNATURES

ursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly thorized, in Chicago, Illinois, on the 15th day of July, 2013.

Monroe Capital Corporation

By: /s/ Theodore L. Koenig
Name: Theodore L. Koenig
Title: Chairman and Chief Executive Officer

ursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the llowing persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Theodore L. Koenig Theodore L.Koenig	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	July 15, 2013
/s/ Aaron D. Peck	Chief Financial Officer, Chief Investment	
Aaron D. Peck	Officer, Chief Compliance Officer and Director (Principal Financial and Accounting Officer)	July 15, 2013
* Thomas J. Allison	Director	July 15, 2013
* Jeffrey A. Golman	Director	July 15, 2013
* Jorde M. Nathan	Director	July 15, 2013
* Robert S. Rubin	Director	July 15, 2013
* Jeffrey D. Steele	Director	July 15, 2013
3y: /s/ Aaron D. Peck Aaron D. Peck Attorney-in-fact	Director	July 15, 2013