PROVIDENT FINANCIAL SERVICES INC
Form 8-K
March 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): February 26, 2015

PROVIDENT FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	001-31566	42-1547151
(State or Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

830 Bergen Avenue, Jersey City, New Jersey	07306-4599
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (201) 333-1000

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(e) On February 26, 2015, Provident Financial Services, Inc. (the "Company") entered into a three-year change in control agreement with James D. Nesci, Executive Vice President and Chief Wealth Officer of The Provident Bank and President of Beacon Trust Company (the "Executive Officer").

The Company and the Executive Officer were previously parties to a two-year change in control agreement. Except for the change from two to three years, the terms of the Change in Control Agreement remain the same. The form of Change in Control Agreement utilized by the Company was filed as an Exhibit to the Company's December 31, 2012 Annual Report to Stockholders on Form 10-K (File No. 001-31566).

Under the agreement and following a change in control, the executive is entitled to a severance payment if:

- the Executive Officer's employment is terminated during the term of such agreement, other than for cause, disability, or retirement; or
- the Executive Officer terminates employment during the term of the agreement for good reason.

Good reason is generally defined to include:

- the assignment of duties materially inconsistent with the Executive Officer's positions, duties or responsibilities as in effect prior to the change in control;
- a reduction in his base salary or fringe benefits;
- a relocation of his principal place of employment by more than a certain number of miles from its location immediately prior to the change in control; or
- a failure by the Company to obtain an assumption of the agreement by its successor.

The change in control severance payment is equal to three times the highest level of aggregate annualized base salary and other cash compensation paid to the Executive Officer during the calendar year termination occurs, or during either of the immediately preceding two calendar years, whichever is greater. In addition, the Executive Officer is generally entitled to receive life, health, dental and disability coverage for the remaining term of the agreement. Payments under the change in control agreement are reduced to the extent necessary to prevent an excess parachute payment under Section 280G of the Internal Revenue Code.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired. Not applicable.

(b) Pro Forma Financial Information. Not applicable.

(c) Shell Company Transactions. Not applicable.

(d) Exhibits. None.

SIGNATURES

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

PROVIDENT FINANCIAL SERVICES, INC.

DATE: March 4, 2015 By: /s/John F. Kuntz____

John F. Kuntz,
Executive Vice President,
General Counsel & Corporate Secretary

l; font-weight: normal; text-transform: none; padding-top: 3pt; padding-right: 0pt; padding-left: 4px; padding-bottom: 3pt; margin-top: 0pt; margin-right: 0pt; margin-left: 0pt; margin-bottom: 0pt">Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company (LLC) and limited partnership (LP) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment.

Loan origination fees, original issue discount and market discount or premiums are capitalized, and the Company then amortizes such amounts using the effective interest method as interest income over the life of the investment. Unamortized discounts and loan origination fees totaled $8,005 and $6,192 as of December 31, 2017 and 2016, respectively. Upfront loan origination and closing fees received for the years ended December 31, 2017, 2016 and 2015 totaled $4,486, $3,100 and $3,306 respectively. For the years ended December 31, 2017, 2016 and 2015, interest income included $1,860, $1,556 and $1,105 of accretion of loan origination fees, original issue discounts and market discounts or premiums. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. For the years ended December 31, 2017, 2016 and 2015, interest income included $1,790, $995 and $1,230 of unamortized discount or loan origination fees recorded as interest income upon prepayment of a loan or debt security, respectively.

The Company has certain investments in its portfolio that contain a payment-in-kind (PIK) interest provision, which represents contractual interest or dividends that are added to the principal balance and recorded as income. For the years ended December 31, 2017, 2016 and 2015, interest income included $1,729, $2,027 and $1,980 of PIK interest, respectively. For the years ended December 31, 2017, 2016 and 2015, dividend income included $241, zero and zero of PIK dividends, respectively. The Company stops accruing PIK interest when it is determined that PIK interest is no longer collectible. To maintain RIC tax treatment,

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

Note 2. Summary of Significant Accounting Policies (continued)

and to avoid corporate tax, substantially all of this income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

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

Non-accrual: Loans or preferred equity securities are placed on non-accrual status when principal, interest or dividend payments become materially past due, or when there is reasonable doubt that principal, interest or dividends will be collected. The Company generally reverses accrued interest when a loan is placed on non-accrual status. Additionally, any original issue discount and market discount are no longer accreted to interest income as of the date the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal, interest, or dividends are paid, and, in management s judgment are likely to remain current. The fair value of the Company s investments on non-accrual status totaled $8,516 and $10,394 at December 31, 2017 and 2016, respectively.

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

Distributions

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

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

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Note 2. Summary of Significant Accounting Policies (continued)

The Company has adopted a dividend reinvestment plan (DRIP) that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if the Company declares a cash dividend, the Company s stockholders who have not opted out of the DRIP at least three days prior to the dividend payment date will have their cash dividend automatically reinvested into additional shares of the Company s common stock. The Company has the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued shares are valued based upon the final closing price of the Company s common stock on a date determined by the Board. Shares purchased in the open market to satisfy the DRIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. See Note 9 for additional information.

Earnings per Share

In accordance with the provisions of ASC Topic 260 *Earnings per Share* (ASC Topic 260), basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. The weighted average shares outstanding utilized in the calculation of earnings per share take into account share issues on the issuance date and the Company s repurchases of its common stock on the repurchase date. See Note 10 for additional information on the Company s share activity. For the years presented in these consolidated financial statements, there were no potentially dilutive common shares issued.

Segments

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

Cash

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

Restricted Cash

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

Unamortized Deferred Financing Costs

Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company s borrowings. As of December 31, 2017 and 2016, the Company had unamortized deferred financing costs of $4,670 and $3,945, respectively, presented as a direct reduction of the carrying amount of debt on the consolidated statements of assets and liabilities. These amounts are amortized and included in interest expense in the consolidated statements of operations over the estimated average life of the borrowings. Amortization of deferred financing costs for the years ended December 31, 2017, 2016 and 2015 was $1,042, $820 and $742, respectively.

Offering Costs

Offering costs include, among other things, fees paid in relation to legal, accounting, regulatory and printing work completed in preparation of equity offerings. Offering costs are charged against the proceeds from equity offerings within the consolidated statements of changes in net assets. As of December 31, 2017 and 2016, other assets on the consolidated statements of assets and liabilities included $494 and $281, respectively, of deferred offering costs which will be charged against the proceeds from future equity offerings when received.

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

Note 2. Summary of Significant Accounting Policies (continued)

Investments Denominated in Foreign Currency

As of December 31, 2017, the Company held investments in two portfolio companies that were denominated in Great Britain pounds.

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

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

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

Income Taxes

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment available to RICs. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to stockholders, for each taxable year, at least 90% of the Company s investment company taxable income, which is generally the Company s net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company will not have to pay corporate-level federal income taxes on any income that the Company distributes to its stockholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes on income. The Company will also be subject to nondeductible federal excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which it paid no federal income taxes. To the extent that the Company determines that its estimated current year annual taxable income may exceed estimated current year dividend distributions, the Company accrues excise tax, if any, calculated as 4% of the estimated excess taxable income as taxable income is earned. For the years ended December 31, 2017, 2016 and 2015, $100, $679 and $83, respectively, were recorded on the consolidated statements of operations for U.S. federal excise taxes. As of December 31, 2017 and 2016, payables for excise taxes of $80, and $475, respectively, were included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

The Company accounts for income taxes in conformity with ASC Topic 740 *Income Taxes* (ASC Topic 740). ASC Topic 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company s policy to recognize accrued interest and penalties related to

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Note 2. Summary of Significant Accounting Policies (continued)

uncertain tax benefits in income tax expense. There were no material uncertain income tax positions through December 31, 2017. The 2014 through 2017 tax years remain subject to examination by U.S. federal and state tax authorities.

Subsequent Events

The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the consolidated financial statements were issued and such disclosure is included in Note 13. Other than what was disclosed in Note 13, there have been no subsequent events that occurred during such period that would require disclosure in this Form 10-K or would be required to be recognized in the consolidated financial statements as of and for the year ended December 31, 2017.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 also specified the accounting for some costs to obtain or fulfill a contract with a customer. In addition, ASU 2014-09 requires that an entity disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The initial effective date of ASU 2014-09 was for fiscal periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC Topic 606): *Deferral of the Effective Date*, which deferred the effective date to fiscal periods beginning after December 15, 2017. The Company adopted ASU 2014-09 on January 1, 2018, which did not have a material impact on the Company s Consolidated Financial Statements.

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

In October 2016, the U.S. Securities and Exchange Commission (SEC) adopted new rules and amended rules (together final rules) intended to modernize the reporting and disclosures of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. The Company has adopted the final rules, as applicable, and the revised presentation is reflected in the Company s consolidated financial statements for the periods presented.

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

Note 2. Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* (ASU 2016-18). ASU 2016-18 requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new guidance is effective for annual and interim periods, beginning after December 15, 2017, and early adoption is permitted and is to be applied on a retrospective basis. The Company has adopted ASU 2016-18 and the revised presentation is reflected in the Company s consolidated financial statements for the periods presented.

Note 3. Investments

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

	December 31, 2017		December 31, 2016	
Amortized Cost:				
Senior secured loans	$ 399,770	78.8 %	$ 280,324	67.8 %
Unitranche loans	40,661	8.0	57,361	13.9
Junior secured loans	40,449	8.0	61,674	14.9
LLC equity interest in SLF	9,500	1.8		
Equity securities	17,200	3.4	13,883	3.4
Total	$ 507,580	100.0 %	$ 413,242	100.0 %
Fair Value:				
Senior secured loans	$ 387,874	78.5 %	$ 275,253	66.7 %
Unitranche loans	40,295	8.2	51,638	12.5
Junior secured loans	38,549	7.8	59,366	14.4
LLC equity interest in SLF	9,640	1.9		
Equity securities	17,780	3.6	26,663	6.4
Total	$ 494,138	100.0 %	$ 412,920	100.0 %

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

	December 31, 2017			December 31, 2016		
Amortized Cost:						
International	$ 13,858	2.7	%	$ 6,667	1.6	%
Midwest	91,160	18.0		59,710	14.5	
Northeast	142,742	28.1		105,482	25.5	
South				2,425	0.6	
Southeast	84,108	16.6		60,719	14.7	
Southwest	59,335	11.7		50,562	12.2	
West	116,377	22.9		127,677	30.9	
Total	$ 507,580	100.0	%	$ 413,242	100.0	%

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Note 3. Investments (continued)

	December 31, 2017			December 31, 2016		
Fair Value:						
International	$ 14,632	3.0	%	$ 6,636	1.6	%
Midwest	90,399	18.3		60,579	14.7	
Northeast	143,942	29.1		108,188	26.2	
South				2,445	0.6	
Southeast	85,293	17.3		61,128	14.8	
Southwest	47,968	9.7		54,263	13.1	
West	111,904	22.6		119,681	29.0	
Total	$ 494,138	100.0	%	$ 412,920	100.0	%

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

	December 31, 2017			December 31, 2016		
Amortized Cost:						
Aerospace & Defense	$ 4,943	1.0	%	$ 9,524	2.3	%
Automotive				12,496	3.0	
Banking, Finance, Insurance & Real Estate	60,519	11.9		34,912	8.4	
Beverage, Food & Tobacco	17,888	3.5		18,068	4.4	
Chemicals, Plastics & Rubber	8,734	1.7		3,949	1.0	
Construction & Building	17,851	3.5		18,282	4.4	
Consumer Goods: Durable	11,625	2.3		3,600	0.9	
Consumer Goods: Non-Durable	32,563	6.4		35,567	8.6	
Containers, Packaging & Glass	5,084	1.0		3,582	0.9	
Energy: Oil & Gas	2,372	0.5		7,819	1.9	
Environmental Industries	4,359	0.9		3,675	0.9	
Healthcare & Pharmaceuticals	59,613	11.7		41,584	10.1	
High Tech Industries	46,124	9.1		19,746	4.8	
Hotels, Gaming & Leisure	41,924	8.2		37,860	9.2	
Investment Funds & Vehicles	9,500	1.9				
Media: Advertising, Printing & Publishing	22,647	4.5		11,781	2.8	
Media: Broadcasting & Subscription	15,712	3.1		17,527	4.2	
Media: Diversified & Production	4,947	1.0		4,938	1.2	
Metals & Mining				5,219	1.3	
Retail	57,424	11.3		48,488	11.7	

Services: Business	33,350	6.6	38,806	9.4
Services: Consumer	21,263	4.2	24,608	5.9
Telecommunications	3,089	0.6	3,431	0.8
Utilities: Electric	2,759	0.5	2,964	0.7
Wholesale	23,290	4.6	4,816	1.2
Total	$ 507,580	100.0 %	$ 413,242	100.0 %

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

Note 3. Investments (continued)

	December 31, 2017		December 31, 2016	
Fair Value:				
Aerospace & Defense	$ 5,000	1.0 %	$ 10,601	2.6 %
Automotive			7,514	1.8
Banking, Finance, Insurance & Real Estate	61,407	12.4	37,130	9.0
Beverage, Food & Tobacco	17,770	3.6	16,794	4.1
Chemicals, Plastics & Rubber	8,860	1.8	4,040	1.0
Construction & Building	18,049	3.6	18,602	4.5
Consumer Goods: Durable	11,808	2.4	3,620	0.9
Consumer Goods: Non-Durable	26,546	5.4	32,000	7.7
Containers, Packaging & Glass	4,928	1.0	3,663	0.9
Energy: Oil & Gas	2,352	0.5	7,803	1.9
Environmental Industries	4,457	0.9	3,768	0.9
Healthcare & Pharmaceuticals	65,582	13.3	56,435	13.7
High Tech Industries	46,239	9.4	18,899	4.6
Hotels, Gaming & Leisure	42,744	8.6	38,010	9.2
Investment Funds & Vehicles	9,640	2.0		
Media: Advertising, Printing & Publishing	23,264	4.7	11,742	2.8
Media: Broadcasting & Subscription	15,965	3.2	18,046	4.4
Media: Diversified & Production	5,006	1.0	4,938	1.2
Metals & Mining			5,268	1.3
Retail	39,815	8.1	38,147	9.2
Services: Business	33,732	6.8	40,164	9.7
Services: Consumer	21,474	4.3	24,807	6.0
Telecommunications	3,152	0.6	3,430	0.8
Utilities: Electric	2,792	0.6	2,999	0.7
Wholesale	23,556	4.8	4,500	1.1
Total	$ 494,138	100.0 %	$ 412,920	100.0 %

MRCC Senior Loan Fund I, LLC

The Company co-invests with NLV Financial Corporation (NLV) in senior secured loans through SLF, an unconsolidated Delaware limited liability company. SLF is capitalized as transactions are completed and all portfolio and investment decisions in respect of SLF must be approved by the SLF investment committee, consisting of one representative of each of the Company and NLV. SLF may cease making new investments upon notification of either member but operations will continue until all investments have been sold or paid-off in the normal course of business.

Investments held by SLF are measured at fair value using the same valuation methodologies as described in Note 4.

SLF s profits and losses are allocated to the Company and NLV in accordance with their respective ownership interests. As of December 31, 2017, the Company and NLV owned 50.0% and 50.0%, respectively of the LLC equity interests of SLF. As of December 31, 2017, SLF had $100,000 in commitments from its members (in the aggregate), of which $19,000 was funded.

As of December 31, 2017, SLF had total assets at fair value of $41,641. As of December 31, 2017, SLF had zero portfolio company investments on non-accrual status. The portfolio companies in SLF are in industries and geographies similar to those in which the Company may invest directly. Additionally, as of

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

Note 3. Investments (continued)

December 31, 2017, SLF had commitments to fund various undrawn revolvers and delayed draw investments to its portfolio companies totaling $2,083.

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

	As of December 31, 2017	
Senior secured loans[(1)]	31,521	
Weighted average current interest rate on senior secured loans[(2)]	7.1	%
Number of borrowers in SLF	8	

(1) At principal amount.

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

MRCC SENIOR LOAN FUND I, LLC

SCHEDULE OF INVESTMENTS December 31, 2017

Portfolio Company[(a)]	Industry	Seniority	Interest Rate[(b)]	Principal	Fair Value
BMC Acquisition, Inc.[(c)]	Wholesale	Senior Secured	6.94%	5,000	$5,000
Clearent Holdings LLC and Clearent, LLC[(c)]	Banking, Finance, Insurance & Real Estate	Senior Secured	8.25%	1,056	1,045
Clearent Holdings LLC and Clearent, LLC[(c)]		Senior Secured	8.25%	1,257	1,244
Clearent Holdings LLC and Clearent, LLC[(c)(d)]		Senior Secured	8.25%	208	
Gigamon Inc[(c)]			6.03%	3,000	2,985

	High Tech Industries	Senior Secured			
Il Fornaio (America) Corporation	Beverage, Food & Tobacco	Senior Secured	8.07%	5,000	5,008
LegalZoom.com, Inc.[c]	Services: Consumer	Senior Secured	5.94%	2,000	2,005
Research Now Group, Inc. and Survey Sampling International, LLC[d]	Media: Diversified & Production	Senior Secured	7.13%	7,000	6,714
Solaray, LLC	Consumer Goods: Non-Durable	Senior Secured	8.02%	1,625	1,625
Solaray, LLC[d]		Senior Secured	8.02%	1,875	
US Salt, LLC[c]	Beverage, Food & Tobacco	Senior Secured	6.18%	3,500	3,500
TOTAL INVESTMENTS					$29,126

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

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

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

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

As of December 31, 2017, the Company has committed to fund $50,000 of LLC equity interest subscriptions to SLF. As of December 31, 2017, $9,500 of the Company s LLC equity interest subscriptions to

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

Note 3. Investments (continued)

SLF had been called and contributed. For the period from November 14, 2017 (commencement of operations) to December 31, 2017, the Company did not receive dividend income from the SLF LLC equity interests.

Below is certain summarized financial information for SLF as of and for the period ended December 31, 2017:

	December 31, 2017	
Assets		
Investments, at fair value	$	29,126
Cash		12,504
Interest receivable on investments		11
Total Assets	$	41,641
Liabilities		
Payable for open trades	$	22,304
Accounts payable and accrued expenses		57
Total Liabilities		22,361
Members' capital		19,280
Total liabilities and members' capital	$	41,641

	Period from November 14, 2017 (commencement date) to December 31, 2017		
Investment income:			
Interest income	$	39	
Total investment income		39	
Expenses:			
Organizational costs		39	
Professional fees		45	
Total expenses		84	
Net investment income (loss)		(45	)
Net gain (loss) on investments:			
Net change in unrealized gain (loss) on investments		325	
Net gain (loss) on investments		325	
Net increase (decrease) in members' capital	$	280	

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

Note 4. Fair Value Measurements

Investments

The Company values all investments in accordance with ASC Topic 820. ASC Topic 820 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the assets or liabilities or market and the assets or liabilities complexity.

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

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

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
Level 2 Valuations based on inputs other than quoted prices in active markets, including quoted prices for similar assets or liabilities, which are either directly or indirectly observable.
Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. This includes situations where there is little, if any, market activity for the assets or liabilities. The inputs into the determination of fair value are based upon the best information available and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset s or liability s categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. All investments, with the exception of investments measured at fair value using net asset value (NAV), as of December 31, 2017 and 2016 were categorized as Level 3 investments.

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

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

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MONROE CAPITAL CORPORATION

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

Note 4. Fair Value Measurements (continued)

the Board also engages one or more independent valuation firm(s) to conduct independent appraisals of a selection of investments for which market quotations are not readily available. The Company will consult with independent valuation firm(s) relative to each portfolio company at least once in every calendar year, but are generally received quarterly;

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

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

The accompanying consolidated schedules of investments held by the Company consist primarily of private debt instruments (Level 3 debt). The Company generally uses the yield approach to determine fair value, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other factors in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company generally considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is remitting payments in a timely manner; the loan is in covenant compliance or is otherwise not deemed to be impaired. In determining the fair value of the performing Level 3 debt, the Company considers fluctuations in current interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the borrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a Level 3 debt instrument is not performing, as defined above, the Company will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the Level 3 debt instrument.

Under the yield approach, the Company uses discounted cash flow models to determine the present value of the future cash flow streams of its debt investments, based on future interest and principal payments as set forth in the associated loan agreements. In determining fair value under the yield approach, the Company also considers the following factors: applicable market yields and leverage levels, credit quality, prepayment penalties, the nature and realizable value of any collateral, the portfolio company s ability to make payments, and changes in the interest rate environment and the credit markets that generally may affect the price at which similar investments may be made.

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

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

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Note 4. Fair Value Measurements (continued)

Secured Borrowings

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

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

Fair Value Disclosures

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

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Senior secured loans	$	$	$ 387,874	$ 387,874
Unitranche loans			40,295	40,295
Junior secured loans			38,549	38,549
Equity securities			17,780	17,780
Investments measured at NAV(1)(2)				9,640
Total Investments	$	$	$ 484,498	$ 494,138
Secured borrowings	$	$	$	$

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

(2)

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

The following table presents fair value measurements of investments and secured borrowings, by major class, as of December 31, 2016, according to the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Senior secured loans	$	$	$ 275,253	$ 275,253
Unitranche loans			51,638	51,638
Junior secured loans			59,366	59,366
Equity securities			26,663	26,663
Total Investments	$	$	$ 412,920	$ 412,920
Secured borrowings	$	$	$ 1,314	$ 1,314

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