

Medley Capital Corp  
Form 10-Q  
July 31, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the Quarterly Period Ended **June 30, 2014**

**OR**

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

Commission File Number 1-35040

**Medley Capital Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

**27-4576073**

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**375 Park Avenue, Suite 3304**

**New York, NY 10152**

(Address of principal executive offices)

**(212) 759-0777**

(Registrant's telephone number, including area code)

(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 ☒ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

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

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

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As of July 31, 2014, the Registrant had 52,283,712 shares of common stock, \$0.001 par value, outstanding.

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**Medley Capital Corporation****Consolidated Statements of Assets and Liabilities**

	As of June 30, 2014 (unaudited)	September 30, 2013
<b>ASSETS</b>		
Investments at fair value		
Non-controlled/non-affiliated investments (amortized cost of \$1,053,311,176 and \$748,405,904, respectively)	\$1,033,051,922	\$740,097,249
Affiliated investments (amortized cost of \$9,771,815 and \$9,283,640, respectively)	9,997,575	9,139,377
Total investments at fair value	1,043,049,497	749,236,626
Cash	17,113,444	8,557,899
Interest receivable	13,522,842	9,607,539
Deferred financing costs, net	10,964,547	8,523,291
Fees receivable	195,000	-
Other assets	284,272	249,388
Receivable for dispositions	15,175,048	-
Deferred offering costs	295,368	218,681
Total assets	\$1,100,600,018	\$776,393,424
<b>LIABILITIES</b>		
Revolving credit facility payable	\$85,582,886	\$2,500,000
Term loan payable	171,500,000	120,000,000
Notes payable	103,500,000	103,500,000
SBA debentures payable	48,000,000	30,000,000
Payable for investments originated, purchased and participated	15,896,925	54,013
Management and incentive fees payable, net	9,766,528	6,899,653
Accounts payable and accrued expenses	2,217,605	1,305,361
Interest and fees payable	1,347,018	1,155,524
Administrator expenses payable	858,591	701,208
Deferred revenue	311,678	255,922
Deferred tax liability	386,545	-
Due to affiliate	-	82,083
Offering costs payable	-	105,205
Total liabilities	\$439,367,776	\$266,558,969
Commitments (See note 8)		
<b>NET ASSETS</b>		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 52,283,712 and 40,152,904 common shares issued and outstanding, respectively	\$52,284	\$40,153

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Capital in excess of par value	665,419,750	506,062,597
Accumulated undistributed net investment income	15,169,028	12,184,623
Accumulated undistributed net realized gain/(loss) from investments	886,904	-
Net unrealized appreciation/(depreciation) on investments	(20,295,724 )	(8,452,918 )
Total net assets	661,232,242	509,834,455
Total liabilities and net assets	\$1,100,600,018	\$776,393,424
NET ASSET VALUE PER SHARE	\$12.65	\$12.70

See accompanying notes to consolidated financial statements.

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**Medley Capital Corporation****Consolidated Statements of Operations**

	For the three months ended June 30		For the nine months ended June 30	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>INVESTMENT INCOME</b>				
Interest from investments				
Non-controlled/Non-affiliated investments	\$29,034,279	\$19,572,407	\$79,327,091	\$50,383,033
Affiliated investments	402,232	376,790	1,187,141	1,112,503
Total interest income	29,436,511	19,949,197	80,514,232	51,495,536
Interest from cash and cash equivalents	1,649	2,677	5,957	6,192
Other fee income (See note 9)	8,633,572	3,639,234	20,617,806	10,016,301
Total investment income	38,071,732	23,591,108	101,137,995	61,518,029
<b>EXPENSES</b>				
Base management fees	4,593,080	2,977,097	12,336,267	7,606,894
Incentive fees	5,173,449	3,007,559	13,569,971	8,010,952
Interest and financing expenses	5,348,298	4,032,337	14,502,205	9,283,079
Administrator expenses	858,591	681,924	2,371,153	1,773,348
Professional fees	710,628	319,982	1,867,640	1,160,684
Directors fees	194,304	71,125	535,554	314,786
Insurance	150,214	69,758	426,499	210,517
General and administrative	349,373	398,785	1,248,823	963,046
Organizational expense	-	2,305	-	150,916
Total expenses	17,377,937	11,560,872	46,858,112	29,474,222
NET INVESTMENT INCOME	20,693,795	12,030,236	54,279,883	32,043,807
<b>REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:</b>				
Net realized gain/(loss) from investments	813,852	(136,914 )	886,904	237,440
Net unrealized appreciation/(depreciation) on investments	(4,820,079 )	(8,736,445 )	(11,580,576 )	(7,988,618 )
Net unrealized appreciation/(depreciation) on participations	(29,380 )	-	124,315	-
Provision for deferred taxes on unrealized gain on investments	(69,687 )	-	(386,545 )	-
Net gain/(loss) on investments	(4,105,294 )	(8,873,359 )	(10,955,902 )	(7,751,178 )
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>				
	\$16,588,501	\$3,156,877	\$43,323,981	\$24,292,629
	\$0.33	\$0.10	\$0.97	\$0.85



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WEIGHTED AVERAGE - BASIC AND DILUTED  
EARNINGS PER COMMON SHARE

WEIGHTED AVERAGE - BASIC AND DILUTED

NET INVESTMENT INCOME PER COMMON SHARE	\$0.41	\$0.37	\$1.21	\$1.12
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WEIGHTED AVERAGE COMMON STOCK

OUTSTANDING - BASIC AND DILUTED (SEE NOTE 11)	50,503,492	32,658,336	44,836,152	28,684,229
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DIVIDENDS DECLARED PER COMMON SHARE	\$0.37	\$0.36	\$1.11	\$1.08
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See accompanying notes to consolidated financial statements.

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**Medley Capital Corporation****Consolidated Statements of Changes in Net Assets**

	For the nine months ended June 30	
	2014	2013
	(unaudited)	(unaudited)
<b>INCREASE FROM OPERATIONS:</b>		
Net investment income	\$ 54,279,883	\$ 32,043,807
Net realized gain/(loss) from investments	886,904	237,440
Net unrealized appreciation/(depreciation) on investments	(11,580,576 )	(7,988,618 )
Net unrealized appreciation/(depreciation) on participations	124,315	-
Provision for taxes on unrealized gain on investments	(386,545 )	-
Net increase/(decrease) in net assets from operations	43,323,981	24,292,629
<b>SHAREHOLDER DISTRIBUTIONS:</b>		
Distributions declared from net investment income	(51,295,478 )	(30,588,465 )
Net decrease in net assets from shareholder distributions	(51,295,478 )	(30,588,465 )
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Issuance of common stock, net of underwriting costs (12,000,000 and 9,987,534 shares, respectively)	157,976,250	135,932,400
Offering costs	(300,133 )	(493,875 )
Issuance of common stock under dividend reinvestment plan (130,808 and 128,350 shares, respectively)	1,693,167	1,764,174
Net increase in net assets from common share transactions	159,369,284	137,202,699
Total increase/(decrease) in net assets	151,397,787	130,906,863
Net assets at beginning of period	509,834,455	289,339,231
Net assets at end of period including accumulated undistributed net investment income of \$15,169,028 and \$7,014,978, respectively	\$ 661,232,242	\$ 420,246,094
 Net asset value per common share	 \$ 12.65	 \$ 12.65
Common shares outstanding at end of period	52,283,712	33,226,126

See accompanying notes to consolidated financial statements.

**Medley Capital Corporation****Consolidated Statements of Cash Flows**

	For the nine months ended June 30	
	2014	2013
	(unaudited)	(unaudited)
Cash flows from operating activities		
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 43,323,981	\$ 24,292,629
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Investment increases due to paid-in-kind interest	(8,397,574 )	(6,522,188 )
Net amortization of premium/(discount) on investments	(490,301 )	(565,649 )
Amortization of deferred financing costs	1,592,209	1,029,597
Net realized (gain)/loss from investments	(886,904 )	(237,440 )
Net deferred income taxes	386,545	-
Net unrealized (appreciation)/depreciation on investments	11,580,576	7,988,618
Net unrealized (appreciation)/depreciation on participations	(124,315 )	-
Proceeds from sale and settlements of investments	278,008,120	140,693,504
Purchases, originations and participations	(573,502,473 )	(425,782,387 )
(Increase)/decrease in operating assets:		
Interest receivable	(3,915,303 )	(6,000,916 )
Fees receivable	(195,000 )	(1,625,000 )
Other assets	(34,884 )	(112,964 )
Receivable for investments sold	-	(4,568,652 )
Receivable for paydown of investments	(15,175,048 )	-
Increase (decrease)/in operating liabilities:		
Payable for investments purchased, originated and participated	15,842,912	4,787,700
Accounts payable and accrued expenses	912,244	711,660
Management and incentive fees payable, net	2,866,875	2,469,883
Administrator expenses payable	157,383	216,512
Interest and fees payable	191,494	1,765,734
Deferred revenue	55,756	7,688
Due to affiliate	(82,083 )	10,782
NET CASH USED BY OPERATING ACTIVITIES	(247,885,790 )	(261,440,889 )
Cash flows from financing activities		
Proceeds from issuance of common stock, net of underwriting costs	159,669,417	137,696,574
Offering cost paid	(482,025 )	(628,734 )
Borrowings on debt	378,300,000	335,300,000
Paydowns on debt	(225,717,114 )	(167,100,000 )
Financing cost paid	(4,033,465 )	(4,673,177 )
Payments of cash dividends	(51,295,478 )	(30,588,465 )

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NET CASH PROVIDED BY FINANCING ACTIVITIES	256,441,335	270,006,198
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,555,545	8,565,309
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,557,899	4,893,616
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 17,113,444	\$ 13,458,925
Supplemental Information:		
Interest paid during the period	\$ 12,660,917	\$ 6,437,602
Supplemental non-cash information		
Paid-in-kind interest income	\$ 8,404,029	\$ 6,522,188
Net amortization of premium/(discount) on investments	\$ 490,301	\$ 565,649
Amortization of deferred financing costs	\$ (1,592,209)	\$ (1,029,597)
Issuance of common stock in connection with dividend reinvestment plan	\$ 1,693,167	\$ 1,764,174

See accompanying notes to consolidated financial statements.

**Medley Capital Corporation****Consolidated Schedule of Investments****June 30, 2014****(unaudited)**

<b>Company</b> <sup>(1)</sup>	<b>Industry</b>	<b>Type of Investment</b>	<b>Maturity</b>	<b>Par Amount</b> <sup>(2)</sup>	<b>Cost</b> <sup>(15)</sup>	<b>Fair Value</b>	<b>% of Net Assets</b> <sup>(3)</sup>
Non-Controlled/ Non-Affiliated Investments:							
Accupac, Inc.	Containers, Packaging and Glass	Senior Secured Second Lien Term Loan (12.29%)	11/10/2018	10,000,000	10,000,000	10,000,000	1.5 %
				10,000,000	10,000,000	10,000,000	
Aderant North America, Inc.	Electronics	Senior Secured Second Lien Term Loan (LIBOR + 8.75% , 1.25% LIBOR Floor)	6/20/2019	4,550,000	4,550,000	4,626,759	0.7 %
				4,550,000	4,550,000	4,626,759	
Albertville Quality Foods, Inc. <sup>(13)</sup>	Beverage, Food and Tobacco	Senior Secured First Lien Term Loan	10/31/2018	17,452,830	17,452,830	17,650,745	2.7 %

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		(LIBOR + 9.50% Cash, 1.00% LIBOR Floor, 3.00% LIBOR Cap)		17,452,830	17,452,830	17,650,745	
Allen Edmonds Corporation	Retail Stores	Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 1.00% LIBOR Floor)	5/27/2019	20,000,000	20,000,000	20,152,800	3.0%
				20,000,000	20,000,000	20,152,800	
Alora Pharmaceuticals LLC <sup>(13)</sup>	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.00% LIBOR Floor)	9/13/2018	13,475,000	13,475,000	13,678,877	2.1%
				13,475,000	13,475,000	13,678,877	
AM3 Pinnacle Corporation	Telecommunications	Senior Secured First Lien Term Loan (10.00%)	10/22/2018	7,971,534	7,971,534	7,971,534	1.2%
				7,971,534	7,971,534	7,971,534	
Amerit Fleet Services, Inc.	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 9.70% Cash, 1.00% LIBOR	12/21/2016	8,411,672	8,411,672	8,466,768	1.3%

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		Floor, 1.50% PIK)		8,411,672	8,411,672	8,466,768	
ARBOC Specialty Vehicles LLC	Automobile	Senior Secured First Lien Term Loan (LIBOR + 12.50% Cash, 1.00% LIBOR Floor)	3/21/2018	21,590,500	21,590,500	21,774,667	3.3%
				21,590,500	21,590,500	21,774,667	
Aurora Flight Sciences Corporation	Aerospace & Defense	Senior Secured Second Lien Term Loan (11.25% Cash, 2.00% PIK)	3/16/2016	16,049,211	16,049,211	16,049,211	2.4%
				16,049,211	16,049,211	16,049,211	
Autosplice, Inc. (11)	Diversified/Conglomerate Manufacturing	Revolver (LIBOR + 11.50% Cash, 1.00% LIBOR Floor)	9/28/2014	2,156,134	2,156,134	2,156,134	0.3%
		Senior Secured First Lien Term Loan (LIBOR + 11.50% Cash, 1.00% LIBOR Floor)	6/30/2019	14,817,844	14,817,844	14,817,844	2.2%
				16,973,978	16,973,978	16,973,978	
BayDelta Maritime LLC	Cargo Transport	Senior Secured First Lien Term Loan (11.25% Cash, 2.50% Deferred)	6/30/2016	6,669,292	6,596,157	6,735,985	1.1%

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		Fee Note (14.88%)(6)	6/30/2016	250,000	189,375	189,029	0.0%
		Warrants to purchase 10% of the outstanding equity	6/30/2016	-	25,000	587,000	0.1%
				6,919,292	6,810,532	7,512,014	
Be Green Manufacturing and Distribution Centers LLC (11)(14)	Containers, Packaging and Glass	Senior Secured First Lien Term Loan (LIBOR + 10.00%, 1.00% LIBOR Floor)	12/13/2018	5,000,000	5,000,000	5,062,850	0.8%
		Senior Secured First Lien Delayed Draw (LIBOR + 10.00%, 1.00% LIBOR Floor)	12/13/2018	1,250,000	1,250,000	1,308,846	0.2%
		Revolver (LIBOR + 10.00%, 1.00% LIBOR Floor)	12/13/2018	354,167	354,167	358,968	0.1%
		Partnership Interest in RCAF VI CIV XXIII, L.P.		-	416,250	374,848	0.1%
				6,604,167	7,020,417	7,105,512	
Brantley Transportation LLC (13)	Oil and Gas	Senior Secured First Lien Term Loan (12.00%)	8/2/2017	9,487,500	9,642,988	9,487,500	1.4%
				9,487,500	9,642,988	9,487,500	
California Products	Chemicals, Plastics and Rubber	Senior Secured	5/27/2019	13,750,000	13,750,000	13,954,875	2.1%



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Corporation		Second Lien Term Loan (13.00%)		13,750,000	13,750,000	13,954,875	
Calloway Laboratories, Inc.	Healthcare, Education and Childcare	Senior Secured First Lien Term Loans (17.00% PIK)	9/30/2014	29,989,991	28,093,477	17,150,668	2.6%
		Warrants to purchase 15.00% of the outstanding equity	9/30/2014	-	68,433	-	0.0%
				29,989,991	28,161,910	17,150,668	
ConvergeOne Holdings Corp.	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 8.00% Cash, 1.00% LIBOR Floor)	6/17/2021	12,500,000	12,375,000	12,375,000	1.9%
				12,500,000	12,375,000	12,375,000	
Cornerstone Research & Development, Inc.	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan (LIBOR + 9.50% Cash, 1.00% LIBOR Floor)	4/28/2019	20,000,000	20,000,000	20,000,000	3.0%
		Warrants to purchase 1.96% of the outstanding equity			400,000	400,000	0.1%
				20,000,000	20,400,000	20,400,000	
Dispensing Dynamics	Personal and Nondurable Consumer	Senior Secured	1/1/2018	4,800,000	4,726,600	4,892,976	0.7%

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International <sup>(8)</sup>	Products (Manufacturing Only)	Note (12.50%)		4,800,000	4,726,600	4,892,976	
DLR Restaurants LLC <sup>(13)</sup>	Restaurant & Franchise	Senior Secured First Lien Term Loan (11.00% Cash, 2.50% PIK) Unsecured Debt (12.00% Cash, 4.00% PIK)	4/18/2018	20,304,018	20,304,018	20,710,098	3.1%
			4/18/2018	262,474	262,474	262,474	0.0%
				20,566,492	20,566,492	20,972,572	
DreamFinders Homes LLC <sup>(11)</sup>	Buildings and Real Estate	Senior Secured First Lien Term Loan B (LIBOR + 14.50% Cash) Warrants to purchase 5% of outstanding equity	10/1/2018	10,111,865	9,953,422	9,888,520	1.5%
			10/1/2018	-	180,000	1,195,000	0.2%
				10,111,865	10,133,422	11,083,520	

Dynamic Energy Services International LLC	Oil and Gas	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)	3/6/2018	18,762,500	18,762,500	18,693,642	2.8 %
				18,762,500	18,762,500	18,693,642	
Essex Crane Rental Corp. <sup>(13)</sup>	Business Services	Senior Secured First Lien Term Loan (LIBOR + 10.50% Cash, 1.00% LIBOR Floor)	5/13/2019	20,000,000	20,000,000	20,000,000	3.0 %
				20,000,000	20,000,000	20,000,000	
Exide Technologies <sup>(10)</sup>	Machinery (Nonagriculture, Nonconstruction, Nonelectric)	Senior Secured Note (8.63%)	2/1/2018	11,000,000	9,006,908	6,325,000	1.0 %
				11,000,000	9,006,908	6,325,000	
FC Operating LLC	Retail Stores	Senior Secured First Lien Term Loan (LIBOR + 10.75% Cash, 1.25% LIBOR Floor)	11/14/2017	10,350,000	10,350,000	9,761,603	1.5 %
				10,350,000	10,350,000	9,761,603	
Geneva Wood Fuels LLC <sup>(4)(12)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (4.50% Cash, 10.50% PIK)	12/31/2014	8,199,184	8,143,385	4,000,000	0.6 %
				8,199,184	8,143,385	4,000,000	

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GSG Fasteners, LLC <sup>(13)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (LIBOR + 9.50% Cash, 1.00% LIBOR Floor)	11/18/2018	8,775,000	8,775,000	8,879,423	1.3 %
				8,775,000	8,775,000	8,879,423	
Harrison Gypsum LLC <sup>(13)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 0.50% PIK, 1.50% LIBOR Floor)	12/21/2017	23,144,044	23,144,044	22,733,237	3.4 %
				23,144,044	23,144,044	22,733,237	
HD Vest, Inc.	Finance	Senior Secured Second Lien Term Loan (LIBOR + 8.00% Cash, 1.25% LIBOR Floor)	6/18/2019	8,750,000	8,750,000	8,925,000	1.3 %
				8,750,000	8,750,000	8,925,000	
Help/Systems LLC	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)	6/28/2020	15,000,000	15,000,000	15,243,750	2.3 %
				15,000,000	15,000,000	15,243,750	
HGDS Acquisition LLC	Business Services	Senior Secured First Lien Term Loan (LIBOR + 12.00%	3/28/2018	10,681,099	10,681,099	10,551,751	1.6 %

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		Cash, 3.50% PIK)			10,681,099	10,681,099	10,551,751	
Ingenio Acquisition LLC	Personal, Food and Miscellaneous Services	Senior Secured First Lien Term Loan (11.25%)	3/14/2019	23,712,665	23,712,665	23,712,665	3.6%	
				23,712,665	23,712,665	23,712,665		
Insight Pharmaceuticals LLC	Personal, Food and Miscellaneous Services	Senior Secured Second Lien Term Loan (LIBOR + 11.75%, 1.50% LIBOR Floor)	8/25/2017	7,724,138	7,724,138	7,878,621	1.2%	
				7,724,138	7,724,138	7,878,621		
Integra Telecom	Telecommunications	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.25% LIBOR Floor)	2/22/2020	12,132,000	12,155,807	12,374,640	1.9%	
				12,132,000	12,155,807	12,374,640		
Interface Security Systems <sup>(8)</sup>	Electronics	Senior Secured Note (9.25%)	1/15/2018	3,333,000	3,333,000	3,427,724	0.5%	
				3,333,000	3,333,000	3,427,724		
JD Norman Industries, Inc.	Diversified/Conglomerate Manufacturing	Senior Secured First Lien Term Loan (LIBOR + 10.25% Cash)	3/6/2019	24,000,000	24,000,000	24,317,040	3.7%	
				24,000,000	24,000,000	24,317,040		
Lexmark Carpet Mills, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer	Senior Secured First Lien	9/30/2018	29,875,880	29,875,880	30,519,406	4.6%	

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	Products	Term Loan (LIBOR + 10.00%, 1.00% LIBOR Floor, 2.50% LIBOR Cap)			29,875,880	29,875,880	30,519,406	
Lighting Science Group Corporation <sup>(11)</sup>	Containers, Packaging and Glass	Senior Secured Second Lien Term (LIBOR + 10.00% Cash, 2.00% PIK) Warrants to purchase 2.41% of the outstanding equity	2/19/2019	15,336,593	14,430,024	14,742,569	2.2 %	
				-	955,680	517,500	0.1 %	
				15,336,593	15,385,704	15,260,069		
Linc Energy Finance (USA), Inc. <sup>(8)</sup>	Oil and Gas	Senior Secured Note (12.50%)	10/31/2017	3,500,000	3,407,805	3,844,155	0.6 %	
				3,500,000	3,407,805	3,844,155		
Lucky Strike Entertainment, L.L.C.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Second Lien Term Loan (LIBOR + 11.00% Cash, 1.00% LIBOR Floor, 2.00% PIK)	12/24/2018	11,504,472	11,504,472	11,633,322	1.8 %	
				11,504,472	11,504,472	11,633,322		
Lydell Jewelry Design Studio LLC <sup>(11)(13)(14)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (LIBOR + 10.50%, 1.50% LIBOR Floor)	9/13/2018	13,072,000	13,072,000	12,810,370	1.9 %	

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		Warrants to purchase 13.3% of the outstanding membership units	9/13/2018	-	-	163,300	0.0 %
				13,072,000	13,072,000	12,973,670	
Marine Accessories Corporation	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (LIBOR + 11.00% Cash, 1.00% LIBOR Floor, 1.00% PIK)	11/26/2018	10,052,058	10,052,058	10,134,485	1.5 %
				10,052,058	10,052,058	10,134,485	
Merchant Cash and Capital LLC (11) (14)	Structure Finance Securities	Senior Secured First Lien Delayed Draw (LIBOR + 8.00% Cash, 3.00% LIBOR Floor)	3/4/2016	10,336,667	10,336,667	10,468,092	1.6 %
		Senior Secured Second Lien Term Loan (12.00% Cash)	8/19/2016	10,000,000	10,000,000	10,000,000	1.5 %
				20,336,667	20,336,667	20,468,092	
Meridian Behavioral Health LLC	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan A (LIBOR + 11.50%, 2.50% LIBOR Floor)	11/14/2016	10,289,141	9,976,039	10,392,032	1.6 %
		Senior Secured First Lien Term Loan	11/14/2016	850,000	850,000	850,000	0.1 %

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		B (LIBOR + 11.50%, 2.50% LIBOR Floor) Warrants to purchase 8% of the outstanding equity	11/14/2016 -	536,296	1,100,914	0.2%
			11,139,141	11,362,335	12,342,946	
Miratech Intermediate Holdings, Inc. (11) (13)	Machinery (Nonagriculture, Nonconstruction, Nonelectric)	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.00% LIBOR Floor)	5/9/2019	16,000,000	16,000,000	16,000,000 2.4%
			16,000,000	16,000,000	16,000,000	

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Modern VideoFilm, Inc. <sup>(12)</sup>	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.50% LIBOR Floor, 3.00% PIK)	9/25/2017	13,539,892	12,783,026	5,805,512	0.9 %
		Warrants to purchase 4.5% of the outstanding equity	9/25/2017	-	339,573	-	0.0 %
				13,539,892	13,122,599	5,805,512	
Momentum Telecom, Inc. <sup>(11)</sup>	Telecommunications	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)	3/10/2019	10,000,000	10,000,000	10,115,900	1.5 %
		Revolver (LIBOR + 8.50% Cash, 1.00% LIBOR Floor) <sup>(7)</sup>	3/10/2019	-	-	-	0.0 %
				10,000,000	10,000,000	10,115,900	
NCM Group Holdings LLC	Buildings and Real Estate	Unsecured Debt (11.00% Cash)	10/24/2019	22,920,000	22,920,000	22,920,000	3.5 %
				22,920,000	22,920,000	22,920,000	
Omnivere LLC	Business Services	Senior Secured First Lien Term Loan A (LIBOR + 12.00% Cash, 1.00%	5/5/2019	18,362,373	17,508,455	17,699,491	2.7 %

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		PIK) Senior Secured First Lien Term Loan C (LIBOR + 12.00% Cash, 1.00% PIK) Warrants to purchase 12.50% of the outstanding equity	5/5/2019	1,669,307	1,669,307	1,669,307	0.3 %
					872,698	872,698	0.1 %
				20,031,680	20,050,460	20,241,496	
Physicians Care Alliance LLC <sup>(11)(13)(14)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (10.00% Cash, 1.00% PIK) Revolving Credit Facility (10.50%)( <sup>7</sup> )	12/28/2017	15,580,848	15,580,848	15,824,221	2.4 %
			12/28/2017	-	-	11,987	0.0 %
				15,580,848	15,580,848	15,836,208	
The Plastics Group Acquisition Corp <sup>(11) (14)</sup>	Chemicals, Plastics and Rubber	Senior Secured First Lien Term Loan (11.00% Cash, 2.00% PIK) Delayed Draw Term Loan (11.00% Cash, 2.00% PIK)( <sup>7</sup> )	2/28/2019	20,892,155	20,892,155	21,194,382	3.2 %
			2/28/2019	-	-	-	0.0 %
				20,892,155	20,892,155	21,194,382	
Prestige Industries LLC	Business Services	Senior Secured Second Lien Term Loan (18.00% PIK)	1/31/2017	6,325,740	6,232,068	5,701,326	0.9 %

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		Warrants to purchase 0.63% of the outstanding common units	1/31/2017	-	151,855	-	0.0 %
				6,325,740	6,383,923	5,701,326	
Prince Mineral Holding Corp. <sup>(8)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (11.50%)	12/15/2019	6,800,000	6,732,747	7,405,540	1.1 %
				6,800,000	6,732,747	7,405,540	
RCS Capital Corporation	Finance	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 1.00% LIBOR Floor)	4/29/2021	7,200,000	7,200,000	7,200,000	1.1 %
				7,200,000	7,200,000	7,200,000	
RCS Management Corporation & Specialized Medical Services, Inc.	Diversified/Conglomerate Service	Senior Secured Second Lien Term Loan (LIBOR + 11.00% Cash, 1.50% LIBOR Floor, 0.50% PIK)	4/30/2015	25,571,479	25,571,479	25,571,479	3.9 %
				25,571,479	25,571,479	25,571,479	
Red Skye Wireless LLC (11)(14)	Retail Stores	Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 2.00% PIK, 1.00% LIBOR Floor)	6/27/2017	13,798,996	13,798,996	13,906,993	2.1 %
				13,798,996	13,798,996	13,906,993	
Reddy Ice Corporation	Beverage, Food and Tobacco	Senior Secured	10/1/2019	17,000,000	17,000,000	16,409,930	2.5 %

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		Second Lien Term Loan (LIBOR + 9.50% Cash, 1.25% LIBOR Floor)		17,000,000	17,000,000	16,409,930	
Response Team Holdings, LLC <sup>(11)</sup>	Buildings and Real Estate	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 1.00% PIK, 2.00% LIBOR Floor) Preferred Equity (12.00% PIK) Warrants to purchase 6.17% of the outstanding common units	3/28/2019	18,551,972	18,551,972	18,823,758	2.8 %
			3/28/2019	4,776,422	4,347,409	4,470,635	0.7 %
			3/28/2019	-	429,012	429,012	
				23,328,393	23,328,393	23,723,405	
Revstone Aero LLC <sup>(9)</sup>	Aerospace & Defense	Senior Secured First Lien Term Loan (LIBOR + 12.00% Cash, 3.00% PIK) Fee Note	11/1/2013	13,355,361	13,228,521	13,355,361	2.0 %
			11/1/2013	500,000 13,855,361	309,051 13,537,572	500,000 13,855,361	0.1 %
Sendero Drilling Company LLC <sup>(11)</sup> <sup>(14)</sup>	Oil and Gas	Senior Secured First Lien Term Loan (LIBOR + 11.00% Cash) Warrants to purchase	3/18/2019	17,042,500	16,282,553	15,857,386	2.4 %
			3/18/2019	-	793,523	793,523	0.1 %

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		5.52% of the outstanding common units			17,042,500	17,076,076	16,650,909	
T. Residential Holdings LLC	Buildings and Real Estate	Senior Secured First Lien Term Loan (12.00%)	3/28/2019	20,000,000	20,000,000	20,140,600	3.0 %	
				20,000,000	20,000,000	20,140,600		
Taylorred Freight Services LLC	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 2.00% PIK, 1.50% LIBOR Floor)	11/1/2017	14,455,657	14,455,657	13,165,056	2.0 %	
				14,455,657	14,455,657	13,165,056		
Tempel Steel Company <sup>(8)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (12.00%)	8/15/2016	12,000,000	11,866,933	11,625,000	1.8 %	
				12,000,000	11,866,933	11,625,000		
Tenere Acquisition Corp. <sup>(11)(14)</sup>	Diversified/Conglomerate Manufacturing	Senior Secured First Lien Term Loan (11.00% Cash, 2.00% PIK)	12/15/2017	11,075,911	11,075,911	11,468,187	1.7 %	
				11,075,911	11,075,911	11,468,187		
The Great Atlantic & Pacific Tea Company, Inc.	Grocery	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 2.00% LIBOR Floor)	3/13/2017	7,807,209	7,807,209	7,946,021	1.2 %	
				7,807,209	7,807,209	7,946,021		

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Transtelco Inc.	Telecommunications	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.50% LIBOR Floor)	11/19/2017	19,104,000	19,104,000	19,175,258	2.9 %
				19,104,000	19,104,000	19,175,258	
U.S. Well Services LLC (10)	Oil and Gas	Warrants to purchase 2.95% of the outstanding common membership interests	2/15/2017	-	11,370	4,342,520	0.7 %
				-	11,370	4,342,520	
UELS LLC	Oil and Gas	Senior Secured Second Lien Term Loan (LIBOR + 10.50% Cash, 1.50% LIBOR Floor)	12/5/2018	20,430,000	20,430,000	20,805,095	3.1 %
				20,430,000	20,430,000	20,805,095	

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United Road Towing Inc. <sup>(16)</sup>	Personal, Food and Miscellaneous Services	Senior Secured Second Lien Term Loan (10.00% Cash, 5.00% PIK)	6/30/2014	23,156,538	22,699,857	20,992,097	3.2	%
				23,156,538	22,699,857	20,992,097		
Untangle, Inc.	Business Services	Senior Secured First Lien Term Loan (LIBOR + 12.00% Cash)	4/18/2019	10,000,000	10,000,000	10,000,000	1.5	%
				10,000,000	10,000,000	10,000,000		
Velocity Pooling Vehicle LLC	Automobile	Senior Secured Second Lien Term Loan (LIBOR + 7.25% Cash, 1.00% LIBOR Floor)	5/14/2022	24,000,000	20,648,811	20,640,000	3.1	%
				24,000,000	20,648,811	20,640,000		
Water Capital USA, Inc.	Finance	Senior Secured First Lien Term Loan (7.00% Cash, 7.00% PIK)	1/3/2015	26,504,627	26,504,627	22,717,116	3.4	%
				26,504,627	26,504,627	22,717,116		
			4/15/2021	16,914,000	16,914,000	17,216,314	2.6	%

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Wheels Up Partners LLC (11) (13) (14)	Aerospace & Defense	Senior Secured First Lien Delayed Draw (LIBOR + 8.55% Cash, 1.00% LIBOR Floor)		16,914,000	16,914,000	17,216,314		
Window Products, Inc.	Buildings and Real Estate	Senior Secured Second Lien Term Loan (LIBOR + 10.75% Cash, 1.00% LIBOR Floor)	12/27/2019	14,000,000	14,000,000	14,000,000	2.1	%
				14,000,000	14,000,000	14,000,000		
Subtotal Non-Controlled / Non-Affiliated Investments				\$1,060,919,459	\$1,053,311,176	\$1,033,051,922		
Affiliated Investments:								
Cymax Stores, Inc. <sup>(10)</sup>	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured First Lien Term Loan (10.00% Cash, 5.00% PIK) 190 Class B Common Units <sup>(5)</sup>	8/1/2015	9,353,932	9,093,661	8,957,325	1.4	%
				-	678,154	1,040,250	0.2	%
Subtotal Affiliated Investments				\$9,353,932	\$9,771,815	\$9,997,575		



Total				
Investments,	\$1,070,273,391	\$1,063,082,991	\$1,043,049,497	157.7%
June 30, 2014				

- (1) All of our investments are domiciled in the United States except for Cymax Stores, Inc. which is domiciled in Canada and denominated in USD.
- (2) Par amount includes accumulated PIK interest and is net of repayments.
- (3) Percentage is based on net assets of \$661,232,242 as of June 30, 2014.
- (4) Investment is held via participation agreements with affiliated entities (See note 7).
- (5) 190 Class B Common Units represent 19% ownership of Cymax Stores, Inc.
- (6) Fee note is a zero coupon note, due at the earlier of prepayment or maturity and stated interest rate represents an effective interest rate.
- (7) The entire commitment was unfunded at June 30, 2014. As such, no interest is being earned on this investment.
- (8) Securities are exempt from registration under Rule 144a of the Securities Act of 1933. These securities represent a fair value of \$31.2 million and 4.7% of net assets as of June 30, 2014 and are considered restricted.
- (9) The term loan matured by its term on November 1, 2013. The company continues to make current interest payments.
- (10) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended.
- (11) The investment has an unfunded commitment as of June 30, 2014 (See note 8).
- (12) The investment was on non-accrual status as of June 30, 2014.
- (13) A portion of this investment was sold via a participation agreement (See note 3).
- (14) Includes an analysis of the value of any unfunded loan commitments.
- (15) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$30.4 million, \$34.7 million and \$4.3 million, respectively. The tax cost of investments is \$1.0 billion.
- (16) A portion of this investment was participated to third party with a par value of \$1.3 million and a fair value of \$1.2 million. Such amount has been presented on a gross basis in accordance with US GAAP.

See accompanying notes to consolidated financial statements.

**Medley Capital Corporation****Consolidated Schedule of Investments****September 30, 2013**

<b>Company</b> <sup>(1)</sup>	<b>Industry</b>	<b>Type of Investment</b>	<b>Maturity</b>	<b>Par Amount</b> <sup>(2)</sup>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b> <sup>(3)</sup>
Non-Controlled/ Non-Affiliated Investments:							
Accupac, Inc.	Containers, Packaging and Glass	Senior Secured Second Lien Term Loan (12.29%)	11/10/2018	12,000,000	12,000,000	12,000,000	2.4%
				12,000,000	12,000,000	12,000,000	
Aderant North America, Inc.	Electronics	Senior Secured Second Lien Term Loan (LIBOR + 8.75% , 1.25% LIBOR Floor)	6/20/2019	4,550,000	4,550,000	4,550,000	0.9%
				4,550,000	4,550,000	4,550,000	
Alora Pharmaceuticals LLC <sup>(13)</sup>	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.00% LIBOR Floor)	9/13/2018	14,000,000	14,000,000	14,000,000	2.7%
				14,000,000	14,000,000	14,000,000	
American Apparel, Inc. <sup>(8)</sup>	Retail Stores	Senior Secured Note (13.00%)	4/15/2020	13,000,000	12,626,748	13,259,927	2.6%
				13,000,000	12,626,748	13,259,927	
American Gaming Systems LLC <sup>(13)</sup>	Hotels, Motels, Inns and Gaming	Senior Secured First Lien Term Loan (LIBOR + 10.00% , 1.50%	8/15/2016	10,750,000	10,750,000	10,848,660	2.1%

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		LIBOR Floor)		10,750,000	10,750,000	10,848,660	
Amerit Fleet Services, Inc. <sup>(12)</sup>	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 9.70% Cash, 1.00% LIBOR Floor, 1.50% PIK)	12/21/2016	8,906,159	8,906,159	8,870,534	1.7 %
				8,906,159	8,906,159	8,870,534	
ARBOC Specialty Vehicles LLC	Automobile	Senior Secured First Lien Term Loan (LIBOR + 12.50% Cash, 1.00% LIBOR Floor)	3/21/2018	24,687,500	24,687,500	24,647,996	4.8 %
				24,687,500	24,687,500	24,647,996	
Aurora Flight Sciences Corporation	Aerospace & Defense	Senior Secured Second Lien Term Loan (11.25% Cash, 2.00% PIK)	3/16/2014	15,807,836	15,807,836	15,863,600	3.1 %
				15,807,836	15,807,836	15,863,600	
BayDelta Maritime LLC	Cargo Transport	Senior Secured First Lien Term Loan (11.25% Cash, 2.50% Deferred)	6/30/2016	6,669,292	6,573,846	6,680,885	1.3 %
		Fee Note (14.88%) <sup>(6)</sup>	6/30/2016	250,000	170,717	170,717	0.0 %
		Warrants to purchase 10% of the outstanding equity	6/30/2016	-	25,000	594,346	0.1 %
				6,919,292	6,769,563	7,445,948	
Brantley Transportation LLC <sup>(13)</sup>	Oil and Gas	Senior Secured First Lien Term Loan (12.00%)	8/2/2017	10,162,500	10,346,975	10,162,500	2.0 %
				10,162,500	10,346,975	10,162,500	
Calloway Laboratories, Inc.	Healthcare, Education and Childcare	Senior Secured First Lien Term Loans (12.00% PIK)	9/30/2014	24,869,263	24,388,179	19,666,360	3.9 %
		Warrants to purchase 15.00% of	9/30/2014	-	68,433	-	0.0 %

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		the outstanding equity		24,869,263	24,456,612	19,666,360	
Caregiver Services, Inc.	Healthcare, Education and Childcare	Senior Secured Second Lien Term Loan (12.45% Cash, 2.00% PIK)	12/29/2017	15,361,486	15,361,486	15,361,486	3.0%
				15,361,486	15,361,486	15,361,486	
Cenegenics LLC <sup>(13)</sup>	Personal, Food and Miscellaneous Services	Senior Secured First Lien Term Loan (10.00% Cash, 2.25% PIK)	12/20/2017	19,414,099	19,414,099	19,899,452	3.9%
				19,414,099	19,414,099	19,899,452	
Dispensing Dynamics International <sup>(8)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured Note (12.50%)	1/1/2018	4,800,000	4,714,770	4,825,840	0.9%
				4,800,000	4,714,770	4,825,840	
DLR Restaurants LLC <sup>(10) (13)</sup>	Restaurant & Franchise	Senior Secured First Lien Term Loan (11.00% Cash, 2.50% PIK)	4/18/2018	9,683,644	9,683,644	9,683,644	1.9%
		Unsecured Debt (12.00% Cash, 4.00% PIK)	4/18/2018	254,645	254,645	254,645	0.0%
				9,938,289	9,938,289	9,938,289	
DreamFinders Homes LLC <sup>(10)</sup>	Buildings and Real Estate	Senior Secured First Lien Term Loan A (LIBOR + 10.00% Cash)	4/30/2014	10,000,000	10,000,000	10,000,000	2.0%
		Senior Secured First Lien Term Loan B (LIBOR + 14.50% Cash)	9/13/2018	7,277,199	7,098,472	7,098,472	1.4%
		Warrants to purchase 5% of outstanding equity	9/13/2018	-	180,000	180,000	0.0%
				17,277,199	17,278,472	17,278,472	
Exide Technologies <sup>(9)</sup>	Machinery (Nonagriculture, Nonconstruction, Nonelectric)	Senior Secured Note (8.63%)	2/1/2018	11,000,000	9,006,908	8,002,435	1.6%
				11,000,000	9,006,908	8,002,435	

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FC Operating LLC	Retail Stores	Senior Secured First Lien Term Loan (LIBOR + 10.75% Cash, 1.25% LIBOR Floor)	11/14/2017	10,925,000	10,925,000	10,860,657	2.1 %
				10,925,000	10,925,000	10,860,657	
Geneva Wood Fuels LLC <sup>(4)</sup> <sup>(11)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (4.50% Cash, 10.50% PIK)	12/31/2014	8,199,184	8,143,385	4,090,000	0.8 %
				8,199,184	8,143,385	4,090,000	
Harrison Gypsum LLC <sup>(13)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 0.50% PIK, 1.50% LIBOR Floor)	12/21/2017	23,885,299	23,885,299	23,885,299	4.7 %
				23,885,299	23,885,299	23,885,299	

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HD Vest, Inc.	Finance	Senior Secured Second Lien Term Loan (LIBOR + 8.00% Cash, 1.25% LIBOR Floor)	6/18/2019	8,750,000	8,750,000	8,750,000	1.7 %
				8,750,000	8,750,000	8,750,000	
Help/Systems LLC	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)	6/28/2020	15,000,000	15,000,000	15,000,000	3.0 %
				15,000,000	15,000,000	15,000,000	
HGDS Acquisition LLC	Business Services	Senior Secured First Lien Term Loan (LIBOR + 12.00% Cash, 3.50% PIK)	3/28/2018	13,066,264	13,066,264	13,000,932	2.6 %
				13,066,264	13,066,264	13,000,932	
Hoffmaster Group, Inc.	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 1.50% LIBOR Floor)	1/3/2019	6,000,000	6,000,000	5,951,856	1.2 %
				2,000,000	1,983,005	1,926,637	0.4 %
		Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 1.25%					

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		LIBOR Floor)		8,000,000	7,983,005	7,878,493	
Ingenio Acquisition LLC	Personal, Food and Miscellaneous Services	Senior Secured First Lien Term Loan (12.75%)	5/9/2018	25,000,000	25,000,000	25,000,000	4.9 %
				25,000,000	25,000,000	25,000,000	
Insight Pharmaceuticals LLC	Personal, Food and Miscellaneous Services	Senior Secured Second Lien Term Loan (LIBOR + 11.75%, 1.50% LIBOR Floor)	8/25/2017	7,724,138	7,724,138	7,748,867	1.5 %
				7,724,138	7,724,138	7,748,867	
Integra Telecom	Telecommunications	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.25% LIBOR Floor)	2/22/2020	12,132,000	12,158,115	12,329,145	2.4 %
				12,132,000	12,158,115	12,329,145	
Interface Security Systems <sup>(8)</sup>	Electronics	Senior Secured Note (9.25%)	1/15/2018	3,333,000	3,333,000	3,427,030	0.7 %
				3,333,000	3,333,000	3,427,030	
JD Norman Industries, Inc.	Diversified/Conglomerate Manufacturing	Senior Secured Second Lien Term Loan (13.50%)	1/28/2019	12,500,000	12,500,000	12,500,000	2.5 %
				12,500,000	12,500,000	12,500,000	
Lexmark Carpet Mills, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured First Lien Term Loan (LIBOR +	9/30/2018	31,000,000	31,000,000	31,000,000	6.1 %

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		10.00%, 1.00% LIBOR Floor, 2.50% LIBOR Cap)		31,000,000	31,000,000	31,000,000	
Linc Energy Finance (USA), Inc. <sup>(8)</sup>	Oil and Gas	Senior Secured Note (12.50%)	10/31/2017	3,500,000	3,392,153	3,823,750	0.7 %
				3,500,000	3,392,153	3,823,750	
Lydell Jewelry Design Studio LLC <sup>(10)(13)</sup>	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (LIBOR + 10.50%, 1.50% LIBOR Floor) Revolver (LIBOR + 10.50%, 1.50% LIBOR Floor) Warrants to purchase 17.5% of the outstanding membership units	9/13/2018	13,072,000	13,072,000	13,072,000	2.6 %
			9/13/2018	2,250,000	2,250,000	2,250,000	0.4 %
			9/13/2018	-	-	-	0.0 %
				15,322,000	15,322,000	15,322,000	
Meridian Behavioral Health LLC	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan A (14.00% ) Senior Secured First Lien Term Loan B (14.00%) Warrants to purchase 8% of the outstanding equity	11/14/2016	10,289,141	9,902,304	10,289,141	2.0 %
			11/14/2016	3,750,000	3,750,000	3,750,000	0.7 %
			11/14/2016	-	536,296	1,071,347	0.2 %



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					14,039,141	14,188,600	15,110,488	
Modern VideoFilm, Inc.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 3.00% PIK, 1.50% LIBOR Floor) Warrants to purchase 4.5% of the outstanding equity	9/25/2017	11,868,109	11,583,071	9,791,187	1.9%	
			9/25/2017	-	339,573	-	0.0%	
				11,868,109	11,922,644	9,791,187		
NCM Demolition and Remediation LP	Buildings and Real Estate	Senior Secured First Lien Term Loan (LIBOR + 11.50%, 1.00% LIBOR Floor)	8/29/2018	19,291,000	19,291,000	19,291,000	3.8%	
				19,291,000	19,291,000	19,291,000		
Physicians Care Alliance LLC (10) (13)	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (10.00% Cash, 1.00% PIK) Revolving Credit Facility (10.50%)(7)	12/28/2017	15,854,027	15,854,027	15,900,559	3.1%	
			12/28/2017	-	-	-	0.0%	
				15,854,027	15,854,027	15,900,559		
Prestige Industries LLC	Business Services	Senior Secured Second Lien Term Loan (10.00% Cash, 3.00% PIK)	1/31/2017	6,029,795	5,914,778	5,506,459	1.1%	
			1/31/2017	-	151,855	-	0.0%	

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		Warrants to purchase 0.63% of the outstanding common units			6,029,795	6,066,633	5,506,459	
Prince Mineral Holdings Corp. <sup>(8)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (11.50%)	12/15/2019	6,800,000	6,726,424	7,242,000	1.4 %	
				6,800,000	6,726,424	7,242,000		
RCS Management Corporation & Specialized Medical Services, Inc.	Diversified/Conglomerate Service	Senior Secured Second Lien Term Loan (LIBOR + 11.00% Cash, 0.50% PIK, 1.50% LIBOR Floor)	9/23/2015	25,474,725	25,474,725	25,336,272	5.0 %	
				25,474,725	25,474,725	25,336,272		
Red Skye Wireless LLC <sup>(10)</sup>	Retail Stores	Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 2.00% PIK, 1.00% LIBOR Floor)	6/27/2017	15,080,145	15,080,145	15,075,802	3.0 %	
				15,080,145	15,080,145	15,075,802		
Reddy Ice Corporation	Beverage, Food and Tobacco	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 1.25% LIBOR Floor)	10/1/2019	17,000,000	17,000,000	16,863,027	3.3 %	
				17,000,000	17,000,000	16,863,027		
Revstone Aero LLC	Aerospace & Defense	Senior Secured	11/1/2013	13,203,903	13,051,823	13,203,780	2.6 %	

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First Lien					
Term Loan					
(LIBOR +					
12.00%					
Cash, 3.00%					
PIK)					
Fee Note	11/1/2013	500,000	274,147	500,000	0.1 %
		13,703,903	13,325,970	13,703,780	

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SESAC HOLDCO II	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 8.75%, 1.25% LIBOR Floor)	7/12/2019	3,500,000	3,494,828	3,561,527	0.7	%
				3,500,000	3,494,828	3,561,527		
Sizzling Platter LLC <sup>(8)</sup>	Restaurant & Franchise	Senior Secured Note (12.25% )	4/15/2016	10,867,000	11,066,638	11,500,444	2.3	%
				10,867,000	11,066,638	11,500,444		
Taylorred Freight Services LLC	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 2.00% PIK, 1.50% LIBOR Floor)	11/1/2017	14,239,039	14,239,039	13,992,136	2.8	%
				14,239,039	14,239,039	13,992,136		
Tempel Steel Company <sup>(8)</sup>	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (12.00%)	8/15/2016	12,000,000	11,828,051	11,616,000	2.3	%
				12,000,000	11,828,051	11,616,000		
Tenere Acquisition Corp. <sup>(10)</sup>	Diversified/Conglomerate Manufacturing	Senior Secured First Lien Term Loan (11.00% Cash, 2.00% PIK)	12/15/2017	10,909,333	10,909,333	11,107,612	2.2	%
				10,909,333	10,909,333	11,107,612		
The Great Atlantic & Pacific Tea Company,	Grocery	Senior Secured First Lien Term Loan	3/13/2017	7,874,921	7,874,921	7,968,817	1.6	%

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Inc.		(LIBOR + 9.00% Cash, 2.00% LIBOR Floor)		7,874,921	7,874,921	7,968,817		
Travelclick, Inc.	Hotels, Motels, Inns and Gaming	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.25% LIBOR Floor)	3/26/2018	15,000,000	15,000,000	15,169,312	3.0	%
				15,000,000	15,000,000	15,169,312		
U.S. Well Services LLC (9)	Oil and Gas	Senior Secured Note (14.50%) Warrants to purchase 3.48% of the outstanding common membership interests	2/15/2017	21,558,808	21,430,696	21,564,270	4.2	%
			2/15/2017	-	11,370	436,137	0.1	%
				21,558,808	21,442,066	22,000,407		
United Restaurant Group L.P.	Restaurant & Franchise	Senior Secured Second Lien Term Loan (LIBOR + 11.50% Cash, 3.50% PIK)	12/31/2016	10,832,789	10,832,789	10,809,818	2.1	%
				10,832,789	10,832,789	10,809,818		
United Road Towing Inc. (13)	Personal, Food and Miscellaneous Services	Senior Secured Second Lien Term Loan (10.00% Cash, 5.00% PIK)	6/30/2014	21,016,117	20,653,191	19,937,991	3.9	%
				21,016,117	20,653,191	19,937,991		
	Finance		3/31/2014	8,300,000	8,331,636	8,290,332	1.6	%

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Velum Global Credit Management LLC		Senior Secured First Lien Term Loan (15.00%)		8,300,000	8,331,636	8,290,332		
Water Capital USA, Finance Inc.		Senior Secured First Lien Term Loan (7.00% Cash, 7.00% PIK)	1/3/2015	25,141,230	25,141,230	25,141,230	4.9	%
				25,141,230	25,141,230	25,141,230		
Westport Axle Corp. <sup>(13)</sup>	Automobile	Senior Secured First Lien Term Loan (11.50% Cash, 1.50% PIK)	11/17/2018	19,084,847	19,084,847	19,084,847	3.7	%
				19,084,847	19,084,847	19,084,847		
YRCW Receivables LLC	Cargo Transport	Senior Secured Second Lien Term Loan (LIBOR + 9.75% Cash, 1.50% LIBOR Floor)	9/30/2014	4,848,049	4,779,391	4,858,530	1.0	%
				4,848,049	4,779,391	4,858,530		
Subtotal Non-Controlled / Non-Affiliated Investments				\$752,093,486	\$748,405,904	\$740,097,249		
Affiliated Investments:								
Cymax Stores, Inc. <sup>(9)</sup>	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured First Lien Term Loan (10.00% Cash, 5.00% PIK)	8/1/2015	9,006,620	8,605,486	8,466,223	1.7	%
		190 Class B Common Units <sup>(5)</sup>		-	678,154	673,154	0.1	%

Subtotal				
Affiliated	\$9,006,620	\$9,283,640	\$9,139,377	
Investments				
Total				
Investments,	\$761,100,106	\$757,689,544	\$749,236,626	147.0%
September				
30, 2013				

- (1) All of our investments are domiciled in the United States except for Cymax Stores, Inc. which is domiciled in Canada and denominated in USD.
- (2) Par amount includes accumulated PIK interest and is net of repayments.
- (3) Percentage is based on net assets of \$509,834,455 as of September 30, 2013.
- (4) Investment is held via participation agreements with affiliated entities (See note 7).
- (5) 190 Class B Common Units represent 19% ownership of Cymax Stores, Inc.
- (6) Fee note is a zero coupon note, due at the earlier of prepayment or maturity and stated interest rate represents an effective interest rate.
- (7) The entire commitment was unfunded at September 30, 2013. As such, no interest is being earned on this investment.
- (8) Securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities represent \$55.7 million and 10.9% of net assets as of September 30, 2013 and are considered restricted.
- (9) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended.
- (10) The investment has an unfunded commitment as of September 30, 2013 (See note 8).
- (11) The investment was on PIK non-accrual status as of September 30, 2013.
- (12) Investment changed its name from Kelley Amerit Holdings, Inc. during FY 2013.
- (13) A portion of this investment was sold via a participation agreement (See note 3).

See accompanying notes to consolidated financial statements.

## **MEDLEY CAPITAL CORPORATION**

### **Notes to Consolidated Financial Statements**

**June 30, 2014**

**(unaudited)**

#### **Note 1. Organization**

Medley Capital Corporation (the “Company”, “we” and “us”) is a non-diversified closed end management investment company incorporated in Delaware that has elected to be treated and is regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). We completed our initial public offering (“IPO”) and commenced operations on January 20, 2011. The Company has elected and qualified to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). We are externally managed and advised by MCC Advisors LLC (“MCC Advisors”), a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), pursuant to an investment management agreement.

Medley Capital BDC LLC (the “LLC”), a Delaware limited liability company, was formed on April 23, 2010. On January 18, 2011, the LLC, in accordance with Delaware law, converted into Medley Capital Corporation, a Delaware corporation, and on January 20, 2011, the Company filed an election to be regulated as a BDC under the 1940 Act.

On January 20, 2011, the Company consummated its IPO, sold 11,111,112 shares of common stock at \$12.00 per share and commenced its operations and investment activities. On February 24, 2011, an additional 450,000 shares of common stock were issued at a price of \$12.00 per share pursuant to the partial exercise of the underwriters’ option to purchase additional shares. Net of underwriting fees and offering costs, the Company received total cash proceeds of approximately \$129.6 million.

On January 20, 2011, the Company’s shares began trading on the New York Stock Exchange (“NYSE”) under the symbol “MCC”.

Prior to the consummation of our IPO, Medley Opportunity Fund LP (“MOF LP”), a Delaware limited partnership, and Medley Opportunity Fund, Ltd. (“MOF LTD”), a Cayman Islands exempted limited liability company, which are managed by an affiliate of MCC Advisors, transferred all of their respective interests in six loan participations in secured loans to middle market companies with a combined fair value, plus payment-in-kind interest and accrued



interest thereon, of approximately \$84.95 million (the “Loan Assets”) to MOF I BDC LLC (“MOF I BDC”), a Delaware limited liability company, in exchange for membership interests in MOF I BDC. As a result, MOF LTD owned approximately 90% of the outstanding MOF I BDC membership interests and MOF LP owned approximately 10% of the outstanding MOF I BDC membership interests.

On January 18, 2011, each of MOF LTD and MOF LP contributed their respective MOF I BDC membership interests to the LLC in exchange for LLC membership interests. As a result, MOF I BDC became a wholly-owned subsidiary of the LLC. As a result of the LLC’s conversion noted above, MOF LTD and MOF LP’s LLC membership interests were exchanged for 5,759,356 shares of the Company’s common stock at \$14.75 per share. On February 23, 2012, MOF LTD and MOF LP collectively sold 4,406,301 shares of common stock in an underwritten public offering. See Note 7 for further information.

On March 26, 2013, our wholly-owned subsidiary, Medley SBIC LP (“SBIC LP”), a Delaware limited partnership which we own directly and through our wholly-owned subsidiary, Medley SBIC GP LLC, received a license from Small Business Administration (“SBA”) to operate as a Small Business Investment Company (“SBIC”) under Section 301(c) of the Small Business Investment Company Act of 1958.

The Company has formed and expects to continue to form certain taxable subsidiaries (the “Taxable Subsidiaries”), which are taxed as corporations for federal income tax purposes. These Taxable Subsidiaries allow us to hold equity securities of portfolio companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

The Company's investment objective is to generate current income and capital appreciation by lending to privately-held middle market companies, primarily through directly originated transactions, to help these companies fund acquisitions, growth or refinancing. The portfolio generally consists of senior secured first lien loans and senior secured second lien loans. In many of our investments, we will receive warrants or other equity participation features which we believe will increase the total investment returns.

## **Note 2. Significant Accounting Policies**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly-owned subsidiaries, MOF I BDC, MCC Investment Holdings LLC, MCC Investment Holdings RT1 LLC, MCC Investment Holdings Sendero LLC, MCC Investment Holdings Omnivere LLC and SBIC LP. All references made to the "Company," "we," and "us" herein include Medley Capital Corporation and its consolidated subsidiaries, except as stated otherwise. Additionally, the accompanying consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP may be omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. Therefore, this Form 10-Q should be read in conjunction with the Company's annual report on Form 10-K for the year ended September 30, 2013, which was filed with the U.S. Securities and Exchange Commission on December 10, 2013. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending September 30, 2014.

### **Cash and Cash Equivalents**

The Company considers cash equivalents to be highly liquid investments with original maturities of three months or less. Cash and cash equivalents include deposits in a money market account. The Company deposits its cash in a financial institution and, at times, such balance may be in excess of the Federal Deposit Insurance Corporation insurance limits.

### **Use of Estimates in the Preparation of Financial Statements**

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

### **Organizational Expenses**

Organizational expenses consist principally of legal and accounting fees incurred in connection with the organization of the Company and have been expensed as incurred.

### **Offerings**

On December 3, 2012, we completed a public offering of 5,000,000 shares of our common stock at a public offering price of \$13.75 per share, raising approximately \$66.0 million in net proceeds. On December 19, 2012, we sold an additional 495,263 shares of our common stock at a public offering price of \$13.75 per share, raising approximately \$6.5 million in net proceeds, pursuant to the underwriters' partial exercise of the over-allotment option.

On April 12, 2013, we completed a public offering of 4,000,000 shares of our common stock and an additional 492,271 shares of our common stock pursuant to the underwriters' partial exercise of the over-allotment option at a public offering price of \$14.70 per share, raising approximately \$63.4 million in net proceeds.

On September 9, 2013, we completed a public offering of 6,000,000 shares of our common stock and an additional 900,000 shares of our common stock pursuant to the underwriters' partial exercise of the over-allotment option at a public offering price of \$13.00 per share, raising approximately \$86.6 million in net proceeds.

On February 5, 2014, the Company completed a public offering of 6,000,000 shares of our common stock at a public offering price of \$14.00 per share, raising approximately \$81.1 million in net proceeds.

On April 28, 2014, the Company completed a public offering of 6,000,000 shares of our common stock at a public offering price of \$13.25 per share, raising approximately \$76.9 million in net proceeds.

### **Deferred Offering Costs**

Deferred offering costs consist of fees and expenses incurred in connection with the public offering and sale of the Company's common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement.

### **Deferred Financing Costs**

Financing costs, incurred in connection with our credit facilities, unsecured notes and SBA debentures are deferred and amortized over the life of the respective facility or instrument.

### **Indemnification**

In the normal course of business, the Company enters into contractual agreements that provide general indemnifications against losses, costs, claims and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to such agreements. The Company's individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on management's experience, the Company expects the risk of loss to be remote.

## Revenue Recognition

Interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis.

Origination/closing, amendment and transaction break-up fees associated with investments in portfolio companies are recognized as income when we become entitled to such fees. Other fee income for the three and nine months ended June 30, 2014 was approximately \$8.6 million and \$20.6 million, respectively. For the three and nine months ended June 30, 2013 other fee income was approximately \$3.6 million and \$10.0 million, respectively.

Prepayment penalties received by the Company for debt instruments paid back to the Company prior to the maturity date are recorded as income upon receipt.

Administrative agent fees received by the Company are capitalized as deferred revenue and recorded as income when the services are rendered.

The Company holds debt investments in its portfolio that contain a payment-in-kind (“PIK”) interest provision. The PIK interest, which represents contractually deferred interest added to the investment balance that is generally due at maturity, is recorded on the accrual basis to the extent such amounts are expected to be collected. PIK interest is not accrued if the Company does not expect the issuer to be able to pay all principal and interest when due. For the three and nine months ended June 30, 2014, the Company earned approximately \$2.9 million and \$8.4 million in PIK, respectively. For the three and nine months ended June 30, 2013, the Company earned approximately \$2.4 million and \$6.5 million in PIK interest, respectively.

Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of investment, without regard to unrealized gains or losses previously recognized. The Company reports changes in fair value of investments as a component of the net change in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Management reviews all loans that become 90 days or more past due on principal or interest or when there is reasonable doubt that principal or interest will be collected for possible placement on non-accrual status. Interest Receivable is analyzed regularly and may be reserved against when deemed uncollectible. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current, although we may make exceptions to this general rule if the loan has sufficient collateral value and is in the process of collection. At June 30, 2014, two portfolio companies were on non-accrual status with a combined fair value of approximately \$9.8 million, or 0.9% of the fair value of our portfolio. One portfolio company was on PIK non-accrual status at September 30, 2013.

## **Investment Classification**

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, we would be deemed to "control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. We refer to such investments in portfolio companies that we "control" as "Control Investments." Under the 1940 Act, we would be deemed to be an "Affiliated Person" of a portfolio company if we own between 5% and 25% of the portfolio company's outstanding voting securities or we are under common control with such portfolio company. We refer to such investments in Affiliated Persons as "Affiliated Investments."

## **Valuation of Investments**

The Company applies fair value accounting to all of its financial instruments in accordance with the 1940 Act and ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements. In accordance with ASC 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as discussed in Note 4. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company's own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

Investments for which market quotations are readily available are valued at such market quotations, which are generally obtained from an independent pricing service or multiple broker-dealers or market makers. We weight the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer. However, debt investments with remaining maturities within 60 days that are not credit impaired are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. Investments for which market

quotations are not readily available are valued at fair value as determined by the Company's board of directors based upon input from management and third party valuation firms. Because these investments are illiquid and because there may not be any directly comparable companies whose financial instruments have observable market values, these loans are valued using a fundamental valuation methodology, consistent with traditional asset pricing standards, that is objective and consistently applied across all loans and through time.

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The Company uses third-party valuation firms to assist the board of directors in the valuation of its portfolio investments. The valuation reports generated by the third-party valuation firms consider the evaluation of financing and sale transactions with third parties, expected cash flows and market based information, including comparable transactions, performance multiples, and movement in yields of debt instruments, among other factors. Based on market data obtained from the third-party valuation firms, the Company uses a combined market yield analysis and an enterprise model of valuation. In applying the market yield analysis, the value of the Company's loans is determined based upon inputs such as the coupon rate, current market yield, interest rate spreads of similar securities, the stated value of the loan, and the length to maturity. In applying the enterprise model, the Company uses a waterfall analysis which takes into account the specific capital structure of the borrower and the related seniority of the instruments within the borrower's capital structure into consideration. To estimate the enterprise value of the portfolio company, we weigh some or all of the traditional market valuation methods and factors based on the individual circumstances of the portfolio company in order to estimate the enterprise value. The methodologies for performing investments may be based on, among other things: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, third party valuations of the portfolio company, considering offers from third parties to buy the company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. For non-performing investments, we may estimate the liquidation or collateral value of the portfolio company's assets and liabilities using an expected recovery model. We may estimate the fair value of warrants based on a model such as the Black-Scholes model or simulation models or a combination thereof.

We undertake a multi-step valuation process each quarter when valuing investments for which market quotations are not readily available, as described below:

- our quarterly valuation process begins with each portfolio investment being initially valued by the investment professionals responsible for monitoring the portfolio investment;

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

• an independent valuation firm engaged by our board of directors reviews approximately one third of these preliminary valuations each quarter on a rotating quarterly basis on non-fiscal year-end quarters, such that each of these investments will be valued by independent valuation firms at least twice per annum when combined with the fiscal year-end review of all the investments by independent valuation firms.

In addition, all of our investments are subject to the following valuation process:

• review management's preliminary valuations and their own independent assessment;

•



the audit committee of our board of directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms; and

our board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of MCC Advisors, the respective independent valuation firms and the audit committee.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

### **Fair Value of Financial Instruments**

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts payable and accrued expenses, approximate fair value due to their short-term nature. The carrying amounts and fair values of our long-term obligations are discussed in Note 5.

### **New Accounting Pronouncements**

In June 2013, the FASB issued Accounting Standards Update 2013-08 “Financial Services-Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements” (“ASU 2013-08”). ASU 2013-08 clarifies the characteristics of an investment company and requires reporting entities to disclose information about the following items: (i) the type and amount of financial support provided to investee companies, including situations in which the Company assisted an investee in obtaining financial support, (ii) the primary reasons for providing the financial support, (iii) the type and amount of financial support the Company is contractually required to provide to an investee, but has not yet provided, and (iv) the primary reasons for the contractual requirement to provide the financial support. The amendments in ASU 2013-08 are effective for an entity’s interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. We are currently evaluating the impact this accounting standards update will have on our financial statements.

## Federal 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 applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its stockholders at least 90% of the sum of investment company taxable income ("ICTI") including PIK, as defined by the Code, and net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions) for each taxable year in order to be eligible for tax treatment under subchapter M of the Code. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year dividend distributions into the next tax year. Any such carryover ICTI must be distributed before the end of that next tax year through a dividend declared prior to filing the final tax return related to the year which generated such ICTI.

The Company is subject to a nondeductible U.S. federal excise tax of 4% on undistributed income if it does not distribute at least 98% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31 of such calendar year. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. There is no provision for federal excise tax for 2013 accrued at June 30, 2014.

The Company's Taxable Subsidiaries accrue income taxes payable based on the applicable corporate rates on the unrealized gains generated by the investments held by the Taxable Subsidiaries. Such deferred tax liabilities amounted to \$69,687 and \$386,545 for the three and nine months ended June 30, 2014, respectively, and are recorded as deferred tax liability on the consolidated statements of assets and liabilities. The change in deferred tax liabilities is included as a component of net unrealized appreciation/(depreciation) on investments in the consolidated statement of operations. There were no deferred tax liabilities for the three and nine months ended June 30, 2013.

ICTI generally differs from net investment income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. The Company may be required to recognize ICTI in certain circumstances in which it does not receive cash. For example, if the Company holds debt obligations that are treated under applicable tax rules as having original issue discount, the Company must include in ICTI each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by the Company in the same taxable year. The Company may also have to include in ICTI other amounts that it has not yet received in cash, such as 1) PIK interest income and 2) interest income from investments that have been classified as non-accrual for financial reporting purposes. Interest income on non-accrual investments is not recognized for financial reporting purposes, but generally is recognized in ICTI. Because any original issue discount or other amounts accrued will be included in the Company's ICTI for the year of accrual, the Company may be required to make a distribution to its stockholders in order to satisfy the minimum distribution requirements, even though the Company will not have received and may not ever receive any corresponding cash amount. ICTI also excludes net unrealized appreciation or depreciation, as investment gains or losses are not included in taxable income

until they are realized.

The Company accounts for income taxes in conformity with ASC Topic 740 - Income Taxes ("ASC 740"). ASC 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions deemed to meet a "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statement of operations. There were no material uncertain income tax positions at June 30, 2014. Although we file federal and state tax returns, our major tax jurisdiction is federal. The Company's inception-to-date federal tax years remain subject to examination by the Internal Revenue Service.

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## Segments

The Company invests in various industries. The Company separately evaluates the performance of each of its investment relationships. However, because each of these investment relationships has similar business and economic characteristics, they have been aggregated into a single investment segment. All applicable segment disclosures are included in or can be derived from the Company's financial statements. See Note 3 for further information.

## Company Investment Risk, Concentration of Credit Risk, and Liquidity Risk

MCC Advisors has broad discretion in making investments for the Company. Investments will generally consist of debt instruments that may be affected by business, financial market or legal uncertainties. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Company's activities and the value of its investments. In addition, the value of the Company's portfolio may fluctuate as the general level of interest rates fluctuate.

The value of the Company's investments in loans may be detrimentally affected to the extent, among other things, that a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan, observable secondary or primary market yields for similar instruments issued by comparable companies increase materially or risk premiums required in the market between smaller companies, such as our borrowers, and those for which market yields are observable increase materially. MCC Advisors may attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying the loan.

The Company's assets may, at any time, include securities and other financial instruments or obligations that are illiquid or thinly traded, making purchase or sale of such securities and financial instruments at desired prices or in desired quantities difficult. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

## Note 3. Investments

The composition of our investments as of June 30, 2014 as a percentage of our total portfolio, at amortized cost and fair value were as follows (dollars in thousands):

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	Investments at Amortized Cost	Percentage		Investments at Fair Value	Percentage	
Senior Secured First Lien Term Loans	\$ 663,884	62.4	%	\$ 641,244	61.5	%
Senior Secured Second Lien Term Loans	326,737	30.7		324,815	31.1	
Senior Secured Notes	39,074	3.7		37,520	3.6	
Unsecured Debt	23,183	2.2		23,183	2.2	
Equity/Warrants	10,205	1.0		16,287	1.6	
Total	\$ 1,063,083	100.0	%	\$ 1,043,049	100.0	%

The composition of our investments as of September 30, 2013 as a percentage of our total portfolio, at amortized cost and fair value were as follows (dollars in thousands):

	Investments at Amortized Cost	Percentage		Investments at Fair Value	Percentage	
Senior Secured First Lien Term Loans	\$ 418,109	55.2	%	\$ 408,802	54.5	%
Senior Secured Second Lien Term Loans	253,210	33.4		251,963	33.6	
Senior Secured Notes	84,125	11.1		85,262	11.4	
Unsecured Debt	255	0.1		255	0.1	
Equity/Warrants	1,991	0.2		2,955	0.4	
Total	\$ 757,690	100.0	%	\$ 749,237	100.0	%

The following table shows the portfolio composition by industry grouping at fair value at June 30, 2014 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio %
Business Services	\$ 115,745	11.1
Buildings and Real Estate	91,868	8.8
Oil and Gas	73,824	7.1
Healthcare, Education and Childcare	63,572	6.1
Personal and Nondurable Consumer Products (Manufacturing Only)	56,717	5.4
Diversified/Conglomerate Manufacturing	52,759	5.1
Personal, Food and Miscellaneous Services	52,583	5.0
Telecommunications	49,637	4.7
Aerospace & Defense	47,121	4.5
Retail Stores	43,821	4.2
Automobile	42,415	4.1
Mining, Steel, Iron and Nonprecious Metals	41,764	4.0
Home and Office Furnishings, Housewares, and Durable Consumer Products	40,517	3.9
Finance	38,842	3.7
Chemicals, Plastics and Rubber	35,149	3.4
Beverage, Food and Tobacco	34,061	3.3
Containers, Packaging and Glass	32,366	3.1
Diversified/Conglomerate Service	25,571	2.4
Machinery (Nonagriculture, Nonconstruction, Nonelectric)	22,325	2.1
Restaurant & Franchise	20,973	2.0
Structure Finance Securities	20,468	2.0
Leisure, Amusement, Motion Pictures, Entertainment	17,439	1.7
Electronics	8,054	0.8
Grocery	7,946	0.8
Cargo Transport	7,512	0.7
Total	\$ 1,043,049	100.0

The following table shows the portfolio composition by industry grouping at fair value at September 30, 2013 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio	
Personal, Food and Miscellaneous Services	\$ 72,586	9.7	%
Healthcare, Education and Childcare	64,138	8.6	
Business Services	59,932	8.0	
Personal and Nondurable Consumer Products (Manufacturing Only)	48,017	6.4	
Automobile	43,733	5.8	
Mining, Steel, Iron and Nonprecious Metals	42,743	5.7	
Finance	42,182	5.6	
Home and Office Furnishings, Housewares, and Durable Consumer Products	40,139	5.4	
Retail Stores	39,196	5.2	
Buildings and Real Estate	36,570	4.9	
Oil and Gas	35,987	4.8	
Restaurant & Franchise	32,249	4.3	
Aerospace & Defense	29,567	3.9	
Hotels, Motels, Inns and Gaming	26,018	3.5	
Diversified/Conglomerate Service	25,336	3.4	
Diversified/Conglomerate Manufacturing	23,608	3.2	
Beverage, Food and Tobacco	16,863	2.2	
Telecommunications	12,329	1.6	
Cargo Transport	12,305	1.6	
Containers, Packaging and Glass	12,000	1.6	
Leisure, Amusement, Motion Pictures, Entertainment	9,791	1.3	
Machinery (Nonagriculture, Nonconstruction, Nonelectric)	8,002	1.1	
Electronics	7,977	1.1	
Grocery	7,969	1.1	
Total	\$ 749,237	100.0	%

The Company invests in portfolio companies principally located in North America. 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.

The following table shows the portfolio composition by geographic location at fair value at June 30, 2014 (dollars in thousands):

	Investments at Fair Value	Percentage	
Midwest	\$ 313,974	30.1	%
West	198,725	19.1	
Southeast	193,370	18.5	
Southwest	172,238	16.4	
Northeast	107,169	10.3	
Mid-Atlantic	47,575	4.6	

International	9,998	1.0	
Total	\$ 1,043,049	100.0	%

The following table shows the portfolio composition by geographic location at fair value at September 30, 2013 (dollars in thousands):

	Investments at Fair Value	Percentage	
Midwest	\$ 231,437	30.9	%
West	182,195	24.3	
Southeast	103,692	13.9	
Southwest	101,386	13.5	
Northeast	61,490	8.2	
Mid-Atlantic	59,898	8.0	
International	9,139	1.2	
Total	\$ 749,237	100.0	%

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**Transactions With Affiliated Companies**

During the nine months ended June 30, 2014, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows:

Name of Investment	Fair Value at September 30, 2013	Purchases (Sales) of/Advances (Distributions) to Affiliates	Transfers In/(Out) of Affiliates	Income Earned	Fair Value at June 30, 2014	Capital Loss
Non-Controlled Affiliates						
Cymax Stores, Inc.	\$ 9,139,377	\$ -	\$ -	\$ 1,187,141	\$ 9,997,575	\$ -
Total Non-Controlled Affiliates	\$ 9,139,377	\$ -	\$ -	\$ 1,187,141	\$ 9,997,575	\$ -

During the nine months ended June 30, 2013, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows:

Name of Investment	Fair Value at September 30, 2012	Purchases (Sales) of/Advances (Distributions) to Affiliates	Transfers In/(Out) of Affiliates	Income Earned	Fair Value at June 30, 2013	Capital Loss
Non-Controlled Affiliates						
Cymax Stores, Inc.	\$ 8,208,006	\$ -	\$ -	\$ 1,112,503	\$ 9,024,065	\$ -
Total Non-Controlled Affiliates	\$ 8,208,006	\$ -	\$ -	\$ 1,112,503	\$ 9,024,065	\$ -

Purchases (sales) of/advances (distributions) to affiliates are included in the purchases and sales presented on the consolidated statements of cash flows for the nine months ended June 30, 2014 and June 30, 2013, respectively. Transfers in/(out) of affiliates represents the fair value for the month an investment became or was removed as an affiliated investment. Income received from affiliates is included in total investment income on the consolidated statements of operations for the nine months ended June 30, 2014 and June 30, 2013, respectively.

**Loan Participation Sales**

Since inception, the Company has sold portions of 16 investments via participation agreements to a managed account, managed by an affiliate and non-affiliate of the Company, as well as to a third party, in an aggregate amount of

approximately \$94.4 million. At June 30, 2014, the aggregate fair value of the loans sold on participation was \$196.2 million. Such investments where the Company has retained a proportionate interest are included in the consolidated schedule of investments. All of these investments are classified within Level 3 of the fair value hierarchy, as defined in Note 4. One of the loans that has been participated with a third party has a par value of \$1.3 million and a fair value of \$1.2 million has been presented on a gross basis in accordance with US GAAP.

During the three and nine months ended June 30, 2014, the Company made interest and principal payments to the sub-participant in the aggregate amount of \$1.9 million and \$26.2 million. During the three and nine months ended June 30, 2013, the Company made interest and principal payments to the sub-participant in the aggregate amount of \$1.3 million and \$2.5 million. Under the terms of the participation agreements, the Company will make periodic payments to the sub-participant equal to the sub-participant's proportionate share of any principal and interest payments received by the Company from the underlying investee companies.

#### Note 4. Fair Value Measurements

The Company follows ASC 820 for measuring the fair value of portfolio investments. Fair value is the price that would be received in the sale of 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 instruments or market and the instruments' complexity. The Company's fair value analysis includes an analysis of the value of any unfunded loan commitments. Financial investments recorded at fair value in the consolidated financial statements are categorized for disclosure purposes based upon the level of judgment associated with the inputs used to measure their value. The valuation hierarchical levels are based upon the transparency of the inputs to the valuation of the investment as of the measurement date. The three levels are defined as follows:

Level 1 - Valuations based on 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 included in Level 1, which are either directly or indirectly observable at the measurement date. This category includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets including actionable bids from third parties for privately held assets or liabilities, and observable inputs other than quoted prices such as yield curves and forward currency rates that are entered directly into valuation models to determine the value of derivatives or other assets or liabilities.

Level 3 - Valuations based on inputs that are unobservable and where there is little, if any, market activity at the measurement date. The inputs for the determination of fair value may require significant management judgment or estimation and are based upon management's assessment of the assumptions that market participants would use in pricing the assets or liabilities. These investments include debt and equity investments in private companies or assets valued using the market or income approach and may involve pricing models whose inputs require significant judgment or estimation because of the absence of any meaningful current market data for identical or similar investments. The inputs in these valuations may include, but are not limited to, capitalization and discount rates, beta and EBITDA multiples. The information may also include 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.

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the board of directors that is consistent with ASC 820 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The following table presents the fair value measurements of our investments, by major class according to the fair value hierarchy, as of June 30, 2014 (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Senior Secured First Lien Term Loans	\$ -	\$-	\$641,244	\$641,244
Senior Secured Second Lien Term Loans	-	-	324,815	324,815
Senior Secured Notes	-	6,325	31,195	37,520
Unsecured Debt	-	-	23,183	23,183
Equity/Warrants	-	-	16,287	16,287
Total	\$ -	\$6,325	\$1,036,724	\$1,043,049

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The following table presents the fair value measurements of our investments, by major class according to the fair value hierarchy, as of September 30, 2013 (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Senior Secured First Lien Term Loans	\$ —	\$ —	\$408,802	\$408,802
Senior Secured Second Lien Term Loans	—	—	251,963	251,963
Senior Secured Notes	—	8,003	77,259	85,262
Unsecured Debt	—	—	255	255
Equity/Warrants	—	—	2,955	2,955
Total	\$ —	\$8,003	\$741,234	\$749,237

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the nine months ended June 30, 2014 (dollars in thousands):

	Senior Secured First Lien Term Loans	Senior Secured Second Lien Term Loans	Senior Secured Notes	Unsecured Debt	Equities/Warrants	Total
Balance as of September 30, 2013	\$408,802	\$251,963	\$77,259	\$255	\$2,955	\$741,234
Purchases and other adjustments to cost	62,914	42,836	4,975	8	2,296	113,029
Originations	297,381	104,930	—	22,920	5,919	431,150
Sales	—	—	(2,985 )	—	(756 )	(3,741 )
Settlements	(114,503 )	(74,303 )	(35,091 )	—	—	(223,897 )
Net realized gains (losses) from investments	(16 )	64	677	—	756	1,481
Net transfers in and/or out of Level 3	—	—	(13,260 )	—	—	(13,260 )
Net unrealized gains (losses)	(13,334 )	(675 )	(380 )	—	5,117	(9,272 )
Balance as of June 30, 2014	\$641,244	\$324,815	\$31,195	\$23,183	\$16,287	\$1,036,724

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the nine months ended June 30, 2013 (dollars in thousands):

	Senior Secured First Lien Term Loans	Senior Secured Second Lien Term Loans	Senior Secured Notes	Unsecured Debt	Equities / Warrants	Total
Balance as of September 30, 2012	\$186,841	\$157,015	\$42,213	\$ —	\$2,343	\$388,412
Purchases and other adjustments to cost	24,931	77,652	49,544	2	4	152,133
Originations	216,991	59,500	—	250	—	276,741

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Sales	(47,203 )	—	(3,053 )	—	(144 )	(50,400 )
Settlements	(46,367 )	(22,843 )	(13,314)	—	—	(82,524 )
Net realized gains (losses) from investments	118	64	770	—	—	952
Net change in unrealized gains (losses)	(7,475 )	53	1,477	—	337	(5,608 )
Balance as of June 30, 2013	\$ 327,836	\$ 271,441	\$77,637	\$ 252	\$ 2,540	\$679,706

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Net change in unrealized loss included in earnings related to investments still held as of June 30, 2014 and 2013, was approximately \$10.7 million and \$8.8 million, respectively.

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

Sales represent net proceeds received from investments sold.

Settlements represent principal paydowns received.

A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. During the nine months ended June 30, 2014, one of our Senior Secured Notes with a fair value of \$13.3 million transferred from Level 3 to Level 2 because of the increase in availability of the transaction data or the inputs to the valuation became observable. No investments were transferred in or out of the Level 3 category during the nine months ended June 30, 2013.

The following table presents the quantitative information about Level 3 fair value measurements of our investments, as of June 30, 2014 (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Senior Secured First Lien Term Loans	\$605,404	Income Approach (DCF)	Market yield	9.1% - 26.9% (12.1%)
Senior Secured First Lien Term Loans	11,990	Market Approach (Current value)	Revenue Multiple <sup>(1)</sup>	1.9x - 1.9x (1.9x)
Senior Secured First Lien Term Loans	5,806	Market Approach (Current value)	Revenue Multiple <sup>(1)</sup> / EBIDTA Multiple <sup>(1)</sup>	2.6x - 2.6x (2.6x)
Senior Secured First Lien Term Loans	17,855	Market Approach (Expected Sale Proceeds)	Market Approach (Expected Sale Proceeds)	N/A

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Senior Secured First Lien Term Loans – Fee Note	189	Income Approach (DCF)	Market yield	15.0% - 15.0% (15.0%)
Senior Secured Second Lien Term Loans	303,823	Income Approach (DCF)	Market yield	8.3% - 21.5% (11.5%)
Senior Secured Second Lien Term Loans	20,992	Market Approach (Expected Sale Proceeds)	Market Approach (Expected Sale Proceeds)	N/A
Senior Secured Notes	31,195	Income Approach (DCF)	Market yield	8.3% - 13.0% (10.9%)
Unsecured Debt	23,183	Income Approach (DCF)	Market yield	11.0% - 15.3% (11.1%)
Equity	4,471	Income Approach (DCF)	Market yield	13.4% - 13.4% (13.4%)
Equity/Warrants	3,420	Market Approach (Guideline Comparable)	EBIDTA Multiple <sup>(1)</sup>	4.5x - 15.0x (7.1x)
Equity/Warrants	1,040	Market Approach (Guideline Comparable)	Revenue Multiple <sup>(1)</sup>	0.1x - 1.9x (0.1x)
Warrants	4,343	Market Approach (Guideline Comparable)	Market Approach (Guideline Comparable)	N/A
Warrants	518	Option Model	Volatility	61.0% - 61.0% (61.0%)
Equity/Warrants	2,495	Recent Arms-Length Transaction	Recent Arms-Length Transaction	N/A
Total	\$1,036,724			



The following table presents the quantitative information about Level 3 fair value measurements of our investments, as of September 30, 2013 (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range (weighted average)
Senior Secured First Lien Term Loans	\$ 404,041	Income Approach (DCF)	Market yield	10.0% - 50.6% (14.4%)
Senior Secured First Lien Term Loans	4,090	Cost recovery	EV coverage	N/A
Senior Secured First Lien Term Loans - Fee Note	671	Income Approach (DCF)	Market yield	0.0% - 14.9% (3.8%)
Senior Secured Second Lien Term Loans	251,963	Income Approach (DCF)	Market yield	9.3% - 20.7% (12.6%)
Senior Secured Notes	77,259	Income Approach (DCF)	Market yield	8.4% - 14.5% (12.2%)
Unsecured Debt	255	Income Approach (DCF)	Market yield	16.0% - 16.0% (16.0%)
Warrants	2,282	Market Approach (Guideline Comparable)	EBITDA multiple <sup>(1)</sup>	2.8x - 6.5x (5.3x)
Equity	673	Market Approach	Revenue multiple <sup>(1)</sup>	0.2x - 0.2x (0.2x)
Total	\$ 741,234			

(1) Represents amounts used when the Company has determined that market participants would use such multiples when measuring the fair value of these investments.

The significant unobservable inputs used in the fair value measurement of the Company's debt investments are market yields. Increases in market yields would result in lower fair value measurements.

The significant unobservable inputs used in the fair value measurement of the Company's equity/warrants investments are comparable company EBITDA multiples. Increases in EBITDA multiples in isolation would result in higher fair value measurements.

## Note 5. Borrowings

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, equals at least 200% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

On November 16, 2012, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC LP guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting it to borrow up to \$150 million more than it would otherwise be able to absent the receipt of this exemptive relief.

The Company's outstanding debt as of June 30, 2014 and September 30, 2013 was as follows (dollars in thousands):

	As of June 30, 2014			September 30, 2013		
	Aggregate			Aggregate		
	Principal Amount Available	Principal Amount Outstanding	Carrying Value	Principal Amount Available	Principal Amount Outstanding	Carrying Value
Revolving Credit Facility	\$346,000	\$ 85,583	\$85,583	\$245,000	\$ 2,500	\$2,500
Term Loan Facility	171,500	171,500	171,500	120,000	120,000	120,000
2019 Notes	40,000	40,000	40,000	40,000	40,000	40,000
2023 Notes	63,500	63,500	63,500	63,500	63,500	63,500
SBA Debentures	100,000	48,000	48,000	50,000	30,000	30,000

Total	\$ 721,000	\$ 408,583	\$ 408,583	\$ 518,500	\$ 256,000	\$ 256,000
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## Credit Facility

On June 2, 2014, we entered into Amendment No. 5 to our existing Senior Secured Revolving Credit Agreement (the “Revolver Amendment”) and Amendment No. 5 our existing Senior Secured Term Loan Credit Agreement (the “Term Loan Amendment,” together with the “Revolver Amendment,” the “Amendments”), each with certain lenders party thereto and ING Capital LLC, as administrative agent. The Amendments amend certain provisions of our Senior Secured Revolving Credit Agreement (the “Revolving Credit Facility”) and the Senior Secured Term Loan Credit Agreement (the “Term Loan Facility,” together with the Revolving Credit Facility, each as amended, the “Facilities”).

The Facilities were amended to, among other things, (i) in the case of the Revolving Credit Facility, to reduce the interest rate (A) for LIBOR loans, to LIBOR (with no minimum) plus 2.75% and (B) for base rate loans, to the base rate plus 1.75%, to extend the revolving period until June 2017 and to extend the final maturity date until June 2018, (ii) in the case of the Term Loan Facility, to reduce the interest rate (A) for LIBOR loans, to LIBOR (with no minimum) plus 3.25% and (B) for base rate loans, to the base rate plus 2.25%, and to extend the final maturity date until June 2019 and (iii) increase the maximum amount of the accordion feature which permits subsequent increases in commitments under the Revolving Facility and/or Term Loan Facility to \$600 million.

Concurrently with the effectiveness of the Amendments, the Company closed an additional \$101.0 million of commitments under its Revolving Credit Facility and an additional \$51.5 million of commitments under its Term Loan Facility.

As of June 30, 2014, total commitments under the Facilities are \$517.5 million, comprised of \$346.0 million committed to the Revolving Credit Facility and \$171.5 million funded under the Term Loan Facility.

At June 30, 2014, the carrying amount of our borrowings under the Facilities approximated the fair value of our debt obligations. The fair values of our debt obligations are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of our borrowings under the Facilities are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At June 30, 2014 and September 30, 2013, the Facilities would be deemed to be Level 3, as defined in Note 4.

As of June 30, 2014 and September 30, 2013, \$5.9 million and \$3.8 million, respectively, of financing costs related to the Revolving Facility have been capitalized and are being amortized over their respective terms. As of June 30, 2014 and September 30, 2013, \$3.1 million and \$2.1 million of financing costs related to the Term Loan Facility have been capitalized and are being amortized over their respective terms.

For the three and nine months ended June 30, 2014 and 2013, the components of interest expense, commitment fees related to the Revolving Facility, amortized deferred financing costs, weighted average stated interest rate and weighted average outstanding debt balance for the Facilities were as follows:

	For the three months ended June 30,		For the nine months ended June 30,	
	2014	2013	2014	2013
Revolving Facility interest	\$ 797	\$ 167	\$ 1,806	\$ 836
Revolving Facility commitment fee	434	522	1,275	1,221
Term Facility interest	1,375	1,199	3,894	2,886
Amortization of deferred financing costs	412	297	1,054	791
Total interest and fees expense	\$ 3,018	\$ 2,185	\$ 8,029	\$ 5,734
Weighted average stated interest rate	3.87	% 4.26	% 4.09	% 4.21
Weighted average outstanding balance	\$ 225,190	\$ 128,552	\$ 186,500	\$ 118,056

As of June 30, 2014 and September 30, 2013, there was \$85.6 million and \$2.5 million, respectively, outstanding under the Revolving Facility. As of June 30, 2014 and September 30, 2013, there was \$171.5 million and \$120.0 million, respectively, outstanding under the Term Loan Facility.

## Unsecured Senior Notes

On March 21, 2012, the Company issued \$40.0 million in aggregate principal amount of 7.125% unsecured notes that mature on March 30, 2019 (the "2019 Notes"). The 2019 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after March 30, 2015. The 2019 Notes bear interest at a rate of

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7.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2012. The 2019 Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol "MCQ".

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On March 18, 2013, the Company issued \$60.0 million in aggregate principal amount of 6.125% unsecured notes that mature on March 30, 2023 (the "2023 Notes," and together with the 2019 Notes, the "Unsecured Notes"). The 2023 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after March 30, 2016. The 2023 Notes bear interest at a rate of 6.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2013. The 2023 Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol "MCV".

On March 26, 2013, the Company closed an additional \$3.5 million in aggregate principal amount of the 2023 Notes, pursuant to the partial exercise of the underwriters' option to purchase additional notes.

At June 30, 2014, the carrying amount and fair value of the 2019 Notes was \$40.0 million and \$41.0 million, respectively. At September 30, 2013, the carrying amount and fair value of the 2019 Notes was \$40.0 million and \$42.0 million, respectively. At June 30, 2014, the carrying amount and fair value of the 2023 Notes was \$63.5 million and \$63.4 million, respectively. At September 30, 2013, the carrying amount and fair value of the 2023 Notes was \$63.5 million and \$60.6 million, respectively. The fair values of our debt obligations are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Unsecured Senior Notes, which are publicly traded, is based upon closing market quotes as of the measurement date. At June 30, 2014 and September 30, 2013 the Unsecured Senior Notes would be deemed to be Level 1, as defined in Note 4.

As of June 30, 2014 and September 30, 2013, \$1.5 million and \$1.5 million, respectively, of financing costs related to the 2019 notes have been deferred and are being amortized over their respective terms. As of June 30, 2014 and September 30, 2013, \$2.1 million and \$2.1 million, respectively, of financing costs related to the 2023 notes have been deferred and are being amortized over their respective terms.

For the three and nine months ended June 30, 2014 and 2013, the components of interest expense, amortized deferred financing costs, weighted average stated interest rate and weighted average outstanding debt balance for the Notes were as follows:

	For the three months ended June 30,		For the nine months ended June 30,	
	2014	2013	2014	2013
2019 Unsecured Notes interest	\$ 713	\$ 713	\$ 2,138	\$ 2,138
2023 Unsecured Notes interest	972	988	2,917	1,113
Amortization of deferred financing costs	105	107	316	220
Total interest and fees expense	\$ 1,790	\$ 1,808	\$ 5,371	\$ 3,471

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Weighted average stated interest rate	6.53	%	6.60	%	6.53	%	6.76	%
Weighted average outstanding balance	\$ 103,500		\$ 103,500		\$ 103,500		\$ 64,321	

As of June 30, 2014, \$40.0 million and \$63.5 million in aggregate principal amount of the 2019 Notes and the 2023 notes were outstanding, respectively. As of June 30, 2013, \$40.0 million and \$63.5 million in aggregate principal amount of the 2019 Notes and the 2023 notes were outstanding, respectively.

### **SBA Debentures**

On March 26, 2013, SBIC LP received an SBIC license from the SBA.

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The SBIC license allows the SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to the SBIC LP's assets over our stockholders in the event we liquidate the SBIC LP or the SBA exercises its remedies under the SBA-guaranteed debentures issued by the SBIC LP upon an event of default.

SBA regulations currently limit the amount that the SBIC LP may borrow to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

As of June 30, 2014, SBIC LP had \$50.0 million in regulatory capital and had \$48.0 million SBA-guaranteed debentures outstanding. As of September 30, 2013, SBIC LP had \$50.0 million in regulatory capital and had \$30.0 million SBA-guaranteed debentures outstanding.

Our fixed-rate SBA debentures as of June 30, 2014 and September 30, 2013 were as follows:

Rate Fix Date	June 30, 2014 <sup>(1)</sup>		September 30, 2013 <sup>(2)</sup>		
	Debenture Amount	Fixed All-in Interest Rate	Debenture Amount	Fixed All-in Interest Rate	
September 2013	\$ 5,000,000	4.404	% \$ 5,000,000	4.404	%
March 2014	39,000,000	3.951	% -	\$ -	
Weighted Average Rate/Total	\$44,000,000	4.002	% \$ 5,000,000	4.404	%

(1) The fixed weighted average rate on the \$44.0 million of outstanding debentures was fixed at an average annualized rate of 4.002%. The remaining \$4.0 million of outstanding debentures have an interim financing rate of 1.293% and are set to pool in September 2014.

(2) The interest rate on the \$5.0 million of outstanding debentures was fixed at an average annualized rate of 4.4%. The weighted average annualized interim financing rate on the remaining \$25.0 million of outstanding debentures was 1.5% and was set to pool in March 2014.



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As of June 30, 2014, the carrying amount of the SBA-guaranteed debentures approximated the fair value of our debt obligations. The fair values of the SBA-guaranteed debentures are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the SBA-guaranteed debentures are estimated based upon market interest rates for our own borrowings or entities with similar credit risk, adjusted for nonperformance risk, if any. At June 30, 2014, and September 30, 2013 the SBA-guaranteed debentures would be deemed to be Level 3, as defined in Note 4.

For the three and nine months ended June 30, 2014 and 2013, the components of interest, amortized deferred financing costs, weighted average stated interest rate and weighted average outstanding debt balance for the SBA Debentures were as follows:

	For the three months ended June 30,		For the nine months ended June 30,			
	2014	2013	2014	2013		
SBA Debentures interest	\$ 441	\$ 1	\$ 822	\$ 1		
Amortization of deferred financing costs	80	19	223	19		
Total interest and fees expense	\$ 521	\$ 20	\$ 1,045	\$ 20		
Weighted average stated interest rate	3.99	% 1.63	% 2.64	% 1.63	%	%
Weighted average outstanding balance	\$ 44,352	\$ 275	\$ 41,604	\$ 92		

## Note 6. Agreements

### *Investment Management Agreement*

On January 19, 2011, the Company entered into an investment management agreement (the “Management Agreement”) with MCC Advisors. Pursuant to the Management Agreement, MCC Advisors implements our business strategy on a day-to-day basis and performs certain services for us, subject to oversight by our board of directors. MCC Advisors is responsible for, among other duties, determining investment criteria, sourcing, analyzing and executing investments transactions, asset sales, financings and performing asset management duties. Under the Management Agreement, we have agreed to pay MCC Advisors a management fee for investment advisory and management services consisting of a base management fee and an incentive fee.

The base management fee will be calculated at an annual rate of 1.75% of our gross assets payable quarterly in arrears. For purposes of calculating the base management fee, the term “gross assets” includes any assets acquired with the proceeds of leverage. For the first quarter of our operations, the base management fee was calculated based on the initial value of our gross assets. Subsequently, the base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. MCC Advisors agreed to waive the base management fee payable with respect to cash and cash equivalents held by the Company through December 31, 2011. This waiver does not extend to periods subsequent to December 31, 2011.

The incentive fee consists of the following two parts:

The first, calculated and payable quarterly in arrears is based on our pre-incentive fee net investment income earned during the calendar quarter for which the Incentive Fee is being calculated. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter including the base management fee, expenses payable under the administration agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee. Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets calculated as of the end of the calendar quarter immediately preceding the calendar quarter for which the incentive fee is being

calculated, will be compared to a “hurdle rate” of 2.00% per quarter (8.0% annualized). We will pay the Adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- (1) no incentive fee for any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;
- (2) 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% (10.0% annualized) in any calendar quarter; and
- (3) 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% (10.0% annualized) in any calendar quarter.

The second part of the incentive fee (the “Capital Gains Fee”) is determined and payable in arrears as of the end of each calendar year (or upon termination of the Management Agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (1) the sum of our cumulative realized capital losses and unrealized capital depreciation from (2) our cumulative aggregate realized capital gains. If the amount so calculated is positive, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fee paid in all prior years. If such amount is negative, then no Capital Gains Fee will be payable for such year. If this Agreement is terminated as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying a Capital Gains Fee.

The Company calculates incentive fee as if the Company had realized all assets at their fair values and liabilities at their settlement amounts as of the reporting date. Accordingly, the Company accrues a provisional incentive fee taking into account any unrealized gains. As the provisional incentive fee is subject to the performance of investments until there is a realization event, the amount of provisional incentive fee accrued at a reporting date may vary from the incentive fee that is ultimately paid, and the differences could be material.

For the three and nine month periods ended June 30, 2014, the Company incurred base management fees to MCC Advisors of \$4.6 million and \$12.3 million, respectively. For the three and nine month periods ended June 30, 2014, we incurred \$5.2 million and \$13.6 million in incentive fees related to pre-incentive fee net investment income, respectively. For the three and nine months ended June 30, 2013, the Company incurred net base management fees to MCC Advisors of \$3.0 million and \$7.6 million, respectively. For the three and nine months ended June 30, 2013, the Company incurred \$3.0 million and \$8.0 million in incentive fees related to pre-incentive fee net investment income, respectively.

As of June 30, 2014 and September 30, 2013, \$9.8 million and \$6.9 million were included in “management and incentive fees payable,” in the accompanying consolidated statements of assets and liabilities.

### ***Administration Agreement***

On January 19, 2011, the Company entered into an administration agreement with MCC Advisors. Pursuant to this agreement, MCC Advisors furnishes us with office facilities and equipment, clerical, bookkeeping, recordkeeping and other administrative services related to the operations of the Company. We reimburse MCC Advisors for our allocable portion of overhead and other expenses incurred by it performing its obligations under the administration agreement, including rent and our allocable portion of the cost of certain of our officers and their respective staff. From time to time, our administrator may pay amounts owed by us to third-party service providers and we will subsequently reimburse our administrator for such amounts paid on our behalf. For the three and nine months ended June 30, 2014, we incurred \$0.9 million and \$2.4 million in administrator expenses, respectively. For the three and nine months ended June 30, 2013, we incurred \$0.7 million and \$1.8 million in administrator expenses, respectively.

## **Note 7. Related Party Transactions**

### ***Investment in Loan Participations***

As discussed in Note 1, the Loan Assets contributed to the Company by MOF LP and MOF LTD upon consummation of the Company's IPO were in the form of loan participations with an affiliated entity managed by affiliates of MCC Advisors. On June 30, 2011, the Company cancelled its participation agreements with an affiliate and executed loan assignment agreements for its investments in Velum Global Credit Management LLC (no longer held as of June 30, 2014) and Water Capital USA, Inc. The Company is now a direct lender of record to these borrowers.

The Company holds its investment in Geneva Wood Fuels LLC through a participation agreement with an affiliated entity, which represents 0.4% of the Company's investments as of June 30, 2014 and 0.6% as of September 30, 2013. By virtue of owning loans through a participation agreement, the Company has a contractual relationship with the affiliate, not the borrower. As a result, the Company is subject to the credit risk of the affiliate as well as that of the borrower. As of June 30, 2014 and September 30, 2013, the principal amount related to this loan participation was \$8.2 million and \$8.2 million, respectively. There was no investment income recorded related to this loan participation for the three and nine months ended June 30, 2014, as it was on non-accrual status. For the three and nine months ended June 30, 2013, total investment income related to this loan participation was \$0.1 million and \$0.6 million, respectively.

***Due to Affiliate***

Due to affiliate consists of certain general and administrative expenses paid by an affiliate on behalf of the Company.

### ***Other Related Party Transactions***

Certain affiliates of MCC Advisors, Medley Capital LLC, their respective affiliates and some of their employees purchased in the IPO an aggregate of 833,333 shares of common stock at the initial public offering price per share of \$12.00. The Company received the full proceeds from the sale of these shares, and no underwriting discounts or commissions were paid in respect of these shares.

On February 23, 2012, MOF LTD and MOF LP sold 4,406,301 shares of common stock at a price of \$11.13 per share. The Company did not receive any of the proceeds of the sale of these shares. In April and May 2012, MOF LTD and MOF LP distributed the remaining 946,293 shares of common stock to their investors and as of June 30, 2012, MOF LTD and MOF LP collectively no longer own shares of our common stock.

Opportunities for co-investments may arise when MCC Advisors or an affiliated adviser becomes aware of investment opportunities that may be appropriate for the Company and other clients, or affiliated funds. As a BDC, the Company was substantially limited in its ability to co-invest in privately negotiated transactions with affiliated funds until it obtained an exemptive order from the SEC on November 25, 2013 (the “Exemptive Order”). The Exemptive Order permits the Company to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Medley, LLC, the parent company of Medley Capital LLC and MCC Advisors, or an investment adviser controlled by Medley, LLC in a manner consistent with its investment objective, strategies and restrictions, as well as regulatory requirements and other pertinent factors. Co-investment under the Exemptive Order is subject to certain conditions therein, including the condition that, in the case of each co-investment transaction, the Company’s board of directors determines that it would be advantageous for the Company to co-invest in a manner described in the Exemptive Order. Before receiving the Exemptive Order, the Company only participated in co-investments that were allowed under existing regulatory guidance, such as syndicated loan transactions where price was the only negotiated term, which limited the types of investments that the Company could make.

### **Note 8. Commitments**

As of June 30, 2014, we had commitments under loan and financing agreements to fund up to \$79.4 million to 12 portfolio companies. These commitments are primarily composed of senior secured term loans and a revolver. As of September 30, 2013, we had commitments under loan and financing agreements to fund up to \$33.1 million to 6 portfolio companies. These commitments are primarily composed of senior secured term loans and a revolver. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with covenants and certain operational metrics. The terms of the borrowings and financings subject to commitment are comparable to the terms of other loan and equity securities in our portfolio. A summary of the composition of the unfunded commitments as of June 30, 2014 and September 30, 2013 is shown in the table below (dollars in thousands):

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	As of June 30, 2014	September 30, 2013
Red Skye Wireless LLC	\$ 15,000	\$ 15,000
Miratech Intermediate Holdings, Inc.	14,769	-
DreamFinders Homes - TLB	9,258	2,723
Sendero Drilling Company LLC	7,745	-
Merchant Cash and Capital LLC (First Lien)	7,163	-
Lydell Jewelry Design Studio LLC	5,928	5,928
Merchant Cash and Capital LLC (Second Lien)	5,000	-
Autosplice, Inc.	3,026	-
Be Green Manufacturing and Distribution Centers LLC - Delayed Draw TL	2,917	-
Wheels Up Partners LLC	2,862	-
The Plastics Group Acquisition Corp.	2,500	-
Tenere Acquisition Corp.	2,000	2,000
Physicians Care Alliance LLC	767	767
Be Green Manufacturing and Distribution Centers LLC - Revolver	479	-
DLR Restaurants LLC	-	4,177
DreamFinders Homes - TLA	-	2,500
Total	\$79,414	\$ 33,095

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**Note 9. Other Fee Income**

The other fee income consists of origination/closing fee, amendment fee, prepayment penalty, administrative agent fee, transaction break-up fee and other miscellaneous fees. The following tables summarize the Company's other fee income for the three and nine months ended June 30, 2014 and 2013 (dollars in thousands):

	For the three months ended June 30,	
	2014	2013
Origination fee	\$ 3,009	\$ 2,798
Prepayment fee	5,112	26
Amendment fee	146	550
Transaction break-up fee	—	200
Administrative agent fee	176	65
Other fees	191	—
Other fee income	\$ 8,634	\$ 3,639

	For the nine months ended June 30,	
	2014	2013
Origination fee	\$ 10,370	\$ 6,441
Prepayment fee	8,139	1,496
Amendment fee	1,318	1,370
Transaction break-up fee	100	200
Administrative agent fee	412	197
Other fees	279	312
Other fee income	\$ 20,618	\$ 10,016

**Note 10. Directors Fees**

The independent directors receive an annual fee of \$50,000. They also receive \$7,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of \$25,000 and the chairman of each other committee receives an annual fee of \$10,000 for their additional services in these capacities. In addition, other members of the audit committee receive an annual fee of \$12,500 and other members of each other committee receive an annual fee of \$6,000. No compensation is paid to directors who are "interested persons" of the Company (as such term is defined in the 1940 Act). For the three and nine months ended June 30, 2014, we accrued \$0.2 million and \$0.5 million for directors' fees expense, respectively. For the three and nine months ended June 30, 2013, we accrued \$0.1 million and \$0.3 million for directors' fees expense, respectively.



**Note 11. Earnings Per Share**

In accordance with the provisions of ASC Topic 260 - Earnings per Share (“ASC 260”), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and nine months ended June 30, 2014 (dollars in thousands except share and per share amounts):

Basic and diluted	Three months ended	Nine months ended
	June 30, 2014	June 30, 2014
Net increase in net assets from operations	\$ 16,589	\$ 43,324
Weighted average common shares outstanding	50,503,492	44,836,152
Earnings per common share-basic and diluted	\$ 0.33	\$ 0.97

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and nine months ended June 30, 2013 (dollars in thousands except share and per share amounts):

Basic and diluted	Three months ended June 30, 2013	Nine months ended June 30, 2013
Net increase in net assets from operations	\$ 3,157	\$ 24,293
Weighted average common shares outstanding	32,658,336	28,684,229
Earnings per common share-basic and diluted	\$ 0.10	\$ 0.85

## Note 12. Financial Highlights

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

	For the nine months ended June 30,	
	2014	2013
Per share data:		
Net asset value per share at beginning of period	\$12.70	\$12.52
Net investment income <sup>(1)</sup>	1.21	1.12
Net realized gains on investments	0.02	0.03
Net unrealized appreciation/(depreciation) on investments	(0.26 )	(0.28 )
Net unrealized appreciation/(depreciation) on participations	0.01	-
Provision for taxes on unrealized gain/(loss) on investments	(0.01 )	-
Net increase in net assets	0.97	0.87
Distributions declared from net investment income	(1.11 )	(1.06 )
Issuance of common stock, net of underwriting costs	0.11	0.33
Offering costs	(0.01 )	(0.01 )
Other <sup>(2)</sup>	(0.01 )	-
Net asset value at end of period	\$12.65	\$12.65
Net assets at end of period	\$661,232,242	\$420,246,094
Shares outstanding at end of period	52,283,712	33,226,126
Per share market value at end of period	\$13.06	\$13.58
Total return based on market value <sup>(3)</sup>	3.12 %	4.36 %
Total return based on net asset value <sup>(4)</sup>	8.45 %	9.25 %
Portfolio turnover rate	26.14 %	20.32 %

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The following is a schedule of ratios and supplemental data for the nine months ended June 30, 2013 and 2012:

	For the nine months ended June 30,			
	2014		2013	
Ratios: <sup>(5)</sup>				
Ratio of net investment income to average net assets	12.80	%	11.91	%
Ratio of total expenses to average net assets	11.05	%	10.96	%
Ratio of incentive fees to average net assets	3.20	%	2.98	%
Supplemental Data:				
Ratio of operating expenses and credit facility related expenses to average net assets	7.85	%	7.98	%
Average debt outstanding <sup>(6)</sup>	\$331,604,043		\$182,431,190	
Average debt outstanding per common share	\$6.57		\$6.36	
Asset coverage ratio per unit <sup>(7)</sup>	2,834		2,511	
Average market value per unit				
Facilities <sup>(8)</sup>	N/A		N/A	
SBA debentures <sup>(8)</sup>	N/A		N/A	
Notes due 2019	\$25.76		\$26.24	
Notes due 2023	\$24.66		\$24.95	

(1) Net investment income based on total weighted average common stock outstanding was \$1.21 per share and \$1.12 per share for the nine months ended June 30, 2014 and 2013, respectively.

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

(3) Total annual return is historical and assumes changes in share price, reinvestments of all dividends and distributions at prices obtained under the Company's dividend reinvestment plan for the period.

(4) Total annual return is historical and assumes changes in net assets value, reinvestments of all dividends and distributions at prices obtained under the Company's dividend reinvestment plan for the period.

(5) Ratios are annualized.

(6) Based on daily weighted average balance of debt outstanding during the period.

Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.

(8) The Facilities and SBA debentures are not registered for public trading.

## Note 13. Dividends

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Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by our board of directors.

We have adopted an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend or other distribution, each stockholder that has not “opted out” of our dividend reinvestment plan will have its dividends automatically reinvested in additional shares of our common stock rather than receiving cash dividends. Stockholders who receive distributions in the form of shares of common stock will be subject to the same federal, state and local tax consequences as if they received cash distributions.

The following table summarizes the Company’s dividend declarations and distributions during the nine months ended June 30, 2014 and 2013:

Date Declared	Record Date	Payment Date	Amount Per Share
For the nine months ended June 30, 2014			
10/30/2013	11/22/2013	12/13/2013	0.37
2/5/2014	2/26/2014	3/14/2014	0.37
5/1/2014	5/28/2014	6/13/2014	0.37
			\$ 1.11

Date Declared	Record Date	Payment Date	Amount Per Share
For the nine months ended June 30, 2013			
11/1/2012	11/23/2012	12/14/2012	0.36
1/30/2013	2/27/2013	3/15/2013	0.36
5/1/2013	5/24/2013	6/14/2013	0.36
			\$ 1.08

#### Note 14. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements as of and for the nine months ended June 30, 2014, except as disclosed below.

On July 30, 2014, the Company's board of directors declared a quarterly dividend of \$0.37 per share payable on September 12, 2014, to stockholders of record at the close of business on August 27, 2014.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this quarterly report on Form 10-Q.

Except as otherwise specified, references to "we," "us," "our," or the "Company," refer to Medley Capital Corporation.

**Forward-Looking Statements**

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

- the introduction, withdrawal, success and timing of business initiatives and strategies;

changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes in the value of our assets;

- the relative and absolute investment performance and operations of MCC Advisors;

- the impact of increased competition;

- the impact of future acquisitions and divestitures;

- our business prospects and the prospects of our portfolio companies;

- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or MCC Advisors;

- our contractual arrangements and relationships with third parties;

any future financings by us;

the ability of MCC Advisors to attract and retain highly talented professionals;

fluctuations in foreign currency exchange rates;

the impact of changes to tax legislation and, generally, our tax position; and

the unfavorable resolution of legal proceedings.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “assume,” “potential,” “outlook,” “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve,” and similar expressions, or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. The forward looking statements contained in this quarterly report involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth as “Risk Factors” and elsewhere in this quarterly report on Form 10-Q.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

## Overview

We are an externally-managed, non-diversified closed-end management investment company that filed an election to be regulated as a BDC under the 1940 Act. In addition, we have elected and qualified to be treated for U.S. federal income tax purposes as a RIC under subchapter M of the Code.



We commenced operations and completed our initial public offering on January 20, 2011. Our investment activities are managed by MCC Advisors and supervised by our board of directors, of which a majority of the members are independent of us.

Our investment objective is to generate current income and capital appreciation by lending to privately-held middle market companies, primarily through directly originated transactions, to help these companies fund acquisitions, growth or refinancing. Our portfolio generally consists of senior secured first lien term loans and senior secured second lien term loans. In many of our investments, we receive warrants or other equity participation features, which we believe will increase the total investment returns.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in “qualifying assets,” including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing, with certain limited exceptions. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements. To maintain our RIC tax treatment under subchapter M for U.S. federal income tax purposes, we must distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, for the taxable year.

### ***Revenues***

We generate revenue in the form of interest income on the debt that we hold and capital gains, if any, on warrants or other equity interests that we may acquire in portfolio companies. We invest our assets primarily in privately held companies with enterprise or asset values between \$25 million and \$250 million and focus on investment sizes of \$10 million to \$50 million. We believe that pursuing opportunities of this size offers several benefits including reduced competition, a larger investment opportunity set and the ability to minimize the impact of financial intermediaries. We expect our debt investments to bear interest at either a fixed or floating rate. Interest on debt will be payable generally either monthly or quarterly. In some cases our debt investments may provide for a portion of the interest to be PIK. To the extent interest is PIK, it will be payable through the increase of the principal amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation. The principal amount of the debt and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance or investment management services and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned.

### ***Expenses***

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Our primary operating expenses include the payment of management and incentive fees pursuant to the investment management agreement we have with MCC Advisors and overhead expenses, including our allocable portion of our administrator's overhead under the administration agreement. Our management and incentive fees compensate MCC Advisors for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions, including those relating to:

- our organization and continued corporate existence;

- calculating our NAV (including the cost and expenses of any independent valuation firms);

- expenses incurred by MCC Advisors payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;

- interest payable on debt, if any, incurred to finance our investments;

- the costs of all offerings of common stock and other securities, if any;

- the base management fee and any incentive fee;

- distributions on our shares;

- administration fees payable under our administration agreement;

- the allocated costs incurred by MCC Advisors in providing managerial assistance to those portfolio companies that request it;

- amounts payable to third parties relating to, or associated with, making investments;

- transfer agent and custodial fees;

- registration fees and listing fees;
  - U.S. federal, state and local taxes;
  - independent director fees and expenses;
  - costs of preparing and filing reports or other documents with the SEC or other regulators;
  - the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
  - our fidelity bond;
  - directors and officers/errors and omissions liability insurance, and any other insurance premiums;
  - indemnification payments;
  - direct costs and expenses of administration, including audit and legal costs; and
- all other expenses reasonably incurred by us or MCC Advisors in connection with administering our business, such as the allocable portion of overhead under our administration agreement, including rent and other allocable portions of the cost of certain of our officers and their respective staffs (including travel expenses).

### **Portfolio and Investment Activity**

As of June 30, 2014, our portfolio consisted of investments in 74 portfolio companies with a fair value of approximately \$1,043.0 million. During the three months ended June 30, 2014, we invested \$184.0 million in 11 new portfolio companies and \$22.8 million in 6 existing portfolio companies, and we had \$117.4 million in aggregate amount of exits and repayments, resulting in net investments of \$89.4 million for the period. As of June 30, 2013, our portfolio consisted of investments in 56 portfolio companies with a fair value of approximately \$686.4 million. During the three months ended June 30, 2013, we invested \$117.1 million in 8 new portfolio companies and \$1.9 million in 2 existing portfolio companies, and we had \$22.5 million in aggregate amount of exits and repayments, resulting in net investments of \$96.5 million for the period.

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During the nine months ended June 30, 2014, we invested \$471.4 million in 31 new portfolio companies and \$66.7 million in 9 existing portfolio companies, and we had \$239.2 million in aggregate amounts of exits and repayments, resulting in net investments of \$298.9 million for the period. During the nine months ended June 30, 2013, we invested \$324.0 million in 27 new portfolio companies and \$51.4 million in 12 existing portfolio companies, and we had \$92.3 million in aggregate amounts of exits and repayments, resulting in net investments of \$283.1 million for the period.

As of June 30, 2014, our average portfolio company investment and our largest portfolio company investment at amortized cost and fair value was approximately \$14.4 million and \$14.1 million, and \$29.9 million and \$30.5 million, respectively. As of June 30, 2013, our average portfolio company investment and our largest portfolio company investment at amortized cost and fair value was approximately \$12.4 million and \$12.3 million, and \$25.4 million and \$25.6 million, respectively.

The following table summarizes the amortized cost and the fair value of investments as of June 30, 2014 (dollars in thousands):

	Investments at Amortized Cost	Percentage		Investments at Fair Value	Percentage	
Senior Secured First Lien Term Loans	\$ 663,884	62.4	%	\$ 641,244	61.5	%
Senior Secured Second Lien Term Loans	326,737	30.7		324,815	31.1	
Senior Secured Notes	39,074	3.7		37,520	3.6	
Unsecured Debt	23,183	2.2		23,183	2.2	
Equity/Warrants	10,205	1.0		16,287	1.6	
Total	\$ 1,063,083	100.0	%	\$ 1,043,049	100.0	%

The following table summarizes the amortized cost and the fair value of investments as of September 30, 2013 (dollars in thousands):

	Investments at Amortized Cost	Percentage		Investments at Fair Value	Percentage	
Senior Secured First Lien Term Loans	\$ 418,109	55.2	%	\$ 408,802	54.5	%
Senior Secured Second Lien Term Loans	253,210	33.4		251,963	33.6	
Senior Secured Notes	84,125	11.1		85,262	11.4	
Unsecured Debt	255	0.1		255	0.1	
Equity/Warrants	1,991	0.2		2,955	0.4	
Total	\$ 757,690	100.0	%	\$ 749,237	100.0	%

As of June 30, 2014, the weighted average loan to value ratio (“LTV”) of our portfolio investments based upon fair market value was approximately 59.6%. We believe that the LTV ratio for a portfolio investment is a useful indicator of the riskiness of the portfolio investment, or its likelihood of default. As part of our investment strategy, we seek to structure transactions with downside protection and seek LTVs of lower than 65%. We regularly evaluate the LTV of our portfolio investments and believe that LTV is a useful indicator for management and investors.

As of June 30, 2014, our income-bearing investment portfolio, which represented nearly 98.8% of our total portfolio, had a weighted average yield based upon cost of our portfolio investments of approximately 13.4%, and 65.9% of our income-bearing investment portfolio bore interest based on floating rates, such as LIBOR, and 34.1% bore interest at fixed rates.

MCC Advisors regularly assesses the risk profile of each of our investments and rates each of them based on the following categories, which we refer to as MCC Advisors’ investment credit rating:

<b>Credit Rating</b>	<b>Definition</b>
1	Investments that are performing above expectations.
2	Investments that are performing within expectations, with risks that are neutral or favorable compared to risks at the time of origination.  All new loans are rated ‘2’.
3	Investments that are performing below expectations and that require closer monitoring, but where no loss of interest, dividend or principal is expected.  Companies rated ‘3’ may be out of compliance with financial covenants, however, loan payments are generally not past due.
4	Investments that are performing below expectations and for which risk has increased materially since origination.  Some loss of interest or dividend is expected but no loss of principal.  In addition to the borrower being generally out of compliance with debt covenants, loan payments may be past due (but generally not more than 180 days past due).
5	Investments that are performing substantially below expectations and whose risks have increased substantially since origination.  Most or all of the debt covenants are out of compliance and payments are substantially delinquent.

Some loss of principal is expected.

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

Investment Performance Rating	Investments at Fair Value	Percentage	
1	\$ 41,323	4.0	%
2	919,035	88.1	
3	66,560	6.3	
4	12,131	1.2	
5	4,000	0.4	
Total	\$ 1,043,049	100.0	%

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value as of September 30, 2013 (dollars in thousands):

Investment Performance Rating	Investments at Fair Value	Percentage	
1	\$ 37,618	5.0	%
2	650,130	86.8	
3	49,396	6.6	
4	8,003	1.1	
5	4,090	0.5	
Total	\$ 749,237	100.0	%

## Results of Operations

Operating results for the three and nine months ended June 30, 2014 and 2013 are as follows (dollars in thousands):

	For the three months ended June 30,	
	2014	2013
Total investment income	\$ 38,072	\$ 23,591
Total expenses	17,378	11,561
Net investment income	20,694	12,030
Net realized gains (losses)	814	(137 )
Net unrealized gains (losses) on investments	(4,820 )	(8,736 )
Net unrealized gains (losses) on participations	(29 )	—
Provision for taxes on unrealized gain/(loss) on investments	(70 )	—
Net increase in net assets resulting from operations	\$ 16,589	\$ 3,157

	For the nine months ended June 30,	
	2014	2013
Total investment income	\$ 101,138	\$ 61,518
Total expenses	46,858	29,474
Net investment income	54,280	32,044
Net realized gains (losses)	887	237
Net unrealized gains (losses) on investments	(11,581 )	(7,988 )
Net unrealized gains (losses) on participations	124	—
Provision for taxes on unrealized gain/(loss) on investments	(386 )	—
Net increase in net assets resulting from operations	\$ 43,324	\$ 24,293

## Investment Income

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For the three and nine months ended June 30, 2014, investment income totaled \$38.1 million and \$101.1 million, respectively, of which \$29.5 million and \$80.5 million was attributable to portfolio interest and \$8.6 million and \$20.6 million to other fee income.

For the three and nine months ended June 30, 2013, investment income totaled \$23.6 million and \$61.5 million, respectively, of which \$20.0 million and \$51.5 million was attributable to portfolio interest and \$3.6 million and \$10.0 million to other fee income.

### *Operating Expenses*

Operating expenses for the three and nine months ended June 30, 2014 and 2013 were as follows (dollars in thousands):

	For the three months ended June 30,	
	2014	2013
Base management fees	\$ 4,593	\$ 2,977
Incentive fees	5,174	3,008
Administrator expenses	859	4,032
Professional fees	711	682
Interest and financing expenses	5,348	320
Directors fees	194	71
Insurance	150	70
General and administrative	349	399
Organizational Expense	—	2
Expenses	\$ 17,378	\$ 11,561



	For the nine months ended June 30,	
	2014	2013
Base management fees	\$ 12,336	\$ 7,607
Incentive fees	13,570	8,011
Administrator expenses	2,371	9,283
Professional fees	1,868	1,773
Interest and financing expenses	14,502	1,161
Directors fees	536	315
Insurance	426	210
General and administrative	1,249	963
Organizational Expense	—	151
Expenses	\$ 46,858	\$ 29,474

For the three months ended June 30, 2014, total operating expenses increased by \$5.8 million, or 50.3%, compared to the three months ended June 30, 2013. For the nine months ended June 30, 2014, total operating expenses increased by \$17.4 million, or 59.0%, compared to the nine months ended June 30, 2013.

Interest and financing expenses were higher in the three months ended June 30, 2014 than the three months ended June 30, 2013 as a result of increase in commitment on a four-year senior secured revolving credit facility, issuing \$40.0 million in aggregate principal amount of 7.125% unsecured notes that mature on March 30, 2019 (the “2019 Notes”), entering into a new five-year senior secured term loan credit facility, issuing \$63.5 million in aggregate principal amount of 6.125% unsecured notes that mature on March 30, 2023 (the “2023 Notes”) and issuing SBA-guaranteed debentures.

Excluding interest and financing expenses, expenses increased for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 due to an increase in professional fees, base management fees, incentive fees, administrative service fees, general administrative expenses and organizational expenses. Professional fees and administrative service fees have increased due to higher legal, audit, valuation services and administrator expenses. Base management fees, which are calculated based on average gross assets, increased due to the growth in the portfolio throughout the period. The incentive fee increased as a result of the increase in pre-incentive fee net investment income.

### ***Net Realized Gains/Losses from Investments***

We measure realized gains or losses by the difference between the net proceeds from the disposition and the amortized cost basis of an investment, without regard to unrealized gains or losses previously recognized.

During the three and nine months ended June 30, 2014, we recognized \$0.8 million and \$0.9 million of realized gains on our portfolio investments, respectively. During the three and nine months ended June 30, 2013, we recognized \$0.1 million of realized losses and \$0.2 million of realized gains on our portfolio investments, respectively.

### ***Net Unrealized Appreciation/Depreciation on Investments***

Net change in unrealized appreciation on investments reflects the net change in the fair value of our investment portfolio. For the three and nine months ended June 30, 2014, we had \$4.8 million and \$11.6 million of unrealized depreciation, respectively, on portfolio investments. For the three and nine months ended June 30, 2013, we had \$8.7 million and \$8.0 million of unrealized depreciation, respectively, on portfolio investments. For the three and nine months ended June 30, 2014, we had \$29,380 of unrealized depreciation and \$0.1 million of unrealized appreciation, respectively, on participated investments. For the three and nine months ended June 30, 2013, we had no unrealized appreciation or depreciation on participated investments.

### ***Provision for Deferred Taxes on Unrealized Appreciation on Investments***

Certain consolidated subsidiaries of ours are subject to U.S. federal and state income taxes. These taxable subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax liabilities or assets from temporary differences in the recognition of items for financial reporting and income tax purposes at the subsidiaries. For the three and nine months ended June 30, 2014, the Company recognized a provision for deferred tax on unrealized gain of \$69,687 and \$0.4 million for consolidated subsidiaries, respectively. For the three and nine months ended June 30, 2013, the Company did not recognize a provision for deferred tax on unrealized gain.

### ***Changes in Net Assets from Operations***

For the three months ended June 30, 2014, we recorded a net increase in net assets resulting from operations of \$16.6 million versus a net increase in net assets resulting from operations of \$3.2 million for the three months ended June 30, 2013. The difference is attributable to an increase in total investment income offset by an increase in total operating expenses, resulting from portfolio growth and an increase in net unrealized depreciation for the three months ended June 30, 2014, as compared to the same period in the prior year. Based on 50,503,492 and 32,658,336 weighted average common shares outstanding for the three months ended June 30, 2014 and 2013, respectively, our per share net increase in net assets resulting from operations was \$0.33 for the three months ended June 30, 2014, versus a per share net increase in net assets from operations of \$0.10 for the three months ended June 30, 2013.

For the nine months ended June 30, 2014, we recorded a net increase in net assets resulting from operations of \$43.3 million versus a net increase in net assets resulting from operations of \$24.3 million for the nine months ended June 30, 2013. The difference is attributable to an increase in total investment income offset by an increase in total operating expenses, resulting from portfolio growth and an increase in net unrealized depreciation for the for the nine months ended June 30, 2014, as compared to the same period in the prior year. Based on 44,836,152 and 28,684,229 weighted average common shares outstanding for the nine months ended June 30, 2014 and 2013, respectively, our per share net increase in net assets resulting from operations was \$0.97 for the nine months ended June 30, 2014, versus a per share net increase in net assets from operations of \$0.85 for the nine months ended June 30, 2013.

### **Financial Condition, Liquidity and Capital Resources**

As a BDC, we distribute substantially all of our net income to our stockholders and have an ongoing need to raise additional capital for investment purposes. To fund growth, we have a number of alternatives available to increase capital; including raising equity, increasing debt, and funding from operational cash flow.

Our liquidity and capital resources have been generated primarily from the net proceeds of public offerings of common stock, advances from the Revolving Facility and the Term Loan Facility and net proceeds from the issuance of notes as well as cash flows from operations.

On January 20, 2011, we completed our IPO and issued 11,111,112 common shares and received net proceeds of \$129.6 million.

On March 21, 2012, we issued \$40.0 million in aggregate principal amount of the 2019 Notes. The 2019 Notes may be redeemed in whole or in part at any time or from time to time at our option on or after March 30, 2015. The 2019 Notes bear interest at a rate of 7.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2012. The 2019 Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol "MCQ". As of December 31, 2013, \$40.0 million in aggregate principal amount of the 2019 Notes were outstanding.

On August 24, 2012, we completed a public offering of 5,750,000 shares, including the underwriters' full exercise of the option to purchase additional shares, of our common stock at a public offering price of \$12.95 per share, raising approximately \$71.9 million in net proceeds.

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On December 3, 2012, we completed a public offering of 5,000,000 shares of our common stock at a public offering price of \$13.75 per share, raising approximately \$66.0 million in net proceeds. On December 19, 2012, we sold an additional 495,263 shares of our common stock at a public offering price of \$13.75 per share, raising approximately \$6.5 million in net proceeds, pursuant to the underwriters' partial exercise of the option to purchase additional shares.

On March 18, 2013, the Company issued \$60.0 million in aggregate principal amount of the 2023 Notes. The 2023 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after March 30, 2016. The 2023 Notes bear interest at a rate of 6.125% per year, payable quarterly on March 30, June 30, September 30 and December 30 of each year, beginning June 30, 2013. The 2023 Notes are listed on the New York Stock Exchange and trade thereon under the trading symbol "MCV".

On April 12, 2013, we completed a public offering of 4,000,000 shares of our common stock and an additional 492,271 shares of our common stock pursuant to the underwriters' partial exercise of the over-allotment option at a public offering price of \$14.70 per share, raising approximately \$63.4 million in net proceeds.

On September 9, 2013, we completed a public offering of 6,900,000 shares of our common stock, which included the full exercise of the underwriters' option to purchase an additional 900,000 shares, at a public offering price of \$13.00 per share, raising approximately \$86.6 million in net proceeds.

On February 5, 2014 we completed a public offering of 6,000,000 shares of our common stock at a public offering price of \$14.00 per share, raising approximately \$81.1 million in net proceeds.

On April 28, 2014 we completed a public offering of 6,000,000 shares of our common stock at a public offering price of \$13.25 per share, raising approximately \$76.9 million in net proceeds.

On June 2, 2014, we entered into Amendment No. 5 to our existing Senior Secured Revolving Credit Agreement (the “Revolver Amendment”) and Amendment No. 5 our existing Senior Secured Term Loan Credit Agreement (the “Term Loan Amendment,” together with the “Revolver Amendment,” the “Amendments”), each with certain lenders party thereto and ING Capital LLC, as administrative agent. The Amendments amend certain provisions of our Senior Secured Revolving Credit Agreement (the “Revolving Credit Facility”) and the Senior Secured Term Loan Credit Agreement (the “Term Loan Facility,” together with the Revolving Credit Facility, each as amended, the “Facilities”).

The Facilities were amended to, among other things, (i) in the case of the Revolving Credit Facility, to reduce the interest rate (A) for LIBOR loans, to LIBOR (with no minimum) plus 2.75% and (B) for base rate loans, to the base rate plus 1.75%, to extend the revolving period until June 2017 and to extend the final maturity date until June 2018, (ii) in the case of the Term Loan Facility, to reduce the interest rate (A) for LIBOR loans, to LIBOR (with no minimum) plus 3.25% and (B) for base rate loans, to the base rate plus 2.25%, and to extend the final maturity date until June 2019 and (iii) increase the maximum amount of the accordion feature which permits subsequent increases in commitments under the Revolving Facility and/or Term Loan Facility to \$600 million.

Concurrently with the effectiveness of the Amendments, the Company closed an additional \$101 million of commitments under its Revolving Credit Facility and an additional \$51.5 million of commitments under its Term Loan Facility

As of June 30, 2014, total commitments under the Facilities are \$517.5 million, comprised of \$346 million committed to the Revolving Credit Facility and \$171.5 million funded under the Term Loan Facility.

As of June 30, 2014, we had \$17.1 million in cash. In the future, we may generate cash from future offerings of securities, future borrowings and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. Our primary use of funds is investments in our targeted asset classes, cash distributions to our stockholders, and other general corporate purposes.

In order to satisfy the Code requirements applicable to a RIC, we intend to distribute to our stockholders substantially all of our taxable income, but we may also elect to periodically spillover certain excess undistributed taxable income from one tax year into the next tax year. In addition, as a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow.

On March 26, 2013, our wholly-owned subsidiary, Medley SBIC LP (“SBIC LP”) received a Small Business Investment Company (“SBIC”) license from the Small Business Administration (“SBA”).

The SBIC license allows the SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to the SBIC LP's assets over our stockholders in the event we liquidate the SBIC LP or the SBA exercises its remedies under the SBA-guaranteed debentures issued by the SBIC LP upon an event of default.

SBA regulations currently limit the amount that the SBIC LP may borrow to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

On November 16, 2012, we obtained exemptive relief from the SEC to permit us to exclude the debt of the SBIC LP guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. The exemptive relief provides us with increased flexibility under the 200% asset coverage test by permitting it to borrow up to \$150 million more than it would otherwise be able to absent the receipt of this exemptive relief.

As of June 30, 2014, SBIC LP had \$50.0 million in regulatory capital and had \$48.0 million SBA-guaranteed debentures outstanding.

### **Contractual Obligations and Off-Balance Sheet Arrangements**

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. As of June 30, 2014, we had commitments under loan and financing agreements to fund up to \$79.4 million to 12 portfolio companies. These commitments are primarily composed of senior secured term loans and a revolver. As of September 30, 2013, we had commitments under loan and financing agreements to fund up to \$33.1 million to 6 portfolio companies. These commitments are primarily composed of senior secured term loans and a revolver. The commitments are generally subject to the borrowers meeting certain criteria such as compliance with covenants and certain operational metrics. The terms of the borrowings and financings subject to commitment are comparable to the terms of other loan and equity securities in our portfolio. A summary of the composition of the unfunded commitments at June 30, 2014 and September 30, 2013 is shown in the table below (dollars in thousands):

As of	
June	September 30, 2013
30, 2014	

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Red Skye Wireless LLC	\$ 15,000	\$ 15,000
Miratech Intermediate Holdings, Inc.	14,769	-
DreamFinders Homes - TLB	9,258	2,723
Sendero Drilling Company LLC	7,745	-
Merchant Cash and Capital LLC (First Lien)	7,163	-
Lydell Jewelry Design Studio LLC	5,928	5,928
Merchant Cash and Capital LLC (Second Lien)	5,000	-
Autosplice, Inc.	3,026	-
Be Green Manufacturing and Distribution Centers LLC - Delayed Draw TL	2,917	-
Wheels Up Partners LLC	2,862	-
The Plastics Group Acquisition Corp.	2,500	-
Tenere Acquisition Corp.	2,000	2,000
Physicians Care Alliance LLC	767	767
Be Green Manufacturing and Distribution Centers LLC - Revolver	479	-
DLR Restaurants LLC	-	4,177
DreamFinders Homes - TLA	-	2,500
Total	\$79,414	\$ 33,095



We have certain contracts under which we have material future commitments. We have entered into an investment management agreement with MCC Advisors in accordance with the 1940 Act. The investment management agreement became effective upon the pricing of our initial public offering. Under the investment management agreement, MCC Advisors has agreed to provide us with investment advisory and management services. For these services, we have agreed to pay a base management fee equal to a percentage of our gross assets and an incentive fee based on our performance.

We have also entered into an administration agreement with MCC Advisors as our administrator. The administration agreement became effective upon the pricing of our initial public offering. Under the administration agreement, MCC Advisors has agreed to furnish us with office facilities and equipment, provide us clerical, bookkeeping and record keeping services at such facilities and provide us with other administrative services necessary to conduct our day-to-day operations. MCC Advisors will also provide on our behalf significant managerial assistance to those portfolio companies to which we are required to provide such assistance.

The following table shows our payment obligations for repayment of debt and other contractual obligations at June 30, 2014 (dollars in thousands):

	Payment Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Revolving Facility	\$85,583	\$ -	\$ -	\$85,583	\$ -
Term Loan Facility	171,500	-	-	171,500	-
7.125% Notes	40,000	-	-	40,000	-
6.125% Notes	63,500	-	-	-	63,500
SBA Debenture	48,000	-	-	-	48,000
Total contractual obligations	\$408,583	\$ -	\$ -	\$297,083	\$111,500

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that we enter into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our investment management agreement and our administration agreement. Any new investment management agreement would also be subject to approval by our stockholders.

## Distributions

We have elected and qualified to be treated for U.S. federal income tax purposes as a RIC under subchapter M of the Code. As a RIC, in any taxable year with respect to which we distribute at least 90 percent of the sum of our (i)

investment company taxable income (which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses) determined without regard to the deduction for dividends paid and (ii) net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions), we (but not our stockholders) generally will not be subject to U.S. federal income tax on investment company taxable income and net capital gains that we distribute to our stockholders. We intend to distribute annually all or substantially all of such income. To the extent that we retain our net capital gains or any investment company taxable income, we may be subject to U.S. federal income tax. We may choose to retain our net capital gains or any investment company taxable income, and pay the associated federal corporate income tax, including the federal excise tax described below.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% U.S. federal excise tax payable by us. To avoid this tax, we must distribute (or be deemed to have distributed) during each calendar year an amount equal to the sum of:

- (1) at least 98.0 percent of our ordinary income (not taking into account any capital gains or losses) for the calendar year;
- (2) at least 98.2 percent of the amount by which our capital gains exceed our capital losses (adjusted for certain ordinary losses) for a one-year period ending on October 31st of the calendar year; and
- (3) income realized, but not distributed, in preceding years.

While we intend to distribute any income and capital gains in the manner necessary to minimize imposition of the 4% U.S. federal excise tax, sufficient amounts of our taxable income and capital gains may not be distributed to avoid entirely the imposition of the tax. In that event, we will be liable for the tax only on the amount by which we do not meet the foregoing distribution requirement.

We intend to pay quarterly dividends to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to pay a specified level of dividends or year-to-year increases in dividends. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC could limit our ability to pay dividends. All dividends will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will pay dividends to our stockholders in the future.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend or other distribution, each stockholder that has not “opted out” of our dividend reinvestment plan will have their dividends automatically reinvested in additional shares of our common stock rather than receiving cash dividends. Stockholders who receive distributions in the form of shares of common stock will be subject to the same federal, state and local tax consequences as if they received cash distributions.

The following table summarizes the dividends declared through the three months ended June 30, 2014:

Date Declared	Record Date	Payment Date	Amount Per Share
5/11/2011	6/1/2011	6/15/2011	0.16
8/4/2011	9/1/2011	9/15/2011	0.21
11/29/2011	12/15/2011	12/30/2011	0.25
2/2/2012	2/24/2012	3/15/2012	0.28
5/2/2012	5/25/2012	6/15/2012	0.31
8/1/2012	8/24/2012	9/14/2012	0.36
11/1/2012	11/23/2012	12/14/2012	0.36
1/30/2013	2/27/2013	3/15/2013	0.36
5/1/2013	5/27/2013	6/14/2013	0.36
7/31/2013	8/23/2013	9/13/2013	0.37
10/30/2013	11/22/2013	12/13/2013	0.37
2/5/2014	2/26/2014	3/14/2014	0.37
5/1/2014	5/28/2014	6/13/2014	0.37

## Related Party Transactions

Concurrent with the pricing of our initial public offering, we entered into a number of business relationships with affiliated or related parties, including the following:

We entered into an investment management agreement with MCC Advisors. Mr. Brook Taube, our chairman and chief executive officer, is a managing partner and senior portfolio manager of MCC Advisors, and Mr. Seth Taube, one of our directors, is a managing partner of MCC Advisors.

MCC Advisors provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our administration agreement. We reimburse MCC Advisors for the allocable portion (subject to the review and approval of our board of directors) of overhead and other expenses incurred by it in performing its obligations under the administration agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

We have entered into a license agreement with Medley Capital LLC, pursuant to which Medley Capital LLC has granted us a non-exclusive, royalty-free license to use the name “Medley.”

Certain affiliates of MCC Advisors, Medley Capital LLC, their respective affiliates and some of their employees purchased in the initial public offering an aggregate of 833,333 shares of common stock at the initial public offering price per share of \$12.00. We received the full proceeds from the sale of these shares, and no underwriting discounts or commissions were paid in respect of these shares.

MCC Advisors and its affiliates may in the future manage other accounts that have investment mandates that are similar, in whole and in part, with ours. MCC Advisors and its affiliates may determine that an investment is appropriate for us and for one or more of those other accounts. In such event, depending on the availability of such investment and other appropriate factors, and pursuant to MCC Advisors' allocation policy, MCC Advisors or its affiliates may determine that we should invest side-by-side with one or more other accounts. We will not make any investments if they are not permitted by applicable law and interpretive positions of the SEC and its staff, or if they are inconsistent with MCC Advisors' allocation procedures.

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

### **Management Fee**

Pursuant to the investment management agreement, we pay our investment adviser a fee for investment management services consisting of two components - a base management fee and an incentive fee.

MCC Advisors receives a base management fee from us payable quarterly in arrears, at an annual rate of 1.75% of our gross assets, including any assets acquired with the proceeds of leverage. MCC Advisors agreed to waive the base management fee payable with respect to cash and cash equivalents held by the Company through December 31, 2011.

The investment management agreement also provides that MCC Advisors is entitled to an incentive fee. The incentive fee consists of the following two parts:

The first, calculated and payable quarterly in arrears is based on our pre-incentive fee net investment income earned during the calendar quarter for which the Incentive Fee is being calculated. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter including the base management fee, expenses payable under the administration agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee. Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets calculated as of the end of the calendar quarter immediately preceding the calendar quarter for which the incentive fee is being calculated, will be compared to a “hurdle rate” of 2.0% per quarter (8.0% annualized). We will pay the Adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- (1) no incentive fee for any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;
- (2) 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% (10.0% annualized) in any calendar quarter; and
- (3) 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% (10.0% annualized) in any calendar quarter.

The second part of the incentive fee (the “Capital Gains Fee”) is determined and payable in arrears as of the end of each calendar year (or upon termination of the Management Agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (1) the sum of our cumulative realized capital losses and unrealized capital depreciation from (2) our cumulative aggregate realized capital gains. If the amount so calculated is positive, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fee paid in all prior years. If such amount is negative, then no Capital Gains Fee will be payable for such year. If this Agreement is terminated as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying a Capital Gains Fee.

The Company calculates incentive fee as if the Company had realized all assets at their fair values and liabilities at their settlement amounts as of the reporting date. Accordingly, the Company accrues a provisional incentive fee taking into account any unrealized gains. As the provisional incentive fee is subject to the performance of investments until there is a realization event, the amount of provisional incentive fee accrued at a reporting date may vary from the incentive fee that is ultimately paid, and the differences could be material.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.



### *Valuation of Portfolio Investments*

We value investments for which market quotations are readily available at their market quotations, which are generally obtained from an independent pricing service or multiple broker-dealers or market makers. We weight the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer. However, a readily available market value is not expected to exist for many of the investments in our portfolio, and we value these portfolio investments at fair value as determined in good faith by our board of directors under our valuation policy and process. We may seek pricing information with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. We also employ independent third party valuation firms for all of our investments for which there is not a readily available market value.

Valuation methods may include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will consider the pricing indicated by the external event to corroborate the private equity valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

With respect to investments for which market quotations are not readily available, our board of directors will undertake a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each investment being initially valued by the investment professionals responsible for monitoring the portfolio investment.

Preliminary valuation conclusions are then documented and discussed with senior management.



· At least twice annually, the valuation for each portfolio investment is reviewed by an independent valuation firm.

· The audit committee of our board of directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms.

· Our board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith based on the input of MCC Advisors, the respective independent valuation firms and the audit committee.

In following these approaches, the types of factors that are taken into account in fair value pricing investments include available current market data, including relevant and applicable market trading and transaction comparables; applicable market yields and multiples; security covenants; call protection provisions; information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flows; the markets in which the portfolio company does business; comparisons of financial ratios of peer companies that are public; comparable merger and acquisition transactions; and the principal market and enterprise values.

Determination of fair values involves subjective judgments and estimates not verifiable by auditing procedures. Under current auditing standards, the notes to our financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our consolidated financial statements.

### ***Revenue Recognition***

Our revenue recognition policies are as follows:

*Investments and Related Investment Income.* We account for investment transactions on a trade-date basis and interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis. For investments with contractual PIK interest, which represents contractual interest accrued and added to the principal balance that generally becomes due at maturity, we will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Origination, closing and/or commitment fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Other fees are capitalized as deferred revenue and recorded into income over the respective period. Prepayment penalties received by the Company for debt instruments paid back to the Company prior to the maturity date are recorded as income upon receipt. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of investment, without regard to unrealized gains or losses previously recognized. We report changes in the fair value of investments that are measured at fair value as a component of the net change in unrealized appreciation (depreciation) on investments in our consolidated statement of operations.

*Non-accrual.* We place loans on non-accrual status when principal and interest payments are past due by 90 days or more, or when there is reasonable doubt that we will collect principal or interest. Accrued interest is generally reversed when a loan is placed on non-accrual. 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 and interest is paid and, in our management's judgment, are likely to remain current. At June 30, 2014, two portfolio companies were on non-accrual status with a combined fair value of approximately \$9.8 million, or 0.9% of the fair value of our portfolio. At September 30, 2013, we had one portfolio company on PIK non-accrual status.

### ***Federal Income Taxes***

The Company has elected and qualified to be treated for U.S. federal income tax purposes as a RIC under subchapter M of the Code, commencing with its first taxable year as a corporation, and it intends to operate in a manner so as to maintain its RIC tax treatment. As a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements. Once qualified as a RIC, the Company must timely distribute to its stockholders at least 90% of the sum of investment company taxable income ("ICTI") including PIK, as defined by the Code, and net tax exempt interest income (which is the excess of our gross tax exempt interest income over certain disallowed deductions) for each taxable year in order to be eligible for tax treatment under subchapter M of the Code. The Company will be subject to a nondeductible U.S. federal excise tax of 4% on undistributed income if it does not distribute at least 98% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31 of such calendar year. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. Depending on the level of ICTI earned in a tax year, the Company may choose to carry forward ICTI in excess of current year distributions into the next tax year and pay a 4% excise tax on such excess. Any such carryover ICTI must be distributed before the end of that next tax year through a dividend declared prior to filing the final tax return related to the year which generated such ICTI.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the consolidated financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

### **Recent Developments**

On July 30, 2014, the Company's board of directors declared a quarterly dividend of \$0.37 per share payable on September 12, 2014, to stockholders of record at the close of business on August 27, 2014.

### Item 3: Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments and cash and cash equivalents. Our investment income will be affected by changes in various interest rates, including LIBOR, to the extent our debt investments include floating interest rates. In the future, we expect other loans in our portfolio will have floating rates. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. For the three months ended June 30, 2014, we did not engage in hedging activities.

As of June 30, 2014, 65.9% of our income-bearing investment portfolio bore interest based on floating rates. The composition of our floating rate debt investments by cash interest rate floor as of June 30, 2014 was as follows:

	June 30, 2014		
	Fair Value	% of Floating	
	(thousands)	Rate	
		Portfolio	
Under 1%	\$98,713	14.5	%
1% to under 2%	532,029	78.3	
2% to under 3%	38,012	5.6	
3%	10,468	1.6	
Total	\$679,222	100.0	%

Based on our Consolidated Statement of Assets and Liabilities as of June 30, 2014, the following table shows the approximate increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investment and capital structure.

Basis point increase <sup>(1)</sup>	Interest Income (thousands)	Interest Expense (thousands)	Net Increase (Decrease) (thousands)
100	\$ 1,600	\$ 3,100	\$ (1,500 )
200	7,600	6,100	1,500
300	14,200	9,200	5,000
400	20,600	12,200	8,400
500	27,100	15,300	11,800

As of September 30, 2013, 53.1% of our income-bearing investment portfolio bore interest based on floating rates. The composition of our floating rate debt investments by cash interest rate floor as of September 30, 2013 was as follows:

	September 30, 2013		
	Fair Value (thousands)	% of Floating Rate Portfolio	
Under 1%	\$ 54,113	13.7	%
1% to under 2%	319,630	80.8	
2% to under 3%	22,008	5.5	
3%	-	-	
Total	\$ 395,751	100.0	%

Based on our Consolidated Statement of Assets and Liabilities as of September 30, 2013, the following table shows the approximate increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investment and capital structure.

Basis point increase <sup>(1)</sup>	Interest Income (thousands)	Interest Expense (thousands)	Net Increase (Decrease) (thousands)
100	\$ 800	\$ 1,500	\$ (700 )
200	4,200	3,100	1,100
300	7,900	4,600	3,300
400	11,600	6,100	5,500
500	15,200	7,600	7,600

(1) A hypothetical decline in interest rates would not have a material impact on our financial statements.



**Item 4: Controls and Procedures.**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term “disclosure controls and procedures” is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

There has not been any change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II - Other Information**

**Item 1: Legal Proceedings.**

Neither we nor any of our subsidiaries is currently subject to any legal proceedings, nor, to our knowledge, are any legal proceedings threatened against us or our subsidiaries.

**Item 1A: Risk Factors.**

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our annual report on Form 10-K for the fiscal year ended September 30, 2013, filed with the SEC on December 10, 2013, which could materially affect our business, financial condition and/or operating results. Except as set forth below, there have been no material changes during the nine months ended June 30, 2014 to the risk factors discussed in “Item 1A. Risk Factors” of our annual report on Form 10-K. Additional risks or uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

**Risks Related to Our Business**

***We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.***

Our business is highly dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

## **Risks Related to an Investment in Our Securities**

***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of the companies;
- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to BDCs, SBICs or RICs;
- exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, which could reduce the ability of certain investment funds or institutional investors to own our common stock and put short-term selling pressure on our common stock;
- loss of our qualification as a RIC or BDC or our SBIC subsidiary's status as an SBIC;
- changes in earnings or variations in operating results;

· changes in the value of our portfolio of investments;



· changes in accounting guidelines governing valuation of our investments;  
· any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

· departure of MCC Advisors' or any of its affiliates' key personnel;  
· operating performance of companies comparable to us;  
· general economic trends and other external factors; and  
· loss of a major funding source.

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

None.

**Item 3: Defaults Upon Senior Securities.**

None.

**Item 4: Mine Safety Disclosures.**

None.

**Item 5: Other Information.**

None.

**Item 6: Exhibits.**

**EXHIBIT INDEX**

**Number Description**

- |      |   |
|------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.            |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.            |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002. |

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 31, 2014 Medley Capital Corporation

By/s/ Brook Taube  
Brook Taube  
Chief Executive Officer  
(Principal Executive Officer)

By/s/ Richard T. Allorto, Jr.  
Richard T. Allorto, Jr.  
Chief Financial Officer  
(Principal Accounting and  
Financial Officer)