Medley Capital Corp
Form 10-Q
May 01, 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 **March 31, 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**
(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of May 1, 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 March 31, 2014 (unaudited)	September 30, 2013
ASSETS		
Investments at fair value		
Non-controlled/non-affiliated investments (amortized cost of $964,610,713 and $748,405,904, respectively)	$949,196,688	$ 740,097,249
Affiliated investments (amortized cost of $9,604,239 and $9,283,640, respectively)	9,804,849	9,139,377
Total investments at fair value	959,001,537	749,236,626
Cash	22,672,886	8,557,899
Interest receivable	12,376,761	9,607,539
Deferred financing costs, net	8,374,690	8,523,291
Fees receivable	431,417	-
Other assets	301,075	249,388
Receivable for paydown of investments	1,365,600	-
Deferred offering costs	337,957	218,681
Total assets	$1,004,861,923	$ 776,393,424
LIABILITIES		
Revolving credit facility payable	$136,200,000	$ 2,500,000
Term loan payable	120,000,000	120,000,000
Notes payable	103,500,000	103,500,000
SBA debentures payable	44,000,000	30,000,000
Payable for investments originated, purchased, and participated	1,176,305	54,013
Management and incentive fees payable, net	8,217,029	6,899,653
Accounts payable and accrued expenses	1,755,207	1,305,361
Interest and fees payable	1,276,143	1,155,524
Administrator expenses payable	840,566	701,208
Deferred revenue	327,185	255,922
Deferred tax liability	316,858	-
Due to affiliate	3,389	82,083
Offering costs payable	9,359	105,205
Total liabilities	$417,622,041	$ 266,558,969
Commitments (See note 8)		
NET ASSETS		
	$46,284	$ 40,153

Common stock, par value $.001 per share, 100,000,000 common shares authorized, 46,283,712 and 40,152,904 common shares issued and outstanding, respectively		
Capital in excess of par value	588,676,918	506,062,597
Accumulated undistributed net investment income	13,820,206	12,184,623
Accumulated undistributed net realized gain/(loss) from investments	73,052	-
Net unrealized appreciation/(depreciation) on investments	(15,376,578)	(8,452,918)
Total net assets	587,239,882	509,834,455
Total liabilities and net assets	$1,004,861,923	$ 776,393,424
NET ASSET VALUE PER SHARE	$12.69	$ 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 March 31		For the six months ended March 31	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
INVESTMENT INCOME				
Interest from investments				
Non-controlled/Non-affiliated investments	$ 25,602,922	$ 16,339,659	$ 50,292,812	$ 30,810,626
Affiliated investments	391,863	367,177	784,909	735,713
Total interest income	25,994,785	16,706,836	51,077,721	31,546,339
Interest from cash and cash equivalents	2,354	2,412	4,308	3,515
Other fee income (See note 9)	5,400,886	3,498,191	11,984,234	6,377,067
Total investment income	31,398,025	20,207,439	63,066,263	37,926,921
EXPENSES				
Base management fees	4,078,221	2,533,841	7,743,187	4,629,797
Incentive fees	4,138,807	2,599,111	8,396,522	5,003,393
Interest and financing expenses	4,613,661	2,933,456	9,153,907	5,250,742
Administrator expenses	840,566	569,380	1,512,562	1,091,424
Professional fees	542,689	548,589	1,157,012	840,702
Directors fees	190,125	131,125	341,250	243,661
Insurance	136,720	73,323	276,285	140,759
General and administrative	302,007	273,559	899,450	564,261
Organizational expense	-	148,611	-	148,611
Total expenses	14,842,796	9,810,995	29,480,175	17,913,350
NET INVESTMENT INCOME	16,555,229	10,396,444	33,586,088	20,013,571
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:				
Net realized gain/(loss) from investments	28,052	152,434	73,052	374,354
Net unrealized appreciation/(depreciation) on investments	(3,978,116)	974,271	(6,760,497)	747,827
Net unrealized appreciation/(depreciation) on participations	153,695	-	153,695	-
Provision for taxes on unrealized gain/(loss) on investments	(316,858)	-	(316,858)	-
Net gain/(loss) on investments	(4,113,227)	1,126,705	(6,850,608)	1,122,181
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 12,442,002	$ 11,523,149	$ 26,735,480	$ 21,135,752

WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	$ 0.28	$ 0.40	$ 0.64	$ 0.79
WEIGHTED AVERAGE - BASIC AND DILUTED NET INVESTMENT INCOME PER COMMON SHARE	$ 0.38	$ 0.36	$ 0.80	$ 0.75
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED (SEE NOTE 11)	43,883,259	28,669,859	42,002,482	26,697,175
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.37	$ 0.36	$ 0.74	$ 0.72

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Statements of Changes in Net Assets

	For the six months ended March 31	
	2014	2013
	(unaudited)	(unaudited)
INCREASE FROM OPERATIONS:		
Net investment income	$ 33,586,088	$ 20,013,571
Net realized gain/(loss) from investments	73,052	374,354
Net unrealized appreciation/(depreciation) on investments	(6,760,497)	747,827
Net unrealized appreciation/(depreciation) on participations	153,695	-
Provision For taxes on unrealized gain/(loss) on investments	(316,858)	-
Net increase/(decrease) in net assets from operations	26,735,480	21,135,752
SHAREHOLDER DISTRIBUTIONS:		
Distributions declared from net investment income	(31,950,505)	(18,638,027)
Net decrease in net assets from shareholder distributions	(31,950,505)	(18,638,027)
CAPITAL SHARE TRANSACTIONS:		
Issuance of common stock, net of underwriting costs (6,000,000 and 5,495,263 shares, respectively)	81,060,000	72,537,472
Offering costs	(132,715)	(270,096)
Issuance of common stock under dividend reinvestment plan (130,808 and 97,892 shares, respectively)	1,693,167	1,376,747
Net increase in net assets from common share transactions	82,620,452	73,644,123
Total increase/(decrease) in net assets	77,405,427	76,141,848
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 $13,820,206 and $6,935,179, respectively	$ 587,239,882	$ 365,481,079
Net asset value per common share	$ 12.69	$ 12.73
Common shares outstanding at end of period	46,283,712	28,703,397

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Statements of Cash Flows

	For the six months ended March 31	
	2014	2013
	(unaudited)	(unaudited)
Cash flows from operating activities		
NET INCREASE IN NET ASSETS FROM OPERATIONS	$ 26,735,480	$ 21,135,752
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	(5,320,542)	(4,088,581)
Net amortization of premium/(discount) on investments	(256,725)	(367,145)
Amortization of deferred financing costs	995,749	606,053
Net realized (gain)/loss from investments	(73,052)	(374,354)
Net deferred income taxes	316,858	-
Net unrealized (appreciation)/depreciation on investments	6,760,497	(747,827)
Net unrealized (appreciation)/depreciation on participations	(153,695)	-
Proceeds from sale and settlements of investments	143,038,959	92,094,021
Purchases, originations, and participations	(353,760,353)	(278,730,223)
(Increase)/decrease in operating assets:		
Interest receivable	(2,769,222)	(3,081,967)
Fees receivable	(431,417)	(840,000)
Other assets	(51,687)	2,214
Receivable for paydown of investments	(1,365,600)	-
Increase (decrease)/in operating liabilities:		
Payable for investments purchased, originated, and participated	1,122,292	20,528,275
Accounts payable and accrued expenses	449,846	337,563
Management and incentive fees payable, net	1,317,376	1,618,181
Administrator expenses payable	139,358	114,324
Interest and fees payable	120,619	606,434
Deferred revenue	71,263	(57,107)
Due to affiliate	(78,694)	24,762
Accrued organizational costs	-	42,559
NET CASH USED BY OPERATING ACTIVITIES	(183,192,690)	(151,177,066)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of underwriting costs	82,753,167	73,914,219
Offering cost paid	(347,836)	(379,854)
Borrowings on debt	251,300,000	252,600,000
Paydowns on debt	(103,600,000)	(128,000,000)
Financing cost paid	(847,149)	(3,553,338)
Payments of cash dividends	(31,950,505)	(18,638,025)

NET CASH PROVIDED BY FINANCING ACTIVITIES	197,307,677	175,943,002
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	14,114,987	24,765,936
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,557,899	4,893,616
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 22,672,886	$ 29,659,552
Supplemental Information:		
Interest paid during the period	$ 7,999,150	$ 4,000,858
Supplemental non-cash information		
Paid-in-kind interest income	$ 5,482,666	$ 4,088,581
Net amortization of premium/(discount) on investments	$ 256,725	$ 367,145
Amortization of deferred financing costs	$ (995,749)	$ (606,053)
Issuance of common stock in connection with dividend reinvestment plan	$ 1,693,167	$ 1,376,747

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Schedule of Investments

March 31, 2014

(unaudited)

Company [1]	**Industry**	**Type of Investment**	**Maturity**	**Par Amount [2]**	**Cost[15]**	**Fair Value**	**% of Net Assets [3]**
<u>Non-Controlled/ Non-Affiliated Investments:</u>							
Accupac, Inc.	Containers, Packaging and Glass	Senior Secured Second Lien Term Loan (12.29%)	11/10/2018	10,000,000	10,000,000	10,100,000	1.7%
				10,000,000	10,000,000	10,100,000	
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	4,567,881	0.8%
				4,550,000	4,550,000	4,567,881	
Albertville Quality Foods, Inc. [13]	Beverage, Food and Tobacco	Senior Secured First Lien Term Loan (LIBOR + 9.50% Cash, 1.00% LIBOR Floor, 3.00% LIBOR Cap)	10/31/2018	17,452,830	17,452,830	17,452,830	3.0%
				17,452,830	17,452,830	17,452,830	
Allen Edmonds Corporation	Retail Stores	Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 1.00%	5/27/2019	20,000,000	20,000,000	20,085,600	3.4%

		LIBOR Floor)					
				20,000,000	20,000,000	20,085,600	
Alora Pharmaceuticals LLC (13)	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.00% LIBOR Floor)	9/13/2018	13,650,000	13,650,000	13,716,339	2.3 %
				13,650,000	13,650,000	13,716,339	
AM3 Pinnacle Corporation	Telecommunications	Senior Secured First Lien Term Loan (10.00%)	10/22/2018	7,971,534	7,971,534	7,971,534	1.4 %
				7,971,534	7,971,534	7,971,534	
American Apparel, Inc.(8)	Retail Stores	Senior Secured Note (13.00% Cash, 2.00% PIK)	4/15/2020	13,140,833	12,785,899	11,728,194	2.0 %
				13,140,833	12,785,899	11,728,194	
Amerit Fleet Services, Inc.	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 9.70% Cash, 1.00% LIBOR Floor, 1.50% PIK)	12/21/2016	8,616,404	8,616,404	8,637,342	1.5 %
				8,616,404	8,616,404	8,637,342	
ARBOC Specialty Vehicles LLC	Automobile	Senior Secured First Lien Term Loan (LIBOR + 12.50% Cash, 1.00% LIBOR Floor)	3/21/2018	23,750,000	23,750,000	23,917,912	4.1 %
				23,750,000	23,750,000	23,917,912	
Aurora Flight Sciences Corporation	Aerospace & Defense	Senior Secured Second Lien Term Loan (11.25% Cash, 2.00% PIK)	3/16/2016	15,968,346	15,968,346	15,968,346	2.7 %
				15,968,346	15,968,346	15,968,346	
BayDelta Maritime LLC	Cargo Transport	Senior Secured First Lien Term Loan (11.25% Cash, 2.50% Deferred)	6/30/2016	6,669,292	6,588,450	6,720,912	1.1 %
		Fee Note (14.88%)(6)	6/30/2016	250,000	182,940	182,940	0.0 %
		Warrants to purchase 10% of the outstanding equity	6/30/2016	-	25,000	323,457	0.1 %
				6,919,292	6,796,390	7,227,309	

Be Green Manufacturing and Distribution Centers LLC (11)	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	5,000,000	0.9%
		Senior Secured First Lien Delayed Draw (LIBOR + 10.00%, 1.00% LIBOR Floor)	12/13/2018	500,000	500,000	500,000	0.1%
		Revolver (LIBOR + 10.00%, 1.00% LIBOR Floor)	12/13/2018	354,167	354,167	354,167	0.1%
		1.74% Partnership Interest in RCAF VI CIV XXIII, L.P.		-	416,250	372,165	0.1%
				5,854,167	6,270,417	6,226,332	
Brantley Transportation LLC (13)	Oil and Gas	Senior Secured First Lien Term Loan (12.00%)	8/2/2017	9,825,000	9,990,434	9,837,969	1.7%
				9,825,000	9,990,434	9,837,969	
California Products Corporation	Chemicals, Plastics and Rubber	Senior Secured Second Lien Term Loan (13.00%)	5/27/2019	13,750,000	13,750,000	13,750,000	2.3%
				13,750,000	13,750,000	13,750,000	
Calloway Laboratories, Inc.	Healthcare, Education and Childcare	Senior Secured First Lien Term Loan (17.00% PIK)	9/30/2014	28,169,808	26,810,588	17,195,911	2.9%
		Warrants to purchase 15.00% of the outstanding equity	9/30/2014	-	68,433	-	0.0%
				28,169,808	26,879,021	17,195,911	
Dispensing Dynamics International(8)	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured Note (12.50%)	1/1/2018	4,800,000	4,722,528	4,869,360	0.8%
				4,800,000	4,722,528	4,869,360	
DLR Restaurants LLC (13)	Restaurant & Franchise	Senior Secured First Lien Term Loan (11.00% Cash, 2.50% PIK)	4/18/2018	20,176,247	20,176,247	20,290,646	3.5%
		Unsecured Debt (12.00% Cash,	4/18/2018	259,838	259,838	261,683	0.0%

		4.00% PIK)					
				20,436,085	20,436,085	20,552,329	
DreamFinders Homes LLC (11) (14)	Buildings and Real Estate	Senior Secured First Lien Term Loan A (LIBOR + 10.00% Cash)	4/30/2014	12,500,000	12,500,000	12,500,000	2.1 %
		Senior Secured First Lien Term Loan B (LIBOR + 14.50% Cash)	9/13/2018	6,909,777	6,744,357	6,679,173	1.1 %
		Warrants to purchase 5% of outstanding equity	9/13/2018	-	180,000	1,156,020	0.2 %
				19,409,777	19,424,357	20,335,193	

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	19,000,000	19,000,000	19,000,000	3.2%
				19,000,000	19,000,000	19,000,000	
Exide Technologies [10]	Machinery (Nonagriculture, Nonconstruction, Nonelectric)	Senior Secured Note (8.63%)	2/1/2018	11,000,000	9,006,908	8,167,500	1.4%
				11,000,000	9,006,908	8,167,500	
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	10,095,700	1.7%
				10,350,000	10,350,000	10,095,700	
Geneva Wood Fuels LLC [4][12]	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	0.7%
				8,199,184	8,143,385	4,090,000	
GSG Fasteners, LLC [13]	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (LIBOR + 9.50% Cash, 1.00% LIBOR Floor)	11/18/2018	8,887,500	8,887,500	8,887,500	1.5%
				8,887,500	8,887,500	8,887,500	

Harrison Gypsum LLC (13)	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	23,391,443	23,391,443	23,226,065	4.0%
				23,391,443	23,391,443	23,226,065	
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	8,866,462	1.5%
				8,750,000	8,750,000	8,866,462	
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	15,054,750	2.6%
				15,000,000	15,000,000	15,054,750	
HGDS Acquisition LLC	Business Services	Senior Secured First Lien Term Loan (LIBOR + 12.00% Cash, 3.50% PIK)	3/28/2018	11,256,219	11,256,219	11,069,816	1.9%
				11,256,219	11,256,219	11,069,816	
Hoffmaster Group, Inc.	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured Second Lien Term Loan (LIBOR + 9.50% Cash, 1.50%	1/3/2019	6,000,000	6,000,000	6,040,800	1.0%

		LIBOR Floor)					
		Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 1.25% LIBOR Floor)	1/3/2019	2,000,000	1,984,241	1,959,920	0.3%
				8,000,000	7,984,241	8,000,720	
Ingenio Acquisition LLC	Personal, Food and Miscellaneous Services	Senior Secured First Lien Term Loan (11.25%)	3/14/2019	23,790,790	23,790,790	23,790,790	4.1%
				23,790,790	23,790,790	23,790,790	
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	7,791,029	1.3%
				7,724,138	7,724,138	7,791,029	
Integra Telecom	Telecommunications	Senior Secured Second Lien Term Loan (LIBOR + 8.50% Cash, 1.25% LIBOR Floor)	2/22/2020	12,132,000	12,156,594	12,442,094	2.1%
				12,132,000	12,156,594	12,442,094	
Interface Security Systems[8]	Electronics	Senior Secured Note (9.25%)	1/15/2018	3,333,000	3,333,000	3,413,459	0.6%
				3,333,000	3,333,000	3,413,459	
JD Norman Industries, Inc.	Diversified/Conglomerate Manufacturing	Senior Secured First Lien	3/6/2019	24,000,000	24,000,000	24,000,000	4.1%

		Term Loan (LIBOR + 10.25% Cash)					
				24,000,000	24,000,000	24,000,000	
Lexmark Carpet Mills, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured First Lien Term Loan (LIBOR + 10.00%, 1.00% LIBOR Floor, 2.50% LIBOR Cap)	9/30/2018	31,000,000	31,000,000	31,426,870	5.4%
				31,000,000	31,000,000	31,426,870	
Lighting Science Group Corporation (11)	Containers, Packaging and Glass	Senior Secured First Lien Delayed Draw (LIBOR + 8.50% Cash, 2.00% PIK)	2/19/2016	5,001,389	5,001,389	5,001,389	0.9%
		Senior Secured Second Lien Term (LIBOR + 10.00% Cash, 2.00% PIK)	2/19/2019	15,258,472	14,317,793	14,317,793	2.4%
		Warrants to purchase 2.41% of the outstanding equity		-	955,680	955,680	0.2%
				20,259,861	20,274,862	20,274,862	
Linc Energy Finance (USA), Inc.(8)	Oil and Gas	Senior Secured Note (12.50%)	10/31/2017	3,500,000	3,402,412	3,843,350	0.6%
				3,500,000	3,402,412	3,843,350	
Lucky Strike Entertainment, L.L.C.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Second Lien Term Loan	12/24/2018	11,504,472	11,504,472	11,504,472	2.0%

		(LIBOR + 11.00% Cash, 1.00% LIBOR Floor, 2.00% PIK)					
				11,504,472	11,504,472	11,504,472	
Lydell Jewelry Design Studio LLC (11)(13)(14)	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	12,566,600	2.1 %
		Warrants to purchase 13.3% of the outstanding membership units	9/13/2018	-	-	-	0.0 %
				13,072,000	13,072,000	12,566,600	
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	10,026,413	10,026,413	10,026,413	1.7 %
				10,026,413	10,026,413	10,026,413	

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Merchant Cash and Capital LLC (11)	Structure Finance Securities	Senior Secured First Lien Delayed Draw (LIBOR + 8.00% Cash, 3.00% LIBOR Floor)	3/4/2016	9,403,333	9,403,333	9,403,333	1.6%
				9,403,333	9,403,333	9,403,333	
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	9,950,429	10,353,654	1.8%
		Senior Secured First Lien Term Loan B (LIBOR + 11.50%, 2.50% LIBOR Floor)	11/14/2016	850,000	850,000	850,000	0.2%
		Warrants to purchase 8% of the outstanding equity	11/14/2016	-	536,296	1,360,054	0.2%
				11,139,141	11,336,725	12,563,708	
Modern VideoFilm, Inc.	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	12,701,488	12,388,199	10,669,250	1.8%
		Warrants to purchase	9/25/2017	-	339,573	-	0.0%

		4.5% of the outstanding equity					
				12,701,488	12,727,772	10,669,250	
Momentum Telecom, Inc. (11)	Telecommunications	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)	3/10/2019	10,000,000	10,000,000	10,000,000	1.7%
		Revolver (LIBOR + 8.50% Cash, 1.00% LIBOR Floor)(7)	3/10/2019	-	-	-	0.0%
				10,000,000	10,000,000	10,000,000	
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	20,255,550	3.4%
				19,291,000	19,291,000	20,255,550	
Physicians Care Alliance LLC (11)(13)(14)	Personal and Nondurable Consumer Products (Manufacturing Only)	Senior Secured First Lien Term Loan (10.00% Cash, 1.00% PIK)	12/28/2017	15,737,690	15,737,690	15,774,831	2.7%
		Revolving Credit Facility (10.50%)(7)	12/28/2017	-	-	1,811	0.0%
				15,737,690	15,737,690	15,776,642	
The Plastics Group Acquisition Corp (11)	Chemicals, Plastics and Rubber	Senior Secured First Lien Term Loan	2/28/2019	20,786,889	20,786,889	20,786,889	3.5%

		(11.00% Cash, 2.00% PIK) Delayed Draw Term Loan (11.00% Cash, 2.00% PIK)(7)	2/28/2019	-	-	-	0.0%
				20,786,889	20,786,889	20,786,889	
Prestige Industries LLC	Business Services	Senior Secured Second Lien Term Loan (10.00% Cash, 3.00% PIK)	1/31/2017	6,121,826	6,020,791	5,684,483	1.0%
		Warrants to purchase 0.63% of the outstanding common units	1/31/2017	-	151,855	-	0.0%
				6,121,826	6,172,646	5,684,483	
Prince Mineral Holding Corp.(8)	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (11.50%)	12/15/2019	6,800,000	6,730,578	7,440,696	1.3%
				6,800,000	6,730,578	7,440,696	
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	25,539,187	25,539,187	25,539,187	4.3%
				25,539,187	25,539,187	25,539,187	
Red Skye Wireless LLC (11)(14)	Retail Stores	Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 2.00% PIK,	6/27/2017	14,102,580	14,102,580	14,290,001	2.4%

		1.00% LIBOR Floor)					
				14,102,580	14,102,580	14,290,001	
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	16,638,070	2.8%
				17,000,000	17,000,000	16,638,070	
Response Team Holdings LLC (11)	Buildings and Real Estate	Senior Secured First Lien Term Loan (LIBOR + 8.50% Cash, 1.00% PIK, 2.00% LIBOR Floor)	3/28/2019	18,518,519	18,518,519	18,518,519	3.2%
		Preferred Equity (12.00% PIK)	3/28/2019	4,635,802	4,206,790	4,206,203	0.7%
		Warrants to purchase 6.17% of the outstanding common units	3/28/2019	-	429,012	429,012	
				23,154,321	23,154,321	23,153,734	
Revstone Aero LLC (9)	Aerospace & Defense	Senior Secured First Lien Term Loan (LIBOR + 12.00% Cash, 3.00% PIK)	11/1/2013	13,254,593	13,119,082	13,254,858	2.3%
		Fee Note	11/1/2013	500,000	296,948	500,000	0.1%
				13,754,593	13,416,030	13,754,858	
Sendero Drilling	Oil and Gas	Senior Secured First	3/18/2019	17,255,000	16,465,896	16,111,702	2.7%

Company LLC (11) (14)		Lien Term Loan (LIBOR + 11.00% Cash)					
		Warrants to purchase 5.52% of the outstanding common units	3/18/2019	-	793,523	793,523	0.1%
				17,255,000	17,259,419	16,905,225	
SESAC HOLDCO II	Business Services	Senior Secured Second Lien Term Loan (LIBOR + 8.75%, 1.25% LIBOR Floor)	7/12/2019	3,500,000	3,495,105	3,591,595	0.6%
				3,500,000	3,495,105	3,591,595	
Sizzling Platter, LLC(8)	Restaurant & Franchise	Senior Secured Note (12.25%)	4/15/2016	10,867,000	11,021,884	11,532,604	2.0%
				10,867,000	11,021,884	11,532,604	
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	20,000,000	3.4%
				20,000,000	20,000,000	20,000,000	

Taylored 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	14,382,821	14,382,821	12,843,859	2.2
				14,382,821	14,382,821	12,843,859	
Tempel Steel Company[8]	Mining, Steel, Iron and Nonprecious Metals	Senior Secured Note (12.00%)	8/15/2016	12,000,000	11,853,555	11,694,120	2.0
				12,000,000	11,853,555	11,694,120	
Tenere Acquisition Corp.[11][14]	Diversified/Conglomerate Manufacturing	Senior Secured First Lien Term Loan (11.00% Cash, 2.00% PIK)	12/15/2017	11,020,104	11,020,104	11,446,122	2.0
				11,020,104	11,020,104	11,446,122	
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	7,829,779	7,829,779	8,006,263	1.4
				7,829,779	7,829,779	8,006,263	
Transtelco Inc.	Telecommunications	Senior Secured First Lien Term Loan (LIBOR + 9.00% Cash, 1.50% LIBOR Floor)	11/19/2017	19,152,000	19,152,000	19,376,270	3.3
				19,152,000	19,152,000	19,376,270	

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	15,300,000	2.6
				15,000,000	15,000,000	15,300,000	
U.S. Well Services LLC [10]	Oil and Gas	Senior Secured Note (14.50%)	2/15/2017	23,558,808	23,427,943	23,754,111	4.0
		Warrants to purchase 3.48% of the outstanding common membership interests	2/15/2017	-	11,370	637,360	0.1
				23,558,808	23,439,313	24,391,471	
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	20,430,000	3.5
				20,430,000	20,430,000	20,430,000	
United Road Towing Inc. [16]	Personal, Food and Miscellaneous Services	Senior Secured Second Lien Term Loan (10.00% Cash, 5.00% PIK)	6/30/2014	22,880,003	22,461,563	20,235,989	3.4
				22,880,003	22,461,563	20,235,989	
Water Capital USA, Inc.	Finance	Senior Secured First Lien Term Loan (7.00% Cash, 7.00% PIK)	1/3/2015	26,043,797	26,043,797	25,053,936	4.3

				26,043,797	26,043,797	25,053,936	
Wheels Up Partners LLC (11) (13)	Aerospace & Defense	Senior Secured First Lien Delayed Draw (LIBOR + 8.55% Cash, 1.00% LIBOR Floor)	4/15/2021	10,754,000	10,754,000	10,754,000	1.8
				10,754,000	10,754,000	10,754,000	
Subtotal Non-Controlled / Non-Affiliated Investments				**$ 968,646,456**	**$ 964,610,713**	**$949,196,688**	
Affiliated Investments:							
Cymax Stores, Inc.(10)	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured First Lien Term Loan (10.00% Cash, 5.00% PIK)	8/1/2015	9,235,421	8,926,085	8,764,599	1.5
		190 Class B Common Units (5)		-	678,154	1,040,250	0.2
Subtotal Affiliated Investments				**$ 9,235,421**	**$ 9,604,239**	**$9,804,849**	
Total Investments, March 31, 2014				**$ 977,881,877**	**$ 974,214,952**	**$959,001,537**	163

(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 $587,239,882 as of March 31, 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 March 31, 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 $54.5 million and 9.3% of net assets as of March 31, 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 March 31, 2014 (See note 8).
(12) The investment was on non-accrual status as of March 31, 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 appreciation for federal income tax purposes totaled $23.8 million, $23.3 million and $0.5 million, respectively. The tax cost of investments is $957.9 million.
(16) A portion of this investment was participated to a third party with a par value of $1.3 million and a fair value of $1.2 million. Such amount has been presented as gross basis in accordance with US GAAP (See note 3).

See accompanying notes to consolidated financial statements.

Medley Capital Corporation

Consolidated Schedule of Investments

September 30, 2013

Company [(1)]	Industry	Type of Investment	Maturity	**Par Amount** [(2)]	Cost	Fair Value	**% of Net Assets** [(3)]
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[(13)]	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.[(8)]	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[(13)]	Hotels, Motels, Inns and Gaming	Senior Secured First Lien Term Loan (LIBOR +	8/15/2016	10,750,000	10,750,000	10,848,660	2.1%

		10.00% , 1.50% LIBOR Floor)					
				10,750,000	10,750,000	10,848,660	
Amerit Fleet Services, Inc. (12)	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%)(6)	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(13)	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 Loan (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%

		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[13]	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[8]	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 [10] [13]	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 [10]	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 [9]	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	

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 [4] [11]	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[13]	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%
		Senior Secured Second Lien Term Loan (LIBOR + 9.00% Cash, 1.25%	1/3/2019	2,000,000	1,983,005	1,926,637	0.4%

		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 [(8)]	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 %

		10.00%, 1.00% LIBOR Floor, 2.50% LIBOR Cap)					
				31,000,000	31,000,000	31,000,000	
Linc Energy Finance (USA), Inc.[8]	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 [10][13]	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	13,072,000	2.6%
		Revolver (LIBOR + 10.50%, 1.50% LIBOR Floor)	9/13/2018	2,250,000	2,250,000	2,250,000	0.4%
		Warrants to purchase 17.5% of the outstanding membership units	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%)	11/14/2016	10,289,141	9,902,304	10,289,141	2.0%
		Senior Secured First Lien Term Loan B (14.00%)	11/14/2016	3,750,000	3,750,000	3,750,000	0.7%
		Warrants to purchase 8% of the outstanding equity	11/14/2016	-	536,296	1,071,347	0.2%

				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)	9/25/2017	11,868,109	11,583,071	9,791,187	1.9%
		Warrants to purchase 4.5% of the outstanding equity	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)	12/28/2017	15,854,027	15,854,027	15,900,559	3.1%
		Revolving Credit Facility (10.50%)(7)	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%

		Warrants to purchase 0.63% of the outstanding common units					
				6,029,795	6,066,633	5,506,459	
Prince Mineral Holdings Corp.(8)	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 (10)	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%

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(8)	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		
Taylored 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(8)	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.(10)	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	%

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%)	2/15/2017	21,558,808	21,430,696	21,564,270	4.2	%
		Warrants to purchase 3.48% of the outstanding common membership interests	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	%

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, Inc.	Finance	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.(13)	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.(9)	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 (5)		-	678,154	673,154	0.1	%

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

(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

March 31, 2014

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 directly to privately-held middle market companies 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 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.

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.

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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 six months ended March 31, 2014 was approximately $5.4 million and $12.0 million, respectively. For the three and six months ended March 31, 2013 other fee income was approximately $3.5 million and $6.4 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 six months ended March 31, 2014, the Company earned approximately $2.7 million and $5.5 million in PIK, respectively. For the three and six months ended March 31, 2013, the Company earned approximately $1.9 million and $4.1 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. Accrued interest is generally reserved when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment 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 March 31, 2014, one portfolio company was on non-accrual status with a fair value of approximately $4.1 million, or 0.4% of the fair value of our portfolio. No portfolio companies were on 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.

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 March 31, 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 $316,858 for the six months ended March 31, 2014 and are recorded as deferred tax liability on the consolidated statements of assets and liabilities and are included as a component of net unrealized appreciation/(depreciation) on investments in the consolidated statement of operations.

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 March 31, 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.

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 March 31, 2014 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	$ 590,124	60.6 %	$ 575,383	60.0 %
Senior Secured Second Lien Term Loans	288,754	29.6	285,640	29.7
Senior Secured Notes	86,285	8.8	86,443	9.0
Unsecured Debt	260	0.1	262	0.1
Equity/Warrants	8,792	0.9	11,274	1.2
Total	$ 974,215	100.0 %	$ 959,002	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 March 31, 2014 (dollars in thousands):

	Investments at Fair Value	Percentage of Total Portfolio
Oil and Gas	$ 94,408	9.9 %
Buildings and Real Estate	83,745	8.7
Personal and Nondurable Consumer Products (Manufacturing Only)	64,217	6.7
Business Services	56,882	5.9
Retail Stores	56,200	5.9
Personal, Food and Miscellaneous Services	51,818	5.4
Telecommunications	49,790	5.2
Healthcare, Education and Childcare	43,476	4.5
Mining, Steel, Iron and Nonprecious Metals	42,361	4.4
Home and Office Furnishings, Housewares, and Durable Consumer Products	41,232	4.3
Aerospace & Defense	40,477	4.2
Containers, Packaging and Glass	36,601	3.8
Diversified/Conglomerate Manufacturing	35,446	3.7
Chemicals, Plastics and Rubber	34,537	3.6
Beverage, Food and Tobacco	34,091	3.6
Finance	33,920	3.5
Restaurant & Franchise	32,085	3.3
Diversified/Conglomerate Service	25,539	2.7
Automobile	23,918	2.5
Leisure, Amusement, Motion Pictures, Entertainment	22,174	2.3
Hotels, Motels, Inns and Gaming	15,300	1.6

Structure Finance Securities	9,403	1.0
Machinery (Nonagriculture, Nonconstruction, Nonelectric)	8,168	0.9
Grocery	8,006	0.8
Electronics	7,981	0.8
Cargo Transport	7,227	0.8
Total	$ 959,002	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 March 31, 2014 (dollars in thousands):

	Investments at Fair Value	Percentage
Midwest	$ 253,920	26.5 %
Southeast	192,153	20.0
West	187,211	19.5
Southwest	177,862	18.6
Northeast	90,501	9.4
Mid-Atlantic	47,550	5.0
International	9,805	1.0
Total	$ 959,002	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 %

Transactions With Affiliated Companies

During the six months ended March 31, 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 March 31, 2014	Capital Loss
Non-Controlled Affiliates						
Cymax Stores, Inc.	$ 9,139,377	$ —	$ —	$784,909	$ 9,804,849	$ —
Total Non-Controlled Affiliates	$ 9,139,377	$ —	$ —	$784,909	$ 9,804,849	$ —

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During the six months ended March 31, 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 March 31, 2013	Capital Loss
Non-Controlled Affiliates						
Cymax Stores, Inc.	$ 8,208,006	$ —	$ —	$735,713	$ 8,881,628	$ —
Total Non-Controlled Affiliates	$ 8,208,006	$ —	$ —	$735,713	$ 8,881,628	$ —

Purchases (sales) of/advances (distributions) to affiliates are included in the purchases and sales presented on the consolidated statements of cash flows for the six months ended March 31, 2014 and March 31, 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 six months ended March 31, 2014 and March 31, 2013, respectively.

Loan Participation Sales

Since inception, the Company has sold portions of fourteen investments via participation agreements to a managed account, managed by an affiliate and non-affiliate of the Company in an aggregate amount of approximately $77.8 million. At March 31, 2014 the aggregate fair value of the loans sold on participation was $151.6 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 par value of $1.3 million and a fair value of $1.2 million has been presented as gross basis in accordance with US GAAP.

During the three and six months ended March 31, 2014, the Company made interest and (principal) payments to the sub-participant in the aggregate amount of $1.8 million and $24.3 million. During the three and six months ended March 31, 2013, the Company made interest and (principal) payments to the sub-participant in the aggregate amount of $0.9 million and $1.3 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 March 31, 2014 (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Senior Secured First Lien Term Loans	$ —	$—	$575,383	$575,383
Senior Secured Second Lien Term Loans	—	—	285,640	285,640
Senior Secured Notes	—	19,896	66,547	86,443
Unsecured Debt	—	—	262	262
Equity/Warrants	—	—	11,274	11,274
Total	$ —	$19,896	$939,106	$959,002

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 six months ended March 31, 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	60,810	1,761	4,940	5	1,756	69,272
Originations	182,847	80,930	-	-	5,046	268,823
Sales	-	-	(2,985)	-	-	(2,985)
Settlements	(71,626)	(47,191)	-	-	-	(118,817)
Net realized gains (losses) from investments	(16)	44	45	-	-	73
Net transfers in and/or out of Level 3	-	-	(13,260)	-	-	(13,260)
Net unrealized gains (losses)	(5,434)	(1,867)	548	2	1,517	(5,234)
Balance as of March 31, 2014	$575,383	$285,640	$66,547	$ 262	$11,274	$939,106

The following table provides a reconciliation of the beginning and ending balances for investments that use level 3 inputs for the six months ended March 31, 2013 (dollars in thousands):

	Senior Secured First Lien Loans	Senior Secured Second Lien Loans	Senior Secured Notes	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	23,018	53,301	49,526	—	125,845
Originations	135,176	20,000	—	—	155,176
Sales	(35,495)	—	(3,053)	(144)	(38,692)
Settlements	(24,291)	(21,861)	(7,250)	—	(53,402)
Net realized gains (losses) from investments	127	72	175	—	374
Net change in unrealized gains (losses)	(4,608)	1,087	1,792	1,992	263
Balance as of March 31, 2013	$ 280,768	$ 209,614	$ 83,403	$ 4,191	$ 577,976

Net change in unrealized loss included in earnings related to investments still held as of March 31, 2014 and 2013, was approximately $5.3 million and $1.4 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. During the quarter ended March 31, 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. 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.

The following table presents the quantitative information about level 3 fair value measurements of our investments, as of March 31, 2014 (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range (weighted average)
Senior Secured First Lien Term Loans	$544,656	Income Approach (DCF)	Market yield	9.5% - 25.0% (12.0%)
Senior Secured First Lien Term Loans	4,090	Market Approach	EBIDTA Multiple[(1)]	4.0x - 7.0x (5.5x)
Senior Secured First Lien Term Loans	12,699	Market Approach (Current value)	Revenue Multiple[(1)]	1.8x - 1.8x (1.8x)
Senior Secured First Lien Term Loans	13,755	Market Approach (Sales proceed)	N/A	N/A

Senior Secured First Lien Term Loans - Fee Note	183	Income Approach (DCF)	Market yield	14.9% - 14.9% (14.9%)
Senior Secured Second Lien Term Loans	285,640	Income Approach (DCF)	Market yield	8.9% - 23.0% (12.7%)
Senior Secured Notes	66,547	Income Approach (DCF)	Market yield	8.5% - 14.1% (11.8%)
Unsecured Debt	262	Income Approach (DCF)	Market yield	15.8% - 15.8% (15.8%)
Equity	4,206	Income Approach (DCF)	Market yield	13.5% - 13.5% (13.5%)
Warrants	429	Income Approach (DCF)	Discount Rate	18.0% - 18.0% (18.0%)
Equity/Warrants	4,643	Market Approach (Guideline Comparable)	EBIDTA Multiple(1)	4.0x - 13.5x (6.6x)
Equity/Warrants	1,040	Market Approach	Revenue Multiple(1)	0.2x - 1.7x (0.2x)
Warrants	956	Option Model	Volatility	80.0% - 80.0% (80.0%)
Total	$939,106			

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 (1)	2.8x – 6.5x (5.3x)
Equity	673	Market Approach	Revenue multiple (1)	0.2x - 0.2x (0.2x)
Total	$ 741,234			

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(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 March 31, 2014 and September 30, 2013 were as follows (dollars in thousands):

	As of March 31, 2014			September 30, 2013		
	Aggregate Principal Amount Available	Principal Amount Outstanding	Carrying Value	Aggregate Principal Amount Available	Principal Amount Outstanding	Carrying Value
Revolving Credit Facility	$245,000	$ 136,200	$136,200	$245,000	$ 2,500	$2,500
Term Loan Facility	120,000	120,000	120,000	120,000	120,000	120,000
2019 Notes	40,000	40,000	41,120	40,000	40,000	42,048
2023 Notes	63,500	63,500	62,001	63,500	63,500	60,579
SBA Debentures	100,000	44,000	44,000	50,000	30,000	30,000

Total	$568,500	$ 403,700	$403,321	$518,500	$ 256,000	$255,127

Credit Facility

On September 25, 2013, the Company closed $15.0 million of additional commitment to the revolving credit facility (the "Revolving Facility") resulting in total commitments to the Revolving Facility of $245.0 million and $5.0 million of additional commitment to the term loan credit facility (the "Term Loan Facility," and together with the Revolving Facility the "Facilities") resulting in total commitments to the Term Facility of $120.0 million.

Each of the Facilities includes an accordion feature permitting the Company to expand the Facilities, if certain conditions are satisfied; provided, however, that the aggregate amount of the Facilities, collectively, is capped at $400.0 million.

At March 31, 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 March 31, 2014 and September 30, 2013, the Facilities would be deemed to be level 3, as defined in Note 4.

As of March 31, 2014 and September 30, 2013, $3.8 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 March 31, 2014 and September 30, 2013, $2.1 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 six months ended March 31, 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 March 31,		For the six months ended March 31,	
	2014	2013	2014	2013
Revolving Facility interest	$ 622	$ 319	$ 1,009	$ 668
Revolving Facility commitment fee	323	403	841	699
Term Facility interest	1,256	1,014	2,519	1,687
Amortization of deferred financing costs	318	280	642	494
Total interest and fees expense	$ 2,519	$ 2,016	$ 5,011	$ 3,548
Weighted average stated interest rate	4.42 %	4.12 %	4.23 %	4.19 %
Weighted average outstanding balance	$ 172,154	$ 131,164	$ 167,154	$ 112,809

As of March 31, 2014 and September 30, 2013, there was $136.2 million and $2.5 million, respectively, outstanding under the Revolving Facility. As of March 31, 2014 and September 30, 2013, there was $120.0 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 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".

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 March 31, 2014, the carrying amount and fair value of the 2019 Notes was $40.0 million and $41.1 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 March 31, 2014, the carrying amount and fair value of the 2023 Notes was $63.5 million and $62.0 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 March 31, 2014 and September 30, 2013 the Unsecured Senior Notes would be deemed to be level 1, as defined in Note 4.

As of March 31, 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 March 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 six months ended March 31, 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 March 31,		For the six months ended March 31,	
	2014	2013	2014	2013
2019 Unsecured Notes interest	$ 713	$ 713	$ 1,425	$ 1,425
2023 Unsecured Notes interest	972	125	1,945	125
Amortization of deferred financing costs	104	59	210	112
Total interest and fees expense	$ 1,789	$ 897	$ 3,580	$ 1,662
Weighted average stated interest rate	6.60 %	6.85 %	6.53 %	6.95 %
Weighted average outstanding balance	$ 103,500	$ 49,560	$ 103,500	$ 44,727

As of March 31, 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 March 31, 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.

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 March 31, 2014, SBIC LP had $50.0 million in regulatory capital and had $44.0 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 March 31, 2014 and September 30, 2013 were as follows:

Rate Fix Date	March 31, 2014 Debenture Amount	March 31, 2014 Fixed All-in Interest Rate		September 30, 2013[1] Debenture Amount	September 30, 2013[1] 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 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.

As of March 31, 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 March 31, 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 six months ended March 31, 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 March 31, 2014		2013	For the six months ended March 31, 2014		2013
SBA Debentures interest	$ 209		$ -	$ 381		$ -
Amortization of deferred financing costs	78		-	143		-
Total interest and fees expense	$ 287		$ -	$ 524		$ -
Weighted average stated interest rate	1.93	%	N/A	1.90	%	N/A
Weighted average outstanding balance	$ 44,000		$ -	$ 40,231		$ -

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 six month periods ended March 31, 2014, the Company incurred base management fees to MCC Advisors of $4.1 million and $7.7 million, respectively. For the three and six month periods ended March 31, 2014, we incurred $4.1 million and $8.4 million in incentive fees related to pre-incentive fee net investment income, respectively. For the three and six months ended March 31, 2013, the Company incurred net base management fees payable to MCC Advisors of $2.5 million and $4.6 million, respectively. For the three and six months ended March 31, 2013, the Company incurred $2.6 million and $5.0 million in incentive fees related to pre-incentive fee net investment income, respectively.

As of March 31, 2014 and September 30, 2013, $8.2 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 six months ended March 31, 2014, we incurred $0.8 million and $1.5 million in administrator expenses, respectively. For the three and six months ended March 31, 2013, we incurred $0.6 million and $1.1 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 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 March 31, 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 March 31, 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 six months ended March 31, 2014, as it was on non-accrual status. For the three and six months ended March 31, 2013, total investment income related to this loan participation was $0.2 million and $0.5 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.

Note 8. Commitments

As of March 31, 2014, we had commitments under loan and financing agreements to fund up to $67.3 million to 13 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 March 31, 2014 and September 30, 2013 is shown in the table below (dollars in thousands):

	As of March 31, 2014	September 30, 2013
Red Skye Wireless LLC	$ 15,000	$ 15,000
Wheels Up Partners LLC	9,176	-
Merchant Cash and Capital LLC	8,096	-
Sendero Drilling Company LLC	7,745	-
Lighting Science Group Corporation – Delayed Draw TL	6,250	-
Lydell Jewelry Design Studio LLC	5,928	5,928
Be Green Manufacturing and Distribution Centers LLC – Delayed Draw TL	3,667	-
DreamFinders Homes - TLB	2,723	2,723
The Plastics Group Acquisition Corp	2,500	-
Tenere Acquisition Corp.	2,000	2,000
Response Team Holdings LLC	1,852	-
Momentum Telecom, Inc.	1,163	-
Physicians Care Alliance LLC - Revolver	767	767
Be Green Manufacturing and Distribution Centers LLC - Revolver	479	-
DLR Restaurants LLC	-	4,177
DreamFinders Homes - TLA	-	2,500
Total	$ 67,346	$ 33,095

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 six months ended March 31, 2014 and 2013 (dollars in thousands):

For the three months ended
March 31

	2014	2013
Origination fee	$ 4,330	$ 1,615
Prepayment fee	-	1,311
Amendment fee	887	500
Transaction break-up fee	-	-
Administrative agent fee	122	72
Other fees	62	-
Other fee income	$ 5,401	$ 3,498

	For the six months ended March 31	
	2014	2013
Origination fee	$ 7,361	$ 3,644
Prepayment fee	3,026	1,470
Amendment fee	1,173	819
Transaction break-up fee	100	-
Administrative agent fee	236	132
Other fees	88	312
Other fee income	$ 11,984	$ 6,377

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 six months ended March 31, 2014, we accrued $0.2 million and $0.3 million for directors' fees expense, respectively. For the three and six months ended March 31, 2013, we accrued $0.1 million and $0.2 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 six months ended March 31, 2014 (dollars in thousands except share and per share amounts):

Basic and diluted	Three months ended March 31, 2014	Six months ended March 31, 2014
Net increase in net assets from operations	$ 12,442	$ 26,735
Weighted average common shares outstanding	43,883,259	42,002,482
Earnings per common share-basic and diluted	$ 0.28	$ 0.64

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 six months ended March 31, 2013 (dollars in thousands except share and per share amounts):

Basic and diluted	Three months ended March 31, 2013	Six months ended March 31, 2013
Net increase in net assets from operations	$ 11,523	$ 21,136
Weighted average common shares outstanding	28,669,859	26,697,175
Earnings per common share-basic and diluted	$ 0.40	$ 0.79

Note 12. Financial Highlights

The following is a schedule of financial highlights for the six months ended March 31, 2013 and 2012:

	For the six months ended March 31	
	2014	2013
Per share data:		
Net asset value per share at beginning of period	$12.70	$12.52
Net investment income [1]	0.80	0.75
Net realized gains on investments	0.00	0.02
Net unrealized appreciation/(depreciation) on investments	(0.16)	0.03
Net unrealized appreciation/(depreciation) on participations	0.01	-
Provision for taxes on unrealized gain/(loss) on investments	(0.01)	-
Net increase in net assets	0.64	0.80
Distributions declared from net investment income	(0.74)	(0.72)

Issuance of common stock, net of underwriting costs	0.11	0.14
Offering costs	(0.01)	(0.01)
Other [2]	(0.01)	-
Net asset value at end of period	$12.69	$12.73
Net assets at end of period	$587,239,882	$365,481,079
Shares outstanding at end of period	46,283,712	28,703,397
Per share market value at end of period	$13.61	$15.85
Total return based on market value [3]	4.38%	18.46%
Total return based on net asset value [4]	5.68%	6.92%
Portfolio turnover rate	14.36%	14.40%

The following is a schedule of ratios and supplemental data for the six months ended March 31, 2013 and 2012:

	For the six months ended March 31	
	2014	2013
Ratios: [5]		
Ratio of net investment income to average net assets	13.29%	12.98%
Ratio of total expenses to average net assets	11.67%	11.62%
Ratio of incentive fees to average net assets	3.32%	3.25%
Supplemental Data:		
Ratio of operating expenses and credit facility related expenses to average net assets	8.34%	8.38%
Average debt outstanding [6]	$310,885,165	$157,536,099
Average debt outstanding per common share	$7.40	$5.90
Asset coverage ratio per unit [7]	2,633	2,558
Average market value per unit		
Facilities [8]	N/A	N/A
SBA debentures [8]	N/A	N/A
Notes due 2019	$25.82	$26.08
Notes due 2023	$23.72	24.96

(1) Net investment income based on total weighted average common stock outstanding was $0.80 per share and $0.75 per share for the six months ended March 31, 2014 and 2013, respectively.

(2) 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, and no sales change 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, and no sales change for the period.

(5) Ratios are annualized.

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

(7) 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

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 six months ended March 31, 2014 and 2013:

Date Declared	Record Date	Payment Date	Amount Per Share
For the six months ended March 31, 2014			
10/30/2013	11/22/2013	12/13/2013	0.37
2/5/2014	2/26/2014	3/14/2014	0.37
			$ 0.74

Date Declared	Record Date	Payment Date	Amount Per Share
For the six months ended March 31, 2013			
11/1/2012	11/23/2012	12/14/2012	0.36
1/30/2013	2/27/2013	3/15/2013	0.36
			$ 0.72

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 six months ended March 31, 2014, except as disclosed below.

On April 28, 2014, the Company completed a public offering of 6,000,000 shares of its common stock at a public offering price of $13.25 per share, raising approximately $76.7 million in net proceeds after deducting underwriting discounts and commissions and estimated offering expenses.

On May 1, 2014, the Company’s board of directors declared a quarterly dividend of $0.37 per share payable on June 13, 2014, to stockholders of record at the close of business on May 28, 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 fu 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 directly to privately-held middle market companies 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

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 March 31, 2014, our portfolio consisted of investments in 69 portfolio companies with a fair value of approximately $959.0 million. During the three months ended March 31, 2014, we invested $139.8 million in 8 new portfolio companies and $30.9 million in 6 existing portfolio companies, and we had $29.8 million in aggregate amount of exits and repayments, resulting in net investments of $140.9 million for the period. As of March 31, 2013, our portfolio consisted of investments in 51 portfolio companies with a fair value of approximately $594.2 million. During the three months ended March 31, 2013, we invested $89.8 million in 8 new portfolio companies and $33.4 million in 7 existing portfolio companies, and we had $53.0 million in aggregate amount of exits and repayments, resulting in net investments of $70.2 million for the period.

During the six months ended March 31, 2014, we invested $287.4 million in 20 new portfolio companies and $43.9 million in 8 existing portfolio companies, and we had $121.8 million in aggregate amounts of exits and repayments, resulting in net investments of $209.5 million for the period. During the six months ended March 31, 2013, we invested $206.9 million in 19 new portfolio companies and $49.5 million in 10 existing portfolio companies, and we had $69.8 million in aggregate amount of exits and repayments, resulting in net investments of $186.6 million for the period.

As of March 31, 2014, our average portfolio company investment and our largest portfolio company investment at amortized cost and fair value was approximately $14.1 million and $13.9 million, and $26.0 million and $25.5 million, respectively. As of March 31, 2013, our average portfolio company investment and our largest portfolio company investment at amortized cost and fair value was approximately $11.7 million and $11.7 million, and $25.4

million and $25.7 million, respectively.

The following table summarizes the amortized cost and the fair value of investments as of March 31, 2014 (dollars in thousands):

	Investments at Amortized Cost	Percentage	Investments at Fair Value	Percentage
Senior Secured First Lien Term Loans	$ 590,124	60.6 %	$ 575,383	60.0 %
Senior Secured Second Lien Term Loans	288,754	29.6	285,640	29.7
Senior Secured Notes	86,285	8.8	86,443	9.0
Unsecured Debt	260	0.1	262	0.1
Equity/Warrants	8,792	0.9	11,274	1.2
Total	$ 974,215	100.0 %	$ 959,002	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 March 31, 2014, the weighted average loan to value ratio (“LTV”) of our portfolio investments was approximately 56.3%. 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.

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As of March 31, 2014, our income-bearing investment portfolio, which represented nearly 99.2% of our total portfolio, had a weighted average yield based upon cost of our portfolio investments of approximately 13.5%, and 63.4% of our income-bearing investment portfolio bore interest based on floating rates, such as LIBOR, and 36.6% 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:

Credit Rating	**Definition**
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 March 31, 2014 (dollars in thousands):

Investment Performance Rating	Investments at Fair Value	Percentage	
1	$ 34,915	3.6	%
2	850,884	88.7	
3	60,945	6.4	
4	8,168	0.9	
5	4,090	0.4	
Total	$ 959,002	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	%

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Results of Operations

Operating results for the three and six months ended March 31, 2014 and 2013 are as follows (dollars in thousands):

	For the three months ended March 31	
	2014	2013
	($ in thousands)	
Total investment income	$31,398	$20,207
Total expenses	14,843	9,811
Net investment income	16,555	10,396
Net realized gains (losses)	28	153
Net unrealized gains (losses) on investments	(3,978)	974
Net unrealized gains (losses) on participations	154	-
Provision for taxes on unrealized gain/(loss) on investments	(317)	-
Net increase in net assets resulting from operations	$12,442	$11,523

	For the six months ended March 31	
	2014	2013
	($ in thousands)	
Total investment income	$ 63,066	$ 37,927
Total expenses	29,480	17,913
Net investment income	33,586	20,014
Net realized gains (losses)	73	374
Net unrealized gains (losses) on investments	(6,761)	748
Net unrealized gains (losses) on participations	154	-
Provision for taxes on unrealized gain/(loss) on investments	(317)	-
Net increase in net assets resulting from operations	$ 26,735	$ 21,136

Investment Income

For the three and six months ended March 31, 2014, investment income totaled $31.4 million and $63.1 million, respectively, of which $26.0 million and $51.1 million was attributable to portfolio interest and $5.4 million and $12.0 million to other fee income.

For the three and six months ended March 31, 2013, investment income totaled $20.2 million and $37.9 million, respectively, of which $16.7 million and $31.5 million was attributable to portfolio interest and $3.5 million and $6.4 million to other fee income.

Operating Expenses

Operating expenses for the three and six months ended March 31, 2014 and 2013 were as follows (dollars in thousands):

	For the three months ended	
	March 31, 2014	March 31, 2013
Base management fees	$ 4,078	$ 2,534
Incentive fees	4,139	2,599
Administrator expenses	840	569
Professional fees	543	549
Interest and financing expenses	4,614	2,933
Directors fees	190	131
Insurance	137	73
General and administrative	302	274
Organizational Expense	—	149
Expenses	$ 14,843	$ 9,811

	For the six months ended	
	March 31, 2014	March 31, 2013
Base management fees	$ 7,743	$ 4,630
Incentive fees	8,397	5,003
Administrator expenses	1,513	1,091
Professional fees	1,157	841
Interest and financing expenses	9,154	5,251
Directors fees	341	243
Insurance	276	141
General and administrative	899	564
Organizational Expense	—	149
Expenses	$ 29,480	$ 17,913

For the three months ended March 31, 2014, total operating expenses increased by $5.0 million, or 51.3%, compared to the three months ended March 31, 2013. For the six months ended March 31, 2014, total operating expenses increased by $11.6 million, or 64.6%, compared to the six months ended March 31, 2013.

Interest and financing expenses were higher in the three months ended March 31, 2014 than the three months ended March 31, 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 March 31, 2014 compared to the three months ended March 31, 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 six months ended March 31, 2014, we recognized $28,052 and $73,052 realized gains on our portfolio investments, respectively. During the three and six months ended March 31, 2013, we recognized $0.2 million and $0.4 million realized gains, respectively, on portfolio investments.

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 six months ended March 31, 2014, we had $4.0 million and $6.8 million of unrealized depreciation, respectively, on portfolio investments. For the three and six months ended March 31, 2013, we had $1.0 million and $0.7 million of unrealized appreciation, respectively, on portfolio investments. For the three and six months ended March 31, 2014, we had $0.2 million and $0.2 million of unrealized appreciation, respectively, on participated investments. For the three and six months ended March 31, 2013, we had no unrealized appreciation or depreciation on participated investments.

Provision for 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 six months ended March 31, 2014, the Company recognized a provision for tax on unrealized gain of $0.3 million and $0.3 million for consolidated subsidiaries, respectively. For the three and six months ended March 31, 2013, the Company did not recognize a provision for tax on unrealized gain.

Changes in Net Assets from Operations

For the three months ended March 31, 2014, we recorded a net increase in net assets resulting from operations of $12.4 million versus a net increase in net assets resulting from operations of $11.5 million for the three months ended March 31, 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 March 31, 2014, as compared to the same period in the prior year. Based on 43,883,259 and 28,669,859 weighted average common shares outstanding for the three months ended March 31, 2014 and 2013, respectively, our per share net increase in net assets resulting from operations was $0.28 for the three months ended March 31, 2014, versus a per share net increase in net assets from operations of $0.40 for the three months ended March 31, 2013.

For the six months ended March 31, 2014, we recorded a net increase in net assets resulting from operations of $26.7 million versus a net increase in net assets resulting from operations of $21.1 million for the six months ended March 31, 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 six months ended March 31, 2014, as compared to the same period in the prior year. Based on 42,002,482 and 26,697,175 weighted average common shares outstanding for the six months ended March 31, 2014 and 2013, respectively, our per share net increase in net assets resulting from operations was $0.64 for the six months ended March 31, 2014, versus a per share net increase in net assets from operations of $0.79 for the six months ended March 31, 2013.

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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 (each as defined below and together, the “Facilities”) 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 August 4, 2011, the Company closed a four-year senior secured revolving credit facility (the “Revolving Facility”) led by ING Capital LLC with initial commitments of $60 million and a feature that provides for expansion of the Facility up to $125 million, subject to customary conditions.

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.

On August 31, 2012, we entered into Amendment No. 1 to the Revolving Facility, and entered into a new senior secured term loan credit facility (the “Term Loan Facility,” and together with the Revolving Facility, the “Facilities”) with ING Capital LLC.

Amendment No. 1 to the Revolving Facility revised the Revolving Facility, to, among other things, increase the amount available for borrowing from $125.0 million to $132.5 million; permit the Term Loan Facility; and extend the maturity date from August 4, 2015 to August 31, 2016. Amendment No. 1 to the Revolving Facility also changes the interest rate of the Revolving Facility from (a) Eurocurrency loans from LIBOR + 3.75% per annum, with a 1% LIBOR floor, to (i) when the Company's stockholders' equity is less than or equal to $350.0 million and the step-down condition is not satisfied, LIBOR plus 3.75% per annum, with no LIBOR floor, and (ii) when the Company's stockholders' equity exceeds $350.0 million and the step-down condition is satisfied, LIBOR plus 3.25% per annum, with no LIBOR floor, and (b) alternative base rate loans based, or ABR, on 2.75% per annum plus the greatest of the Prime Rate in effect on such day, the federal funds effective rate for such day plus 0.5%, LIBOR for a period of three months plus 1% or the ABR Floor of 2% to (i) when the Company's stockholders' equity is less than or equal to $350.0 million and the step-down condition is not satisfied, 2.75% per annum plus the greatest of the Prime Rate in effect on such day, the federal funds effective rate for such day plus 0.5% or LIBOR for a period of three months plus 1%, and (ii) when the Company's stockholders' equity exceeds $350.0 million and the step-down condition is satisfied, 2.25% per annum plus the greatest of the Prime Rate in effect on such day, the federal funds effective rate for such day plus 0.5% or LIBOR for a period of three months plus 1%. As of March 31, 2014, there was $136.2 million outstanding under the Revolving Facility.

Each of the Facilities includes an accordion feature permitting us to expand the Facilities, if certain conditions are satisfied; provided, however, that the aggregate amount of the Facilities, collectively, is capped at $400.0 million.

On September 25, 2012, we closed $5 million of additional commitment to the Revolving Facility resulting in total commitments to the Revolving Facility of $137.5 million.

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 December 7, 2012, we entered into Amendment No. 2 to the Revolving Facility, and entered into Amendment No. 1 to the Term Loan Facility.

Amendment No. 2 to the Revolving Facility revised the Revolving Facility, to, among other things, increase the amount available for borrowing from $137.5 million to $182.0 million.

Amendment No. 1 to the Term Loan Facility revised the Term Loan Facility, to, among other things, increase the amount available for borrowing from $55.0 million to $80.5 million. The Term Loan Facility matures on August 31, 2017, bears interest at LIBOR plus 4.0% (with no LIBOR floor, rounded upwards, if necessary, to the next 1/16 of 1.0%).

On January 23, 2013, we entered into Amendment No. 2 to the Term Loan Facility. Amendment No. 2 to the Term Loan Facility revised the Term Loan Facility, to, among other things, increase the amount available for borrowing from $80.5 million to $100.0 million.

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On January 23, 2013, the Company closed $18.0 million of additional commitment to the Revolving Facility resulting in total commitments to the Revolving Facility of $200.0 million.

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 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.

On March 28, 2013, we entered into Amendment No. 3 to the Revolving Facility, and entered into Amendment No. 3 to the Term Loan Facility.

Amendment No. 3 to each of the Revolving Facility and the Term Loan Facility amend certain provisions of the Facilities. In particular, the aggregate accordion feature permitting subsequent increases to the Facilities have been increased to an aggregate maximum amount of $400 million, an increase of $100 million from the prior limit of $300 million.

On March 28, 2013, the Company closed $9.0 million of additional commitment to the Revolving Facility resulting in total commitments to the Revolving Facility of $209.0 million and $5.0 million of additional commitment to the Term Facility resulting in total commitments to the Term Facility of $105.0 million.

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 April 18, 2013, the Company closed $1.0 million of additional commitment to the Revolving Facility resulting in total commitments to the Revolving Facility of $210.0 million.

On May 1, 2013, we entered into Amendment No. 4 to the Revolving Facility, and entered into Amendment No. 4 to the Term Loan Facility.

Amendment No. 4 to the Revolving Facility revised the Revolving Facility, to, among other things, increase the amount available for borrowing from $210.0 million to $230.0 million.

Amendment No. 4 to the Term Loan Facility revised the Term Loan Facility, to, among other things, increase the amount available for borrowing from $105.0 million to $115.0 million.

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 September 25, 2013, the Company closed $15.0 million of additional commitment to the Revolving Facility resulting in total commitments to the Revolving Facility of $245.0 million and $5.0 million of additional commitment to the Term Facility resulting in total commitments to the Term Facility of $120.0 million.

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.

As of March 31, 2014, we had $22.7 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 March 31, 2014, SBIC LP had $50.0 million in regulatory capital and had $44.0 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 March 31, 2014, we had commitments under loan and financing agreements to fund up to $67.3 million to 13 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 March 31, 2014 and September 30, 2013 is shown in the table below (dollars in thousands):

	As of March 31, 2014	September 30, 2013
Red Skye Wireless LLC	$ 15,000	$ 15,000
Wheels Up Partners LLC	9,176	-
Merchant Cash and Capital LLC	8,096	-
Sendero Drilling Company LLC	7,745	-
Lighting Science Group Corporation – Delayed Draw TL	6,250	-
Lydell Jewelry Design Studio LLC	5,928	5,928
Be Green Manufacturing and Distribution Centers LLC – Delayed Draw TL	3,667	-
DreamFinders Homes - TLB	2,723	2,723
The Plastics Group Acquisition Corp	2,500	-
Tenere Acquisition Corp.	2,000	2,000

Response Team Holdings LLC	1,852	-
Momentum Telecom, Inc.	1,163	-
Physicians Care Alliance LLC - Revolver	767	767
Be Green Manufacturing and Distribution Centers LLC - Revolver	479	-
DLR Restaurants LLC	-	4,177
DreamFinders Homes - TLA	-	2,500
Total	$ 67,346	$ 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 March 31, 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	$ 136,200	$ -	$ 136,200	$ -	$ -
Term Loan Facility	120,000	-	-	120,000	-
7.125% Notes	40,000	-	-	-	40,000
6.125% Notes	63,500	-	-	-	63,500
SBA Debenture	44,000	-	-	-	44,000
Total contractual obligations	$ 403,700	$ -	$ 136,200	$ 120,000	$ 147,500

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 March 31, 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

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.

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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 March 31, 2014, one portfolio company was on non-accrual status with a fair value of approximately $4.1 million, or 0.4% 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 April 28, 2014, the Company completed a public offering of 6,000,000 shares of its common stock at a public offering price of $13.25 per share, raising approximately $76.7 million in net proceeds after deducting underwriting discounts and commissions and estimated offering expenses.

On May 1, 2014, the Company's board of directors declared a quarterly dividend of $0.37 per share payable on June 13, 2014, to stockholders of record at the close of business on May 28, 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 March 31, 2014, we did not engage in hedging activities.

As of March 31, 2014, 63.4% 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 March 31, 2014 was as follows:

March 31, 2014	
Fair Value (thousands)	% of Floating Rate Portfolio

Under 1%	$102,935	17.1	%
1% to under 2%	452,809	75.1	
2% to under 3%	37,728	6.3	
3%	9,403	1.5	
Total	$602,875	100.0	%

Based on our Consolidated Statement of Assets and Liabilities as of March 31, 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 (1)	Interest Income (thousands)	Interest Expense (thousands)	Net Increase (Decrease) (thousands)
100	$ 1,400	$ 3,000	$ (1,600)
200	6,600	6,000	600
300	12,300	9,000	3,300
400	17,900	12,000	5,900
500	23,500	15,000	8,500

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 (1)	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 March 31, 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 March 31, 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 six months ended March 31, 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.

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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.

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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: May 1, 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)

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