ACCRETIVE CAPITAL
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An Open Letter to the Board of Directors of MCG Capital Corporation

March 11, 2014

Mr. Richard W. Neu
Chairman
MCG Capital Corporation
1001 19th Street North, 10th Floor
Arlington, VA 22209

Dear Ladies and Gentlemen of the MCG Capital Corporation Board:

As you know, Accretive Capital Partners has been a significant and supportive shareholder of MCG Capital Corporation for more than five years. We believe we are among the largest owners of MCG Capital stock, with approximately 1.8 million shares held by our fund and its affiliates, and we take pride in being value-added partners to the company and our fellow shareholders. We have worked hard to provide constructive advice during these years, and we believe investment firms like ours serve an important societal role in identifying outstanding business managers and supporting them as they turn their visions of fulfilling market needs into realities of new products or better services, improving life for everyone. We strive to achieve our professional responsibilities by investing in and partnering with exceptional CEOs who have demonstrated their success at allocating assets as they build superior businesses. And we are committed to allocating the funds entrusted to us by our investors intelligently, honorably, and just as rationally. It is with these responsibilities in mind that we strongly urge the Board of Directors of MCG Capital Corporation to take immediate and substantial steps to replace management and to improve shareholder value.

MCG has been extraordinarily fortunate to have Rick Neu serving as its Chairman. From October 2011 though November 2012, Rick stepped in as CEO to stabilize an organization that had suffered years of mismanagement and a five-year and 56% decline in per-share net asset value (NAV). He brought order to the company during a critical management change, initiated significant cost cuts, and instilled a culture of acting in shareholders' best interests.

Rick also put his own money where his mouth was by purchasing roughly $890,000 of MCG stock in the open market between August 2011 and May 2013, at an average price nearly 20% greater than today's market price.

Toward the end of 2012, Rick selflessly relinquished the CEO reins to the company's longstanding business development officer, Hagen Saville. And Rick did so the moment he felt his job of stabilizing the business was completed—without extracting an extraordinary bonus or extravagant stock options. In fact, Rick's compensation in 2012 was 61% less than the $2.3 million received by Mr. Saville, who *reported to Rick* for eleven months of that year. Including compensation in 2011, when Hagen Saville was heading business development only, Rick's combined compensation was 67% lower than the *$3.4 million* received by Mr. Saville.

Today, under Hagen Saville's direction, we find the situation at MCG Capital untenable. Eleven months into Mr. Saville's tenure as CEO, the very first transaction and fourth largest loan origination closed under his watch ($13.5 million to Color Star Growers) resulted in a *total loss in less than a year*. This alone resulted in a 4% ($0.19/share) decline in NAV. Since he assumed CEO responsibilities, per-share NAV has declined 9%, in spite of offsetting increases to NAV resulting from the ongoing share repurchase program. A year ago, when asked during the company's March 5, 2013 earnings conference call what benchmarks should be used to measure his success in the coming quarters, Mr. Saville told shareholders: "I think if you go back and review my comments in the prepared remarks, the objectives we have are to earn $0.50 in 2013". Exactly one year later, on MCG's March 5, 2014 earnings conference call, Mr. Saville announced that the company had earned only $0.02 in 2013, and shareholders now should expect only $0.25-$0.30 of net operating income in 2014.

After delivering performance 96% below benchmarks which Mr. Saville himself established only one year ago and setting a new goal for 2014 at only 50-60% of last year's benchmark, he reported that expenses will also increase in 2014, as he plans to hire additional loan origination employees. At the same time, he also reported: "We believe that current market conditions in our primary lending markets are consistent with the peak of a credit cycle. The current supply of debt capital exceeds the demand by issuers in our markets, resulting in lower pricing and weaker contractual protections." Are these really the right market conditions to increase loan origination staff and is this actually the appropriate leader to hire and oversee this new team?

It is beyond us as to why Mr. Saville advocates increasing operating expenses to add investment personnel while we are at the "peak of a credit cycle…resulting in lower pricing and weaker contractual protections". We offer an alternative solution to the poorly conceived strategy designed by Mr. Saville: Shares of MCG itself can be repurchased immediately and at virtually no additional cost, where the assets are seasoned and well-known to the company, and in a transaction which will produce an instantaneous 26% return for investors with an additional 7.4% annual dividend yield.

At December 31, 2013, MCG had $91.6 million ($1.30/share) of cash and cash equivalents available for general corporate purposes, and the company expects to receive another $100-$125 million ($1.42-$1.77/share) of cash repayments in 2014. The total debt was only $175 million ($2.49/share), and all debt associated with the BDC asset coverage test was repaid in January 2014. The net asset value was $335 million ($4.74/share). In short, MCG is sitting on an extraordinarily high level of unutilized cash assets, representing nearly 18% of total assets and over 27% of net assets, with no worrisome debt covenants or imminent repayments.

At the close of trading on March 10, 2014, MCG stock was $3.77/share, a 20% discount to net asset value. For every share purchased at this price, an investor receives nearly $1.00 of additional net asset value for free, or an immediate 26% gain on investment. And with the expected annual dividend rate of $0.28/share (which should approximate earnings), that equates to an additional 7.4% return annually.

In fact, shares of MCG are an extremely attractive investment for the company at any price up to $4.60. We provide you with the following calculations to demonstrate the incredibly accretive nature of a $100 million share repurchase at $4.60/share (via a Dutch Auction Tender Offer, although we suspect such a transaction might be completed at a lower price). You will note that reducing the share count by investing unutilized cash immediately increases per-share NAV by $0.07, from $4.74 to $4.81:

Immediate Value of Dutch Auction Tender at $4.60/Share

MCG

MCG's balance sheet will change immediately upon repurchasing $100 million of stock at **$4.60**/Share (i.e., 21.7 million shares, assuming transaction costs of $500,000), as follows:

	Before Share Repurchase		After Share Repurchase	
	in Millions	Per Share	in Millions	Per Share
Shares Outstanding	70.5		48.8	
Cash	$ 91.6	$ 1.30	$ 0.0	$ 0.00
Other Cash and Investments	418.8	5.94	418.8	8.59
Debt	(175.2)	(2.49)	(184.1)	(3.77)
Net Asset Value	$ 335.2	**$ 4.74**	$ 234.7	**$ 4.81**

Sources: MCG Capital Corporation SEC filings and CapIQ.
Note: Share count of 70,510,441 as of most recent quarterly filing (Q4 2013); Figures have been rounded for formatting purposes.

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By the end of 2014, instead of a -1.2% decline, NAV would be 4.1% greater, growing $0.19 to $4.87. In 2015, NAV would be 6.6% greater, growing $0.31 to $4.99. Moreover, earnings per share increase 43%, from $0.28 to $0.40, in each of the next two years:

Future Value of Dutch Auction Tender at $4.60/Share

MCG

Per-share NAV improves **$0.07** immediately, **$0.19** thru 2014, **$0.31** thru 2015; and EPS increases from **$0.28** to **$0.40** in each of 2014 and 2015.

	Without Share Repurchase		With Share Repurchase		Value of Share Repurchase
	in Millions	Per Share	in Millions	Per Share	
Shares Outstanding	71.2		48.8		
Cash	$ 91.6	$ 1.30	$ 0.0	$ 0.00	
Other Cash and Investments	418.8	5.94	418.8	8.59	
Debt	(175.2)	(2.49)	(184.1)	(3.77)	
Current Net Asset Value	$ 335.2	**$ 4.74**	$ 234.7	**$ 4.81**	**$ 0.07**
2014:					
Dividend	(23.6)	(0.34)	(16.3)	(0.34)	
Income	19.4	0.28	19.4	0.40	**$ 0.40 EPS**
Net Asset Value	$ 331.0	**$ 4.68**	$ 237.7	**$ 4.87**	**$ 0.19**
2015:					
Dividend	(23.6)	(0.28)	(13.7)	(0.28)	
Income	19.4	0.28	19.4	0.40	**$ 0.40 EPS**
Net Asset Value	$ 326.7	**$ 4.68**	$ 243.5	**$ 4.99**	**$ 0.31**

Sources: MCG Capital Corporation SEC filings and CapIQ.
Note: Share count of 70,510,441 as of most recent quarterly filing (Q4 2013); Figures have been rounded for formatting purposes.

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The $100 million Dutch Auction Tender Offer at a lower price, say $4.40/share, generates even more compelling value for shareholders. By reducing the share count 22.7 million shares, the buyback results in an immediate increase to per-share NAV of $0.17, from $4.74 to $4.91:

Immediate Value of Dutch Auction Tender at $4.40/Share

MCG

MCG's balance sheet will change immediately upon repurchasing $100 million of stock at **$4.40**/Share (i.e., 22.7 million shares, assuming transaction costs of $500,000), as follows:

	Before Share Repurchase		After Share Repurchase	
	in Millions	Per Share	in Millions	Per Share
Shares Outstanding	70.5		47.8	
Cash	$ 91.6	$ 1.30	$ 0.0	$ 0.00
Other Cash and Investments	418.8	5.94	418.8	8.76
Debt	(175.2)	(2.49)	(184.1)	(3.85)
Net Asset Value	$ 335.2	**$ 4.74**	$ 234.7	**$ 4.91**

Sources: MCG Capital Corporation SEC filings and CapIQ.
Note: Share count of 70,510,441 as of most recent quarterly filing (Q4 2013); Figures have been rounded for formatting purposes.

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By the end of 2014, instead of a -1.2% decline, NAV would be 6.4% greater, growing $0.30 to $4.98. In 2015, NAV would be 9.2% greater, growing $0.43 to $5.11. Earnings per share increase 46%, from $0.28 to $0.41, in each of the next two years:

Future Value of Dutch Auction Tender at $4.40/Share

MCG

Per-share NAV improves **$0.17** immediately, **$0.30** thru 2014, **$0.43** thru 2015; and EPS increases from **$0.28** to **$0.41** in each of 2014 and 2015.

	Without Share Repurchase		With Share Repurchase		Value of Share Repurchase
	in Millions	Per Share	in Millions	Per Share	
Shares Outstanding	71.2		47.8		
Cash	$ 91.6	$ 1.30	$ 0.0	$ 0.00	
Other Cash and Investments	418.8	5.94	418.8	8.76	
Debt	(175.2)	(2.49)	(184.1)	(3.85)	
Current Net Asset Value	$ 335.2	**$ 4.74**	$ 234.7	**$ 4.91**	**$ 0.17**
2014:					
Dividend	(23.6)	(0.34)	(16.0)	(0.34)	
Income	19.4	0.28	19.4	0.41	**$ 0.41 EPS**
Net Asset Value	$ 331.0	**$ 4.68**	$ 238.1	**$ 4.98**	**$ 0.30**
2015:					
Dividend	(23.6)	(0.28)	(13.4)	(0.28)	
Income	19.4	0.28	19.4	0.41	**$ 0.41 EPS**
Net Asset Value	$ 326.7	**$ 4.68**	$ 244.1	**$ 5.11**	**$ 0.43**

Sources: MCG Capital Corporation SEC filings and CapIQ.
Note: Share count of 70,510,441 as of most recent quarterly filling (Q4 2013); Figures have been rounded for formatting purposes.

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We believe that the most important thing MCG can do on behalf of shareholders is to deploy our unutilized cash into the highest yielding opportunity as soon as possible. Given the unfavorable market conditions for making new loans, together with the additional risks, increased costs, and extended time involved, we strongly encourage the MCG Capital Board of Directors to act on the recommendation of a Dutch Auction Tender Offer immediately.

We also believe MCG should be sold to a strategic buyer already operating a lending business. We can imagine such a buyer ascribing book value to the seasoned and high yielding loans already in place at MCG. Prospective buyers not currently operating Business Development Companies (BDCs) might also value MCG's public BDC structure; and those without SBIC licenses may also be attracted to MCG's existing license, provided the SBA authorizes its transfer.

In considering the sequence of events, however, we believe MCG should first deploy its unutilized cash to buy back shares as aggressively as possible, provided MCG's stock price remains discounted to per-share NAV. As soon as the cash is deployed and shares outstanding are reduced, the company should be sold.

Accretive Capital Partners, LLC has stood by MCG Capital for more than five years while waiting patiently for a turn-around to materialize and for NAV growth to resume. Instead, prospects for a turn-around and any organic NAV growth appear less likely now than ever. Given current management's lack of success, a stock price that trades at a substantial discount to NAV, and lending markets at "the peak of a credit cycle…resulting in lower pricing and weaker contractual protections," the Board of Directors of MCG Capital Corporation should take the following actions immediately:

1.) Remove Hagen Saville from his CEO and Board of Directors roles;
2.) Initiate a Dutch Auction Tender Offer to acquire MCG shares at prices up to $4.60/share;
3.) Abandon plans to grow loan origination staff and, instead, focus on managing and monetizing portfolio assets to avoid additional losses; and
4.) Begin a dialogue with potential buyers of the company.

We believe we share these sentiments with other significant shareholders of MCG Capital and we encourage you to take bold and decisive action on our behalf. MCG is currently in an excellent position to follow the strategic plan outlined above: The company is flush with cash; it has no imminent debt repayments or onerous covenants; it can continue to operate profitably, provided expenses are controlled and losses are minimized; and its Board of Directors is led by a strong and honorable businessman, experienced in directing successful sales of businesses. These dynamics are particularly compelling given the lackluster environment for and risks associated with deploying capital elsewhere. And the shareholder value created as a result of these actions is profound.

We at Accretive Capital Partners encourage you to pursue these recommendations immediately and, while we know Rick Neu to be anchored by rock-solid moral convictions, we remind you of your fiduciary duties to shareholders: As custodians of our investment in MCG Capital Corporation, you are charged with a duty to place shareholder interests above any personal gain or other motives. And, consistent with the motivation that compels us, we demand only that you do the right and noble thing on behalf of all MCG Capital Corporation shareholders.

Sincerely,

Richard E. Fearon, Jr.
Managing Partner