

TRI VALLEY CORP  
Form DEF 14A  
May 03, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(A) of the  
Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission (as permitted by Rule 14A-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14A-11(c) or Rule 14A-12

TRI-VALLEY CORPORATION

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14A-6(i)(4) and 0-11.
- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the

amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on June 3, 2011

---

To the Stockholders of Tri-Valley Corporation:

You are cordially invited to attend the 2011 Annual Meeting of Stockholders of Tri-Valley Corporation on June 3, 2011 at 10:00 a.m., Pacific Time. The Annual Meeting will be held at The Four Points Sheraton, 5101 California Avenue, Bakersfield, California 93309, for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect five individuals to serve as members of our Board of Directors until the next annual meeting of stockholders;
2. To approve the 2011 Omnibus Long-Term Incentive Plan;
3. To ratify the selection of Brown Armstrong Accountancy Corporation as our independent registered public accounting firm for the fiscal year ending December 31, 2011; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Our Board of Directors recommends that you vote in favor of the foregoing items of business, which are more fully described in the proxy statement accompanying this notice.

Only our stockholders of record at the close of business on April 29, 2011, are entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the meeting in person. However, to ensure your representation at the meeting, there are three ways to vote your shares by proxy: call the toll-free number listed on the accompanying proxy card; visit the Internet site address listed on the accompanying proxy card; or complete, sign and date the proxy card and return it in the envelope provided. Any stockholder attending the meeting may vote in person even if he or she has returned a proxy card.

By Order of the Board of Directors

/s/ G. Thomas Gamble

G. Thomas Gamble  
Chairman of the Board of Directors

Bakersfield, California  
May 3, 2011



TABLE OF CONTENTS

	PAGE
INFORMATION CONCERNING SOLICITATION AND VOTING	4
PROPOSAL ONE—ELECTION OF DIRECTORS	9
EXECUTIVE COMPENSATION	20
PROPOSAL TWO—APPROVAL OF THE 2011 OMNIBUS LONG-TERM INCENTIVE PLAN	25
PROPOSAL THREE—RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	31
STOCKHOLDER PROPOSALS OTHER THAN DIRECTOR NOMINATIONS	33
OTHER BUSINESS	35

---

PROXY STATEMENT

---

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of our Board of Directors for use at the 2011 Annual Meeting of Stockholders, which we refer to as the “Annual Meeting,” to be held on June 3, 2011 at 10:00 a.m., Pacific time, at The Four Points Sheraton, 5101 California Avenue, Bakersfield, California 93309, at which time stockholders of record as of April 29, 2011 will be entitled to vote. On April 29, 2011, we had 67,650,054 shares of common stock outstanding.

We intend to mail this proxy statement, the accompanying proxy card and the Annual Report on Form 10-K for the fiscal year ending December 31, 2010, on or about May 5, 2011, to all stockholders entitled to vote at the Annual Meeting. These materials and directions to attend the Annual Meeting, where you may vote in person, are available on the internet at [www.proxyvote.com](http://www.proxyvote.com). Our principal executive offices are located at 4550 California Ave., Suite 600, Bakersfield, California 93309.

Annual Meeting Admission

You are entitled to attend the Annual Meeting only if you were a holder of our common stock as of the close of business on April 29, 2011, or otherwise hold a valid proxy for the Annual Meeting. Admission to the Annual Meeting will be on a first-come, first-served basis. You should be prepared to present a form of government-issued photo identification for admittance. If you are not a stockholder of record but hold shares through a broker, bank, trustee or nominee (i.e., in “street name”), you should provide proof of beneficial ownership as of April 29, 2011, such as your most recent account statement prior to that date, a copy of the voting instruction card provided by your broker, bank, trustee or nominee, a letter from your nominee, or similar evidence of ownership.

If you do not provide proper photo identification or comply with the other procedures outlined above, you will not be admitted to the Annual Meeting.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

Voting

The shares of common stock constitute our only outstanding class of voting securities. Each stockholder of record is entitled to one vote for each share of common stock held as of April 29, 2011, on each matter to be voted on at the Annual Meeting.

Quorum

The required quorum for the transaction of business at the Annual Meeting is a majority of the shares entitled to vote at the Annual Meeting, present in person or represented by proxy. Abstentions and broker non-votes are each included in the determination of the number of shares present and voting for the purpose of determining whether a quorum is present. If the persons present or represented by proxy at the Annual Meeting constitute the holders of less than a majority of the outstanding shares of common stock as of the record date, the Annual Meeting may be adjourned to a

subsequent date for the purpose of obtaining a quorum.

#### Abstentions

When an eligible voter attends the meeting but decides not to vote, his or her decision not to vote is called an “abstention.” Properly executed proxy cards that are marked “abstain” or “withhold authority” on any proposal will be treated as abstentions for that proposal. We will treat abstentions as follows:

abstention shares will be treated as not voting for purposes of determining the outcome on any proposal for which the minimum vote required for approval of the proposal is a plurality (or a majority or some other percentage) of the votes actually cast, and thus will have no effect on the outcome; and

abstention shares will have the same effect as votes against a proposal if the minimum vote required for approval of the proposal is a majority (or some other percentage) of (i) the shares present and entitled to vote, or (ii) all shares outstanding and entitled to vote.

#### Broker Non-Votes

Broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (i) the broker does not receive voting instructions from the beneficial owner, and (ii) the broker lacks discretionary authority to vote the shares. We will treat broker non-votes as follows:

broker non-votes will not be treated as shares present and entitled to vote for purposes of any matter requiring the affirmative vote of a majority or other proportion of the shares present and entitled to vote (even though the same shares may be considered present for quorum purposes and may be entitled to vote on other matters). Thus, a broker non-vote will not affect the outcome of the voting on a proposal the passage of which requires the affirmative vote of a plurality (or a majority or some other percentage) of (i) the votes cast or (ii) the voting power present and entitled to vote on that proposal; and

broker non-votes will have the same effect as a vote against a proposal the passage of which requires an affirmative vote of the holders of a majority (or some other percentage) of the outstanding shares entitled to vote on such proposal.

The inspector of elections appointed for the Annual Meeting will determine whether a quorum is present, and will tabulate affirmative and negative votes, abstentions and broker non-votes.

#### Vote Required

**Proposal One:** Directors are elected by the affirmative vote of a plurality of votes cast at the Annual Meeting. Plurality means that the individuals who receive the largest number of votes cast are elected as directors, up to the maximum number of directors to be chosen at the meeting. Therefore, broker non-votes and abstentions or votes that are withheld will have no effect on the election of directors.

**Proposal Two:** The proposal to approve the 2011 Omnibus Long-Term Incentive Plan requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting. Therefore, abstentions are counted as votes against this proposal. Broker non-votes will not be treated as shares present and entitled to vote, and therefore broker non-votes will have no effect on the outcome of this proposal.

**Proposal Three:** The proposal to ratify the selection of Brown Armstrong Accountancy Corporation as our independent registered public accounting firm for the fiscal year ending December 31, 2011, requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting. Therefore, abstentions are counted as votes against this proposal. Because the ratification of the independent registered public accounting firm is a discretionary matter, broker non-votes will not result for this proposal.

Shares of common stock represented by a properly executed proxy received in time for the Annual Meeting will be voted as specified therein, unless the proxy previously has been revoked. Unless otherwise specified in the proxy, the persons named therein will vote "for" each of the proposals set forth in this proxy statement. As to any other business properly submitted to stockholders at the Annual Meeting, the persons named in the proxy will vote as recommended by our Board of Directors or, if no recommendation is given, in their discretion.

#### How to Vote



As explained in the detailed instructions on the accompanying proxy card, there are four ways you may vote. You may:

1. Sign, date and return the enclosed proxy card in the enclosed postage-paid envelope;

2. Vote via the Internet by following the voting instructions on the proxy card or the voting instructions provided by your broker, bank or other holder of record;
3. Vote by telephone by following the voting instructions on the proxy card or the instructions provided by your broker, bank or other holder of record; or
4. Vote in person by attending the Annual Meeting. Written ballots will be distributed to stockholders who wish to vote in person at the Annual Meeting. If you hold your shares through a bank, broker or other custodian, you must obtain a legal proxy from such custodian in order to vote in person at the meeting.

Whether or not you are able to attend the Annual Meeting, you are urged to complete the enclosed proxy and return it in the enclosed self-addressed, prepaid envelope. All valid proxies received prior to the Annual Meeting will be voted. If you specify a choice with respect to any item by marking the appropriate box on the proxy, your shares will be voted in accordance with that specification. **IF NO SPECIFICATION IS MADE, THE SHARES WILL BE VOTED (I) FOR OUR FIVE NOMINEES FOR DIRECTOR; (II) FOR THE 2011 OMNIBUS LONG-TERM INCENTIVE PLAN; (III) FOR THE RATIFICATION OF THE SELECTION OF BROWN ARMSTRONG ACCOUNTANCY CORPORATION AS THE COMPANY'S INDEPENDENT REGISTERED ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2011; AND (IV) IN THE PROXY HOLDERS' DISCRETION AS TO OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING.**

If you have any questions or require any assistance in executing your proxy, please call:

The Proxy Advisory Group, LLC  
18 East 41st Street, Suite 2000  
New York, New York 10017-6219  
Stockholders Call Toll-Free: (888) 337-7699

#### Revoking a Proxy

Any stockholder of record may revoke or change his, her or its proxy instructions at any time prior to the vote at the Annual Meeting by:

submitting a properly executed, subsequently dated proxy card that will revoke all prior proxy cards;

instructing us by telephone or via the Internet as to how you would like your shares voted (instructions are on the proxy card);

attending the Annual Meeting and withdrawing his, her or its proxy by voting in person (although attendance at the Annual Meeting will not in and of itself constitute revocation of a proxy); or

delivering written notice of revocation either to Tri-Valley Corporation c/o The Proxy Advisory Group, LLC, 18 East 41st Street, Suite 2000 New York, New York 10017-6219, or the Corporate Secretary of Tri-Valley Corporation.

#### Cost and Method of Solicitation

We have retained The Proxy Advisory Group, LLC to conduct the solicitation of proxies, for which The Proxy Advisory Group is to receive a fee not to exceed \$14,500. Proxies may be solicited by mail, courier services, Internet, advertising, telephone or telecopier or in person. It is anticipated that The Proxy Advisory Group will employ up to

five persons to solicit proxies from our stockholders for the Annual Meeting.

Proxies may also be solicited by us. No additional compensation will be paid to directors, officers or other regular employees for such services. We will bear the entire cost of proxy solicitation, including costs of preparing, assembling, printing and mailing this proxy statement, the proxy card and any additional material furnished to stockholders. Copies of the solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others, to forward to such beneficial owners. We may reimburse persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, electronic mail or personal solicitation by our directors, officers or other regular employees.

#### Stockholders Sharing the Same Last Name and Address

In accordance with notices we sent to certain stockholders, we are sending only one copy of our annual report and proxy statement to stockholders who share the same last name and address, unless they have notified us that they want to continue receiving multiple copies. This practice, known as “householding,” is designed to reduce duplicate mailings and save significant printing and postage costs as well as natural resources.

If you received a householded mailing this year and you would like to have additional copies of our annual report and/or proxy statement mailed to you or you would like to opt out of this practice for future mailings, please submit your request to Secretary, Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309.

#### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to us regarding the ownership of our common stock as of April 8, 2011, by: (i) each stockholder known to us to be a beneficial owner of more than 5% of our voting capital stock; (ii) each director; (iii) each named executive officer; and (iv) all current directors and officers as a group.

Name and Address (1)	Number of Shares Beneficially Owned (2)	Percentage of Outstanding Shares (3)
<b>5% Beneficial Owners</b>		
G. Thomas Gamble (4)	3,016,650	5.23 %
<b>Directors and Named Executive Officers</b>		
G. Thomas Gamble (4)	3,016,650	5.23 %
Paul W. Bateman (5)	115,000	*
Henry Lowenstein, Ph.D. (6)	116,000	*
Loren J. Miller	254,236	*
James S. Mayer (7)	72,000	*
Edward M. Gabriel (8)	134,000	*
Maston N. Cunningham (9)	175,000	*
John E. Durbin (10)	95,000	*
Michael P. Stark (11)	61,500	*
James C. Kromer (12)	115,000	*
Joseph R. Kandle (13)	565,000	*
F. Lynn Blystone (14)	1,105,453	1.90 %
James G. Bush (15)	50,000	*
All directors and officers as a group (9 persons) (16)	4,083,386	7.01 %

\* Represents beneficial ownership of less than 1%

(1) Unless otherwise indicated, the business address of each holder is: c/o Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309.

(2) The number of shares of common stock beneficially owned includes any shares issuable pursuant to stock options and/or warrants that are currently exercisable or may be exercised within 60 days after April 8, 2011. Shares issuable pursuant to such options and/or warrants are deemed outstanding for computing the ownership percentage of the person holding such options and/or warrants but are not deemed to be outstanding for computing the ownership percentage of any other person.

7

---

- (3) Applicable percentages are based on 57,558,207 shares outstanding on April 8, 2011, plus the number of shares such stockholder can acquire within 60 days after April 8, 2011.
- (4) Includes 80,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011. In addition to beneficially owning an aggregate of 3,016,650 shares of common stock, Mr. Gamble also owns 355,000 shares, or 81%, of the 438,500 shares of Series A Preferred Stock issued and outstanding. The Series A Preferred Stock is a non-voting security.
- (5) Includes 100,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (6) Includes 100,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (7) Includes 60,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011. Mr. Mayer, who currently serves as a director, will continue to serve on our Board of Directors until the Annual Meeting on June 3, 2011, at which time his term will expire and he will resign from the Board of Directors.
- (8) Includes 100,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (9) Includes 125,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011. Mr. Cunningham became President and Chief Executive Officer of the Company on March 5, 2010.
- (10) Includes 55,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (11) Includes 37,500 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (12) Includes 75,000 shares of common stock subject to options exercisable within 60 days after April 8, 2011.
- (13) Includes 435,000 shares of common stock subject to a warrant that is exercisable immediately. Mr. Kandle retired from the Company on April 1, 2011.
- (14) Includes 700,000 shares of common stock subject to a warrant that is exercisable immediately. Mr. Blystone retired from the Company on March 5, 2010.
- (15) Consists of shares of common stock subject to a warrant that is exercisable immediately. Mr. Bush left the Company effective as of January 4, 2011.
- (16) Includes 672,500 shares of common stock subject to options exercisable within 60 days after April 8, 2011. Does not include shares beneficially owned by (i) Mr. Mayer, whose term as a director will expire at the 2011 Annual Meeting, and (ii) Messrs. Kandle, Blystone or Bush, none of whom remain employed at the Company.

## PROPOSAL ONE

## ELECTION OF DIRECTORS

Our Board of Directors currently consists of six directors. Each director is elected to serve until the expiration of his term, or until his successor is duly elected and qualified. Therefore, the nominees for election at the Annual Meeting will serve, if elected, until the annual meeting of stockholders to be held in 2012.

The nominees for election as directors at the Annual Meeting are G. Thomas Gamble, Henry Lowenstein, Ph.D., Loren J. Miller, Edward M. Gabriel, and Paul W. Bateman. James S. Mayer, who currently serves as a director, will continue to serve on our Board of Directors until the Annual Meeting on June 3, 2011, at which time his term will expire. Effective as of the date of the Annual Meeting, the number of authorized directors will be reduced to five.

Each of the nominees has indicated a willingness to continue to serve on our Board of Directors if elected. However, in the event any nominee is unable to or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for an additional nominee who shall be designated by the current Board of Directors to fill the vacancy. Unless otherwise instructed, the proxy holders intend to vote all proxies received by them in favor of the nominees listed above.

## Vote Required and Recommendation of the Board of Directors

The five candidates receiving the highest number of affirmative votes of shares entitled to vote at the Annual Meeting will be elected as directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES NAMED ABOVE.

## Information With Respect to Nominees

Name of Director	Age	Year First Became Director or Executive Officer	Position With The Company
G. Thomas Gamble (1)(2)(4)	50	2006	Director (Chairman)
Henry Lowenstein, Ph.D. (2)(3)	57	2005	Director
Loren J. Miller, CPA (1)(4)	65	1992	Director
Edward M. Gabriel (3)	61	2007	Director
Paul W. Bateman (1)	54	2007	Director

(1)- Member of Audit Committee

(2)- Member of Compensation Committee

(3)- Member of Nominating and Corporate Governance Committee

(4)- Member of Finance Committee

Set forth below are descriptions of the backgrounds of each nominee and their principal occupations for at least the past five years and their public-company directorships, if any, as of the record date as well as those held during the past five years. With respect to each nominee, we have also provided in their biographical information below the experience and qualifications that led to the conclusion that they should serve as a director in light of our business and structure.



G. Thomas Gamble, Chairman of the Board of Directors of Tri-Valley Corporation, is a significant investor in both Tri-Valley Corporation and TVC OPUS 1 Drilling Program, L.P. Mr. Gamble is a significant businessman with active investments beyond Tri-Valley Corporation in agriculture and educational services. He is the managing member of Gamble Family Vineyards, LLC, and serves as a director of privately-held Boston Reed College, Inc. He has successfully participated in the creation, operation, and disposition of several businesses. His various businesses have received recognition from both the California State Senate and the U.S. House of Representatives, including “Business of the Year” in 2005. Mr. Gamble graduated from the University of California, Los Angeles, and is an independent member of our Board of Directors. He succeeded Mr. F. Lynn Blystone as Chairman of the Board of Directors, following Mr. Blystone’s retirement from all company positions on March 5, 2010.

As reflected in the biographical information summarized above, Mr. Gamble has extensive business, managerial, executive and leadership experience, having successfully participated in the creation, operation, and disposition of several businesses. For these reasons, we believe that Mr. Gamble has the requisite set of skills and experience to serve as a valuable member of our Board of Directors and its committees on which he serves.

Henry Lowenstein, Ph.D., has been Professor of Management at the E. Craig Wall Sr. College of Business Administration, Coastal Carolina University, Conway, South Carolina, since 2007, and from 2007 to 2009 was Dean of the College. Prior to joining the Coastal Carolina University, he was Dean of Business and Public Administration at California State University, Bakersfield, from 2000 to 2007. Dr. Lowenstein has a broad background in management within business, academic, government, and public service organizations. He has served as an experienced reviewer, consultant, and on a number of committees for AACSB International, the top accreditation agency for business schools worldwide. Previous academic positions include universities in Illinois, Virginia, and West Virginia. Locally, he is Chairman of the Board of the Ocean View Memorial Foundation of Myrtle Beach, South Carolina and provides economic & policy research for the Executive Committee of the Myrtle Beach Regional Economic Development Corp. Dr. Lowenstein has published in the fields of human resource management, public policy, and transportation. During his business career, he was a corporate officer for Kemper Group-Insurance and Financial Services, Dominion Bankshares Corporation, and Americana Furniture, Inc. He previously served as a management analyst for the Executive Office of the President of the United States, Office of Management and Budget, during the Gerald R. Ford Administration. Dr. Lowenstein received his Ph.D. in Labor and Industrial Relations from the University of Illinois; an M.B.A. from George Washington University; and a Bachelor of Science in Business Administration from Virginia Commonwealth University. Dr. Lowenstein is an independent member of our Board of Directors. He is chairman of both the Compensation Committee and the Nominating and Corporate Governance Committee.

As reflected in the biographical information summarized above, Dr. Lowenstein has an extensive background in management within business, academic, government, and public service organizations, making him well-suited to serve as a valuable member of our Board of Directors and its committees on which he serves.

Loren J. Miller, CPA, served as Treasurer of the Jankovich Company from 2001 until his retirement in 2008. Prior to Treasurer, he served in other positions at Jankovich from 1994 to 2001. He served successively as Vice President & Chief Financial Officer of Hershey Oil Corporation from 1987 to 1990 and Mock Resources from 1991 to 1992. He was Senior Financial Vice President & General Manager of Tosco Production Finance Corporation from 1975 to 1986 and was a Senior Auditor for the accounting firm of Touche Ross & Company from 1968 to 1973. Mr. Miller is a member of Financial Executive International, the nation’s leading senior financial executive organization and is a Past President of the Los Angeles Chapter. He is experienced in exploration, production, product trading, refining, and distribution, as well as, corporate finance. He holds a Bachelor of Science in Accounting and an M.B.A. in Finance from the University of Southern California. Mr. Miller is an independent member of our Board of Directors.

As reflected in the biographical information summarized above, Mr. Miller has extensive accounting and financial management experience generally and in the oil and gas business particularly, having served in various senior finance

positions, including as Chief Financial Officer for Hershey Oil Corporation. For these reasons, we believe that Mr. Miller has the requisite set of skills and experience to continue to serve as a valuable member of our Board of Directors and its committees on which he serves.

Edward M. Gabriel is the former U.S. Ambassador to the Kingdom of Morocco, and, since 2002, President and Chief Executive Officer of a Washington, D.C.-based strategic business counseling company, The Gabriel Company, LLC. Ambassador Gabriel brings a diverse background in a variety of petroleum and other energy sources. Ambassador Gabriel's experience is both domestic and international, with extensive relationships with the U.S. and Middle Eastern governments, and investment capital companies interested in energy projects. He is a member of the advisory board of Guggenheim Partners, a private wealth management firm. His career includes senior management positions with firms such as CONCORD, and the Madison Public Affairs Group, where he advised Fortune 100 Companies on multi-national matters in technology, energy, banking, environmental, and tax policy. Ambassador Gabriel served the Federal Energy Administration, U.S. Department of Energy, as Senior Economic Analyst. He serves as Vice Chairman of the American Task Force for Lebanon and is a Visiting Fellow at the Center for Strategic and International Studies. He is also on the Board of Directors of the American School of Tangier and the Casablanca American School. He is a Bachelor of Sciences graduate of Gannon University, where he was also awarded an honorary Doctorate of Laws. Ambassador Gabriel is an independent member of our Board of Directors.

As reflected in the biographical information summarized above, Ambassador Gabriel brings a diverse background in a variety of petroleum and other energy sources, and has extensive business and management experience generally. For these reasons, we believe that Ambassador Gabriel has the requisite set of skills and experience to continue to serve as a valuable member of our Board of Directors and the committee on which he serves.

Paul W. Bateman is President of the Klein & Saks Group, a Washington, D.C.-based firm that advises clients, principally in the mining and metals industries, on public policy matters. He joined the firm in 1994 and became its President in 1997. A graduate of Whittier College, he began his career in the late 1970s, as an aide to then former President Richard M. Nixon. In 1981, he joined the White House Staff under President Ronald R. Reagan and, subsequently, served in that Administration in senior positions at the Departments of Commerce and Treasury. From 1989 to 1993, he served on President George H. W. Bush's White House Staff as Deputy Assistant to the President for Management. Since 2005, Mr. Bateman has been the Chairman and Chief Executive of the International Cyanide Management Institute, which administers a voluntary industry program aimed at improving the management of cyanide used in gold mining. He is a member of the Economic Club of New York, the nation's leading nonpartisan speaking forum, and was its President from 2004 to 2007. He presently serves on the Board of Directors of Green Seal, a non-profit, third-party certifier and standards development body for eco-labeling in the United States. Mr. Bateman is an independent member of our Board of Directors.

As reflected in the biographical information summarized above, Mr. Bateman has extensive business, managerial, executive and leadership experience. Mr. Bateman has a valuable understanding of our business, including our minerals business. For these reasons, we believe that Mr. Bateman has the requisite set of skills and experience to continue to serve as a valuable member of our Board of Directors and the committee on which he serves.

As noted above, James S. Mayer, who currently serves as a director, will continue to serve on our Board of Directors until the Annual Meeting on June 3, 2011, at which time his term will expire. The Company and Mr. Mayer have mutually agreed that Mr. Mayer will not be re-nominated for election as a director at the 2011 Annual Meeting, so that Mr. Mayer may pursue other opportunities. This was a mutual decision and did not arise as a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. Mr. Mayer's biographical information is set forth below for informational purposes only.

Since 2007, Mr. Mayer has been the President of Pinnacle Capital Management, LLC, an investment strategy and corporate advisory firm. He formerly served as a First Vice President, Investments, for Citigroup Global Markets, Inc., from 2005 to 2006, and as Vice President, Alternative Investments, for Merrill Lynch from 1999-2005 and Vice President, Special Investments, for Merrill Lynch from 1997 to 1999. He also served as Director, International Business Development, for Perkin-Elmer Corporation from 1980 to 1993. Mr. Mayer holds a Bachelor's Degree in

Chemistry from State University of New York with graduate studies in corporate finance, investment banking, alternative investments, and corporate strategy. Mr. Mayer was appointed to the Board of Directors in August 2008.

## Board Leadership Structure

We separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The Chief Executive Officer is responsible for setting our strategic direction, providing leadership, and driving the performance of our business, while the Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for meetings of the Board of Directors, and presides over meetings of the Board of Directors. We believe that the separation of the roles of Chief Executive Officer and Chairman of the Board provides a stronger corporate governance structure and promotes more effective oversight of the Chief Executive Officer by the Board of Directors.

## Board of Directors Involvement in Risk Oversight

Our Board of Directors oversees our risk management practices and strategies, taking an enterprise-wide approach to risk management that seeks to complement our organizational and strategic objectives, long-term performance and the overall enhancement of stockholder value. Our Board's approach to risk management includes developing a detailed understanding of the risks we face, analyzing them with the latest information available, and determining the steps that should be taken to manage those risks, with a view toward the appropriate level of risk for a company of our size and financial condition.

While our Board of Directors has the ultimate responsibility for the risk management process, senior management and various committees of our Board of Directors also have responsibility for certain areas of risk management.

Our senior management team is responsible for day-to-day risk management and regularly reports on risks to our full Board or a relevant committee. Our legal, finance and regulatory areas serve as the primary monitoring and evaluation function for company-wide policies and procedures, and manage the day-to-day oversight of the risk management strategy for our ongoing business. This oversight includes identifying, evaluating, and addressing potential risks that may exist at the enterprise, strategic, financial, operational, compliance and reporting levels.

The audit committee focuses on financial and regulatory compliance risk, working closely, for example, with management and our independent registered public accounting firm. In addition, the compensation committee assesses risks related to our compensation programs. In setting performance metrics, our compensation committee creates incentives for our senior executives that encourage an appropriate level of risk-taking that is commensurate with our short-term and long-term strategies.

## Director Independence

Our common stock is listed on the NYSE Amex, LLC and, therefore, we are subject to the listing requirements of that market. Our Board of Directors has determined that all of the members of our Board of Directors are "independent" as defined in Section 803(A) of the NYSE Amex Company Guide.

## Meetings of the Board of Directors

Our Board of Directors met seven times during the year ended December 31, 2010. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which he served, except for Mr. Gabriel, who missed two Board meetings.

## Committees of the Board of Directors

The Board of Directors has the following standing committees: an audit committee, a compensation committee, and a nominating and corporate governance committee. Each such committee operates under a written charter adopted by the Board of Directors. Copies of the charters of all standing committees are available on the “Investor Center” page on our website located at [www.tri-valleycorp.com](http://www.tri-valleycorp.com).

#### Audit Committee

The audit committee consists of Loren J. Miller (Chairman), Paul W. Bateman, and G. Thomas Gamble. Our Board of Directors has determined that Loren J. Miller is an “audit committee financial expert” as defined by the rules of the SEC. Messrs. Miller, Bateman and Gamble also satisfy the current independence and financial experience standards established by the NYSE Amex and SEC rules.

Under its written charter, our audit committee, among other things:

- determines the engagement of and approves fees paid to our independent registered public accounting firm;

- monitors the qualifications, independence activities and performance of our independent registered public accounting firm;

- approves the retention of our independent registered public accounting firm to perform any proposed and permissible non-audit services;

- reviews with management and our independent registered public accounting firm our financial statements and critical accounting estimates;

- discusses with management and our independent registered public accounting firm the results of the annual audit;

- oversees the performance of our internal controls and the adequacy of our disclosure controls and procedures;

- prepares the report of the audit committee required by SEC rules to be included in our annual proxy statement; and

- pre-approves, approves or ratifies, as the case may be, transactions entered into with “related persons” (as defined under Regulation S-K Item 404(a)) when any such transaction (or series of related transactions) involves an amount exceeding \$120,000.

Our audit committee also reviews and reassesses, at least annually, the adequacy of its charter. The audit committee met four times during the year ended December 31, 2010.

#### Compensation Committee

The compensation committee consists of Dr. Lowenstein (Chairman) and Mr. Gamble, both of whom are non-employee, outside directors and satisfy the current independence standards established by the NYSE Amex and SEC rules.

Under its written charter, our compensation committee, among other things:

- reviews and recommends annually the corporate goals and objectives applicable to the compensation of our principal executive officer, evaluates his or her performance in light of those goals and objectives, and determines and recommends his or her compensation level based on this evaluation, subject to review and ratification by the full Board of Directors;

makes recommendations to the Board regarding the compensation of all other executive officers;

reviews, and makes recommendations to the Board regarding, incentive compensation plans and equity-based plans, as applicable;

administers our incentive compensation plans and equity-based plans, as applicable;



produces an annual report on executive compensation stating whether the committee reviewed the Compensation Discussion and Analysis, if required, prepared by management and discussed the Compensation Discussion and Analysis with management, and whether, based on such review and discussions, the committee recommended to the Board that such Compensation Discussion and Analysis be included in the Company's annual proxy statement and/or annual report on Form 10-K filed with the SEC, as well as any other disclosure required in accordance with applicable laws, rules, regulations and listing standards;

reviews our incentive compensation arrangements to determine whether they encourage excessive risk-taking; and

makes recommendations to the Board regarding director compensation.

Our compensation committee also reviews and reassesses, at least annually, the adequacy of its charter. The compensation committee met 11 times during the year ended December 31, 2010.

#### Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is a standing committee of, and operates under a written charter adopted by, our Board of Directors. The Nominating and Corporate Governance Committee consists of Dr. Lowenstein (Chairman) and Ambassador Gabriel. All members of the nominating and corporate governance committee are non-employee directors and satisfy the current independence standards established by the NYSE Amex and SEC rules.

Under its written charter, the nominating and corporate governance committee, among other things:

reviews the size and composition of our Board of Directors;

identifies and recommends to our Board of Directors individuals qualified to become board members and committee members consistent with criteria approved by our Board of Directors;

receive communications from stockholders directed to our Board of Directors, including stockholder proposals regarding director nominees;

recommends corporate governance principles; and

provides oversight in the evaluation of each member of our Board of Directors and each committee.

Our nominating and corporate governance committee also reviews and reassesses, at least annually, the adequacy of its charter. The nominating and corporate governance committee met once during the year ended December 31, 2010.

#### Other Committees

Our Board of Directors may establish other committees as it deems necessary or appropriate from time to time. For example, in 2010, our Board of Directors established a finance committee and delegated to it the authority to work with management to negotiate financing transactions when and as needed.

#### Evaluation of Director Nominees

We have not established specific, minimum qualifications for nominees or specific qualities or skills for our directors to possess. We have used a subjective process for identifying nominees for director based on the judgment of our Board of our current needs. We have never received any nominations from stockholders for new members of the Board of Directors, but the Board would be willing to consider outside nominations if any are received in the future, as explained further below under the caption, "Stockholder Nominations of Directors."

In selecting the 2011 nominees for director, the nominating and corporate governance committee sought candidates who possess the highest personal and professional ethics, integrity and values, and are committed to representing the long-term interests of our stockholders. In addition to reviewing a candidate's background and accomplishments, the committee reviewed candidates for director in the context of the current composition of the Board and the evolving needs of our businesses. All of our directors meet the standards of independence promulgated by the NYSE Amex and the SEC. As required by the nominating and corporate governance committee charter, the committee selects individuals as nominees for their character, judgment, ethics, integrity, business experience, and acumen, and the committee also seeks to ensure that the Board reflects a range of talents, ages, skills, diversity, and expertise, particularly in the areas of accounting and finance sufficient to provide sound and prudent guidance with respect to the Company's operations and interests. The Board seeks to maintain a diverse membership, but it does not have a separate policy on diversity. The Board also requires that its members be able to dedicate the time and resources necessary to ensure the diligent performance of their duties on the Company's behalf, including attending Board and applicable committee meetings.

The following are some of the key qualifications and skills the committee considered in evaluating the director nominees. The individual biographies beginning on page 10 provide additional information about each nominee's specific experiences, qualifications and skills.

**Significant management experience.** We believe that directors with experience in management, including management of private, public, or non-profit corporations provide us with valuable insights. These individuals have a demonstrated record of leadership qualities and a practical understanding of organizations, processes, strategy, risk management, and the methods to drive change and growth. Through their service as top leaders at other organizations, they also have access to important sources of market intelligence, analysis, and relationships that benefit us.

**Financial reporting experience.** We believe that an understanding of finance and financial reporting processes is important for our directors. We measure our operating and strategic performance by reference to financial targets. In addition, accurate financial reporting and robust auditing are critical to our success. We seek to have a number of directors who qualify as audit committee financial experts, and we expect all of our directors to be financially knowledgeable.

**Industry experience.** We seek to have directors with experience as executives, directors, or other leadership positions in the energy industry. These directors have valuable perspective on energy industry business cycles and other issues specific to our business.

**Government experience.** We seek directors with governmental experience because the energy industry is heavily regulated and is directly affected by actions and decisions of federal, state, local, and other governmental agencies. We recognize the importance of working constructively with governments, and directors with government experience offer valuable insight in this regard.

**Environmental experience.** The perspective of directors who have experience within the environmental regulatory field is valued as we implement policies and conduct operations in order to ensure that our actions today will not only provide the energy needed to drive economic growth and social well-being, but also secure a stable and healthy environment for tomorrow.

Stockholder Nominations of Directors

The nominating and governance committee will consider stockholder recommendations for directors sent to the nominating and corporate governance committee, c/o Corporate Secretary, Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309. Beginning with the 2012 annual meeting of stockholders, stockholder nominations for directors must comply with the requirements set forth in our amended and restated bylaws, effective as of March 29, 2011. Compliance with these requirements will entitle the proposing stockholder only to present such nominations at the annual meeting, not to have the nominations included in our proxy statement or proxy card. See “Stockholder Proposals Other than Director Nominations” on page 33 of this proxy statement for a summary of the requirements that must be satisfied for any stockholder proposals other than nominations of directors.

To be in proper form, a stockholder's notice of nominations must set forth, among other information:

the name, age, business address and residence address of each nominee proposed;

the principal occupation or employment of each such nominee;

the number of shares of capital stock of the Company which are owned of record and beneficially by each such nominee (if any);

such other information concerning each such nominee as would be required to be disclosed in a proxy statement soliciting proxies for the election of such nominee as a director in an election contest (even if an election contest is not involved), or that is otherwise required to be disclosed, in each case pursuant to and in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act;

the consent of the nominee to being named in the proxy statement as a nominee and to serving as a director if elected;

certain information regarding the stockholder proposing the nominees and the beneficial owner, if any, on whose behalf the nomination is being made, as further described in Article II, Section 7(b) of our amended and restated bylaws.

We may also require any proposed nominee to furnish such other information as we may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of Tri-Valley Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee.

In accordance with our amended and restated bylaws, the notice containing the nomination must be received by us not earlier than the close of business on the 120th day, nor later than the close of business on the 90th day, prior to the first anniversary of the preceding year's annual meeting. Therefore, stockholder notices of any director nominations intended to be considered at the 2012 annual meeting will be deemed timely under our amended and restated bylaws only if received at our executive offices no earlier than February 4, 2012 and no later than March 5, 2012. However, in the event that the date of the 2012 annual meeting is more than 30 days before or more than 70 days after June 3, 2012, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to the 2012 annual meeting and not later than the close of business on the later of the 90th day prior to the 2012 annual meeting or, if the first public disclosure of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following the day on which public announcement of the date of the 2012 annual meeting is first made by us.

Only such persons who are nominated in accordance with the procedures set forth in our amended and restated bylaws shall be eligible to be elected at an annual meeting of stockholders to serve as directors. Except as otherwise provided by law, the chairman of the annual meeting shall have the power and duty (a) to determine whether a nomination proposed to be brought before the meeting was made in accordance with the requisite procedures set forth in our amended and restated bylaws, and (b) if any proposed nomination was not made in compliance with our amended and restated bylaws, to declare that such nomination shall be disregarded as improper.

The full text of the provisions of our amended and restated bylaws referred to above may be obtained by contacting our Corporate Secretary at Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309, on our Internet website at [www.tri-valleycorp.com](http://www.tri-valleycorp.com), or on our EDGAR page accessible through the SEC's web site at

[www.sec.gov](http://www.sec.gov).

16

---

## Communications with the Board of Directors

Stockholders can send communications to the Board of Directors, or an individual director, by sending a written communication to our Corporate Secretary at Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309. All communications sent to this address are sent to the specific directors identified in the communication or if no directors are identified, the communication is delivered to the Chairman of the Board. We do not have a formal policy with respect to director attendance at annual meetings of our stockholders. All of our directors attended our annual meeting in 2010.

## Executive Officers

Our executive officers are as follows:

Maston N. Cunningham, 58, was elected by the Board of Directors as President and Chief Executive Officer in March 2010. He had been Tri-Valley's President and Chief Operating Officer since May 2009 and joined the company in January 2009 as Vice President of Corporate Development. Mr. Cunningham is also the Chief Executive Officer and a director of Tri-Valley Oil & Gas Co., our wholly-owned subsidiary, and the Chief Executive Officer and a director of Select Resources Corporation, Inc., another wholly owned subsidiary. Prior to joining Tri-Valley, Mr. Cunningham had a 22-year international career with Occidental Petroleum Corporation (Oxy) that included over 15 years in Pakistan, Peru, and Ecuador. In 1996, he was appointed President & General Manager of Oxy's Ecuadorian subsidiary where he led a successful oil exploration and development program and restructuring of the business unit that included renegotiation of its Oriente Basin Block 15 contract to increase oil reserves, production, and profitability. He was co-founder and first president of ASOPEC, an Ecuadorian petroleum industry association that spearheaded the industry's efforts to secure government approval for construction of a private \$1.1 billion heavy oil pipeline and marine terminal to facilitate additional heavy oil development in the Oriente Basin. Mr. Cunningham was also responsible for obtaining ISO 14001 certification in 1997 for Block 15's Environmental Management System which, at the time, was the first Oxy operation worldwide to obtain this certification, the first enterprise in Ecuador to be certified, and only the third oil and gas operation certified in South America. Mr. Cunningham is a past president of the Association of American Chambers of Commerce in Latin America (AACCLA), a leading regional trade advocacy organization affiliated with the U.S. Chamber of Commerce in Washington, D.C. He currently serves as treasurer on the Board of Trustees of the Pan American Development Foundation (PADF), an affiliate of the Organization of American States (OAS) in Washington, D.C., which implements over \$50 million of projects annually to assist disadvantaged people in the hemisphere through public and private grants. Mr. Cunningham is a graduate of Trinity University and received an M.B.A. from the University of Texas at Austin. He is also a Certified Public Accountant and fluent in Spanish.

John E. Durbin, 56, joined us as our Chief Financial Officer in October 2009. Mr. Durbin is also the Chief Financial Officer, Secretary, and a director of Tri-Valley Oil & Gas Co., our wholly-owned subsidiary, and Chief Financial Officer, Treasurer, Secretary, and a director of Select Resources Corporation, Inc., another wholly owned subsidiary. A majority of his 32-year career was spent in various senior management positions in finance and treasury with subsidiaries of Conoco Inc. and The DuPont Company. He has considerable experience working internationally through assignments in Bermuda, Switzerland, and Brazil. His last position at ConocoPhillips was as Assistant Treasurer, Risk Management, in Houston, Texas, and involved the design and implementation of an Enterprise Risk Management Program across the corporation. In 2005, he left ConocoPhillips and relocated to Rio de Janeiro, Brazil, to found JED Consulting LLC to provide capital formation and business consulting services for select private clients in such areas as gasoline refining, sugar cane optimization, and iron ore development. He returned to the U.S. late in 2008 and joined Utah-based coal producer, America West Resources, Inc., as Chief Financial Officer. Mr. Durbin holds a Bachelor of Science in Finance from Montana State University, Bozeman, and an M.B.A. in International

Financial Management from the Thunderbird School of Global Management in Glendale, Arizona. He is multilingual with abilities in Arabic, French, German, Italian, Portuguese, Russian, and Spanish. He holds memberships in the Brazil-Texas Chamber of Commerce (BRATECC), the Financial Executives Networking Group (FENG), and the Association for Financial Professionals (AFP).



Michael P. Stark, 62, joined us as our Vice President of Exploration in June 2010. Mr. Stark has over 39 years of experience with leading oil and gas producers in increasingly responsible positions. He was most recently Vice President of Exploration and Land for Ivanhoe Energy (USA) Inc., where he worked for 12 years. In his position at Ivanhoe, he developed a successful California exploration program that resulted in four discoveries over a three-year period. He was also responsible for the geotechnical evaluation of Ivanhoe's Block 20 in Ecuador, acquired in 2008. Prior to Ivanhoe, Mr. Stark spent 20 years at Occidental Oil and Gas Corporation (Oxy), where he served in a variety of positions in the U.S. and abroad, including the United Kingdom and Pakistan. As Oxy's Regional Exploration Manager for Europe, the Middle East, and the Commonwealth of Independent States, he directed an exploration team that acquired several exploration contracts and made several discoveries in the U.K.-North Sea, Russia, Oman, and The Netherlands. After leaving Oxy in 1998, Mr. Stark co-founded Diatom Petroleum, a startup exploration company, which was acquired by Ivanhoe Energy in 2000. He began his career as a geologist with Texaco. Mr. Stark has a Bachelor of Science in Geology from the University of California, Los Angeles, and a Master of Science in Geology from Iowa State University.

James C. Kromer, 67, joined us in May 2009 as Operations Manager and has over 45 years of experience in drilling, production, reservoir engineering, and operations. He was named Vice President of Operations in 2009. Prior to Tri-Valley, he held engineering and management positions at Continental Oil Company (subsequently, Conoco Inc.), Exxon Corporation, Amerada Hess, Omni Exploration, Damson Oil, Ely and Associates, Stream Energy, Matris Exploration, and Delta Petroleum. His experience includes seven years in foreign assignments in Libya and Abu Dhabi. Mr. Kromer is a graduate of Pennsylvania State University where he received a Bachelor of Science in Petroleum and Natural Gas Engineering.

#### Code of Ethics

We have adopted a written code of ethics that applies to all of our directors, officers and employees in accordance with the rules of the NYSE Amex and the SEC. A copy of the code of ethics is available on our website at [www.tri-valleycorp.com](http://www.tri-valleycorp.com), and a copy may also be obtained by any person, without charge, upon written request delivered to our Corporate Secretary at Tri-Valley Corporation, 4550 California Ave., Suite 600, Bakersfield, California 93309. We will disclose any amendment to, or waiver from, a provision of the code of ethics by posting such information on our website.

#### Section 16(a) Beneficial Ownership Reporting Compliance

The members of our Board of Directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which requires them to file reports with respect to their ownership of our common stock and their transactions in such common stock. Based upon (i) the copies of Section 16(a) reports that we received from such persons for their 2010 fiscal year transactions in our common stock and their common stock holdings and/or (ii) the written representations received from one or more of such persons that no other reports were required to be filed by them for the 2010 fiscal year, we believe that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by our executive officers, members of our Board of Directors and greater than 10% stockholders.

#### No Family Relationships

There are no family relationships between any of our directors or executive officers.

#### Compensation Committee Interlocks and Insider Participation

No member of our compensation committee during fiscal year 2010 served as an officer, former officer or employee of Tri-Valley Corporation or any of its subsidiaries. During fiscal year 2010, none of our executive officers served as a member of the compensation committee of any other entity, one of whose executive officers served as a member of our Board of Directors or compensation committee, and no executive officer served as a member of the Board of Directors of any other entity, one of whose executive officers served as a member of our compensation committee.

## Related Party Transactions

Except as set forth below, since January 1, 2010, there have been no transactions in which we were, or are, a participant in which the amount involved exceeded \$120,000 and in which any related person (as that term is defined for purposes of Section 404(a) of Regulation S-K) had or will have a direct or indirect material interest, and there are currently no such proposed transactions.

### Consulting Arrangement with Pinnacle Capital Management

On November 29, 2010, the Board of Directors approved a consulting arrangement with Pinnacle Capital Management, LLC, or Pinnacle, which is owned by James S. Mayer, one of our directors whose term expires at the Annual Meeting. The consulting services provided by Pinnacle included strategic business and institutional investor development services, for which we paid Pinnacle \$104,000 in fiscal 2010 and \$78,000 through March 31, 2011. The consulting agreement with Pinnacle expired on March 31, 2011. Prior to Board approval of the consulting agreement, Mr. Mayer disclosed to the Board his ownership of Pinnacle and his resulting interest in the transaction. Mr. Mayer abstained from voting on the Company's decision to enter into the agreement. We negotiated the agreement with Pinnacle in arms' length negotiations and selected Pinnacle as a financial consultant because of Pinnacle's qualifications, experience and ability in financial consulting. As a precautionary measure, the Company waived provisions in its Code of Business Conduct and Ethics that require directors, officers and employees to avoid even the appearance of impropriety in dealing with the Company.

### Issuance of Series A Preferred Stock to G. Thomas Gamble

Effective September 30, 2010, we issued 355,000 shares of restricted Series A Preferred Stock to G. Thomas Gamble, the chairman of our Board of Directors. These shares were issued in exchange for the retirement of certain outstanding obligations we owed to Mr. Gamble, including a note payable of \$850,000 from the Company resulting from an advance by Mr. Gamble in December 2009 and the previous acquisition of membership interests in Great Valley Production Services, LLC, for consideration of \$2,700,000, for aggregate obligations totaling \$3,550,000. The exchange was the result of a privately negotiated transaction in reliance on the exemption from registration requirements contained in Regulation D, Rule 506, and Section 4(2) of the Securities Act of 1933. A summary of the exchange and the rights, preferences and privileges of the Series A Preferred Stock was set forth in the Company's Current Report on Form 8-K dated October 6, 2010, which summary is incorporated herein by this reference.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table summarizes aggregate amounts of compensation paid or accrued by us for the fiscal years ended December 31, 2010 and 2009 for services rendered by (i) our principal executive officer, (ii) our two most highly compensated executive officers other than our principal executive officer who were serving as executive officers as of December 31, 2010, and (iii) two other individuals who were not serving as executive officers as of December 31, 2010, but for whom disclosure would have been required had they been serving as executive officers as of December 31, 2010. We refer to these persons as our “named executive officers” elsewhere in this proxy statement.

Name (a)	Fiscal Year Ending (b)	Salary (\$) (c)	Bonus (\$)(1) (d)	Stock Awards (\$)(1) (e)	Option Awards (\$)(1) (f)	All Other Compensation (\$)(2) (ii)	Total Compensation (\$) (j)
F. Lynn Blystone, CEO (3)	12/31/10	\$ 39,039	\$ -	\$ -	\$ 1,162,000	\$ 1,050	\$ 1,202,089
	12/31/09	\$ 210,000	\$ 6,650	\$ -	\$ 7,366	\$ -	\$ 224,016
Maston N. Cunningham, President, COO & CEO (4)	12/31/10	\$ 190,020	\$ 15,000	\$ -	\$ 48,900	\$ 5,701	\$ 259,621
	12/31/09	\$ 171,025	\$ -	\$ -	\$ 53,950	\$ 4,175	\$ 229,150
John E. Durbin, CFO (5)	12/31/10	\$ 180,000	\$ 12,000	\$ -	\$ 57,600	\$ 5,400	\$ 255,000
	12/31/09	\$ 45,000	\$ -	\$ -	\$ 19,200	\$ 450	\$ 64,650
Joseph R. Kandle, SVP Corporate Development (6)	12/31/10	\$ 210,700	\$ -	\$ -	\$ 187,050	\$ 6,322	\$ 404,072
	12/31/09	\$ 210,700	\$ -	\$ -	\$ 7,560	\$ 6,571	\$ 224,831
James G. Bush, President Select Resources (7)	12/31/10	\$ 163,800	\$ -	\$ -	\$ 89,160	\$ 4,914	\$ 257,874
	12/31/09	\$ 171,662	\$ -	\$ -	\$ 96,260	\$ 5,349	\$ 273,271

(1) The amounts shown are the grant date fair value of stock or option awards, as applicable, granted in the year indicated as computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions used to determine the grant date fair values, see Note 2, “Summary of Significant Accounting Policies –Stock Based Compensation Plans/Share-Based Payment”, to our Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2010.

(2)

These amounts represent matching contributions under our 401(k) Plan made by us in fiscal years 2010 and 2009, as well as insurance premiums paid by us with respect to life insurance for the benefit of each named executive officer.

- (3) Mr. Blystone retired from the Company on March 5, 2010.
- (4) Mr. Cunningham was elected as our President and Chief Operating Officer on May 18, 2009. On March 5, 2010, Mr. Cunningham succeeded to the position of Chief Executive Officer upon Mr. Blystone's retirement. See "—Employment Agreement with Our Former Chairman and Chief Executive Officer" and "—Executive Retirement Agreement and General Release with Mr. F. Lynn Blystone" below for additional information.
- (5) Mr. Durbin was appointed as our Chief Financial Officer on October 1, 2009.
- (6) Mr. Kandle retired from the Company on April 1, 2011. See "—Executive Retirement Agreement and General Release with Mr. Joseph R. Kandle" below for additional information.
- (7) Mr. Bush's position with the Company was terminated effective as of January 4, 2011. See "—Separation Agreement and General Release with Mr. James G. Bush" below for additional information.

## Summary of Agreements with Named Executive Officers

### Employment Agreement with Our Former Chairman and Chief Executive Officer

Through March 5, 2010, we had an Employment Agreement with Mr. F. Lynn Blystone, our former Chief Executive Officer. The terms of the contract were for a base salary amount of \$210,000 per year, plus 5,000 shares of our common stock at the end of each year of service. Mr. Blystone was also entitled to a bonus (not to exceed \$25,000) equal to 10% of net operating cash flow before taxes, including interest income and excluding debt service. Mr. Blystone was also entitled to a bonus of four percent of our annual net after-tax income. The total of the bonuses from cash flow and from net income could not exceed \$50,000 per year, although the Board of Directors could authorize additional bonuses and compensation if it so desired. The Employment Agreement also provided for a severance payment to Mr. Blystone if he was terminated within 12 months after a sale of control of the Company. The severance payment was limited to the lesser of \$150,000 or an amount calculated pursuant to any rules or regulation promulgated by any regulatory agency having jurisdiction over the Company, plus a pro-rata bonus calculated from cash flow and from net income with a total limit remaining at \$50,000. For purposes of the severance provision, a sale of control was deemed to be the sale of ownership of 30% of the issued and outstanding stock of Tri-Valley Corporation or the acquisition of sufficient stock of the Company to elect or appoint a majority of the members of the Board of Directors of the Company.

Through March 4, 2010, we carried key man life insurance of \$0.5 million on Mr. Blystone's life. Mr. Blystone retired from all positions with the Company and its subsidiaries on March 5, 2010.

### Executive Retirement Agreement and General Release with Mr. F. Lynn Blystone

On March 5, 2010, the Company executed an Executive Retirement Agreement and General Release (“Executive Agreement and Release”) with Mr. Blystone. The Executive Agreement and Release provided for Mr. Blystone’s retirement from the Company and all Company subsidiary positions and termination of his Employment Agreement with the Company, originally executed on January 1, 2008. Further, the Executive Agreement and Release included an employment agreement payment comprised of accrued gross wages and unpaid vacation as of March 5, 2010, in the amount of \$39,691, as well as, a settlement payment of \$136,083 to be paid in two installments of \$48,583 no later than September 15, 2010, and \$87,500 no later than January 15, 2011, along with the assignment of an existing key man insurance policy and associated cash value of \$38,917, as of March 5, 2010. In exchange for Mr. Blystone’s surrender of all outstanding Company issued stock options on March 5, 2010, the Executive Agreement and Release provided for a grant to Mr. Blystone of a warrant to purchase 700,000 shares of our common stock at a purchase price of \$1.85 per share.

### Separation Agreement and General Release with Mr. James G. Bush

The Company entered into a Separation Agreement and General Release (“Separation Agreement and Release”) with Mr. James G. Bush, President, Select Resources Corporation, Inc., on February 18, 2011, effective as of January 4, 2011. The Separation Agreement and Release provided for Mr. Bush’s termination from employment with the Company and all Company subsidiary positions. Further, the Separation Agreement and Release included payment of accrued gross wages and unpaid vacation as of January 4, 2011, in the amount of \$18,825, less applicable withholdings, as well as, severance compensation of \$40,950 to be paid in six semi-monthly installments, less applicable withholdings, beginning on February 28, 2011, and continuing until May 15, 2011. The Separation Agreement and Release also provided for a grant to Mr. Bush of a warrant to purchase 50,000 shares of our common stock at a purchase price of \$0.39 per share. On January 18, 2011, Mr. Bush also received gross compensation of \$25,000 for his efforts in the sale and closing of the Admiral Calder calcium carbonate property, pursuant to terms of

his appointment letter as President of Select Resources Corporation, Inc., dated July 2, 2008.

#### Executive Retirement Agreement and General Release with Mr. Joseph R. Kandle

On December 6, 2010, and amended on February 25, 2011, we executed an Executive Retirement Agreement and General Release (“Executive Agreement and Release”) with Mr. Joseph R. Kandle, Senior Vice President, Corporate Development, for the Company. The Executive Agreement and Release provided for Mr. Kandle’s retirement from the Company and all Company subsidiary positions, effective April 1, 2011. Further, the Executive Agreement and Release included a severance payment in the gross amount of \$105,350, payable pro rata in semi-monthly installments, less applicable withholdings, beginning on April 15, 2011, and continuing until September 30, 2011. The Executive Agreement and Release also provided for a grant of 30,000 shares of our common stock, the transfer of an automobile used by Mr. Kandle, a lump sum payment of \$25,000 intended to reflect the depreciated value of that automobile, and the assignment of an existing key man life insurance policy with no cash value at the termination of Mr. Kandle’s employment. In exchange for Mr. Kandle’s surrender of all outstanding Company-issued stock options on November 22, 2010, the Executive Agreement and Release provided for a grant to Mr. Kandle of a warrant to purchase 435,000 shares of our common stock at a purchase price of \$0.54 per share.

#### Cash Incentive Compensation

Annual cash bonus awards, if any, are subjective and not guaranteed. If distributed, annual cash bonus awards are intended to compensate, and thus provide incentives to, individuals for exceptional effort and job performance, thereby facilitating our continued growth and success by providing rewards that are commensurate with individual achievement. Cash bonus awards are favored by the Compensation Committee in situations where it believes that an executive is worthy of an incentive-based award and when it believes that the base salary of such executive is not at the level of competitiveness that the Compensation Committee feels appropriate. The Compensation Committee considers the achievements of the Company, and the employee’s contribution thereto, in order to determine the level of the cash bonus, if any, to be awarded. The Compensation Committee’s considerations focus on our earnings, the return on stockholders’ equity, the growth in proved oil and gas reserves, and the successful completion of specific projects to determine the level of bonus awards, if any.

#### Long-Term Equity Based Incentives

We use stock option and restricted stock awards to align our named executive officers’ interests with those of the stockholders by giving each executive an individual direct ownership in Tri-Valley Corporation. We believe these awards serve as an incentive to remain with us, as unvested stock grants and options are forfeited should the executive terminate his or her employment. The Compensation Committee focuses on our earnings, the return on stockholders’ equity, growth in proved oil and gas reserves, and the successful completion of specific projects to determine the level of stock option and restricted stock awards, if any.

#### Certain Other Compensation

In addition to base salaries, annual cash bonus awards, and long-term equity-based incentives, we provide the following other forms of compensation:

401(K) Profit Sharing Plan. We have a Defined Contribution Profit Sharing/401(K) Plan, designed to assist employees in saving for their retirement. We contribute to the plan, in cash, at the rate of three percent (3.0%) of an employee’s wages or salary. Our contributions to the plan vest immediately upon receipt.



Health and Welfare Benefits. Employees are eligible to participate in medical, dental, vision, life insurance, and tax-advantaged healthcare accounts to meet their health and welfare needs. These benefits are provided on a competitive basis for human talent within our marketplace and industry. This is a fixed component of compensation, and the benefits are provided on a non-discriminatory basis to all employees.

## Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding shares of our common stock underlying both exercisable and unexercisable stock options held by each named executive officer, as of December 31, 2010.

Name (a)	Number of Securities Underlying Unexercised Options		Option Exercise Price (d)	Option Expiration Date (e)
	Exercisable (b)	Unexercisable (c)		
F. Lynn Blystone	700,000	-	\$ 1.85	3/5/2015
James G. Bush	50,000	50,000	\$ 7.88	5/23/2017
	7,000	-	\$ 6.10	7/3/2013
	10,000	-	\$ 1.10	5/18/2014
Maston N. Cunningham	70,000	30,000	\$ 1.28	1/14/2014
	55,000	45,000	\$ 1.10	5/15/2014
John E. Durbin	40,000	60,000	\$ 2.42	10/1/2014
Joseph R. Kandle	435,000	-	\$ 0.54	11/22/2013

## Compensation of Directors

The following table sets forth information regarding the compensation paid to our non-employee directors in 2010:

Name (a)	Fees earned or paid in cash (b)	Stock Awards (1) (c)	Option Awards (2) (d)	All Other Compensation (3) (g)	Total Compensation (h)
Paul W. Bateman	\$ 9,250	\$ 19,300	\$ 40,200	-	\$ 68,750
Edward M. Gabriel	\$ 1,500	\$ 19,300	\$ 40,800	-	\$ 61,600
G. Thomas Gamble	\$ 15,500	\$ 19,300	-	-	\$ 34,800
Dr. Henry Lowenstein	\$ 16,750	\$ 19,300	-	-	\$ 36,050
James S. Mayer	\$ 1,000	\$ 19,300	\$ 45,000	\$ 104,000	\$ 169,300
Loren J. Miller	\$ 6,500	\$ 19,300	-	-	\$ 25,800

(1) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2010 fiscal year for the fair value of stock granted in

2010. Fair value is initially calculated using the closing price of our stock on the date of grant. In 2010, each director was granted 5,000 shares of common stock on January 4, 2010, for services rendered in 2009 and 5,000 shares of common stock on June 22, 2010, for services rendered in 2010. The values of the stock granted to each director on those dates were \$14,050, based on a closing market price of \$2.81 per share on October 20, 2009, for the stock granted on January 4, 2010, and \$5,250 based on the closing market price of \$1.05 per share on June 22, 2010, for the stock granted that same day.

- (2) Stock option awards relate to the accounting expense for options vested in accordance with Accounting Standards Codification (ASC) 718, which requires the expensing of equity stock awards based on the grant date of the option. The grant date for Mr. Mayer was August 14, 2008; Mr. Bateman's was August 2, 2007; Mr. Gabriel's was August 1, 2007; and for Mr. Gamble and Dr. Lowenstein, the grant date was May 9, 2006.
- (3) Strategic business and institutional investor development consulting services fees were paid to Pinnacle Capital Management, LLC, during 2010. Mr. Mayer is the President and Managing Member of Pinnacle Capital Management, LLC. Our agreement with Pinnacle Capital Management, LLC, for such consulting services expired on March 31, 2011.

As of December 31, 2010, each director is compensated at the rate of \$2,000 per in-person board meeting and \$500 per in-person and telephonic committee meeting, and at the rate of \$250 per hour per telephonic board meeting.

## PROPOSAL TWO

### APPROVAL OF 2011 OMNIBUS INCENTIVE COMPENSATION PLAN

On May 2, 2011, our Board of Directors adopted the 2011 Omnibus Long-Term Incentive Plan (the “Omnibus Plan”) subject to the approval of our stockholders. The Board has directed that the proposal to approve the Omnibus Plan be submitted to our stockholders for their approval at the 2011 Annual Meeting. If approved by our stockholders, the Omnibus Plan will become effective upon such approval. Upon effectiveness of the Omnibus Plan, the Company’s 2005 Stock Option Plan, as amended, will be frozen and no new grants will be made under that plan. No awards have been made under the Omnibus Plan.

The Board of Directors believes that the Omnibus Plan will further our compensation philosophy and programs. Our ability to attract, retain and motivate highly qualified officers, non-employee directors, key employees, consultants and advisors is critical to our success. The Board believes that the interests of the Company and its stockholders will be advanced if we can offer our officers, non-employee directors, key employees, consultants and advisors the opportunity to acquire or increase their direct interests in our operations and future success. The Omnibus Plan provides flexibility to the Company to achieve these goals by providing for a broad array of awards, including stock- and cash-based performance awards, and broad discretion to the Board to establish the terms and provisions of awards. We currently anticipate that the number of shares reserved for awards under the Omnibus Plan will be sufficient to cover our equity awards for at least the next three years.

The material terms of the Omnibus Plan are summarized below. This summary of the Omnibus Plan is not intended to be a complete description of the Omnibus Plan and is qualified in its entirety by the actual text of the Omnibus Plan, which is attached as Appendix A to this proxy statement.

#### Material Features of the Omnibus Plan

**Administration of the Plan.** Our Board of Directors has such powers and authorities related to the administration of the Omnibus Plan as are consistent with our corporate governance documents and applicable law. The Omnibus Plan will be administered by the Compensation Committee. Powers of the Compensation Committee include (i) selecting award recipients, (ii) determining types and amounts of awards, (iii) establishing terms and conditions of awards, (iv) determining the form of award agreements, (v) amending terms of outstanding awards and (vi) interpreting the provisions of the Omnibus Plan and any awards or award agreements. The Compensation Committee may further delegate its authority to administer the Omnibus Plan to the extent permitted by applicable law.

**Type of Awards.** The following types of awards are available for grant under the Omnibus Plan: incentive stock options (“ISOs”), non-qualified stock options (“NSOs”), stock appreciation rights (“SARs”), restricted stock, restricted stock units, cash- and stock-based performance awards and other stock-based awards.

**Number of Authorized Shares.** Subject to adjustment (in connection with certain changes in capitalization), the initial number of shares of our common stock reserved for issuance under the Omnibus Plan is 7,000,000 shares, all of which are available for issuance as ISOs under the Omnibus Plan. In addition, shares of our common stock underlying any outstanding stock option or other award granted under the 2005 Stock Option Plan, as amended, or any other predecessor employee stock plan or agreement of the Company that is forfeited, terminated or cancelled for any reason without issuance of such shares shall be available for the grant of new awards under the Omnibus Plan.

**Share Counting.** Each share covered by an award granted under the Omnibus Plan will be counted against the remaining available pool of shares available under the Omnibus Plan. Shares covered by awards under the Omnibus Plan will again be available for awards if and to the extent (i) the award is terminated, surrendered or forfeited without

issuance of shares, (ii) shares issued in connection with an award are repurchased by the Company at no more than cost or (iii) the award is settled in cash. In addition, shares used to cover the exercise price for an option or any tax withholding obligation will also again be available for awards. Only the net shares issued in connection with the exercise of a stock-settled SAR will be counted against the shares available for awards. In addition, in the case of any substitute award (as defined in the Omnibus Plan), such substitute award shall not be counted against the number of shares reserved under the Omnibus Plan.

**Individual Awards Limits.** The maximum number of each type of award (other than cash-based performance awards (as defined in the Omnibus Plan)) intended to constitute “performance-based compensation” under Section 162(m) (“Section 162(m)”) of the Internal Revenue Code of 1986, as amended (the “Code”) granted to any grantee in any 36-month period shall not exceed the following: Options: 7,000,000; SARs: 7,000,000; Restricted Stock: 7,000,000; Restricted Stock Units: 7,000,000; and Other Stock-based Performance Awards: 7,000,000.

**Eligibility and Participation.** Eligibility to participate in the Omnibus Plan is limited to such employees, officers, non-employee directors, consultants and advisors of the Company, or of any affiliate, as the Compensation Committee may determine and designate from time to time. As of April 29, 2011, approximately 22 employees, 4 officers, 6 directors, 2 consultants and no advisors would have been eligible to receive Awards under the Omnibus Plan.

### Stock Options and SARs

**Grant of Options and SARs.** The Compensation Committee may award ISOs, NSOs (together, “options”), and SARs to grantees under the Omnibus Plan. SARs may be awarded either in tandem with or as a component of other awards or alone.

**Exercise Price of Options and SARs.** The exercise price per share of an option will be at least 100% of the fair market value per share of our stock underlying the award on the grant date. An SAR will confer on the grantee a right to receive, upon exercise, a payment of the excess of (1) the fair market value of one share of our stock on the date of exercise over (2) the grant price of the SAR as determined by the Compensation Committee. The grant price will be fixed at a price that is not less than the fair market value of a share of stock on the date of grant. SARs granted in tandem with an outstanding option following the grant date of such option will have a grant price that is equal to the option's exercise price; provided, however, that the SAR's grant price may not be less than the fair market value of a share of stock on the grant date of the SAR.

**Vesting of Options and SARs.** The Compensation Committee will determine the terms and conditions (including any performance requirements) under which an option or SAR will become exercisable and will include such information in the award agreement.

**Special Limitations on ISOs.** In the case of a grant of an option intended to qualify as an ISO to a grantee that owns more than ten percent of the total combined voting power of all classes of our outstanding stock (a "Ten Percent Stockholder"), the exercise price of the option will not be less than 110% of the fair market value of a share of our stock on the grant date. Additionally, an option will constitute an ISO only (1) if the grantee is an employee of the Company or a subsidiary of the Company, (2) to the extent such option is specifically designated as an ISO in the related award agreement, and (3) to the extent that the aggregate fair market value (determined at the time the option is granted) of the shares of stock with respect to which all ISOs held by such grantee become exercisable for the first time during any calendar year (under the Omnibus Plan and all other plans of the grantee's employer and its affiliates) does not exceed \$100,000.

**Exercise of Options and SARs.** An option may be exercised by the delivery to us of written notice of exercise and payment in full of the exercise price (plus the amount of any taxes which we may be required to withhold). The Compensation Committee has the discretion to determine the method or methods by which a SAR may be exercised.

**Expiration of Options and SARs.** Options and SARs will expire at such time as the Compensation Committee determines; provided, however, that no option or SAR may be exercised more than ten years from the date of grant, or in the case of an ISO held by a Ten Percent Stockholder, not more than five years from the date of grant.

No Repricing. The Omnibus Plan specifically prohibits the re-pricing of options or SARs without stockholder approval. For this purpose, a “repricing” means any of the following (or any other action that has the same effect as any of the following): (A) changing the terms of an option or SAR to lower its exercise price; (B) any other action that is treated as a “repricing” under generally accepted accounting principles; and (C) repurchasing for cash or canceling an option or SAR at a time when its exercise price is greater than the fair market value of the underlying stock in exchange for another award, unless the cancellation and exchange occurs in connection with change in capitalization or similar change. Such cancellation and exchange would be considered a “repricing” regardless of whether it is treated as a “repricing” under generally accepted accounting principles and regardless of whether it is voluntary on the part of the grantee.



## Restricted Stock and Restricted Stock Units

**Restricted Stock.** At the time a grant of restricted stock is made, the Compensation Committee may establish the applicable “restricted period” and prescribe restrictions in addition to or other than the expiration of the restricted period, including the satisfaction of corporate or individual performance objectives. Unless the Compensation Committee otherwise provides in an award agreement, holders of restricted stock will have the right to vote such stock and the right to receive any dividends declared or paid with respect to such stock. The Compensation Committee may provide that any such dividends paid must be reinvested in shares of stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such restricted stock. All distributions, if any, received by a grantee with respect to restricted stock as a result of any stock split, stock dividend, combination of shares, or other similar transaction will be subject to the restrictions applicable to the original grant.

The grantee will be required, to the extent required by applicable law, to purchase the restricted stock at a price equal to the greater of (1) the aggregate par value of the shares of stock represented by such restricted stock or (2) the price, if any, specified in the award agreement relating to such restricted stock. If specified in the award agreement, the price may be deemed paid by services already rendered.

**Restricted Stock Units.** A restricted stock unit is a bookkeeping entry representing the equivalent of shares of stock awarded to a grantee. At the time a grant of restricted stock units is made, the Compensation Committee may establish the applicable “restricted period” and prescribe restrictions in addition to or other than the expiration of the restricted period, including the satisfaction of corporate or individual performance objectives. Restricted stock units will not confer stockholder rights to grantees. The Compensation Committee may provide that the holder of restricted stock units will be entitled to receive dividend equivalent rights, which may be deemed reinvested in additional restricted stock units.

**Cash- and Stock-Based Performance Awards.** The right of a grantee to exercise or receive a grant or settlement of any award, and the timing thereof, may be subject to such performance conditions as may be specified by the Compensation Committee. The Compensation Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may, subject to certain limitations in the case of a performance award intended to qualify under Section 162(m), exercise its discretion to reduce the amounts payable under any award subject to performance conditions.

We intend that performance awards granted to persons who are designated by the Compensation Committee as likely to be “Covered Employees” within the meaning of Section 162(m) and regulations thereunder will, if so designated by the Compensation Committee, constitute “qualified performance-based compensation” within the meaning of Section 162(m) and regulations thereunder. The grant, exercise and/or settlement of such performance awards will be contingent upon achievement of pre-established performance goals which will consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criterion. Performance goals will be objective and will otherwise meet the requirements of Section 162(m) and regulations thereunder. In addition, the maximum amount of each cash-based performance award intended to constitute “performance-based compensation” under Section 162(m) granted to a grantee in any 12-month period will not exceed \$5,000,000.

One or more of the following business criteria for the Company will be used exclusively by the Compensation Committee in establishing performance goals for such awards: net sales; revenue; revenue growth; operating income (before or after taxes); pre- or after-tax income (before or after allocation of corporate overhead and bonuses; net earnings; earnings per share; net income (before or after taxes); return on equity; total shareholder return; return on assets or net assets; appreciation in and/or maintenance of, share price; market share; gross profits; earnings (including earnings before taxes, earnings before interest and taxes or earnings before interest, taxes depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices;

reduction in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital; cash flow return on investment; improvement in or attainment of expense levels or working capital levels; operating margins; gross margins or cash margin; year-end cash; debt reductions; shareholder equity; regulatory performance; implementation, completion or attainment of measurable objectives with respect to research, development, projects and recruiting and maintaining personnel; and, to the extent permitted by applicable law, any other business criteria established by the Compensation Committee.

Performance goals may, in the discretion of the Compensation Committee, be established on a Company-wide basis, or with respect to one or more business units, divisions, subsidiaries or business segments, as applicable. Performance goals may be absolute or relative (to the performance of one or more comparable companies or indices). Measurement of performance goals may exclude (in the discretion of the Compensation Committee) the impact of charges for restructuring, discontinued operations, extraordinary items, and other unusual non-recurring items, and the cumulative effects of tax or accounting changes (each as defined by generally accepted accounting principles and as identified in the Company's financial statements or other SEC filings).

Dividends or dividend equivalents will not be paid on stock-based performance awards prior to vesting.

A vote in favor of approving the Omnibus Plan will be a vote approving all the material terms and conditions of the plan for purposes of the performance-based exemption under Section 162(m), including the performance measures, eligibility requirements and limits on various awards, in each case as described above.

**Other Stock-Based Awards.** The Compensation Committee may, in its discretion, grant other stock-based awards, consisting of stock units or other awards, valued in whole or in part by reference to, or otherwise based upon, our common stock. The terms of such other stock-based awards will be set forth in the applicable award agreements.

**Changes in Capitalization.** In case of certain changes in the Company's capitalization, such as a recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, other increase or decrease in such shares effected without receipt of consideration by the Company, spin-off, split-up, extraordinary cash dividend or other distribution of assets by the Company, the number and kinds of shares for which grants may be made under the Omnibus Plan, including the individual award limits, will be appropriately adjusted. Corresponding adjustments will be made to outstanding awards.

In case of certain transactions, such as mergers or consolidations of the Company, the Omnibus Plan and awards will continue in effect, except that outstanding awards will be treated as provided in the transaction agreement or grantees will be eligible to receive the same consideration as stockholders receive in the transaction. Special provisions may apply in case of options and SARs.

**Change in Control.** Our Board of Directors shall determine the effect of a change in control (as defined in the Omnibus Plan) upon awards, and such effect may be set forth in the appropriate award agreement. Without limiting the foregoing, the Board of Directors may provide in the award agreements at the time of grant, or any time thereafter with the consent of the grantee, the actions that will be taken upon the occurrence of a change in control, including, but not limited to, accelerated vesting, termination or assumption. The Board of Directors may also provide in the award agreements at the time of grant, or any time thereafter with the consent of the grantee, for different provisions to apply to an award in the event of changes in stock or certain transactions.

**Deferral Arrangements.** The Compensation Committee may permit or require the deferral of any award payment into a deferred compensation arrangement.

**Nontransferability of Awards.** Generally, during the lifetime of a grantee, only the grantee may exercise rights under the Omnibus Plan and no award will be assignable or transferable other than by will or laws of descent and distribution. If authorized in the award agreement, a grantee may transfer, not for value, all or part of an award (other than an ISO) to certain family members (including trusts and foundations for the benefit thereof). Neither restricted stock nor restricted stock units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the restricted period or prior to the satisfaction of any other restrictions prescribed by the Compensation Committee.

Separation from Service. The Compensation Committee may provide in the applicable award agreements for actions that will be taken upon a grantee's separation from service from the Company, including but not limited to, accelerated vesting or termination of awards.

Tax Withholding and Tax Offset Payments. We will have the right to deduct from payments of any kind otherwise due to a grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to an award or upon the issuance of any shares of stock upon the exercise of an option or pursuant to an award.

**Term of Plan.** Unless earlier terminated by our Board of Directors, the authority to make grants under the Omnibus Plan will terminate on the date that is ten years after the effective date of the Omnibus Plan.

**Amendment and Termination.** The Compensation Committee may, at any time and from time to time, amend, suspend, or terminate the Omnibus Plan as to any shares of stock as to which awards have not been made. An amendment will be contingent on approval of our stockholders to the extent stated by our Board of Directors, required by applicable law or required by applicable stock exchange listing requirements. No awards will be made after termination of the Omnibus Plan. No amendment, suspension, or termination of the Omnibus Plan will, without the consent of the grantee, impair rights or obligations under any award theretofore awarded under the Omnibus Plan.

**New Plan Benefits.** All grants of awards under the Omnibus Plan will be discretionary. Therefore, in general, the benefits and amounts that will be received under the Omnibus Plan are not determinable.

**Federal Income Tax Consequences.**

The following is a summary of the general federal income tax consequences to the Company and to U.S. taxpayers of awards granted under the Omnibus Plan. Tax consequences for any particular individual or under state or non-U.S. tax laws may be different.

**NSOs and SARs.** No taxable income is reportable when an NSO or SAR is granted. Upon exercise, generally, the recipient will have ordinary income equal to the fair market value of the underlying shares of stock on the exercise date minus the exercise price. Any gain or loss upon the disposition of the stock received upon exercise will be capital gain or loss to the recipient if the appropriate holding period under federal tax law is met for such treatment.

**ISOs.** No taxable income is reportable when an ISO is granted or exercised (except for grantees who are subject to the alternative minimum tax, who may be required to recognize income in the year in which the ISO is exercised). If the recipient exercises the ISO and then sells the underlying shares of stock more than two years after the grant date and more than one year after the exercise date, the excess of the sale price over the exercise price will be taxed as long-term capital gain or loss. If the recipient exercises the ISO and sells the shares before the end of the two- or one-year holding periods, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the ISO.

**Restricted Stock and Restricted Stock Units.** A recipient of restricted stock or restricted stock units will not have taxable income upon the grant unless, in the case of restricted stock, he or she elects to be taxed at that time. Instead, he or she will have ordinary income at the time of vesting (or, in case of restricted stock units, at settlement if after vesting) equal to the fair market value on the vesting date of the shares (or cash) received minus any amount paid for the shares.

**Cash- and Stock-Based Performance Awards and Other Stock-Based Awards.** Typically, a recipient will not have taxable income upon the grant of cash or stock-based performance awards or other stock-based awards. Subsequently, when the conditions and requirements for the grants have been satisfied and the payment determined, any cash received and the fair market value of any common stock received will constitute ordinary income to the recipient.

**Tax Effect for the Company.** We generally will receive a tax deduction for any ordinary income recognized by a grantee in respect of an award under the Omnibus Plan (for example, upon the exercise of a NSO). In the case of ISOs that meet the holding period requirements described above, the grantee will not recognize ordinary income; therefore, we will not receive a deduction.

Because we are a public company, special rules limit the deductibility of compensation paid to our CEO and to each of our three most highly compensated executive officers other than our CEO whose compensation is required to be reported annually in our proxy statement. Under Section 162(m), the annual compensation paid to each of these executives may not be deductible to the extent that it exceeds \$1 million. The limitation on deductions does not apply, however, to qualified "performance-based compensation." Certain awards under the Omnibus Plan, including options, SARs and cash- and stock-based performance awards, may constitute qualified performance-based compensation and, as such, would be exempt from the \$1 million limitation on deductible compensation.

## Securities Authorized for Issuance under Equity Compensation Plans

The following table set forth certain information regarding outstanding options, rights and shares reserved for future issuance under our existing equity compensation plans as of December 31, 2010:

Plan category	Number of securities to be issued upon exercise of outstanding options as of December 31, 2010	Weighted average exercise price of outstanding options	Number of Securities remaining available for future issuance as of December 31, 2010
Equity compensation plans approved by security holders:			
2005 Stock Option Plan	2,570,500	\$ 2.97	1,192,350
Equity compensation plans not approved by security holders:			
Warrants to Purchase Common Stock(1)	1,135,000	\$ 1.35	—
Total	3,705,500	\$ 2.47	1,192,350

(1) Consists of a warrant to purchase 700,000 shares of common stock issued to F. Lynn Blystone on March 5, 2010, at an exercise price of \$1.85 per share, and a warrant to purchase 435,000 shares of common stock issued to Joseph R. Kandle on November 22, 2010, at an exercise price of \$0.54 per share. These were one-time grants issued to such former officers of the Company in connection with their retirement agreements. Please see “Summary of Agreements with Named Executive Officers” on page 21 of this Proxy Statement for additional information.

## Overhang

As of April 29, 2011, assuming approval of the Omnibus Plan, our total overhang would be 12.2%.

For the purpose of calculating the overhang in the previous paragraph, we are using “fully diluted overhang,” which equals amount “A” divided by amount “B,” where amount “A” equals the sum of all outstanding stock options, warrants and unvested shares of restricted stock, plus shares available for future grants under all plans; and amount “B” equals the sum of the total shares of our common stock outstanding, plus amount A, less shares of unvested restricted stock. As of April 29, 2011: (i) the number of outstanding stock options, warrants and shares of unvested restricted stock equals 2,395,000; (ii) the number of shares available for future grants under all plans assuming approval of the Omnibus Plan (at which point our 2005 Stock Option Plan, as amended, will be frozen and no new grants will be made under that plan) equals 7,000,000; (iii) the number of shares of common stock outstanding equals 67,650,054; and (iv) the number of shares of unvested restricted stock is zero.

## Vote Required and Recommendation of the Board of Directors

The proposal to approve the Omnibus Plan requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR” APPROVAL OF THE OMNIBUS PLAN.

30

---



## PROPOSAL THREE

## RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the Board of Directors has selected Brown Armstrong Accountancy Corporation, or Brown Armstrong, to continue as our independent registered public accounting firm for the fiscal year ending December 31, 2011. We are asking the stockholders to ratify the selection of Brown Armstrong as the independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2011, and to perform other appropriate services approved by the audit committee. Brown Armstrong audited our financial statements for the fiscal year ended December 31, 2010. A representative of Brown Armstrong is expected to be present at the Annual Meeting to respond to stockholders' questions, and that representative will be given an opportunity to make a brief presentation to the stockholders if he or she so desires and will be available to respond to appropriate questions. We have been advised by Brown Armstrong that neither that firm nor any of its associates has any material relationship with us or any of our affiliates.

## Pre-Approval Policy for Non-Audit Services

The audit committee reviews and pre-approves all non-audit services to be performed by our independent registered public accounting firm, Brown Armstrong, subject to certain de minimis exceptions. Such pre-approval is on a project by project basis.

## Audit Fees

The following table sets forth the aggregate fees billed to us by Brown Armstrong for the fiscal years ended December 31, 2009 and December 31, 2010:

	December 31,	
	2009	2010
Audit Fees	\$ 106,012	\$ 146,445
Audit-Related Fees	25,931	—
Tax Fees	70,689	97,567
All Other Fees	—	—
Total	\$ 202,632	\$ 244,012

**Audit Fees.** These consist of fees billed for professional services rendered for the audit of our consolidated financial statements, review of interim consolidated financial statements included in the quarterly reports on Form 10-Q for the respective fiscal years, irrespective of the period in which the related services are rendered or billed and services provided by the independent auditors in connection with regulatory filings, including accounting and financial work related to the proper application of financial accounting and/or reporting standards.

**Audit-Related Fees.** These consist of fees for professional services rendered by Brown Armstrong for assurance and related services that are reasonably related to the performance of the audit and reviews of our financial statements.

**Tax Fees.** These consist of fees for professional services rendered by Brown Armstrong for tax compliance, tax planning and tax advice. These services also include assistance related to state tax incentives.

The Audit Committee approved 100% of the services provided by Brown Armstrong described above.

## Vote Required and Recommendation of the Board of Directors

The proposal to ratify the selection of Brown Armstrong Accountancy Corporation as our independent registered public accounting firm for the fiscal year ending December 31, 2011 requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” RATIFICATION OF THE SELECTION OF BROWN ARMSTRONG ACCOUNTACY CORPORATION AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2011.

#### Report of the Audit Committee of the Board of Directors

Management is responsible for the company’s internal control over financial reporting and for the preparation of the consolidated financial statements in accordance with generally accepted accounting principles. The Company’s independent registered public accounting firm is responsible for performing an independent audit of the company’s consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) and to issue a report on the company’s financial statements and on its internal control over financial reporting. The audit committee’s responsibility is to monitor and oversee these processes.

The audit committee has reviewed and discussed the audited financial statements with management. The audit committee has discussed with the independent registered public accounting firm the matters as required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The audit committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm with the audit committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

Based upon the review and discussions described in this report, the audit committee recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission.

#### Members of the audit committee

Loren J. Miller, Chairman  
Paul W. Bateman  
G. Thomas Gamble

The material in this report is not “soliciting material” and is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of Tri-Valley Corporation under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## STOCKHOLDER PROPOSALS OTHER THAN DIRECTOR NOMINATIONS

Under Rule 14a-8 promulgated under the Exchange Act, in order for business to be properly brought by a stockholder before an annual meeting, our Secretary must receive, at our corporate office, written notice of the matter not less than 120 days prior to the first anniversary of the date our proxy statement was released to stockholders in connection with the preceding year's annual meeting. Thus, proposals of stockholders intended to be presented pursuant to Rule 14a-8 under the Exchange Act must be received at our executive offices on or before January 7, 2012 in order to be considered for inclusion in our proxy statement and proxy card for the 2012 annual meeting.

Our amended and restated bylaws contain additional requirements that must be satisfied for any stockholder proposal made other than under Rule 14a-8. Compliance with these requirements will entitle the proposing stockholder only to present such proposals before the meeting, not to have the proposals included in our proxy statement or proxy card. See “—Stockholder Nominations of Directors” on page 15 of this proxy statement for a summary of the requirements that must be satisfied for any nominations of directors to be brought before an annual meeting of stockholders by a stockholder.

Beginning with the 2012 annual meeting of stockholders, for all business other than director nominations, a proposing stockholder's notice to the Secretary of the Company must set forth, as to each matter the proposing stockholder proposes to bring before the annual meeting:

- a brief description of the business desired to be brought before the annual meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the bylaws of the Company, the language of the proposed amendment), and any material interest in such business of such proposing stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and the reasons for conducting such business at the annual meeting;

- any other information relating to such stockholder and beneficial owner, if any, on whose behalf the proposal is being made, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the proposal and pursuant to and in accordance with Section 14(a) of the Exchange Act; and

- as to the proposing stockholder and the beneficial owner, if any, on whose behalf the proposal is made:

- the name and address of the proposing stockholder as they appear on our books and of the beneficial owner, if any, on whose behalf the proposal is being made;

- the class and number of shares of the Company which are owned by the proposing stockholder (beneficially and of record) and owned by the beneficial owner, if any, on whose behalf the proposal is being made, as of the date of the proposing stockholder's notice, and a representation that the proposing stockholder will notify the Company in writing of the class and number of such shares owned of record and beneficially as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

- a description of any agreement, arrangement or understanding with respect to such proposal between or among the proposing stockholder and/or the beneficial owner, any of their respective affiliates or associates, and any others (including their names) acting in concert with any of the foregoing, and a representation that the proposing stockholder will notify the Company in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or

the date notice of the record date is first publicly disclosed;

a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the proposing stockholder's notice by, or on behalf of, the proposing stockholder and/or the beneficial owner or any of their respective affiliates or associates, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the proposing stockholder or the beneficial owner or any of their respective affiliates or associates with respect to shares of stock of the Company, and a representation that the proposing stockholder will notify the Company in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

a representation that the proposing stockholder is a holder of record of shares of the Company entitled to vote at the meeting and intends to appear in person or by proxy at the meeting; and

a representation whether the proposing stockholder or the beneficial owner, if any, intends or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to approve the proposal and/or otherwise to solicit proxies or votes from stockholders in support of the proposal.

In addition, any proposal of business must be a proper matter for stockholder action.

In accordance with our amended and restated bylaws, in order to be considered timely, the notice containing the proposal must be received by us not earlier than the close of business on the 120th day, nor later than the close of business on the 90th day, prior to the first anniversary of the preceding year's annual meeting. Therefore, stockholder notices of any proposals intended to be considered at the 2012 annual meeting will be deemed timely under our amended and restated bylaws only if received at our executive offices no earlier than February 4, 2012 and no later than March 5, 2012. However, in the event that the date of the 2012 annual meeting is more than 30 days before or more than 70 days after June 3, 2012, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to the 2012 annual meeting and not later than the close of business on the later of the 90th day prior to the 2012 annual meeting or, if the first public disclosure of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following the day on which public announcement of the date of the 2012 annual meeting is first made by us.

Only such proposals as are brought before an annual meeting in accordance with the procedures set forth in our amended and restated bylaws will be eligible to be considered at such annual meeting. Except as otherwise provided by law, the chairman of the annual meeting shall have the power and duty (a) to determine whether business proposed to be brought before the meeting was made in accordance with the requisite procedures set forth in our amended and restated bylaws, and (b) if any proposed business was not made in compliance with our amended and restated bylaws, to declare that such proposed business shall not be transacted or considered.

The full text of the provisions of our amended and restated bylaws referred to above may be obtained by contacting our Secretary at 4550 California Ave., Suite 600, Bakersfield, California 93309, on our Internet website at [www.tri-valleycorp.com](http://www.tri-valleycorp.com), or on our EDGAR page accessible through the SEC's web site at [www.sec.gov](http://www.sec.gov).

Under Rule 14a-4 promulgated under the Exchange Act, if a proponent of a proposal that is not intended to be included in the proxy statement fails to notify us of such proposal at least 45 days prior to the anniversary of the mailing date of the preceding year's proxy statement, then we will be allowed to use our discretionary voting authority under proxies solicited by us when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement. We were not notified of any stockholder proposals to be addressed at our 2011 annual meeting, and will therefore be allowed to use our discretionary voting authority if any stockholder proposals are raised at the

meeting.

34

---

OTHER BUSINESS

The Board of Directors is not aware of any other matter which may be presented for action at the Annual Meeting. Should any other matter requiring a vote of the stockholders arise, it is intended that the proxy holders will vote on such matters in accordance with their best judgment.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ G. . Thomas Gamble

G. Thomas Gamble  
Chairman of the Board of Directors



TRI-VALLEY CORPORATION

2011 OMNIBUS LONG-TERM INCENTIVE PLAN

TRI-VALLEY CORPORATION a Delaware corporation (the “Company”), sets forth herein the terms of its 2011 Omnibus Long-Term Incentive Plan (the “Plan”), as follows:

1. PURPOSE

The Plan is intended to enhance the Company’s and its Affiliates’ (as defined herein) ability to attract and retain highly qualified officers, non-employee members of the Board, key employees, consultants and advisors, and to motivate such officers, non-employee members of the Board, key employees, consultants and advisors to serve the Company and its Affiliates and to expend maximum effort to improve the business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, other stock-based awards and cash awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of performance goals in accordance with the terms hereof. Stock options granted under the Plan may be non-qualified stock options or incentive stock options, as provided herein.

2. DEFINITIONS

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

2.1. “Affiliate” means any company or other trade or business that “controls,” is “controlled by” or is “under common control” with the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including, without limitation, any Subsidiary.

2.2. “Award” means a grant of an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Other Stock-based Award or cash award under the Plan.

2.3. “Award Agreement” means a written agreement between the Company and a Grantee, or notice from the Company or an Affiliate to a Grantee that evidences and sets out the terms and conditions of an Award.

2.4. “Board” means the Board of Directors of the Company.

2.5. “Cause” shall be defined as that term is defined in a Grantee’s offer letter or other applicable employment agreement; or, if there is no such definition “Cause” means, as determined by the Company and unless otherwise provided in an applicable Award Agreement with the Company or an Affiliate: (i) engaging in any act, or failing to act, or misconduct that in any such case is injurious to the Company or its Affiliates; (ii) gross negligence or willful misconduct in connection with the performance of duties; (iii) conviction of (or entering a plea of guilty or nolo contendere to) a criminal offense



(other than a minor traffic offense); (iv) fraud, embezzlement or misappropriation of funds or property of the Company or an Affiliate; (v) material breach of any term of any employment, consulting or other services, confidentiality, intellectual property or non-competition agreement, if any, between the Service Provider and the Company or an Affiliate; (vi) the entry of an order duly issued by any regulatory agency (including federal, state and local regulatory agencies and self-regulatory bodies) having jurisdiction over the Company or an Affiliate requiring the removal from any office held by the Service Provider with the Company or prohibiting or materially limiting a Service Provider from participating in the business or affairs of the Company or any Affiliate; or (vii) the revocation or threatened revocation of any of the Company's or any Affiliate's government licenses, permits or approvals, which is primarily due to the Service Provider's action or inaction and such revocation or threatened revocation would be alleviated or mitigated in any material respect by the termination of the Service Provider's Services.

2.6. "Change in Control" shall have the meaning set forth in Section 15.3.2.

2.7. "Code" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

2.8. "Committee" means one or more committees or subcommittees of the Board. The Board will cause the Committee to satisfy the applicable requirements of any stock exchange on which the Common Stock may then be listed. For purposes of Awards to Covered Employees intended to constitute Performance Awards, to the extent required by Code Section 162(m), Committee means all of the members of the Committee who are "outside directors" within the meaning of Section 162(m) of the Code. For purposes of Awards to Grantees who are subject to Section 16 of the Exchange Act, Committee means all of the members of the Committee who are "non-employee directors" within the meaning of Rule 16b-3 adopted under the Exchange Act. All references in the Plan to the Board shall mean such Committee or the Board.

2.9. "Company" means Tri-Valley Corporation, a Delaware corporation, or any successor corporation.

2.10. "Common Stock" or "Stock" means a share of common stock of the Company, par value \$.001 per share.

2.11. "Covered Employee" means a Grantee who is a "covered employee" within the meaning of Section 162(m)(3) of the Code as qualified by Section 12.4 herein.

2.12. "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code. Notwithstanding the foregoing, for any Awards that constitute nonqualified deferred compensation within the meaning of Section 409A and provide for an accelerated payment in connection with any Disability, Disability shall have the same meaning as defined under Section 409A.

- 2.13. “Effective Date” means June 3, 2011, the date the Plan was approved by the Company’s stockholders.
- 2.14. “Exchange Act” means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.
- 2.15. “Fair Market Value” of a share of Common Stock as of a particular date shall mean (1) if the Common Stock is listed on a national securities exchange, the closing or last price of the Common Stock on the composite tape or other comparable reporting system for the applicable date, or if the applicable date is not a trading day, the trading day immediately preceding the applicable date, or (2) if the shares of Common Stock are not then listed on a national securities exchange, the closing or last price of the Common Stock quoted by an established quotation service for over-the-counter securities, or (3) if the shares of Common Stock are not then listed on a national securities exchange or quoted by an established quotation service for over-the-counter securities, or the value of such shares is not otherwise determinable, such value as determined by the Board in good faith in its sole discretion (but in any event not less than fair market value within the meaning of Section 409A).
- 2.16. “Family Member” means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of the applicable individual, any person sharing the applicable individual’s household (other than a tenant or employee), a trust in which any one or more of these persons have more than fifty percent of the beneficial interest, a foundation in which any one or more of these persons (or the applicable individual) control the management of assets, and any other entity in which one or more of these persons (or the applicable individual) own more than fifty percent of the voting interests.
- 2.17. “Full-Value Award” means an Award of Restricted Stock, Restricted Stock Units or Other Stock-based Award with a per share price or per unit purchase price lower than 100% of Fair Market Value on the date of grant.
- 2.18. “Grant Date” means, as determined by the Board, the latest to occur of (i) the date as of which the Board approves an Award, (ii) the date on which the recipient of an Award first becomes eligible to receive an Award under Section 6 hereof, or (iii) such other date as may be specified by the Board in the Award Agreement.
- 2.19. “Grantee” means a person who receives or holds an Award under the Plan.
- 2.20. “Incentive Stock Option” means an “incentive stock option” within the meaning of Section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.
- 2.21. “Non-qualified Stock Option” means an Option that is not an Incentive Stock Option.

- 2.22. “Option” means an option to purchase one or more shares of Stock pursuant to the Plan.
- 2.23. “Option Price” means the exercise price for each share of Stock subject to an Option.
- 2.24. “Other Stock-based Awards” means Awards consisting of Stock units, or other Awards, valued in whole or in part by reference to, or otherwise based on, Common Stock.
- 2.25. “Performance Award” means an Award made subject to the attainment of performance goals (as described in Section 12) over a performance period of from one (1) to five (5) years.
- 2.26. “Plan” means this Tri-Valley Corporation 2011 Omnibus Long-Term Incentive Plan, as amended from time to time.
- 2.27. “Purchase Price” means the purchase price for each share of Stock pursuant to a grant of Restricted Stock.
- 2.28. “Predecessor Plan” means the Company’s 2005 Stock Option and Incentive Plan and .
- 2.29. “Restricted Stock” means shares of Stock, awarded to a Grantee pursuant to Section 10 hereof.
- 2.30. “Restricted Stock Unit” means a bookkeeping entry representing the equivalent of shares of Stock, awarded to a Grantee pursuant to Section 10 hereof.
- 2.31. “SAR Exercise Price” means the per share exercise price of a SAR granted to a Grantee under Section 9 hereof.
- 2.32. “SEC” means the United States Securities and Exchange Commission.
- 2.33. “Section 409A” mean Section 409A of the Code and all formal guidance and regulations promulgated thereunder.
- 2.34. “Securities Act” means the Securities Act of 1933, as now in effect or as hereafter amended.
- 2.35. “Separation from Service” means a termination of Service by a Service Provider, as determined by the Board, which determination shall be final, binding and conclusive; provided if any Award governed by Section 409A is to be distributed on a Separation from Service, then the definition of Separation from Service for such purposes shall comply with the definition provided in Section 409A.
- 2.36. “Service” means service as a Service Provider to the Company or an Affiliate. Unless otherwise stated in the applicable Award Agreement, a Grantee’s change in position or duties shall not result in interrupted or terminated Service, so long as such Grantee continues to be a Service Provider to the Company or an Affiliate.

- 2.37. “Service Provider” means an employee, officer, non-employee member of the Board, consultant or advisor of the Company or an Affiliate.
- 2.38. “Stock Appreciation Right” or “SAR” means a right granted to a Grantee under Section 9 hereof.
- 2.39. “Subsidiary” means any “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code.
- 2.40. “Substitute Award” means any Award granted in assumption of or in substitution for an award of a company or business acquired by the Company or a Subsidiary or with which the Company or an Affiliate combines.
- 2.41. “Ten Percent Stockholder” means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.
- 2.42. “Termination Date” means the date that is ten (10) years after the Effective Date, unless the Plan is earlier terminated by the Board under Section 5.2 hereof.
- 2.43. “Transaction” shall have the meaning set forth in Section 15.2.

### 3. ADMINISTRATION OF THE PLAN

#### 3.1. General.

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company’s certificate of incorporation and bylaws and applicable law. The Board shall have the power and authority to delegate its responsibilities hereunder to the Committee, which shall have full authority to act in accordance with its charter, and with respect to the authority of the Board to act hereunder, all references to the Board shall be deemed to include a reference to the Committee, to the extent such power or responsibilities have been delegated. Except as specifically provided in Section 14 or as otherwise may be required by applicable law, regulatory requirement or the certificate of incorporation or the bylaws of the Company, the Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Award or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan. The Committee shall administer the Plan; provided that, the Board shall retain the right to exercise the authority of the Committee to the extent consistent with applicable law and the applicable requirements of any securities exchange on which the Common Stock may then be listed. The interpretation and construction by the Board of any provision of the Plan, any Award or any Award Agreement shall be final, binding and conclusive. Without limitation, the Board shall have full and final authority, subject to the other terms and conditions of the Plan, to:

- (i) designate Grantees;
- (ii) determine the type or types of Awards to be made to a Grantee;
- (iii) determine the number of shares of Stock to be subject to an Award;
- (iv) establish the terms and conditions of each Award (including, but not limited to, the Option Price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an Award or the shares of Stock subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options);
- (v) prescribe the form of each Award Agreement; and
- (vi) amend, modify, or supplement the terms of any outstanding Award including the authority, in order to effectuate the purposes of the Plan, to modify Awards to foreign nationals or individuals who are employed outside the United States to recognize differences in local law, tax policy, or custom.

To the extent permitted by applicable law, the Board may delegate its authority as identified herein to any individual or committee of individuals (who need not be directors), including without limitation the authority to make Awards to Grantees who are not subject to Section 16 of the Exchange Act or who are not Covered Employees. To the extent that the Board delegates its authority to make Awards as provided by this Section, all references in the Plan to the Board's authority to make Awards and determinations with respect thereto shall be deemed to include the Board's delegate. Any such delegate shall serve at the pleasure of, and may be removed at any time by the Board.

### 3.2. Restrictions; No Repricing.

Notwithstanding the foregoing, no amendment or modification may be made to an outstanding Option or SAR that causes the Option or SAR to become subject to Section 409A, without the Grantee's written prior approval. Notwithstanding any provision herein to the contrary, the repricing of Options or SARs is prohibited without prior approval of the Company's stockholders. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (A) changing the terms of an Option or SAR to lower its Option Price or SAR Exercise Price; (B) any other action that is treated as a "repricing" under generally accepted accounting principles; and (C) repurchasing for cash or canceling an Option or SAR at a time when its Option Price or SAR Exercise Price is greater than the Fair Market Value of the underlying shares in exchange for another Award, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change under Section 15. A cancellation and exchange under clause (C) would be considered a "repricing" regardless of whether it is treated as a "repricing" under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Grantee.

3.3. Award Agreements.

The grant of any Award may be contingent upon the Grantee executing the appropriate Award Agreement. The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee on account of actions taken by the Grantee in violation or breach of or in conflict with any employment agreement, non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any Affiliate thereof or any confidentiality obligation with respect to the Company or any Affiliate thereof or otherwise in competition with the Company or any Affiliate thereof, to the extent specified in such Award Agreement applicable to the Grantee. Furthermore, the Company may annul an Award if the Grantee is terminated for Cause as defined in the applicable Award Agreement or the Plan, as applicable.

If any of the Company's financial statements are required to be restated, the Company may recover all or a portion of any Award made to any Grantee with respect to any fiscal year of the Company the financial results of which are negatively affected by such restatement. The amount to be recovered shall be the amount, as determined by the Committee, by which the affected Award exceeds the amount that would have been payable had the financial statements been initially filed as restated. In no event shall the amount to be recovered by the Company be less than the amount required to be repaid or recovered as a matter of law.

3.4. Deferral Arrangement.

The Board may permit or require the deferral of any Award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish and in accordance with Section 409A, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Stock units.

3.5. No Liability.

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any Award or Award Agreement.

3.6. Book Entry.

Notwithstanding any other provision of this Plan to the contrary, the Company may elect to satisfy any requirement under this Plan for the delivery of stock certificates through the use of book-entry.

4. STOCK SUBJECT TO THE PLAN

4.1. Authorized Number of Shares

Subject to adjustment under Section 15, the aggregate number of shares of Common Stock that may be initially issued pursuant to the Plan is 7,000,000 shares. No new awards shall be granted under the Predecessor Plan following the Effective Date. All 7,000,000 of such shares of Common Stock available for issuance under the Plan shall be available for issuance under Incentive Stock Options. Shares issued under the Plan may consist in whole or in part of



authorized but unissued shares, treasury shares, or shares purchased on the open market or otherwise, all as determined by the Company from time to time. The maximum number of each type of Award (other than cash-based Performance Awards) intended to constitute “performance-based compensation” under Code Section 162(m) granted to any Grantee in any thirty-six (36) month period shall not exceed the following: Options 7,000,000; SARs: 7,000,000; Restricted Stock: 7,000,000; Restricted Stock Units: 7,000,000; and Other Stock-based Performance Awards: 7,000,000.

#### 4.2. Share Counting

Any Award settled in cash shall not be counted as shares of Common Stock for any purpose under this Plan. If any Award under the Plan expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued Common Stock covered by such Award shall again be available for the grant of Awards under the Plan. Shares of Common Stock underlying any outstanding stock option or other Award granted under the Predecessor Plan or any other predecessor employee stock plan or agreement of the Company that is forfeited, terminated or cancelled for any reason without issuance of such shares shall be available for the grant of new Awards under this Plan. If shares of Common Stock issued pursuant to the Plan are repurchased by, or are surrendered or forfeited to the Company at no more than cost, such shares of Common Stock shall again be available for the grant of Awards under the Plan. If shares of Common Stock issuable upon exercise, vesting or settlement of an Award, or shares of Common Stock owned by a Grantee (which are not subject to any pledge or other security interest), are surrendered or tendered to the Company in payment of the Option Price or Purchase Price of an Award or any taxes required to be withheld in respect of an Award, in each case, in accordance with the terms and conditions of the Plan and any applicable Award Agreement, such surrendered or tendered shares of Common Stock shall again become available for issuance under the Plan. In addition, in the case of any Substitute Award, such Substitute Award shall not be counted against the number of shares reserved under the Plan.

### 5. EFFECTIVE DATE, DURATION AND AMENDMENTS

#### 5.1. Term.

The Plan shall be effective as of the Effective Date, provided that it has been approved by the Company’s stockholders. The Plan shall terminate automatically on the ten (10) year anniversary of the Effective Date and may be terminated on any earlier date as provided in Section 5.2.

#### 5.2. Amendment and Termination of the Plan.

The Board may, at any time and from time to time, amend, suspend, or terminate the Plan as to any Awards which have not been made. An amendment shall be contingent on approval of the Company’s stockholders to the extent stated by the Board, required by applicable law or required by applicable stock exchange listing requirements. Notwithstanding the foregoing, any amendment to Section 3.2 shall be contingent upon the approval of the Company’s stockholders. No Awards shall be made after the Termination Date. The applicable terms of the Plan, and any terms and conditions applicable to Awards granted prior to the Termination Date shall survive the termination of the Plan and continue to apply to such Awards. No amendment, suspension, or termination of the Plan shall, without the consent of the Grantee, materially impair rights or obligations under any Award theretofore awarded.

6. AWARD ELIGIBILITY AND LIMITATIONS

6.1. Service Providers.

Subject to this Section, Awards may be made to any Service Provider, including any Service Provider who is an officer, non-employee member of the Board, consultant or advisor of the Company or of any Affiliate, as the Board shall determine and designate from time to time in its discretion.

6.2. Successive Awards.

An eligible person may receive more than one Award, subject to such restrictions as are provided herein.

6.3. Stand-Alone, Additional, Tandem, and Substitute Awards.

Awards may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Affiliate, or any business entity to be acquired by the Company or an Affiliate, or any other right of a Grantee to receive payment from the Company or any Affiliate. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, the Board shall have the right to require the surrender of such other Award in consideration for the grant of the new Award. Subject to Section 3.2, the board shall have the right, in its discretion, to make Awards in substitution or exchange for any other award under another plan of the Company, any Affiliate, or any business entity to be acquired by the Company or an Affiliate. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Affiliate, in which the value of Stock subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock Units or Restricted Stock).

7. AWARD AGREEMENT

Each Award shall be evidenced by an Award Agreement, in such form or forms as the Board shall from time to time determine. Without limiting the foregoing, an Award Agreement may be provided in the form of a notice which provides that acceptance of the Award constitutes acceptance of all terms of the Plan and the notice. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Non-qualified Stock Options or Incentive Stock Options, and in the absence of such specification such options shall be deemed Non-qualified Stock Options.

8. TERMS AND CONDITIONS OF OPTIONS

8.1. Option Price.

The Option Price of each Option shall be fixed by the Board and stated in the related Award Agreement. The Option Price of each Option (except those that constitute Substitute Awards) shall be at least the Fair Market Value on the Grant Date of a share of Stock; provided, however, that in the event that a Grantee is a Ten Percent Stockholder as of the Grant Date, the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than 110 percent of the Fair Market Value of a share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a share of Stock.

8.2. Vesting.

Subject to Section 8.3 hereof, each Option shall become exercisable at such times and under such conditions (including, without limitation, performance requirements) as shall be determined by the Board and stated in the Award Agreement.

8.3. Term.

Each Option shall terminate, and all rights to purchase shares of Stock thereunder shall cease, upon the expiration of ten (10) years from the Grant Date, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the related Award Agreement; provided, however, that in the event that the Grantee is a Ten Percent Stockholder, an Option granted to such Grantee that is intended to be an Incentive Stock Option at the Grant Date shall not be exercisable after the expiration of five (5) years from its Grant Date.

8.4. Limitations on Exercise of Option.

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, (i) prior to the date the Plan is approved by the stockholders of the Company as provided herein or (ii) after the occurrence of an event which results in termination of the Option.

8.5. Method of Exercise.

An Option that is exercisable may be exercised by the Grantee's delivery of a notice of exercise to the Company, setting forth the number of shares of Stock with respect to which the Option is to be exercised, accompanied by full payment for the shares. To be effective, notice of exercise must be made in accordance with procedures established by the Company from time to time.

8.6. Rights of Holders of Options.

Unless otherwise stated in the related Award Agreement, an individual holding or exercising an Option shall have none of the rights of a stockholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject shares of Stock or to direct the voting of the subject shares of Stock) until the shares of Stock covered thereby are fully paid and issued to him. Except as provided in Section 15 hereof or the related Award Agreement, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

8.7. Delivery of Stock Certificates.

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price, such Grantee shall be entitled to the issuance of a stock certificate or certificates evidencing his or her ownership of the shares of Stock subject to the Option.

8.8. Limitations on Incentive Stock Options.

An Option shall constitute an Incentive Stock Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its Affiliates) does not exceed \$100,000. This limitation shall be applied by taking Options into account in the order in which they were granted.

9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

9.1. Right to Payment.

A SAR shall confer on the Grantee a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of one share of Stock on the date of exercise over (ii) the SAR Exercise Price, as determined by the Board. The Award Agreement for an SAR shall specify the SAR Exercise Price, which shall be fixed on the Grant Date as not less than the Fair Market Value of a share of Stock on that date. SARs may be granted alone or in conjunction with all or part of an Option or at any subsequent time during the term of such Option or in conjunction with all or part of any other Award. A SAR granted in tandem with an outstanding Option following the Grant Date of such Option shall have a grant price that is equal to the Option Price; provided, however, that the SAR's grant price may not be less than the Fair Market Value of a share of Stock on the Grant Date of the SAR.

9.2. Other Terms.

The Board shall determine at the Grant Date or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which SARs shall cease to be or become exercisable following Separation from Service or upon other conditions, the method of exercise, whether or not a SAR shall be in tandem or in combination with any other Award, and any other terms and conditions of any SAR.

9.3. Term of SARs.

The term of a SAR granted under the Plan shall be determined by the Board, in its sole discretion; provided, however, that such term shall not exceed ten (10) years.

9.4. Payment of SAR Amount.

Upon exercise of a SAR, a Grantee shall be entitled to receive payment from the Company (in cash or Stock, as determined by the Board) in an amount determined by multiplying:

(i) the difference between the Fair Market Value of a share of Stock on the date of exercise over the SAR Exercise Price; by

(ii) the number of shares of Stock with respect to which the SAR is exercised.

10. TERMS AND CONDITIONS OF RESTRICTED STOCK AND RESTRICTED STOCK UNITS

10.1. Restrictions.

At the time of grant, the Board may, in its sole discretion, establish a period of time (a “restricted period”) and any additional restrictions including the satisfaction of corporate or individual performance objectives applicable to an Award of Restricted Stock or Restricted Stock Units in accordance with Section 12.1 and 12.2. Each Award of Restricted Stock or Restricted Stock Units may be subject to a different restricted period and additional restrictions. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the restricted period or prior to the satisfaction of any other applicable restrictions.

10.2. Restricted Stock Certificates.

The Company shall issue stock, in the name of each Grantee to whom Restricted Stock has been granted, stock certificates or other evidence of ownership representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee’s benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee; provided, however, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

10.3. Rights of Holders of Restricted Stock.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock shall have rights as stockholders of the Company, including voting and dividend rights.

10.4. Rights of Holders of Restricted Stock Units.

10.4.1. Settlement of Restricted Stock Units.

Restricted Stock Units may be settled in cash or Stock, as determined by the Board and set forth in the Award Agreement. The Award Agreement shall also set forth whether the Restricted Stock Units shall be settled (i) within the time period specified in Section 17.9.1 for short term deferrals or (ii) otherwise within the requirements of Section 409A, in which case the Award Agreement shall specify upon which events such Restricted Stock Units shall be settled.

10.4.2. Voting and Dividend Rights.

Unless otherwise stated in the applicable Award Agreement, holders of Restricted Stock Units shall not have rights as stockholders of the Company, including no voting or dividend or dividend equivalents rights.

10.4.3. Creditor's Rights.

A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement.

10.5. Purchase of Restricted Stock.

The Grantee shall be required, to the extent required by applicable law, to purchase the Restricted Stock from the Company at a Purchase Price equal to the greater of (i) the aggregate par value of the shares of Stock represented by such Restricted Stock or (ii) the Purchase Price, if any, specified in the related Award Agreement. If specified in the Award Agreement, the Purchase Price may be deemed paid by Services already rendered. The Purchase Price shall be payable in a form described in Section 11 or, in the discretion of the Board, in consideration for past Services rendered.

10.6. Delivery of Stock.

Upon the expiration or termination of any restricted period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to shares of Restricted Stock or Restricted Stock Units settled in Stock shall lapse, and, unless otherwise provided in the Award Agreement, a stock certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be.

11. FORM OF PAYMENT FOR OPTIONS AND RESTRICTED STOCK

11.1. General Rule.

Payment of the Option Price for the shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock shall be made in cash or in cash equivalents acceptable to the Company, except as provided in this Section 11.

11.2. Surrender of Stock.

To the extent the Award Agreement so provides, payment of the Option Price for shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock may be made all or in part through the tender to the Company of shares of Stock, which shares shall be valued, for purposes of determining the extent to which the Option Price or Purchase Price for Restricted Stock has been paid thereby, at their Fair Market Value on the date of exercise or surrender. Notwithstanding the foregoing, in the case of an Incentive Stock Option, the right to make payment in the form of already owned shares of Stock may be authorized only at the time of grant.

11.3. Cashless Exercise.

With respect to an Option only (and not with respect to Restricted Stock), to the extent permitted by law and to the extent the Award Agreement so provides, payment of the Option Price may be made all or in part by delivery (on a form acceptable to the Company) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell shares of Stock and to deliver all or part of the sales proceeds to the Company in payment of the Option Price and any withholding taxes described in Section 17.3.

11.4. Other Forms of Payment.

To the extent the Award Agreement so provides, payment of the Option Price or the Purchase Price for Restricted Stock may be made in any other form that is consistent with applicable laws, regulations and rules, including, but not limited to, the Company's withholding of shares of Stock otherwise due to the exercising Grantee.

12. TERMS AND CONDITIONS OF PERFORMANCE AWARDS

12.1. Performance Conditions.

The right of a Grantee to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce the amounts payable under any Award subject to performance conditions, except as limited under Section 12.2 hereof in the case of a Performance Award intended to qualify under Code Section 162(m).

12.2. Performance Awards Granted to Designated Covered Employees.

If and to the extent that the Committee determines that a Performance Award to be granted to a Grantee who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Section 12.2.

12.2.1. Performance Goals Generally.

The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 12.2. Performance goals shall be objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being “substantially uncertain.” The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may, in the discretion of the Committee, be established on a Company-wide basis, or with respect to one or more business units, divisions, subsidiaries or business segments, as applicable. Performance goals may be absolute or relative (to the performance of one or more comparable companies or indices). Measurement of performance goals may exclude (in the discretion of the Committee) the impact of charges for restructuring, discontinued operations, extraordinary items, and other unusual non-recurring items, and the cumulative effects of tax or accounting changes (each as defined by generally accepted accounting principles and as identified in the Company’s financial statements or other SEC filings). Performance goals may differ for Performance Awards granted to any one Grantee or to different Grantees.

12.2.2. Business Criteria.

One or more of the following business criteria for the Company, on a consolidated basis, and/or specified subsidiaries or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used exclusively by the Committee in establishing performance goals for such Performance Awards: net sales; revenue; revenue growth; operating income (before or after taxes); pre- or after-tax income (before or after allocation of corporate overhead and bonuses); net earnings; earnings per share; net income (before or after taxes); return on equity; total shareholder return; return on assets or net assets; appreciation in and/or maintenance of, share price; market share; gross profits; earnings (including earnings before taxes, earnings before interest and taxes or earnings before interest, taxes depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reduction in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital; cash flow return on investment; improvement in or attainment of expense levels or working capital levels; operating margins; gross margins or cash margin; year-end cash; debt reductions; shareholder equity; regulatory performance; implementation, completion or attainment of measurable objectives with respect to research, development, projects and recruiting and maintaining personnel, and any other business criteria established by the Committee.



12.2.3. Timing for Establishing Performance Goals.

Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for “performance-based compensation” under Code Section 162(m).

12.2.4. Settlement of Performance Awards; Other Terms.

Settlement of Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards. The maximum amount of each cash-based Performance Award intended to constitute “performance-based compensation” under Code Section 162(m) granted to any Grantee in any twelve (12) month period shall not exceed \$5,000,000.

12.3. Written Determinations.

All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards, shall be made in writing in the case of any Award intended to qualify under Code Section 162(m) to the extent required by Code Section 162(m). To the extent permitted by Code Section 162(m), the Committee may delegate any responsibility relating to such Performance Awards.

12.4. Status of Section 12.2 Awards under Code Section 162(m).

It is the intent of the Company that Performance Awards under Section 12.2 hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder shall, if so designated by the Committee, constitute “qualified performance-based compensation” within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of Section 12.2, including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Grantee will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan or any agreement relating to such Performance Awards does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

13. OTHER STOCK-BASED AWARDS

13.1. Grant of Other Stock-based Awards.

Other Stock-based Awards may be granted either alone or in addition to or in conjunction with other Awards under the Plan. Other Stock-based Awards may be granted in lieu of other cash or other compensation to which a Service Provider is entitled from the Company or may be used in the settlement of amounts payable in shares of Common Stock under any other compensation plan or arrangement of the Company, including without limitation, the Company's incentive compensation plan. Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine the persons to whom and the time or times at which such Awards shall be made, the number of shares of Common Stock to be granted pursuant to such Awards, and all other conditions of such Awards. Unless the Committee determines otherwise, any such Award shall be confirmed by an Award Agreement, which shall contain such provisions as the Committee determines to be necessary or appropriate to carry out the intent of this Plan with respect to such Award.

13.2. Terms of Other Stock-based Awards.

Any Common Stock subject to Awards made under this Section 13 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

14. REQUIREMENTS OF LAW

14.1. General.

The Company shall not be required to sell or issue any shares of Stock under any Award if the sale or issuance of such shares would constitute a violation by the Grantee, any other individual exercising an Option, or the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares subject to an Award upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, no shares of Stock may be issued or sold to the Grantee or any other individual exercising an Option pursuant to such Award unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Award. Specifically, in connection with the Securities Act, upon the exercise of any Option or the delivery of any shares of Stock underlying an Award, unless a registration statement under such Act is in effect with respect to the shares of Stock covered by such Award, the Company shall not be required to sell or issue such shares unless the Board has received evidence satisfactory to it that the Grantee or any other individual exercising an Option may acquire such shares pursuant to an exemption from registration under the Securities Act. Any determination in this connection by the Board shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities

covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or the issuance of shares of Stock pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option shall not be exercisable until the shares of Stock covered by such Option are registered or are exempt from registration, the exercise of such Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

14.2. Rule 16b-3.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards and the exercise of Options granted to officers and directors hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board or Committee does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

15. EFFECT OF CHANGES IN CAPITALIZATION

15.1. Changes in Stock.

If (i) the number of outstanding shares of Stock is increased or decreased or the shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company on account of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the Effective Date or (ii) there occurs any spin-off, split-up, extraordinary cash dividend or other distribution of assets by the Company, the number and kinds of shares for which grants of Options and Other Stock-based Awards may be made under the Plan (including the per-Grantee maximums set forth in Section 4) shall be equitably adjusted by the Company; provided that any such adjustment shall comply with Section 409A. In addition, in the event of any such increase or decrease in the number of outstanding shares or other transaction described in clause (ii) above, the number and kind of shares for which Awards are outstanding and the Option Price per share of outstanding options and SAR Exercise Price per share of outstanding SARs shall be equitably adjusted; provided that any such adjustment shall comply with Section 409A.

15.2. Effect of Certain Transactions.

Except as otherwise provided in an Award Agreement and subject to the provisions of Section 15.3, in the event of (a) the liquidation or dissolution of the Company or (b) a reorganization, merger, exchange or consolidation of the Company or involving the shares of Common Stock (a "Transaction"), the Plan and the Awards issued hereunder shall continue in

effect in accordance with their respective terms, except that following a Transaction either (i) each outstanding Award shall be treated as provided for in the agreement entered into in connection with the Transaction or (ii) if not so provided in such agreement, each Grantee shall be entitled to receive in respect of each share of Common Stock subject to any outstanding Awards, upon exercise or payment or transfer in respect of any Award, the same number and kind of stock, securities, cash, property or other consideration that each holder of a share of Common Stock was entitled to receive in the Transaction in respect of a share of Common stock; provided, however, that, unless otherwise determined by the Committee, such stock, securities, cash, property or other consideration shall remain subject to all of the conditions, restrictions and performance criteria which were applicable to the Awards prior to such Transaction. Without limiting the generality of the foregoing, the treatment of outstanding Options and SARs pursuant to this Section 15.2 in connection with a Transaction in which the consideration paid or distributed to the Company's stockholders is not entirely shares of common stock of the acquiring or resulting corporation may include the cancellation of outstanding Options and SARs upon consummation of the Transaction as long as, at the election of the Committee, (i) the holders of affected Options and SARs have been given a period of at least fifteen days prior to the date of the consummation of the Transaction to exercise the Options or SARs (whether or not they were otherwise exercisable) or (ii) the holders of the affected Options and SARs are paid (in cash or cash equivalents) in respect of each Share covered by the Option or SAR being canceled an amount equal to the excess, if any, of the per share price paid or distributed to stockholders in the transaction (the value of any non-cash consideration to be determined by the Committee in its sole discretion) over the Option Price or SAR Exercise Price, as applicable. For avoidance of doubt, (1) the cancellation of Options and SARs pursuant to clause (ii) of the preceding sentence may be effected notwithstanding anything to the contrary contained in this Plan or any Award Agreement and (2) if the amount determined pursuant to clause (ii) of the preceding sentence is zero or less, the affected Option or SAR may be cancelled without any payment therefore. The treatment of any Award as provided in this Section 15.2 shall be conclusively presumed to be appropriate for purposes of Section 15.1.

### 15.3. Change in Control

#### 15.3.1. Consequences of a Change in Control

The Board shall determine the effect of a Change in Control upon Awards, and such effect may be set forth in the appropriate Award Agreement. Without limiting the foregoing, the Board may provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Grantee, the actions that will be taken upon the occurrence of a Change in Control, including, but not limited to, accelerated vesting, termination or assumption. The Board may also provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Grantee, for different provisions to apply to an Award in place of those described in Sections 15.1 and 15.2.

15.3.2. Change in Control Defined

“Change in Control” means:

- (1) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (A) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that, for purposes of this Section 15.3.2, the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliated Company, or (iv) any acquisition pursuant to a transaction that complies with clauses (A), (B) or (C) in paragraph (3) of this definition.
- (2) Individuals who, as of the Effective Date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;
- (3) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the

Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of

the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

- (4) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, if it is determined that an Award hereunder is subject to the requirements of Section 409A and the Change in Control, is a “payment event” under Section 409A for such Award, the Company will not be deemed to have undergone a Change in Control unless the Company is deemed to have undergone a “change in control event” pursuant to the definition of such term in Section 409A.

#### 15.4. Adjustments

Adjustments under this Section 15 related to shares of Stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

#### 16. NO LIMITATIONS ON COMPANY

The making of Awards pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

#### 17. TERMS APPLICABLE GENERALLY TO AWARDS GRANTED UNDER THE PLAN

##### 17.1. Disclaimer of Rights.

No provision in the Plan or in any Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any Affiliate, or to interfere in any way with any contractual or other right or authority of the Company either to

increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, no Award granted under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a Service Provider. The obligation of the Company to pay any benefits pursuant to this Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Grantee or beneficiary under the terms of the Plan.

17.2. Nonexclusivity of the Plan.

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals), including, without limitation, the granting of stock options as the Board in its discretion determines desirable.

17.3. Withholding Taxes.

The Company or an Affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state, or local taxes of any kind required by law to be withheld (i) with respect to the vesting of or other lapse of restrictions applicable to an Award, (ii) upon the issuance of any shares of Stock upon the exercise of an Option or SAR, or (iii) otherwise due in connection with an Award. At the time of such vesting, lapse, or exercise, the Grantee shall pay to the Company or the Affiliate, as the case may be, any amount that the Company or the Affiliate may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Affiliate, which may be withheld by the Company or the Affiliate, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Affiliate to withhold the minimum required number of shares of Stock otherwise issuable to the Grantee as may be necessary to satisfy such withholding obligation or (ii) by delivering to the Company or the Affiliate shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the Affiliate as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 17.3 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

17.4. Captions.

The use of captions in this Plan or any Award Agreement is for the convenience of reference only and shall not affect the meaning of any provision of the Plan or any Award Agreement.



17.5. Other Provisions.

Each Award Agreement may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion. In the event of any conflict between the terms of an employment agreement and the Plan, the terms of the employment agreement govern.

17.6. Number and Gender.

With respect to words used in this Plan, the singular form shall include the plural form, the masculine gender shall include the feminine gender, etc., as the context requires.

17.7. Severability.

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

17.8. Governing Law.

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law, and applicable Federal law.

17.9. Section 409A.

17.9.1. Short-Term Deferrals.

For each Award intended to comply with the short-term deferral exception provided for under Section 409A, the related Award Agreement shall provide that such Award shall be paid out by the later of (i) the 15th day of the third month following the Grantee's first taxable year in which the Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company's first taxable year in which the Award is no longer subject to a substantial risk of forfeiture.

17.9.2. General Compliance.

To the extent that the Board determines that a Grantee would be subject to the additional 20% tax imposed on certain deferred compensation arrangements pursuant to Section 409A as a result of any provision of any Award, to the extent permitted by Section 409A, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The Board shall determine the nature and scope of such amendment. To the extent required by Section 409A, any payment under the Plan made in connection with the Separation from Service of a "specified employee" (within the meaning of Section 409A) of an Award that is deferred compensation that is subject to Section 409A shall not be made earlier than six (6) months after the date of such Separation from Service.

17.10. Separation from Service.

The Board shall determine the effect of a Separation from Service upon Awards, and such effect shall be set forth in the appropriate Award Agreement. Without limiting the foregoing, the Board may provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Grantee, the actions that will be taken upon the occurrence of a Separation from Service, including, but not limited to, accelerated vesting or termination, depending upon the circumstances surrounding the Separation from Service.

17.11. Transferability of Awards.

17.11.1. Transfers in General.

Except as provided in Section 17.11.2, no Award shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution, and, during the lifetime of the Grantee, only the Grantee personally (or the Grantee's personal representative) may exercise rights under the Plan.

17.11.2. Family Transfers.

If authorized in the applicable Award Agreement, a Grantee may transfer, not for value, all or part of an Award (other than Incentive Stock Options) to any Family Member. For the purpose of this Section 17.11.2, a "not for value" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this Section 17.11.2, any such Award shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Subsequent transfers of transferred Awards are prohibited except to Family Members of the original Grantee in accordance with this Section 17.11.2 or by will or the laws of descent and distribution.

17.12. Dividends and Dividend Equivalent Rights.

If specified in the Award Agreement, the recipient of an Award under this Plan may be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the Common Stock or other securities covered by an Award. The terms and conditions of a dividend equivalent right may be set forth in the Award Agreement. Dividend equivalents credited to a Grantee may be paid currently or may be deemed to be reinvested in additional shares of Stock or other securities of the Company at a price per unit equal to the Fair Market Value of a share of Stock on the date that such dividend was paid to shareholders, as determined in the sole discretion of the Committee. Notwithstanding the foregoing, in no event will dividends or dividend equivalents on any Performance Award be payable before the Performance Award has become earned and payable.

TRI-VALLEY CORPORATION  
4550 CALIFORNIA AVE.  
SUITE 600  
BAKERSFIELD, CA 93309

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**Electronic Delivery of Future PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

; border-bottom: 1pt solid black" ROWSPAN=1 COLSPAN=1>0.35 \$7,084 \$ 23,908 \$301 Total distributions  
 declared \$0.35 \$7,084 \$ 23,908 \$301 **Three months ended March 31, 2017:**  
 March 7, 2017 March 17, 2017 March 31, 2017 \$0.35 \$5,549 16,217 \$254 \$ Total  
 distributions declared \$0.35 \$5,549 16,217 \$254 \$

## Note 9. Stock Issuances and Repurchases

*Stock Issuances:* On July 1, 2016, the Company amended the ATM securities offering program with MLV & Co. LLC ( MLV ) and JMP Securities LLC ( JMP ) to replace MLV with FBR Capital Markets & Co. ( FBR ), an affiliate of MLV (the Prior ATM Program ). On May 12, 2017, the Company entered into new equity distribution agreements with each FBR and JMP that reference the Company s current registration statement (the ATM Program ). All other material terms of the Prior ATM Program remain unchanged under the ATM Program. During the three months ended March 31, 2017, the Company sold 113,600 shares at an average price of \$15.70 per share for gross proceeds of \$1,784 under the Prior ATM program. Aggregate underwriters discounts and commissions were \$27 and offering costs were \$21, resulting in net proceeds of approximately \$1,736. There were no stock issuances during the three months ended March 31, 2018.

## Note 10. Commitments and Contingencies

*Commitments:* As of March 31, 2018 and December 31, 2017, the Company had \$36,572 and \$41,238, respectively, in outstanding commitments to fund investments under undrawn revolvers, capital expenditure loans and delayed draw commitments. As described in Note 3, the Company had commitments up to \$34,250 and \$40,500, respectively, to SLF, as of March 31, 2018 and December 31, 2017 that may be contributed primarily for the purpose of funding new investments approved by the SLF investment committee.

F-55

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
(in thousands, except share and per share data)****Note 10. Commitments and Contingencies (continued)**

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

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

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

*Legal proceedings:* In the normal course of business, the Company may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While there can be no assurance of the ultimate disposition of any such proceedings, the Company is not currently aware of any such proceedings or disposition that would have a material adverse effect on the Company's consolidated financial statements.

**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2018 and 2017:

	March 31, 2018	March 31, 2017
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 13.77	\$ 14.52
Net investment income <sup>(1)</sup>	0.42	0.36
Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings <sup>(1)</sup>	(0.35 )	(0.21 )
Net increase in net assets from operations <sup>(1)</sup>	0.07	0.15
Stockholder distributions <sup>(2)</sup>	(0.35 )	(0.35 )
Effect of share issuances above (below) NAV <sup>(3)</sup>		0.02

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Net asset value at end of period	\$13.49		\$14.34	
Net assets at end of period	\$273,005		\$239,606	
Shares outstanding at end of period	20,239,957		16,711,686	
Per share market value at end of period	\$12.30		\$15.73	
Total return based on market value <sup>(4)</sup>	(8.06	)%	4.56	%
Total return based on average net asset value <sup>(5)</sup>	0.50	%	1.07	%
<b>Ratio/Supplemental data:</b>				
Ratio of net investment income to average net assets <sup>(6)</sup>	13.29	%	11.83	%
Ratio of total expenses to average net assets <sup>(6)(7)</sup>	8.70	%	8.44	%
Average debt outstanding	\$237,017		\$180,578	
Average debt outstanding per share	\$11.71		\$10.88	
Portfolio turnover <sup>(8)</sup>	5.16	%	8.14	%

(1) Calculated using the weighted average shares outstanding during the periods presented.

F-56

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
(in thousands, except share and per share data)****Note 11. Financial Highlights (continued)**

(2) Management monitors available taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent the Company's taxable earnings fall below the total amount of the Company's distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to the Company's stockholders. The tax character of distributions will be determined at the end of the fiscal year. However, if the character of such distributions were determined as of March 31, 2018 and 2017, none of the distributions would have been characterized as a tax return of capital to the Company's stockholders; this tax return of capital may differ from the return of capital calculated with reference to net investment income for financial reporting purposes.

(3) Includes the effect of share issuances above (below) net asset value and the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of a period end or transaction date.

(4) Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's DRIP. Total return based on market value does not reflect brokerage commissions. Return calculations are not annualized.

(5) Total return based on average net asset value is calculated by dividing the net increase in net assets from operations by the average net asset value. Return calculations are not annualized.

(6) Ratios are annualized. Incentive fees included within the ratio are not annualized.

(7) The following is a schedule of supplemental ratios for the three months ended March 31, 2018 and 2017. These ratios have been annualized unless otherwise noted.

	March 31, 2018	March 31, 2017
Ratio of interest and other debt financing expenses to average net assets	3.98 %	3.39 %
Ratio of total expenses (without incentive fees) to average net assets	8.42 %	7.90 %
Ratio of incentive fees, to average net assets (not annualized) <sup>(9)</sup>	0.28 %	0.54 %

(8) Ratios are not annualized.

(9) The ratio of waived incentive fees to average net assets was zero and zero for three months ended March 31, 2018 and 2017, respectively.

## Note 12. Subsequent Events

The Company has evaluated subsequent events through May 8, 2018, the date on which the consolidated financial statements were issued.

On April 25, 2018, the Company entered into an amendment to its revolving credit agreement (the Amendment). The Amendment amends the Company's revolving credit agreement to, among other things, (i) remove the pricing step-down related to the Company's net worth to set the interest rate the revolving credit facility bears to the stepped-down interest rate of the one-month LIBOR plus 2.75%; (ii) increase the weighted average leverage ratio from 4.50:1 to 4.75:1; and (iii) add to the borrowing base on a limited basis investments structured based on loan-to-value metrics, with corresponding adjustments to the eligibility criteria and concentration limits.

F-57

---



TABLE OF CONTENTS

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Monroe Capital Corporation ( MRCC, and collectively with its subsidiaries, the Company, we, and our ) is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

Monroe Capital Corporation's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions recorded necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Our policies and procedures also provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of management and the directors of Monroe Capital Corporation, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of Monroe Capital Corporation's internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* issued in 2013. Based on the assessment, management believes that, as of December 31, 2017, our internal control over financial reporting is effective based on those criteria.

Monroe Capital Corporation's independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2017. This report appears on page F-60.

F-58

---

TABLE OF CONTENTS

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Monroe Capital Corporation and Subsidiaries

## Opinion on the Financial Statements

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Monroe Capital Corporation and Subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 14, 2018, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

## Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of December 31, 2017 and 2016, by correspondence with the custodian and issuers of equity securities and other appropriate procedures where replies from issuers of equity securities were not received. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2011.

Chicago, Illinois  
March 14, 2018

F-59

---

TABLE OF CONTENTS

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Stockholders and the Board of Directors of  
Monroe Capital Corporation and Subsidiaries

## Opinion on the Internal Control Over Financial Reporting

We have audited Monroe Capital Corporation and Subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of assets and liabilities, including the consolidated schedules of investments, of the Company as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2017 and the related notes to the consolidated financial statements of the Company and our report dated March 14, 2018 expressed an unqualified opinion.

## Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Chicago, Illinois  
March 14, 2018

F-60

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**(in thousands, except per share data)**

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Investments, at fair value:		
Non-controlled/non-affiliate company investments	\$425,747	\$353,980
Non-controlled affiliate company investments	58,751	50,041
Controlled affiliate company investments	9,640	8,899
Total investments, at fair value (amortized cost of: \$507,580 and \$413,242, respectively)	494,138	412,920
Cash	4,332	5,958
Restricted cash	2,867	2,373
Interest receivable	5,335	2,643
Other assets	760	651
<b>Total assets</b>	<b>507,432</b>	<b>424,545</b>
<b>LIABILITIES</b>		
Debt:		
Revolving credit facility	117,092	129,000
SBA debentures payable	109,520	51,500
Total debt	226,612	180,500
Less: Unamortized deferred financing costs	(4,670 )	(3,945 )
Total debt, less unamortized deferred financing costs	221,942	176,555
Secured borrowings, at fair value (proceeds of: \$0 and \$1,320, respectively)		1,314
Interest payable	1,535	735
Management fees payable	2,064	1,749
Incentive fees payable	1,157	1,222
Accounts payable and accrued expenses	2,035	2,120
<b>Total liabilities</b>	<b>228,733</b>	<b>183,695</b>
<b>Net assets</b>	<b>\$278,699</b>	<b>\$240,850</b>
<b>Commitments and contingencies (See Note 11)</b>		
<b>ANALYSIS OF NET ASSETS</b>		
Common stock, \$0.001 par value, 100,000 shares authorized, 20,240 and 16,582 shares issued and outstanding, respectively	\$20	\$17
Capital in excess of par value	286,141	233,526
Undistributed net investment income (accumulated distributions in excess of net investment income)	6,707	7,037
	(372 )	587

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Accumulated net realized gain (loss) on investments, secured borrowings and foreign currency transactions		
Accumulated net unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings	(13,797 )	(317 )
<b>Total net assets</b>	\$278,699	\$240,850
<b>Net asset value per share</b>	\$13.77	\$14.52

See Notes to Consolidated Financial Statements.

F-61

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share data)**

	Year ended December 31,		
	2017	2016	2015
<b>Investment income:</b>			
Interest income:			
Non-controlled/non-affiliate company investments	\$42,055	\$34,348	\$30,222
Non-controlled affiliate company investments	5,566	4,511	3,522
Controlled affiliate company investments	594	140	1,127
Total interest income	48,215	38,999	34,871
Dividend income:			
Non-controlled/non-affiliate company investments	1,002	1,002	325
Non-controlled affiliate company investments		3,546	301
Total dividend income	1,002	4,548	626
Fee income:			
Non-controlled/non-affiliate company investments	1,890	1,435	1,351
Non-controlled affiliate company investments		36	50
Total fee income	1,890	1,471	1,401
<b>Total investment income</b>	<b>51,107</b>	<b>45,018</b>	<b>36,898</b>
<b>Operating expenses:</b>			
Interest and other debt financing expenses	8,312	6,782	5,400
Base management fees	7,726	6,347	5,129
Incentive fees	5,686	5,777	4,685
Professional fees	1,243	988	835
Administrative service fees	1,248	1,287	1,078
General and administrative expenses	948	779	799
Excise taxes	100	679	83
Directors' fees	148	146	148
Expenses before incentive fee waiver	25,411	22,785	18,157
Incentive fee waiver	(308 )	(273 )	
<b>Total expenses, net of incentive fee waiver</b>	<b>25,103</b>	<b>22,512</b>	<b>18,157</b>
<b>Net investment income</b>	<b>26,004</b>	<b>22,506</b>	<b>18,741</b>
<b>Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings:</b>			
Net realized gain (loss):			
Non-controlled/non-affiliate company investments	(439 )	587	304
Secured borrowings	66		
Foreign currency transactions	1		
Net realized gain (loss)	(372 )	587	304
Net change in unrealized gain (loss):			



Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Non-controlled/non-affiliate company investments	4,764	(610 )	(1,944 )
Non-controlled affiliate company investments	(14,635)	7,013	6,585
Controlled affiliate company investments	(3,249 )	(5,078 )	(5,726 )
Secured borrowings	(6 )	(53 )	(68 )
Foreign currency borrowings	(354 )		
Net change in unrealized gain (loss)	(13,480)	1,272	(1,153 )
<b>Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings</b>	<b>(13,852)</b>	<b>1,859</b>	<b>(849 )</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$12,152</b>	<b>\$24,365</b>	<b>\$17,892</b>
<b>Per common share data:</b>			
Net investment income per share basic and diluted	\$1.40	\$1.55	\$1.60
Net increase (decrease) in net assets resulting from operations per share basic and diluted	\$0.65	\$1.68	\$1.53
Weighted average common shares outstanding - basic and diluted	18,625	14,546	11,683

See Notes to Consolidated Financial Statements.

F-62

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
(in thousands)**

	Common Stock		Capital in excess of par value	Undistributed net investment income (accumulated distributions in excess of net investment income)	Accumulated net realized gain (loss) (accumulated in secured borrowings and foreign currency transactions)	Accumulated net unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings	Total net assets
	Number of shares	Par value					
<b>Balances at December 31, 2014</b>	9,518	\$ 10	\$ 134,803	\$(639 )	\$	\$(436 )	\$ 133,738
Net increase (decrease) in net assets resulting from operations				18,741	304	(1,153 )	17,892
Issuance of common stock, net of offering and underwriting costs	3,490	3	49,616				49,619
Distributions to stockholders:							
Distributions from net investment income				(16,410)			(16,410 )
Distributions from capital gains					(304)		(304 )
<b>Balances at December 31, 2015</b>	13,008	\$ 13	\$ 184,419	\$ 1,692	\$	\$(1,589 )	\$ 184,535
Net increase (decrease) in net assets resulting from operations		\$	\$	\$ 22,506	\$ 587	\$ 1,272	\$ 24,365
Issuance of common stock, net of offering and underwriting costs	3,566	4	52,516				52,520
Distributions to stockholders:							
Stock issued in connection with dividend reinvestment plan	8		138	(138 )			
Distributions from net investment income				(20,570)			(20,570 )
Tax reclassification of stockholders equity in accordance with generally accepted accounting principles			(3,547 )	3,547			
<b>Balances at December 31, 2016</b>	16,582	\$ 17	\$ 233,526	\$ 7,037	\$ 587	\$(317 )	\$ 240,850

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Net increase (decrease) in net assets resulting from operations		\$	\$	\$26,004	\$(372)	\$(13,480)	\$12,152
Issuance of common stock, net of offering and underwriting costs	3,624	3	52,218				52,221
Distributions to stockholders:							
Stock issued in connection with dividend reinvestment plan	34		525	(525)			
Distributions from net investment income				(25,933)			(25,933)
Distributions from capital gains					(591)		(591)
Tax reclassification of stockholders equity in accordance with generally accepted accounting principles			(128)	124	4		
<b>Balances at December 31, 2017</b>	<b>20,240</b>	<b>\$20</b>	<b>\$286,141</b>	<b>\$6,707</b>	<b>\$(372)</b>	<b>\$(13,797)</b>	<b>\$278,699</b>

See Notes to Consolidated Financial Statements.

F-63

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)**

	Year ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net increase (decrease) in net assets resulting from operations	\$12,152	\$24,365	\$17,892
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net change in unrealized (gain) loss on investments	13,120	(1,325 )	1,085
Net change in unrealized (gain) loss on secured borrowings	6	53	68
Net change in unrealized (gain) loss on foreign currency borrowings	354		
Net realized (gain) loss on investments	439	(587 )	(304 )
Net realized (gain) loss on secured borrowings	(66 )		
Net realized (gain) on foreign currency transactions	(1 )		
Payment-in-kind interest income	(1,729 )	(2,027 )	(1,980 )
Payment-in-kind dividend income	(241 )		
Net accretion of discounts and amortization of premiums	(1,860 )	(1,556 )	(1,105 )
Proceeds from principal payments and sales of investments	173,446	81,446	88,379
Purchases of investments	(264,393)	(147,780)	(193,631)
Amortization of deferred financing costs	1,042	820	742
Changes in operating assets and liabilities:			
Interest receivable	(2,692 )	(1,037 )	(654 )
Other assets	(109 )	96	135
Payable for open trades		(5,297 )	5,297
Interest payable	800	158	333
Management fees payable	315	246	453
Incentive fees payable	(65 )	(29 )	111
Accounts payable and accrued expenses	(85 )	654	361
Directors' fees payable		(74 )	74
<b>Net cash provided by (used in) operating activities</b>	<b>(69,567 )</b>	<b>(51,874 )</b>	<b>(82,744 )</b>
<b>Cash flows from financing activities:</b>			
Borrowings on revolving credit facility	184,538	105,000	144,900
Repayments of revolving credit facility	(196,800)	(99,700 )	(103,500)
SBA debentures borrowings	58,020	11,500	20,000
Payments of deferred financing costs	(1,766 )	(1,196 )	(1,832 )
Repayments on secured borrowings	(1,254 )	(1,215 )	(1,600 )
Proceeds from shares sold, net of offering and underwriting costs	52,221	52,520	49,619
Stockholder distributions paid, net of stock issued under the	(26,524 )	(20,570 )	(16,714 )

dividend reinvestment plan of \$525, \$138 and \$0, respectively

<b>Net cash provided by (used in) financing activities</b>	68,435	46,339	90,873
<b>Net increase (decrease) in Cash and Restricted Cash</b>	(1,132 )	(5,535 )	8,129
<b>Cash and Restricted Cash, beginning of year</b>	8,331	13,866	5,737
<b>Cash and Restricted Cash, end of year<sup>(1)</sup></b>	\$7,199	\$8,331	\$13,866
Supplemental disclosure of cash flow information:			
Cash interest paid during the year	\$6,315	\$5,530	\$4,046
Cash paid for excise taxes during the year	\$495	\$284	\$73

Represents cash and restricted cash of \$4,332 and \$2,867, respectively, from the consolidated statement of assets and liabilities as of December 31, 2017. Represents cash and restricted cash of \$5,958 and \$2,373, respectively, (1) from the consolidated statement of assets and liabilities as of December 31, 2016. Represents cash and restricted cash of \$5,278 and \$8,588, respectively, from the consolidated statement of assets and liabilities as of December 31, 2015.

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**December 31, 2017**  
**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-65

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**  
**December 31, 2017**  
**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-66

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-67

---



TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-68

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**  
**December 31, 2017**  
**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-69

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-70

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-71

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

All of the Company's investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940 (the "1940 Act"), unless otherwise noted. All of the Company's investments are issued by U.S. portfolio companies unless otherwise noted.

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

Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith using significant unobservable inputs by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)

(d) Percentages are based on net assets of \$278,699 as of December 31, 2017.

This investment is treated as a non-qualifying investment under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets. As of December 31, 2017, non-qualifying assets totaled 13.13% of the Company's total assets excluding prepaid expenses.

All or a portion of this commitment was unfunded at December 31, 2017. As such, interest is earned only on the funded portion of this commitment.

This delayed draw loan requires that certain financial covenants be met by the portfolio company prior to any fundings.

All of this loan is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(i) A portion of this loan (principal of \$2,113) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

A portion of the PIK interest rate for Cornerstone Detention Products, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.33% per annum.

(k) This investment represents a senior secured note that is traded in the secondary bond market.

The PIK portion of the interest rate for Landpoint, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.25% per annum.

(m) This is an international company.

This term loan is denominated in Great Britain pounds and is translated into U.S. dollars as of the valuation date.

A portion of the PIK interest rate for TRG, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.92% per annum.

(p) A portion of this loan (principal of \$4,099) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

See Notes to Consolidated Financial Statements.

F-72

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2017**

**(in thousands, except for shares and units)**

(q) A portion of the PIK interest rate for Vacation Innovations, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 1.81% per annum.

(r) The PIK portion of the interest rate for Peerless Network, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.75% per annum.

(s) A portion of this loan (principal of \$4,477) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(t) Represents less than 5% ownership of the portfolio company's voting securities.

(u) Ownership of certain equity investments may occur through a holding company or partnership.

(v) Represents a non-income producing security.

(w) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of the portfolio company as it owns five percent or more of the portfolio company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to control).

(x) This is a demand note with no stated maturity.

(y) This position was on non-accrual status as of December 31, 2017, meaning that the Company has ceased accruing interest income on the position. See Note 2 in the accompanying notes to the consolidated financial statements for additional information on the Company's accounting policies.

(z) This investment is held in a wholly owned entity, MCC Holdco Equity Manager I, LLC (MCC Holdco), which has an independent manager who has full control over the operations of MCC Holdco, including the right to vote the shares of TPP Holdco LLC, the holding company which owns the Company's equity interest in TPP. See Note 5 in the accompanying notes to the consolidated financial statements for additional information.

(aa) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and to Control this portfolio company as it owns more than 25% in company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.

n/a not applicable

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**December 31, 2016**  
**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-74

---



TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-75

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-76

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-77

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-78

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

See Notes to Consolidated Financial Statements.

F-79

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

- All of the Company's investments are issued by eligible U.S. portfolio companies, as defined in the Investment Company Act of 1940 (the "1940 Act"), unless otherwise noted. All of the Company's investments are issued by U.S. portfolio companies except for InMobi Pte, Ltd. which is an international company headquartered in California. The majority of the investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime Rate ("Prime" or "P") which reset daily, monthly, quarterly, or semiannually.
- (a) each such investment, the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2016. Certain investments are subject to a LIBOR or Prime interest rate floor.
- Because there is no readily available market value for these investments, the fair value of these investments is determined in good faith using significant unobservable inputs by our board of directors as required by the Investment Company Act of 1940. (See Note 4 in the accompanying notes to the consolidated financial statements.)
- (b) Percentages are based on net assets of \$240,850 as of December 31, 2016.
- (c) All of this loan is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.
- (d) All or a portion of this commitment was unfunded at December 31, 2016. As such, interest is earned only on the funded portion of this commitment.
- (e)
- (f)

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

(g) This investment is treated as a non-qualifying investment under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets. As of December 31, 2016, non-qualifying assets totaled 2.20% of the Company's total assets excluding prepaid expenses.

(h) A portion of this loan (principal of \$2,271) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(i) This delayed draw loan requires that certain financial covenants be met by the portfolio company prior to any fundings.

(j) The PIK portion of the interest rate for Landpoint, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 2.25% per annum.

(k) This position was on non-accrual status as of December 31, 2016, meaning that the Company has ceased recognizing interest income on the position. See Note 2 in the accompanying notes to the consolidated financial statements for additional information on the Company's accounting policies.

(l) A portion of the PIK interest rate for TRG, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 4.30% per annum.

(m) A portion of this loan (principal of \$4,660) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(n) A portion of the PIK interest rate for Vacation Innovations, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.92% per annum.

(o) A portion of this loan (principal of \$3,435) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(p) The PIK portion of the interest rate for Peerless Network, Inc. is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 0.75% per annum.

(q) A portion of this loan (principal of \$5,240) is held in the Company's wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP and is therefore not collateral to the Company's revolving credit facility.

(r) The sale of a portion of this loan does not qualify for sale accounting under ASC Topic 860 Transfers and Servicing, and therefore, the entire unitranche loan asset remains in the Consolidated Schedule of Investments.

(s) The PIK portion of the interest rate for Gracelock Industries, LLC is structured as a fee paid upon the termination of the commitment. The fee currently accrues at 4.24% per annum.

(t) Represents less than 5% ownership of the portfolio company's voting securities.

(u) Represents a non-income producing security.

(v) As defined in the 1940 Act, the Company is deemed to be an Affiliated Person of the portfolio company as it owns five percent or more of the portfolio company's voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to control).

(w) This is a demand note with no stated maturity.

(x) This position includes a PIK dividend and is currently on non-accrual status.

(y) As defined in the 1940 Act, the Company is deemed to be both an Affiliated Person of and to Control this portfolio company as it owns more than 25% in company s voting securities. See Note 5 in the accompanying notes to the consolidated financial statements for additional information on transactions in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control.

n/a not applicable

See Notes to Consolidated Financial Statements.

F-81

---



TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF  
INVESTMENTS (continued)**

**December 31, 2016**

**(in thousands, except for shares and units)**

**MONROE CAPITAL CORPORATION**

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

**Note 1. Organization and Principal Business**

Monroe Capital Corporation ( Monroe Capital and together with its subsidiaries, the Company ) was formed in February 2011 to act as an externally managed non-diversified, closed-end management investment company and has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act ). The Company had no substantive operating activities prior to October 24, 2012, the date of its initial public offering. Monroe Capital s investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through investment in senior secured, junior secured and unitranche (a combination of senior secured and junior secured debt in the same facility in which the Company syndicates a first out portion of the loan to an investor and retains a last out portion of the loan) debt and, to a lesser extent, unsecured subordinated debt and equity investments. Monroe Capital is managed by Monroe Capital BDC Advisors, LLC ( MC Advisors ), a registered investment adviser under the Investment Advisers Act of 1940, as amended. In addition, for U.S. federal income tax purposes, Monroe Capital has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 28, 2014, the Company s wholly-owned subsidiary, Monroe Capital Corporation SBIC, LP ( MRCC SBIC ), a Delaware limited partnership, received a license from the Small Business Administration ( SBA ) to operate as a Small Business Investment Company ( SBIC ) under Section 301(c) of the Small Business Investment Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013. As of December 31, 2017, MRCC SBIC had \$57,624 in leverageable capital and \$109,520 in SBA-guaranteed debentures outstanding. See Note 7 for additional information.

**Note 2. Summary of Significant Accounting Policies**

## Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ). The accompanying consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-K and Articles 6 or 10 of Regulation S-X. The Company has determined it meets the definition of an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 946 *Financial Services - Investment Companies* ( ASC Topic 946 ). Certain prior period amounts have been reclassified to conform to the current period presentation.

## Use of Estimates

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

## Consolidation

As permitted under Regulation S-X and ASC Topic 946, the Company will generally not consolidate its investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly-owned subsidiaries, MRCC SBIC and its wholly-owned general partner MCC SBIC GP, LLC, MC Forest Park Lender, LLC, and MC Reserve Lender, LLC, in its consolidated financial statements. All intercompany balances and transactions have been eliminated. The Company does not consolidate its non-controlling interest in MRCC Senior Loan Fund I, LLC ( SLF ). See further description of the Company's investment in SLF in Note 3.

TABLE OF CONTENTS

## MONROE CAPITAL CORPORATION

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

#### Note 2. Summary of Significant Accounting Policies (continued)

##### Fair Value of Financial Instruments

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

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments.

##### Revenue Recognition

The Company's revenue recognition policies are as follows:

*Investments and related investment income:* Interest and dividend income are recorded on the accrual basis to the extent that the Company expects to collect such amounts. Interest income is accrued based upon the outstanding principal amount and contractual terms of debt and preferred equity investments. Interest is accrued on a daily basis. All other income is recorded into income when earned. The Company records prepayment fees and amendment fees on loans as fee income in the period earned.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies. Each distribution received from limited liability company ( LLC ) and limited partnership ( LP ) investments is evaluated to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from equity investments in LLCs and LPs as dividend income unless there are sufficient accumulated tax-basis earnings and profits in the LLC or LP prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment.

Loan origination fees, original issue discount and market discount or premiums are capitalized, and the Company then amortizes such amounts using the effective interest method as interest income over the life of the investment. Unamortized discounts and loan origination fees totaled \$8,005 and \$6,192 as of December 31, 2017 and 2016,

respectively. Upfront loan origination and closing fees received for the years ended December 31, 2017, 2016 and 2015 totaled \$4,486, \$3,100 and \$3,306 respectively. For the years ended December 31, 2017, 2016 and 2015, interest income included \$1,860, \$1,556 and \$1,105 of accretion of loan origination fees, original issue discounts and market discounts or premiums. Upon the prepayment of a loan or debt security, any unamortized premium or discount or loan origination fees are recorded as interest income. For the years ended December 31, 2017, 2016 and 2015, interest income included \$1,790, \$995 and \$1,230 of unamortized discount or loan origination fees recorded as interest income upon prepayment of a loan or debt security, respectively.

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

F-83

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 2. Summary of Significant Accounting Policies  
(continued)**

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

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

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

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

## Distributions

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

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

F-84

---

TABLE OF CONTENTS

## **MONROE CAPITAL CORPORATION**

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

#### **Note 2. Summary of Significant Accounting Policies (continued)**

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

#### **Earnings per Share**

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

#### **Segments**

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

#### **Cash**

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

#### **Restricted Cash**

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

## **Unamortized Deferred Financing Costs**

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

## **Offering Costs**

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

F-85

---



TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 2. Summary of Significant Accounting Policies  
(continued)**

**Investments Denominated in Foreign Currency**

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

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

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

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

**Income Taxes**

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment available to RICs. To maintain qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to stockholders, for each taxable year, at least 90% of the Company's investment company taxable income, which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. If the Company qualifies as a RIC and satisfies the annual distribution requirement, the Company will not have to pay corporate-level federal income taxes on any income that the Company distributes to its stockholders. The Company intends to make distributions in an amount sufficient to maintain RIC status each year and to avoid any federal income taxes on income. The Company will also be subject to nondeductible federal excise taxes if the Company does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years for which it paid no federal income taxes. To the extent that the Company determines that its estimated current year annual taxable income may exceed estimated current year

dividend distributions, the Company accrues excise tax, if any, calculated as 4% of the estimated excess taxable income as taxable income is earned. For the years ended December 31, 2017, 2016 and 2015, \$100, \$679 and \$83, respectively, were recorded on the consolidated statements of operations for U.S. federal excise taxes. As of December 31, 2017 and 2016, payables for excise taxes of \$80, and \$475, respectively, were included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

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

F-86

---

TABLE OF CONTENTS

## MONROE CAPITAL CORPORATION

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

### Note 2. Summary of Significant Accounting Policies (continued)

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

### Subsequent Events

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

### Recent Accounting Pronouncements

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

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). ASU 2016-01 retains many current

requirements for the classification and measurement of financial instruments; however, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. Management is currently evaluating the impact these changes will have on the Company's consolidated financial statements and disclosures.

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

F-87

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

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

**Note 3. Investments**

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

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

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

December 31, 2017      December 31, 2016

**Amortized Cost:**

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

F-88

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 3. Investments (continued)**

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

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

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

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

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

F-89

---



TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 3. Investments (continued)**

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

**MRCC Senior Loan Fund I, LLC**

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

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

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

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

F-90

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 3. Investments (continued)**

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

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

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

(1) At principal amount.

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

**MRCC SENIOR LOAN FUND I, LLC****SCHEDULE OF INVESTMENTS  
December 31, 2017**

Portfolio Company <sup>(a)</sup>	Industry	Seniority	Interest Rate <sup>(b)</sup>	Principal	Fair Value
BMC Acquisition, Inc. <sup>(c)</sup>	Wholesale	Senior Secured	6.94 %	5,000	\$5,000
Clearent Holdings LLC and Clearent, LLC <sup>(c)</sup>	Banking, Finance, Insurance & Real Estate	Senior Secured	8.25 %	1,056	1,045
Clearent Holdings LLC and Clearent, LLC <sup>(c)</sup>		Senior Secured	8.25 %	1,257	1,244
			8.25 %	208	

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Clearent Holdings LLC and Clearent, LLC <sup>(c)(d)</sup>		Senior Secured			
Gigamon Inc <sup>(c)</sup>	High Tech Industries	Senior Secured	6.03 %	3,000	2,985
Il Fornaio (America) Corporation	Beverage, Food & Tobacco	Senior Secured	8.07 %	5,000	5,008
LegalZoom.com, Inc. <sup>(c)</sup>	Services: Consumer	Senior Secured	5.94 %	2,000	2,005
Research Now Group, Inc. and Survey Sampling International, LLC <sup>(d)</sup>	Media: Diversified & Production	Senior Secured	7.13 %	7,000	6,714
Solaray, LLC	Consumer Goods: Non-Durable	Senior Secured	8.02 %	1,625	1,625
Solaray, LLC <sup>(d)</sup>		Senior Secured	8.02 %	1,875	
US Salt, LLC <sup>(c)</sup>	Beverage, Food & Tobacco	Senior Secured	6.18 %	3,500	3,500
TOTAL INVESTMENTS					\$29,126

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

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

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

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

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

As of December 31, 2017, \$9,500 of the Company's LLC equity interest subscriptions to

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 3. Investments (continued)**

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

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

	December 31, 2017
<b>Assets</b>	
Investments, at fair value	\$ 29,126
Cash	12,504
Interest receivable on investments	11
<b>Total Assets</b>	<b>\$ 41,641</b>
<b>Liabilities</b>	
Payable for open trades	\$ 22,304
Accounts payable and accrued expenses	57
<b>Total Liabilities</b>	<b>22,361</b>
<b>Members' capital</b>	<b>19,280</b>
<b>Total liabilities and members' capital</b>	<b>\$ 41,641</b>
	Period from November 14, 2017 (commencement date) to December 31, 2017
<b>Investment income:</b>	
Interest income	\$ 39
<b>Total investment income</b>	<b>39</b>
<b>Expenses:</b>	
Organizational costs	39
Professional fees	45
<b>Total expenses</b>	<b>84</b>
<b>Net investment income (loss)</b>	<b>(45 )</b>
<b>Net gain (loss) on investments:</b>	

Net change in unrealized gain (loss) on investments	325
<b>Net gain (loss) on investments</b>	<b>325</b>
<b>Net increase (decrease) in members' capital</b>	<b>\$ 280</b>

---

F-92

TABLE OF CONTENTS

## **MONROE CAPITAL CORPORATION**

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

### **Note 4. Fair Value Measurements**

#### **Investments**

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

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

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

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

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

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. This includes situations where there is little, if any, market activity for the assets or liabilities. The inputs into the determination of fair value are based upon the best information available and may require significant management judgment or estimation.

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

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

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

F-93

---



TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 4. Fair Value Measurements (continued)**

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

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

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

The accompanying consolidated schedules of investments held by the Company consist primarily of private debt instruments ( Level 3 debt ). The Company generally uses the yield approach to determine fair value, as long as it is appropriate. If there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other factors in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Company generally considers its Level 3 debt to be performing loans if the borrower is not in default, the borrower is remitting payments in a timely manner; the loan is in covenant compliance or is otherwise not deemed to be impaired.

In determining the fair value of the performing Level 3 debt, the Company considers fluctuations in current interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the borrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a Level 3 debt instrument is not performing, as defined above, the Company will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the Level 3 debt instrument.

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

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

and amortization ( EBITDA ), cash flows, net income, revenues, or in limited cases, book value.

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

F-94

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 4. Fair Value Measurements (continued)****Secured Borrowings**

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

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

**Fair Value Disclosures**

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

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

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

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

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

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

F-95

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)****Note 4. Fair Value Measurements (continued)**

Senior, unitranche and junior secured loans are collateralized by tangible and intangible assets of the borrowers. These investments include loans to entities that have some level of challenge in obtaining financing from other, more conventional institutions, such as a bank. Interest rates on these loans are either fixed or floating, and are based on current market conditions and credit ratings of the borrower. Excluding loans on non-accrual, the contractual interest rates on the loans ranged between 6.57% to 15.00% at December 31, 2017 and 5.75% to 17.00% at December 31, 2016. The maturity dates on the loans outstanding at December 31, 2017 range between March 2018 and August 2025.

The following tables provide a reconciliation of the beginning and ending balances for investments and secured borrowings that use Level 3 inputs for the years ended December 31, 2017 and 2016:

	Investments					Secured borrowings
	Senior secured loans	Unitranche loans	Junior secured loans	Equity securities	Total investments	
Balance as of December 31, 2016	\$275,253	\$51,638	\$59,366	\$26,663	\$412,920	\$1,314
Reclassifications <sup>(1)</sup>	(18,542 )	15,747	382	2,413		
Net change in unrealized gain (loss) on investments	(6,668 )	5,198	409	(12,199)	(13,260 )	
Net realized gain (loss) on investments	41	(3,266 )	7	2,779	(439 )	
Purchases of investments and other adjustments to cost <sup>(2)</sup>	239,732	7,147	10,941	903	258,723	
Proceeds from principal payments and sales on investments <sup>(3)</sup>	(101,942)	(36,169)	(32,556)	(2,779 )	(173,446)	
Net change in unrealized gain (loss) on secured borrowings						6
Repayments on secured borrowings						(1,254)
Net realized (gain) loss on secured borrowings						(66 )
Balance as of December 31, 2017	\$387,874	\$40,295	\$38,549	\$17,780	\$484,498	\$
	Investments					Secured borrowings
	Senior secured	Unitranche loans	Junior secured	Equity securities	Total investments	

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

	loans		loans			
Balance as of December 31, 2015	\$190,559	\$68,090	\$63,388	\$19,054	\$341,091	\$2,476
Reclassifications <sup>(1)</sup>	3,270	(6,525 )		3,255		
Net change in unrealized gain (loss) on investments	(65 )	(2,056 )	(751 )	4,197	1,325	
Net realized gain (loss) on investments				587	587	
Purchases of investments and other adjustments to cost <sup>(2)</sup>	141,023	1,950	8,233	157	151,363	
Proceeds from principal payments and sales on investments <sup>(3)</sup>	(59,534 )	(9,821 )	(11,504)	(587 )	(81,446 )	
Net change in unrealized gain (loss) on secured borrowings						53
Proceeds from secured borrowings						
Repayments on secured borrowings						(1,215)
Balance as of December 31, 2016	\$275,253	\$51,638	\$59,366	\$26,663	\$412,920	\$1,314

(1) Represents non-cash reclassifications of investment type due to restructuring of the investments in portfolio companies.

(2) Includes purchases of new investments, effects of refinancing and restructurings, premium and discount accretion and amortization and PIK interest.

(3) Represents net proceeds from investments sold and principal paydowns received.

F-96

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 4. Fair Value Measurements (continued)**

The total change in unrealized gain (loss) included in the consolidated statements of operations within net change in unrealized gain (loss) on investments for the year ended December 31, 2017, attributable to Level 3 investments still held at December 31, 2017 was (\$16,283). The total change in unrealized gain (loss) included in the consolidated statements of operations within net change in unrealized gain (loss) on investments for the year ended December 31, 2016, attributable to Level 3 investments still held at December 31, 2016 was \$1,884. The total change in gain (loss) included in the consolidated statements of operations within net change in unrealized gain (loss) on secured borrowings for the year ended December 31, 2016, attributable to Level 3 investments still held at December 31, 2016 was (\$53). Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of Level 3 as of the beginning of the period which the reclassifications occur. There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2017 and 2016.

**Significant Unobservable Inputs**

ASC Topic 820 requires disclosure of quantitative information about the significant unobservable inputs used in the valuation of assets and liabilities classified as Level 3 within the fair value hierarchy. Disclosure of this information is not required in circumstances where a valuation (unadjusted) is obtained from a third-party pricing service and the information regarding the unobservable inputs is not reasonably available to the Company and as such, the disclosures provided below exclude those investments valued in that manner. The tables below are not intended to be all-inclusive, but rather to provide information on significant unobservable inputs and valuation techniques used by the Company.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets and liabilities as of December 31, 2017 were as follows:

	Fair Value	Valuation Technique	Unobservable Input	Weighted Range		
				Average Mean	Minimum	Maximum
<b>Assets:</b>						
Senior secured loans	\$300,882	Discounted cash flow	EBITDA multiples	6.8x	3.8x	14.0x
			Market yields	11.6 %	8.1 %	23.5 %
Senior secured loans	15,654	Waterfall	Delinquency ratio	0.0 %	0.0 %	0.0 %
Senior secured loans	12,967	Discounted cash flow	Tangible book value	1.3x	1.2x	1.3x

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

			multiples			
			Market yields	14.5 %	10.3 %	19.9 %
Senior secured loans	9,516	Discounted cash flow	Revenue multiples	4.0x	3.8x	4.3x
			Market yields	8.8 %	8.4 %	9.2 %
Senior secured loans	8,718	Enterprise value	EBITDA multiples	7.5x	6.0x	9.3x
Senior secured loans	8,516	Enterprise value	Revenue multiples	0.3x	0.3x	0.6x
Unitranche loans	40,000	Discounted cash flow	EBITDA multiples	6.2x	3.8x	8.5x
			Market yields	15.0 %	8.8 %	23.0 %
Unitranche loans	295	Enterprise value	EBITDA multiples	5.0x	4.5x	5.5x
Junior secured loans	5,625	Discounted cash flow	EBITDA multiples	9.1x	3.8x	10.3x
			Market yields	11.1 %	10.2 %	14.0 %
Equity securities	8,429	Discounted cash flow	EBITDA multiples	4.0x	3.8x	4.3x
			Market yields	21.0 %	20.0 %	22.0 %
Equity securities	5,892	Enterprise value	Revenue multiples	0.4x	0.4x	2.7x
Equity securities	1,767	Enterprise value	EBITDA multiples	6.8x	4.5x	9.0x
Equity securities	353	Enterprise value	Tangible book value multiples	1.3x	1.2x	1.3x
<b>Total Level 3 Assets</b>	<b>\$418,614<sup>(1)</sup></b>					
<b>Liabilities:</b>						
Secured Borrowings	\$					

<sup>(1)</sup> Excludes loans of \$65,884 at fair value where valuation (unadjusted) is obtained from a third-party pricing service for which such disclosure is not required.

F-97



TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 4. Fair Value Measurements (continued)**

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets and liabilities as of December 31, 2016 were as follows:

	Fair Value	Valuation Technique	Unobservable Input	Weighted average Mean	Range Minimum	Range Maximum
<b>Assets:</b>						
Senior secured loans	\$214,267	Discounted cash flow	EBITDA multiples	7.0x	3.2x	13.3x
			Market yields	11.7 %	7.0 %	22.0 %
Senior secured loans	1,054	Enterprise value	Revenue multiples	0.6x	0.5x	0.6x
Senior secured loans	12,727	Enterprise value	EBITDA multiples	4.1x	3.3x	5.5x
Unitranche loans	47,861	Discounted cash flow	EBITDA multiples	6.1x	4.8x	8.0x
			Market yields	13.4 %	9.5 %	22.1 %
Unitranche loans	3,491	Combination of discounted cash flow and enterprise value	Revenue multiples	0.5x	0.5x	0.6x
			Market yields	29.2 %	29.2 %	29.2 %
Unitranche loans	286	Enterprise value	EBITDA multiples	6.0x	5.5x	6.5x
Junior secured loans	18,572	Discounted cash flow	EBITDA multiples	7.5x	3.5x	9.5x
			Market yields	11.5 %	7.0 %	13.5 %
Junior secured loans		Enterprise value	Revenue multiples	0.6x	0.5x	0.6x
Equity securities	8,121	Discounted cash flow	EBITDA multiples	3.8x	3.5x	4.0x
			Market yields	17.0 %	16.0 %	18.0 %
Equity securities	18,164	Enterprise value	EBITDA multiples	4.6x	3.3x	13.3x
Equity securities	249	Enterprise value		0.8x	0.1x	3.8x

			Revenue multiples				
<b>Total Level 3 Assets</b>	<b>\$324,792<sup>(1)</sup></b>						
<b>Liabilities:</b>							
Secured borrowings	\$1,314	Discounted cash flow	Market yields	7.7 %	7.1 %	8.2 %	

(1) Excludes loans of \$88,128 at fair value where valuation (unadjusted) is obtained from a third-party pricing service for which such disclosure is not required.

The significant unobservable inputs used in the market approach of fair value measurement of the Company's investments are the market multiples of EBITDA or revenue of the comparable guideline public companies. The Company selects a population of public companies for each investment with similar operations and attributes of the portfolio company. Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA or revenue is calculated. The Company selects percentages from the range of multiples for purposes of determining the portfolio company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA or revenue of the portfolio company (or other meaningful measure). Increases (decreases) in the multiple will result in an increase (decrease) in enterprise value, resulting in an increase (decrease) in the fair value estimate of the investment.

The significant unobservable inputs used in the yield approach of fair value measurement of the Company's investments is the discount rate used to discount the estimated future cash flows expected to be received from the underlying investment, which include both future principal and interest payments. Increases (decreases) in the discount rate would result in a decrease (increase) in the fair value estimate of the investment. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable investments, and call provisions.

## Other Financial Assets and Liabilities

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. Fair value of the Company's revolving credit facility is estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 4. Fair Value Measurements (continued)**

applicable. The Company believes that the carrying value of its revolving credit facility approximates fair value.

SBA-guaranteed debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date and the ability of market participants to prepay the debentures. As of December 31, 2017 and 2016, the fair value of the Company's SBA debentures using Level 3 inputs were estimated at \$109,520 and \$51,500, respectively, which is the same as the Company's carrying value of the SBA debentures.

**Note 5. Transactions with Affiliated Companies**

An affiliated company is a company in which the Company has an ownership of 5% or more of its voting securities. A controlled affiliate company is a company in which the Company has ownership of more than 25% of its voting securities. Transactions related to the Company's investments with affiliates for the years ended December 31, 2017 and 2016 were as follows:

Portfolio Company	Fair value at December 31, 2016	Transfers in (out)	Purchases (cost)	Sales and paydowns (cost)	PIK interest (cost)	Discount accretion	Net realized gains (losses)	Net realized gains (losses)	Fair value at December 31, 2017
Non-controlled affiliate company investments <sup>(1)</sup> :									
American Community Homes, Inc.	\$ 13,950	\$	\$ 647	\$	\$ 227	\$ 72	\$	\$ (1,576 )	\$ 13,320
Luxury Optical Holdings Co. <sup>(2)</sup>		3,970	808		171	8		(349 )	4,608
Millennial Brands LLC (fka Rocket Dog Brands, LLC)	1,054		534		130	(1 )		(1,167 )	550
Rockdale Blackhawk, LLC <sup>(3)</sup>	27,077		4,161	(16 )		200		(9,680 )	21,742
SHI Holdings, Inc.	4,297		1,024			20		296	5,637
Summit Container Corporation	3,663		1,499	(102)	81	24		(237 )	4,928
TPP Operating, Inc. <sup>(4)</sup>		8,868	1,047	(27 )				(1,922 )	7,966
Total non-controlled affiliate company investments	\$ 50,041	\$ 12,838	\$ 9,720	\$ (145)	\$ 609	\$ 323	\$	\$ (14,635)	\$ 58,751
Controlled affiliate company investments <sup>(1)</sup> :									
MRCC Senior Loan Fund I, LLC	\$	\$	\$ 9,500	\$	\$	\$	\$	\$ 140	\$ 9,640
TPP Operating, Inc. <sup>(5)</sup>	8,899	(8,868 )	4,330	(972)				(3,389 )	

Total controlled affiliate company investments	\$8,899	\$(8,868 )	\$13,830	\$(972)	\$	\$	\$	\$(3,249 )	\$9,640
--	---------	------------	----------	---------	----	----	----	------------	---------

F-99

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)****Note 5. Transactions with Affiliated Companies (continued)**

Portfolio Company	For the years ended December 31,					
	2017			2016		
	Interest income	Dividend income	Fee income	Interest income	Dividend income	Fee income
Non-controlled affiliate company investments <sup>(1)</sup> :						
American Community Homes, Inc.	\$ 1,543	\$	\$	\$ 1,444	\$	\$
Luxury Optical Holdings Co.	273					
Millennial Brands LLC (fka Rocket Dog Brands, LLC)	126			489		
Rockdale Blackhawk, LLC	2,175			1,827	3,546	
SHI Holdings, Inc.	509			96		36
Summit Container Corporation	704			655		
TPP Operating, Inc.	236					
Total non-controlled affiliate company investments	\$ 5,566	\$	\$	\$ 4,511	\$ 3,546	\$ 36
Controlled affiliate company investments <sup>(1)</sup> :						
MRCC Senior Loan Fund I, LLC	\$	\$	\$	\$	\$	\$
TPP Acquisition Inc.				30		
TPP Operating, Inc.	594			110		
Total controlled affiliate company investments	\$ 594	\$	\$	\$ 140	\$	\$

(1) Includes both loan and equity security investment transactions for these portfolio companies.

The Company provided a follow-on investment to Luxury Optical Holdings Co. ( LOH ) as a part of a restructuring (2) during the twelve months ended December 31, 2017. As part of the restructuring, the Company also received 9.6% of the equity of LOH. For the purpose of this schedule, transfers in represents the fair value at June 30, 2017.

The Company provided a follow-on investment to Rockdale Blackhawk, LLC ( Rockdale ) during the twelve (3) months ended December 31, 2017. In conjunction with the follow-on investment, the Company also received an additional 6.4% of the equity of Rockdale, increasing total equity ownership to 18.0%.

In December 2017, the Company transferred 16% of the equity interest in TPP Operating, Inc. shares to a wholly-owned entity, MCC Holdco Equity Manager I, LLC ( MCC Holdco ), which has an independent manager who has full control over the operations of MCC Holdco, including the right to vote the shares of TPP Holdco LLC, the holding company which owns the Company's equity interest in TPP Operating, Inc. As a result, the (4) Company now only controls 24.0% of the voting interests in TPP Operating, Inc. and TPP Acquisition, Inc. is no longer considered a controlled affiliate company investment. For the purpose of this schedule, transfers in represents fair value at September 30, 2017. As of December 31, 2017, the Company valued its positions in TPP Operating, Inc. utilizing an enterprise value waterfall model. The key inputs to the model were an estimated 2018 revenue forecast and revenue multiple developed using comparable public and private company data.

On September 2, 2016, TPP Acquisition, Inc. filed for bankruptcy as part of a restructuring process. The existing lenders, including the Company, submitted a credit bid to purchase certain assets of TPP Acquisition, Inc., which was approved by the bankruptcy court. The sale closed on November 8, 2016. A new operating company, TPP Operating, Inc., was formed to acquire certain of the assets of TPP Acquisition, Inc. and continue business (5) operations. These new operations are no longer encumbered by significant lease liabilities. The Company owns 40% of the equity interests in the new operating company, TPP Operating, Inc. and owned 40.0% of the equity interests in TPP Acquisition, Inc., the former operating company, until its dissolution during the year ended December 31, 2017. During the bankruptcy period, the Company and the other existing lenders provided additional financing through a

F-100

---

TABLE OF CONTENTS

## MONROE CAPITAL CORPORATION

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

#### Note 5. Transactions with Affiliated Companies (continued)

debtor-in-possession financing ( DIP ) facility. Upon the purchase of TPP Acquisition, Inc. s assets, TPP Operating, Inc. entered into a new credit facility with the existing lenders, including the Company. The principal amount of the new facility with TPP Operating, Inc. represented the amount owed to the lenders under the pre-petition facilities plus the amount funded under the DIP facility, less the amount of the credit bid. The cost basis of the Company s equity investment in TPP Operating, Inc. represents the credit bid and equates to the reduction of principal outstanding on the debt facilities when the new facility was issued to TPP Operating, Inc.

The Company provided a follow-on investment to SHI Holdings, Inc. during the quarter ended December 31, 2016, (6)including the purchase of equity. For the purpose of this schedule, transfers in represents the fair value at September 30, 2016.

#### Note 6. Transactions with Related Parties

The Company has entered into an Investment Advisory and Management Agreement with MC Advisors, under which MC Advisors, subject to the overall supervision of the Board, provides investment advisory services to the Company.

The Company pays MC Advisors a fee for its services under the Investment Advisory and Management Agreement consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate equal to 1.75% of invested assets (calculated as total assets excluding cash, which includes assets financed using leverage) and is payable in arrears. Base management fees for the years ended December 31, 2017, 2016, and 2015 were \$7,726, \$6,347 and \$5,129 respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of pre-incentive fee net investment income for the immediately preceding quarter, subject to a 2% (8% annualized) preferred return, or hurdle, and a catch up feature. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of pre-incentive fee net investment income will be payable except to the extent that 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters (the Incentive Fee Limitation ). Therefore, any ordinary income incentive fee that is payable in a calendar quarter will be limited to the lesser of (1) 20% of the amount by which pre-incentive fee net investment income for such calendar quarter exceeds the 2% hurdle, subject to the catch-up provision, and (2) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding calendar quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the sum of pre-incentive fee net investment income, realized gains and losses and unrealized gains and losses for the then current and 11 preceding calendar quarters. The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year in an amount equal to 20% of realized capital gains, if any, on a cumulative basis from inception through the end of the year, computed net of all realized capital losses on a cumulative basis and unrealized depreciation, less the aggregate amount of any previously paid capital gain incentive fees.

Incentive fees, excluding the impact of the incentive fee waiver, for the years ended December 31, 2017, 2016 and 2015 were \$5,686, \$5,777 and \$4,685, respectively. Incentive fees for the year ended December 31, 2017, consisted of part one incentive fees of \$5,861, which includes the effect of a \$415 Incentive Fee Limitation as noted above, and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of (\$175). Part two incentive fees reduced total incentive fees for the year ended December 31, 2017, primarily as a result of net unrealized losses during the period. Incentive fees for the year ended December 31, 2016, consisted of part one incentive fees (based on net investment income) of \$5,602 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$175. Incentive fees for the year ended December 31, 2015, consisted solely of part one incentive fees (based on net investment income). The Company accrues, but does not pay, a capital gains incentive fee in connection with

F-101

---



TABLE OF CONTENTS

## MONROE CAPITAL CORPORATION

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

#### Note 6. Transactions with Related Parties (continued)

any unrealized capital appreciation, as appropriate. If, on a cumulative basis, the sum of net realized gains (losses) plus net unrealized gain (loss) decreases during a period, the Company will reverse any excess capital gains incentive fee previously accrued such that the amount of capital gains incentive fee accrued is no more than 20% of the sum of net realized gains (losses) plus net unrealized gain (loss). For the years ended December 31, 2017, 2016 and 2015, MC Advisors waived part one incentive fees of \$308, \$273 and zero, respectively.

The Company has entered into an Administration Agreement with Monroe Capital Management Advisors, LLC ( MC Management ), under which the Company reimburses MC Management (subject to the review and approval of the Board) for its allocable portion of overhead and other expenses, including the costs of furnishing the Company with office facilities and equipment and providing clerical, bookkeeping, record-keeping and other administrative services at such facilities, and the Company's allocable portion of the cost of the chief financial officer and chief compliance officer and their respective staffs. To the extent that MC Management outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis, without incremental profit to MC Management. For the years ended December 31, 2017, 2016 and 2015, the Company incurred \$3,439, \$3,054 and \$2,712, respectively, in administrative expenses (included within Professional fees, Administrative service fees and General and administrative expenses on the consolidated statements of operations) under the Administration Agreement, of which \$1,248, \$1,287 and \$1,078, respectively, was related to MC Management overhead and salary allocation and paid directly to MC Management. As of December 31, 2017 and 2016, \$322 and \$330, respectively, of expenses were due to MC Management under this agreement and are included in accounts payable and accrued expenses on the consolidated statements of assets and liabilities.

The Company has entered into a license agreement with Monroe Capital LLC under which Monroe Capital LLC has agreed to grant the Company a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in its business. Under this agreement, the Company will have a right to use the Monroe Capital name at no cost, subject to certain conditions, for so long as the Advisor or one of its affiliates remains its investment advisor. Other than with respect to this limited license, the Company has no legal right to the Monroe Capital name.

#### Note 7. Borrowings

*Revolving Credit Facility:* As of December 31, 2017, the Company had U.S. dollar borrowings of \$105,200 and non-U.S. dollar borrowings denominated in Great Britain pounds of £8,800 (\$11,892 in U.S. dollars) under its revolving credit facility with ING Capital LLC, as agent, to finance the purchase of the Company's assets. The borrowings denominated in Great Britain pounds are translated into U.S. dollars based on the spot rate at each balance sheet date. The impact resulting from changes in foreign currency borrowings is included in net change in unrealized gain (loss) on foreign currency borrowings in the Company's consolidated statements of operations. The borrowings denominated in Great Britain pounds may be positively or negatively affected by movements in the rate of exchange

between the U.S. dollar and the Great Britain pound. These movements are beyond the control of the Company and cannot be predicted. As of December 31, 2016, the Company had U.S. dollar borrowings of \$129,000 outstanding under the revolving credit facility. As of December 31, 2017, the maximum amount the Company was able to borrow was \$200,000 and this borrowing can be increased to \$300,000 pursuant to an accordion feature (subject to maintaining 200% asset coverage, as defined by the 1940 Act). On February 22, 2017, the Company closed a \$40,000 upside to the revolving credit facility, bringing the maximum amount the Company is able to borrow from \$160,000 to the now current maximum amount of \$200,000, in accordance with the facility's accordion feature. The maturity date on the facility is December 14, 2020.

The revolving credit facility is secured by a lien on all of the Company's assets, including cash on hand, but excluding the assets of the Company's wholly-owned subsidiary, MRCC SBIC. The Company's ability to

F-102

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 7. Borrowings (continued)**

borrow under the revolving credit facility is subject to availability under a defined borrowing base, which varies based on portfolio characteristics and certain eligibility criteria and concentration limits, as well as required valuation methodologies. The Company may make draws under the revolving credit facility to make or purchase additional investments through December 2019 and for general working capital purposes until the maturity date of the revolving credit facility. Borrowings under the revolving credit facility bear interest, at the Company's election, at an annual rate of LIBOR (one-month, two-month, three-month or six-month at our discretion based on the term of the borrowing) plus 2.75% or at a daily rate equal to 2.00% per annum plus the greater of the prime interest rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%. The LIBOR rate on the revolving credit facility was reduced to LIBOR plus 2.75% from LIBOR plus 3.00% in conjunction with the Company's capital raise on June 9, 2017, as net worth (excluding investments in MRCC SBIC) exceeded \$225,000. In addition to the stated interest rate on borrowings under the revolving credit facility, the Company is required to pay a fee of 0.5% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is less than 65% of the then available maximum borrowing or a fee of 1.0% per annum on any unused portion of the revolving credit facility if the unused portion of the facility is greater than or equal to 65% of the then available maximum borrowing. As of December 31, 2017 and 2016, the outstanding borrowings were accruing at a weighted average interest rate of 4.4% and 3.8%, respectively. The weighted average interest rate of the revolving credit facility borrowings (excluding debt issuance costs) for the years ended December 31, 2017, 2016 and 2015 was 4.2%, 3.6% and 3.6%, respectively. The weighted average fee rate on the unused portion of the revolving credit facility for the years ended December 31, 2017, 2016 and 2015 was 0.5%, 0.5% and 0.5%, respectively.

The Company's ability to borrow under the revolving credit facility is subject to availability under the borrowing base, which permits the Company to borrow up to 70% of the fair market value of its portfolio company investments depending on the type of the investment the Company holds and whether the investment is quoted. The Company's ability to borrow is also subject to certain concentration limits, and continued compliance with the representations, warranties and covenants given by the Company under the facility. The revolving credit facility contains certain financial and restrictive covenants, including, but not limited to, the Company's maintenance of: (1) a minimum consolidated total net assets at least equal to the greater of (a) 40% of the consolidated total assets on the last day of each quarter or (b) \$120,000 plus 65% of the net proceeds to the Company from sales of its securities after December 14, 2015; (2) a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.1 times; and (3) a ratio of earnings before interest and taxes to interest expense of at least 2.5 times. The revolving credit facility also requires the Company to undertake customary indemnification obligations with respect to ING Capital LLC and other members of the lending group and to reimburse the lenders for expenses associated with entering into the credit facility. The revolving credit facility also has customary provisions regarding events of default, including events of default for nonpayment, change in control transactions at both Monroe Capital Corporation and MC Advisors, failure to comply with financial and negative covenants, and failure to maintain our relationship with MC Advisors. If the Company incurs an event of default under the revolving credit facility and fails to remedy such default under any applicable grace period, if any, then the entire revolving credit facility could become immediately

due and payable, which would materially and adversely affect the Company's liquidity, financial condition, results of operations and cash flows.

The Company's revolving credit facility also imposes certain conditions that may limit the amount of the Company's distributions to stockholders. Distributions payable in the Company's common stock under the DRIP are not limited by the revolving credit facility. Distributions in cash or property other than common stock are generally limited to 115% of the amount of distributions required to maintain the Company's status as a RIC.

F-103

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 7. Borrowings (continued)**

*SBA Debentures:* On February 28, 2014, the Company's wholly-owned subsidiary, MRCC SBIC received a license from the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Act of 1958, as amended. MRCC SBIC commenced operations on September 16, 2013.

The SBIC license allows MRCC SBIC to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a leverage 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 (pooling date) at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, has a superior claim to MRCC SBIC's assets over the Company's stockholders in the event the Company liquidates MRCC SBIC or the SBA exercises its remedies upon an event of default.

SBA regulations currently limit the amount that an individual SBIC may borrow to a maximum of \$150,000 when it has at least \$75,000 in regulatory capital, receives a leverage commitment from the SBA and has been through an audit examination by the SBA subsequent to licensing. The SBA also historically limited a related group of SBICs (commonly referred to as a family of funds) to a maximum of \$225,000 in total borrowings. On December 18, 2015, this family of funds limitation was raised to \$350,000 in total borrowings. As the Company has other affiliated SBICs already in operation, MRCC SBIC was historically limited to a maximum of \$40,000 in borrowings. Pursuant to the increase in the family of funds limitation, the Company submitted a commitment application to the SBA and on April 13, 2016, MRCC SBIC was approved by the SBA for an additional \$75,000 in SBA-guaranteed debentures, for a total of \$115,000 in available debentures.

As of December 31, 2017, MRCC SBIC had \$57,624 in leverageable capital and \$109,520 in SBA-guaranteed debentures outstanding. As of December 31, 2016, MRCC SBIC had \$41,000 in leverageable capital and \$51,500 in SBA-guaranteed debentures outstanding. As of December 31, 2017, the Company has made all required leverageable capital contributions to MRCC SBIC in order to access the remaining \$5,480 in available SBA-guaranteed debentures.

As of December 31, 2017, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

Maturity Date	Interest Rate	Amount
September 2024	3.4 %	\$ 12,920
March 2025	3.3 %	14,800
March 2025	2.9 %	7,080

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

September 2025	3.6 %	5,200
March 2027	3.5 %	20,000
September 2027	3.2 %	32,100
March 2028	2.5 % <sup>(1)</sup>	9,160
March 2028	2.6 % <sup>(1)</sup>	2,780
March 2028	2.7 % <sup>(1)</sup>	5,480
Total		\$ 109,520

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled.

F-104

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 7. Borrowings (continued)**

As of December 31, 2016, MRCC SBIC had the following SBA-guaranteed debentures outstanding (dollars in thousands):

Maturity Date	Interest Rate	Amount
September 2024	3.4 %	\$ 12,920
March 2025	3.3 %	14,800
March 2025	2.9 %	7,080
September 2025	3.6 %	5,200
March 2027	2.1 % <sup>(1)</sup>	9,200
March 2027	2.0 % <sup>(1)</sup>	2,300
Total		\$ 51,500

(1) Represents an interim rate of interest as the SBA-guaranteed debentures had not yet pooled. On October 2, 2014, the Company was granted exemptive relief from the SEC for permission to exclude the debt of MRCC SBIC guaranteed by the SBA from the 200% asset coverage test under the 1940 Act. The receipt of this exemption for this SBA-guaranteed debt increases flexibility under the 200% asset coverage test.

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

As of December 31, 2017, there were no secured borrowings. As of December 31, 2016, secured borrowings at fair value totaled \$1,314 and the fair value of the loans that are associated with these secured borrowings was \$5,814.

These secured borrowings were created as a result of the Company's completion of partial loan sales of certain unitranche loan assets during the year ended December 31, 2013 that did not meet the definition of a participating interest. As a result, sale treatment was not allowed and these partial loan sales were treated as secured borrowings.

No such partial loan sales occurred during the years ended December 31, 2017, 2016 and 2015. During the years ended December 31, 2017, 2016 and 2015, repayments on secured borrowings totaled \$1,254, \$1,215 and \$1,600, respectively. The weighted average interest rate on our secured borrowings was approximately zero and 6.3% as of December 31, 2017 and 2016, respectively.

*Components of interest expense:* The components of the Company's interest expense and other debt financing expenses are as follows:

	For the years ended December		
	31,		
	2017	2016	2015
Interest expense revolving credit facility	\$ 4,771	\$ 4,422	\$ 3,290
Interest expense SBA guaranteed debentures	2,434	1,340	1,080
Amortization of deferred financing costs	1,042	820	742
Interest expense secured borrowings	34	123	198
Other	31	77	90
Total interest and other debt financing expenses	\$ 8,312	\$ 6,782	\$ 5,400

F-105

---



TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 8. Income Taxes**

The Company has elected to be treated as a RIC under Subchapter M of the Code. As a RIC, the Company is not taxed on any investment company taxable income or capital gains which it distributes to stockholders. The Company intends to distribute all of its investment company taxable income and capital gains annually. Accordingly, no provision for federal income tax has been made in the consolidated financial statements.

Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts in accordance with GAAP and those differences could be material. These book-to-tax differences are either temporary or permanent in nature. Reclassifications due to permanent book-to-tax differences have no impact on net assets.

The following permanent differences were reclassified for tax purposes:

	For the years ended December 31,		
	2017	2016	2015
Increase (decrease) in capital in excess of par value	\$(128)	\$(3,547)	\$
Increase (decrease) in undistributed net investment income (accumulated distributions in excess of net investment income)	124	3,547	
Increase (decrease) in accumulated net realized gain (loss) on investments, secured borrowings and foreign currency transactions	4		

Taxable income generally differs from net increase (decrease) in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes unrealized gain (loss) on investments as investment gains and losses are not included in taxable income until they are realized.

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred after September 30, 2011 will not be subject to expiration. As of December 31, 2017 and 2016, the Company had capital loss carryforwards of \$372 and zero, respectively.

The following table reconciles net increase in net assets resulting from operations to taxable income:

	For the years ended December 31,		
	2017	2016	2015

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Net increase in net assets resulting from operations	\$12,152	\$24,365	\$17,892
Net change in unrealized gain (loss) on investments, secured borrowings and foreign currency borrowings	13,480	(1,272 )	1,153
Other income for tax but not book	(3,000 )	(907 )	2,975
Other deductions for book in excess of deductions for tax	(175 )	175	
Expenses not currently deductible	100	679	83
Net capital loss carryforward	372		
Total taxable income	\$22,929	\$23,040	\$22,103

F-106

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 8. Income Taxes (continued)**

For income tax purposes, distributions paid to stockholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The following table provides the tax character of distributions paid:

	For the years ended December 31,		
	2017	2016	2015
Ordinary income	\$ 26,458	\$ 20,708	\$ 16,410
Long-term capital gains	591		304
Total	\$ 27,049	\$ 20,708	\$ 16,714

For federal income tax purposes, as of December 31, 2017, gross unrealized gain and gross unrealized loss on the investment portfolio was \$13,144 and \$26,586, respectively, and as of December 31, 2016, gross unrealized gain and gross unrealized loss on the investment portfolio was \$24,157 and \$24,479, respectively. As of December 31, 2017 and 2016, the aggregate cost of securities for federal income tax purposes was \$507,580 and \$413,242, respectively.

**Note 9. Distributions**

The Company's distributions are recorded on the record date. The following table summarizes dividends declared during the years ended December 31, 2017, 2016 and 2015, respectively:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value	DRIP Shares Repurchased in the Open Market	Cost of DRIP Shares Repurchased
<b>Year ended December 31, 2017:</b>								
March 7, 2017	March 17, 2017	March 31, 2017	\$0.35	\$5,549	16,217	\$254		\$
May 31, 2017	June 15, 2017	June 30, 2017	0.35	6,807	17,932	271		
August 31, 2017	September 15, 2017	September 29, 2017	0.35	7,084			6,508	93
December 1, 2017	December 15, 2017	December 29, 2017	0.35	7,084			20,832	294

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Total distributions declared			\$ 1.40	\$ 26,524	34,149	\$ 525	27,340	\$ 387
<b>Year ended December 31, 2016:</b>								
March 4, 2016	March 15, 2016	March 31, 2016	\$ 0.35	\$ 4,553		\$	20,144	\$ 277
June 1, 2016	June 15, 2016	June 30, 2016	0.35	4,553			18,518	275
August 30, 2016	September 15, 2016	September 30, 2016	0.35	5,730	4,493	70		
November 30, 2016	December 15, 2016	December 30, 2016	0.35	5,734	4,369	68		
Total distributions declared			\$ 1.40	\$ 20,570	8,862	\$ 138	38,662	\$ 552
<b>Year ended December 31, 2015:</b>								
March 6, 2015	March 20, 2015	March 31, 2015	\$ 0.35	\$ 3,371		\$	16,057	\$ 238
June 2, 2015	June 15, 2015	June 30, 2015	0.35	4,357			19,023	281
September 1, 2015	September 15, 2015	September 30, 2015	0.35	4,432			18,300	264
November 30, 2015	December 15, 2015	December 30, 2015	0.35	4,554			19,615	255
Total distributions declared			\$ 1.40	\$ 16,714		\$	72,995	\$ 1,038

None of the distributions declared during the years ended December 31, 2017, 2016, and 2015 represented a return of capital for tax purposes.

F-107

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 10. Stock Issuances and Repurchases**

*Stock Issuances:* On February 6, 2015, the Company entered into an at-the-market ( ATM ) securities offering program with MLV & Co. LLC ( MLV ) and JMP Securities LLC ( JMP ) through which the Company could sell, by means of ATM offerings from time to time, up to \$50,000 of the Company's common stock. During the year ended December 31, 2015, the Company sold 672,597 shares at an average price of \$14.88 per share for gross proceeds of \$10,007 under the ATM program. Aggregate underwriters' discounts and commissions were \$158 and offering costs were \$83, resulting in net proceeds of approximately \$9,766.

On April 20, 2015, the Company closed a public offering of 2,450,000 shares of its common stock at a public offering price of \$14.85 per share, raising approximately \$36,383 in gross proceeds. On May 18, 2015, the Company sold an additional 367,500 shares of its common stock, at a public offering price of \$14.85 per share, raising approximately \$5,457 in gross proceeds pursuant to the underwriters' exercise of the over-allotment option. Aggregate underwriters' discounts and commissions were \$1,692 and offering costs were \$295, resulting in net proceeds of \$39,853 on these non-ATM program issuances during the year ended December 31, 2015.

On July 1, 2016, the Company amended the ATM securities offering program with MLV and JMP to replace MLV with FBR Capital Markets & Co. ( FBR ), an affiliate of MLV (the Prior ATM Program ). On May 12, 2017, the Company entered into new equity distribution agreements with each FBR and JMP that reference the Company's current registration statement (the ATM Program ). All other material terms of the Prior ATM Program remain unchanged under the ATM Program. During the year ended December 31, 2016, there were no stock issuances under the Prior ATM Program. During the year ended December 31, 2017, the Company sold 173,939 shares at an average price of \$15.71 per share for gross proceeds of \$2,732 under the Prior ATM Program and no shares were sold under the ATM Program. Aggregate underwriters' discounts and commissions were \$41 and offering costs were \$23, resulting in net proceeds of approximately \$2,668.

On July 25, 2016, the Company closed a public offering of 3,100,000 shares of common stock at a public offering price of \$15.50 per share, raising approximately \$48,050 in gross proceeds. On August 3, 2016, the Company sold an additional 465,000 shares of common stock, at a public offering price of \$15.50 per share, raising approximately \$7,208 in gross proceeds pursuant to the underwriters' exercise of the over-allotment option. Aggregate underwriters' discounts and commissions were \$2,210 and offering costs were \$528, resulting in net proceeds of \$52,520.

On June 9, 2017, the Company closed a public offering of 3,000,000 shares of its common stock at a public offering price of \$15.00 per share, raising approximately \$45,000 in gross proceeds. On June 14, 2017, pursuant to the underwriters' exercise of the over-allotment option, the Company sold an additional 450,000 shares of its common stock, at a public offering price of \$15.00 per share, raising an additional \$6,750 in gross proceeds for a total of \$51,750. Aggregate underwriters' discounts and commissions were \$2,070 and offering costs were \$127, resulting in net proceeds of approximately \$49,553.

## Note 11. Commitments and Contingencies

*Commitments:* As of December 31, 2017 and 2016, the Company had \$41,238 and \$37,716, respectively, in outstanding commitments to fund investments under undrawn revolvers, capital expenditure loans and delayed draw commitments. As described in Note 3, the Company had commitments up to \$40,500 to SLF as of December 31, 2017, that may be contributed primarily for the purpose of funding new investments approved by the SLF investment committee.

F-108

---

TABLE OF CONTENTS

**MONROE CAPITAL CORPORATION**

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

**Note 11. Commitments and Contingencies (continued)**

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

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

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

*Legal proceedings:* In the normal course of business, the Company may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While there can be no assurance of the ultimate disposition of any such proceedings, the Company is not currently aware of any such proceedings or disposition that would have a material adverse effect on the Company's consolidated financial statements.

F-109

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 12. Financial Highlights**

The financial highlights for the Company are as follows:

	For the years ended December 31,									
	2017		2016		2015		2014		2013	
<b>Per share data:</b>										
Net asset value at beginning of year	\$	14.52	\$	14.19	\$	14.05	\$	13.92	\$	14.54
Net investment income <sup>(1)</sup>		1.40		1.55		1.60		1.57		1.13
Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings <sup>(1)</sup>	(0.75	)	0.13	(0.07	)	(0.12	)	0.15		
Net increase in net assets from operations <sup>(1)</sup>	0.65		1.68	1.53		1.45		1.28		
Stockholder distributions income	(1.40	)	(1.40	)	(1.40	)	(1.36	)	(1.15	)
Stockholder distributions return of capital								(0.21	)	
Effect of share issuance above (below) NAV <sup>(2)</sup>			0.05					(0.57	)	
Effect of share repurchases <sup>(2)</sup>							0.04		0.03	
Other <sup>(2)</sup>					0.01					
Net asset value at end of year	\$	13.77	\$	14.52	\$	14.19	\$	14.05	\$	13.92
Net assets at end of year	\$	278,699	\$	240,850	\$	184,535	\$	133,738	\$	138,092
Shares outstanding at end of year		20,239,957		16,581,869		13,008,007		9,517,910		9,918,269
Per share market value at end of year	\$	13.75	\$	15.38	\$	13.09	\$	14.46	\$	12.20
Total return based on market value <sup>(3)</sup>	(1.82	)%	28.95	%	(0.21	)%	30.67	%	(9.29	)%
Total return based on average net asset value <sup>(4)</sup>	4.58	%	11.70	%	11.04	%	10.34	%	9.17	%
<b>Ratio/Supplemental data:</b>										
Ratio of net investment income to average net assets <sup>(5)</sup>	9.80	%	10.81	%	11.56	%	11.20	%	7.71	%
Ratio of total expenses, net of incentive fee waiver, to average net assets <sup>(5)</sup>	9.46	%	10.81	%	11.20	%	11.03	%	8.53	%
Average debt outstanding	\$	179,500	\$	156,358	\$	119,860	\$	92,410	\$	42,103
Average debt outstanding per share	\$	9.64	\$	10.75	\$	10.26	\$	9.63	\$	5.52
Portfolio turnover	39.39	%	22.41	%	30.70	%	47.03	%	39.77	%



- (1) Calculated using the weighted average shares outstanding during the years presented. Includes the effect of share issuances above (below) net asset value and the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares
- (2) outstanding during the year and certain per share data based on shares outstanding as of a period end or transaction date.  
Total return based on market value is calculated assuming a purchase of common shares at the market value on the first day and a sale at the market value on the last day of the periods reported. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's DRIP. Total return based on market value does not reflect brokerage commissions.
- (3)

F-110

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 12. Financial Highlights (continued)**

(4) Total return based on average net asset value is calculated by dividing the net increase in net assets from operations by the average net asset value.

(5) The following is a schedule of supplemental ratios for the years presented.

	2017	2016	2015	2014	2013
Ratio of interest and other debt financing expenses to average net assets	3.13%	3.26%	3.33%	3.23%	2.59%
Ratio of total expenses (without incentive fees) to average net assets	7.43%	8.17%	8.31%	8.42%	7.15%
Ratio of incentive fees, net of incentive fee waiver, to average net assets <sup>(6)</sup>	2.03%	2.64%	2.89%	2.61%	1.38%

(6) The ratio of waived incentive fees to average net assets was 0.12%, 0.13%, zero, zero and zero for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

**Note 13. Subsequent Events**

The Company has evaluated subsequent events through March 14, 2018, the date on which the consolidated financial statements were issued.

On March 1, 2018, the Board declared a quarterly distribution of \$0.35 per share payable on March 30, 2018 to holders of record on March 16, 2018.

**Note 14. Selected Quarterly Financial Data (unaudited)**

	For the quarter ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total investment income	\$13,364	\$13,469	\$12,268	\$12,006
Net investment income	\$6,995	\$6,887	\$6,088	\$6,034
Net gain (loss) on investments, secured borrowings, foreign currency transactions and foreign currency borrowings	\$(4,754)	\$(569)	\$(5,064)	\$(3,465)
Net increase (decrease) in net assets resulting from operations	\$2,241	\$6,318	\$1,024	\$2,569

Edgar Filing: TRI VALLEY CORP - Form DEF 14A

Net investment income per share basic and diluted	\$0.35	\$0.34	\$0.35	\$0.36
Net increase (decrease) in net assets resulting from operations per share basic and diluted	\$0.11	\$0.31	\$0.06	\$0.15
Net asset value per share at period end	\$13.77	\$14.01	\$14.05	\$14.34

F-111

---

TABLE OF CONTENTS**MONROE CAPITAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)****Note 14. Selected Quarterly Financial Data (unaudited)  
(continued)**

	For the quarter ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total investment income	\$11,233	\$11,128	\$11,118	\$11,539
Net investment income	\$5,377	\$5,583	\$5,759	\$5,787
Net gain (loss) on investments and secured borrowings	\$2,155	\$(1,971 )	\$(482 )	\$2,157
Net increase (decrease) in net assets resulting from operations	\$7,532	\$3,612	\$5,277	\$7,944
Net investment income per share basic and diluted	\$0.32	\$0.36	\$0.44	\$0.44
Net increase (decrease) in net assets resulting from operations per share basic and diluted	\$0.45	\$0.23	\$0.41	\$0.61
Net asset value per share at period end	\$14.52	\$14.42	\$14.50	\$14.45

	For the quarter ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total investment income	\$10,126	\$9,172	\$9,519	\$8,081
Net investment income	\$5,005	\$4,498	\$5,071	\$4,167
Net gain (loss) on investments and secured borrowings	\$(793 )	\$242	\$(7 )	\$(291 )
Net increase (decrease) in net assets resulting from operations	\$4,212	\$4,740	\$5,064	\$3,876
Net investment income per share basic and diluted	\$0.39	\$0.36	\$0.43	\$0.44
Net increase (decrease) in net assets resulting from operations per share basic and diluted	\$0.33	\$0.38	\$0.43	\$0.41
Net asset value per share at period end	\$14.19	\$14.21	\$14.18	\$14.11

F-112

TABLE OF CONTENTS

**Monroe Capital Corporation**

**\$60,000,000**

**5.75% Notes due 2023**

**Prospectus Supplement**

**Ladenburg Thalmann**

**BB&T Capital Markets**

**Janney Montgomery Scott**

**B. Riley FBR**

**Oppenheimer & Co.**

**William Blair**

**National Securities Corporation**

**Wedbush Securities**

**September 5, 2018**

---