

Main Street Capital CORP
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from: to

Commission File Number: 001-33723

Main Street Capital Corporation

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

41-2230745

(I.R.S. Employer Identification No.)

1300 Post Oak Boulevard, Suite 800

Houston, TX

(Address of principal executive offices)

77056

(Zip Code)

(713) 350-6000

(Registrant's telephone number including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock as of August 1, 2012 was 31,558,273.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MAIN STREET CAPITAL CORPORATION****Consolidated Balance Sheets****(in thousands, except shares and per share amounts)**

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Portfolio investments at fair value:		
Control investments (cost: \$179,175 and \$206,787 as of June 30, 2012 and December 31, 2011, respectively)	\$ 228,903	\$ 238,924
Affiliate investments (cost: \$104,677 and \$110,157 as of June 30, 2012 and December 31, 2011, respectively)	135,561	146,405
Non-Control/Non-Affiliate investments (cost: \$422,174 and \$275,061 as of June 30, 2012 and December 31, 2011, respectively)	426,128	270,895
Investment in affiliated Investment Manager (cost: \$2,668 and \$4,284 as of June 30, 2012 and December 31, 2011, respectively)	202	1,869
Total portfolio investments (cost: \$708,694 and \$596,289 as of June 30, 2012 and December 31, 2011, respectively)	790,794	658,093
Marketable securities and idle funds investments (cost: \$7,925 and \$25,935 as of June 30, 2012 and December 31, 2011, respectively)	8,149	26,242
Total investments (cost: \$716,619 and \$622,224 as of June 30, 2012 and December 31, 2011, respectively)	798,943	684,335
Cash and cash equivalents	31,976	42,650
Interest receivable and other assets	8,099	6,539
Deferred financing costs (net of accumulated amortization of \$2,634 and \$2,167 as of June 30, 2012 and December 31, 2011, respectively)	3,993	4,168
Total assets	\$ 843,011	\$ 737,692
LIABILITIES		
SBIC debentures (par: \$220,000 as of June 30, 2012 and December 31, 2011; par of \$95,000 is recorded at a fair value of \$78,396 and \$76,887 as of June 30, 2012 and December 31, 2011, respectively)	\$ 203,396	\$ 201,887
Credit facility	88,000	107,000
Interest payable	3,884	3,984
Dividend payable	2,955	2,856
Deferred tax liability, net	5,398	3,776
Payable to affiliated Investment Manager	2,760	4,831

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Accounts payable and other liabilities	3,214	2,170
Total liabilities	309,607	326,504
Commitments and contingencies		
NET ASSETS		
Common stock, \$0.01 par value per share (150,000,000 shares authorized; 31,588,654 and 26,714,384 issued and outstanding as of June 30, 2012 and December 31, 2011, respectively)	315	267
Additional paid-in capital	462,462	360,164
Accumulated net investment income, net of cumulative dividends of \$88,482 and \$79,414 as of June 30, 2012 and December 31, 2011, respectively	29,138	12,531
Accumulated net realized loss from investments, net of cumulative dividends of \$27,327 and \$13,804 as of June 30, 2012 and December 31, 2011, respectively	(29,159)	(20,445)
Net unrealized appreciation, net of income taxes	70,648	53,194
Total Net Asset Value	533,404	405,711
Noncontrolling interest		5,477
Total net assets including noncontrolling interests	533,404	411,188
Total liabilities and net assets	\$ 843,011	\$ 737,692
NET ASSET VALUE PER SHARE	\$ 16.89	\$ 15.19

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Operations

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
INVESTMENT INCOME:				
Interest, fee and dividend income:				
Control investments	\$ 6,083	\$ 6,491	\$ 11,850	\$ 12,216
Affiliate investments	4,141	3,114	9,814	5,283
Non-Control/Non-Affiliate investments	10,101	6,185	18,248	11,614
Total interest, fee and dividend income	20,325	15,790	39,912	29,113
Interest from marketable securities, idle funds and other	517	339	1,489	391
Total investment income	20,842	16,129	41,401	29,504
EXPENSES:				
Interest	(4,180)	(3,264)	(8,044)	(6,166)
General and administrative	(554)	(600)	(1,162)	(1,107)
Expenses reimbursed to affiliated Investment Manager	(2,702)	(2,207)	(5,359)	(4,337)
Share-based compensation	(580)	(443)	(1,161)	(886)
Total expenses	(8,016)	(6,514)	(15,726)	(12,496)
NET INVESTMENT INCOME	12,826	9,615	25,675	17,008
NET REALIZED GAIN (LOSS) FROM INVESTMENTS:				
Control investments	(96)		(2,061)	
Affiliate investments	(3,732)		5,500	
Non-Control/Non-Affiliate investments	174		337	
Marketable securities and idle funds investments	325	250	1,033	250
Total net realized gain (loss) from investments	(3,329)	250	4,809	250
NET REALIZED INCOME	9,497	9,865	30,484	17,258
NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):				
Portfolio investments	17,515	11,472	22,023	15,491
Marketable securities and idle funds investments	(55)	572	(84)	687
SBIC debentures	(1,808)	(2,118)	(1,508)	(2,079)
Investment in affiliated Investment Manager		(46)	(51)	(87)
Total net change in unrealized appreciation	15,652	9,880	20,380	14,012
Income tax provision	(996)	(1,963)	(2,872)	(3,163)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	24,153	17,782	47,992	28,107
Noncontrolling interest		(158)	(54)	(158)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK	\$ 24,153	\$ 17,624	\$ 47,938	\$ 27,949
NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED				
	\$ 0.47	\$ 0.41	\$ 0.94	\$ 0.79
	\$ 0.35	\$ 0.42	\$ 1.12	\$ 0.80

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NET REALIZED INCOME PER SHARE - BASIC AND DILUTED

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK PER SHARE - BASIC AND DILUTED

DIVIDENDS PAID PER SHARE	\$	0.88	\$	0.77	\$	1.77	\$	1.32
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED		27,365,758		23,015,718		27,118,421		21,128,360

The accompanying notes are an integral part of these financial statements

Table of Contents**MAIN STREET CAPITAL CORPORATION****Consolidated Statements of Changes in Net Assets**

(in thousands, except shares)

(Unaudited)

	Common Stock Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Net Investment Income, Net of Dividends	Net Realized Loss From Investments, Net of Dividends	Net Unrealized Appreciation from Investments, Net of Income Taxes	Total Net Asset Value	Noncontrolling Interest	Total Net Assets Including Noncontrolling Interest
Balances at December 31, 2010	18,797,444	\$ 188	\$ 224,485	\$ 9,262	\$ (20,542)	\$ 32,142	\$ 245,535	\$ 4,448	\$ 249,983
Public offering of common stock, net of offering costs	4,025,000	41	70,309				70,350		70,350
Share-based compensation			886				886		886
Dividend reinvestment	235,844	2	4,452				4,454		4,454
Issuance of restricted stock	124,312	1	(1)						
Distributions to noncontrolling interest								(110)	(110)
Dividends to stockholders				(18,834)	(208)		(19,042)		(19,042)
Net increase resulting from operations				17,008	250	10,849	28,107		28,107
Noncontrolling interest						(158)	(158)	158	
Balances at June 30, 2011	23,182,600	\$ 232	\$ 300,131	\$ 7,436	\$ (20,500)	\$ 42,833	\$ 330,132	\$ 4,496	\$ 334,628
Balances at December 31, 2011	26,714,384	\$ 267	\$ 360,164	\$ 12,531	\$ (20,445)	\$ 53,194	\$ 405,711	\$ 5,477	\$ 411,188
Public offering of common stock, net of offering costs	4,312,500	43	92,913				92,956		92,956
MSC II noncontrolling interest acquisition	229,634	2	5,328				5,330	(5,417)	(87)
Adjustment to investment in Investment Manager related to MSC II noncontrolling interest acquisition			(1,616)				(1,616)		(1,616)
Share-based compensation			1,161				1,161		1,161
Purchase of vested stock for employee payroll tax withholding	(7,858)		(199)				(199)		(199)
Dividend reinvestment	200,961	2	4,712				4,714		4,714
Issuance of restricted stock	139,033	1	(1)						
Distributions to noncontrolling interest								(114)	(114)
Dividends to stockholders				(9,068)	(13,523)		(22,591)		(22,591)
Net increase resulting from operations				25,675	4,809	17,508	47,992		47,992
Noncontrolling interest						(54)	(54)	54	

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Balances at June 30, 2012	31,588,654	\$	315	\$	462,462	\$	29,138	\$	(29,159)	\$	70,648	\$	533,404	\$	533,404
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The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	\$ 47,992	\$ 28,107
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net change in unrealized appreciation	(20,380)	(14,012)
Net realized gain from investments	(4,809)	(250)
Accretion of unearned income	(6,405)	(2,699)
Net payment-in-kind interest	(1,529)	(1,160)
Accrued dividends on investments	(133)	(855)
Share-based compensation expense	1,161	886
Amortization of deferred financing costs	467	306
Deferred taxes	1,622	2,912
Changes in other assets and liabilities:		
Interest receivable and other assets	(346)	(1,400)
Interest payable	(100)	522
Payable to affiliated Investment Manager	(2,071)	2,222
Accounts payable and other liabilities	553	88
Deferred fees and other	623	738
Net cash provided by operating activities	16,645	15,405
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in portfolio companies	(261,019)	(176,096)
Principal payments received on loans and debt securities in portfolio companies	131,852	47,537
Proceeds from sale of equity investments and related notes in portfolio companies	26,547	376
Investments in marketable securities and idle funds investments	(7,596)	(17,978)
Proceeds from marketable securities and idle funds investments	27,212	1,367
Net cash provided by (used in) investing activities	(83,004)	(144,794)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from public offering of common stock, net of offering costs	92,956	70,350
Distributions to noncontrolling interest	(114)	(110)
Dividends paid to stockholders	(17,528)	(11,574)
Proceeds from issuance of SBIC debentures		30,000
Proceeds from credit facility	114,000	99,000
Repayments on credit facility	(133,000)	(65,000)
Payment of deferred loan costs and SBIC debenture fees	(292)	(1,478)
Other	(337)	
Net cash provided by financing activities	55,685	121,188
Net decrease in cash and cash equivalents	(10,674)	(8,201)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	42,650	22,334
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 31,976	\$ 14,133

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MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(in thousands)

(Unaudited)

Control Investments (5)

California Healthcare Medical Billing, Inc.	Outsourced Billing and Revenue Cycle Management	12% Secured Debt (Maturity - October 17, 2015)	8,103	7,887	8,013
		Warrants (Fully diluted 21.3%)		1,193	3,380
		Common Stock (Fully diluted 9.8%)		1,177	1,560
				10,257	12,953
Ceres Management, LLC (Lambs)	Aftermarket Automotive Services Chain	14% Secured Debt (Maturity - May 31, 2013)	4,000	3,986	3,986
		9.5% Secured Debt (Lambs Real Estate Investment I, LLC) (Maturity - October 1, 2025)	1,090	1,090	1,090
		Member Units (Fully diluted 79.0%)		5,273	
		Member Units (Lambs Real Estate Investment I, LLC) (Fully diluted 100%)		625	800
				10,974	5,876

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Gulf Manufacturing, LLC	Manufacturer of Specialty Fabricated Industrial Piping Products	9% PIK Secured Debt (Maturity - June 30, 2017)	919	919	919
		Member Units (Fully diluted 34.2%) (8)		2,980	12,550
				3,899	13,469

Hawthorne Customs and Dispatch Services, LLC	Facilitator of Import Logistics, Brokerage, and Warehousing	Member Units (Fully diluted 37.1%) (8)		589	1,610
		Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%) (8)		1,215	1,215
				1,804	2,825

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Indianapolis Aviation Partners, LLC	Fixed Base Operator	12% Secured Debt (Maturity - September 15, 2014)	4,350	4,132	4,200
		Warrants (Fully diluted 30.1%)		1,129	1,650
				5,261	5,850
Lighting Unlimited, LLC	Commercial and Residential Lighting Products and Design Services	8% Secured Debt (Maturity - August 22, 2012)	2,000	1,996	1,996
		Preferred Stock (non-voting)		510	510
		Warrants (Fully diluted 7.1%)		54	40
		Common Stock (Fully diluted 70.0%)		100	340
		(8)		2,660	2,886
NAPCO Precast, LLC	Precast Concrete Manufacturing	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (9)	3,385	3,380	3,380
		18% Secured Debt (Maturity - February 1, 2013)	5,173	5,156	5,156
		Member Units (Fully diluted 44.0%)		2,975	4,195
				11,511	12,731
NRP Jones, LLC					

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Manufacturer of Hoses, Fittings and Assemblies	12% Secured Debt (Maturity - December 22, 2016)	12,100	11,118	11,890
	Warrants (Fully diluted 12.2%)		817	1,170
	Member Units (Fully diluted 43.2%) (8)		2,900	4,153
			14,835	17,213
Pegasus Research Group, LLC (Televerde)	Telemarketing and Data Services			
	13% Current / 5% PIK Secured Debt (Maturity - January 6, 2016)	5,491	5,435	5,491
	Member Units (Fully diluted 43.7%) (8)		1,250	1,250
			6,685	6,741

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Principle Environmental, LLC	Noise Abatement Services	12% Secured Debt (Maturity - February 1, 2016)	4,750	3,851	4,140
		12% Current / 2% PIK Secured Debt (Maturity - February 1, 2016)	3,558	3,496	3,548
		Warrants (Fully diluted 14.6%)		1,200	3,140
		Member Units (Fully diluted 25.0%)		2,000	5,380
				10,547	16,208
The MPI Group, LLC	Manufacturer of Custom Hollow Metal Doors, Frames and Accessories	4.5% Current / 4.5% PIK Secured Debt (Maturity - October 2, 2013)	1,068	1,065	1,065
		6% Current / 6% PIK Secured Debt (Maturity - October 2, 2013)	5,559	5,477	5,477
		Warrants (Fully diluted 74.7%)		896	
		Member Units (Non-voting)		200	
				7,638	6,542
Uvalco Supply, LLC	Farm and Ranch Supply Store	Member Units (Fully diluted 42.8%) (8)		1,113	3,110

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Vision Interests, Inc.	Manufacturer / Installer of Commercial Signage	6.5% Current /6.5% PIK Secured Debt (Maturity - December 23, 2016)	3,100	3,038	3,038
		Series A Preferred Stock (Fully diluted 33.3%)		3,000	3,280
		Common Stock (Fully diluted 36.7%)		3,706	100
				9,744	6,418
Subtotal Control Investments (28.7% of total investments at fair value)				179,175	228,903

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(in thousands)

(Unaudited)

Affiliate Investments (6)

Bridge Capital Solutions Corporation	Financial Services and Cash Flow Solutions	13% Secured Debt (Maturity - April 17, 2017)	5,000	4,734	4,734
		Warrants (Fully diluted 7.5%)		200	200
				4,934	4,934
East Teak Fine Hardwoods, Inc.	Hardwood Products	Common Stock (Fully diluted 5.0%)		480	380
Houston Plating and Coatings, LLC	Plating and Industrial Coating Services	Member Units (Fully diluted 11.1%) (8)		635	6,980

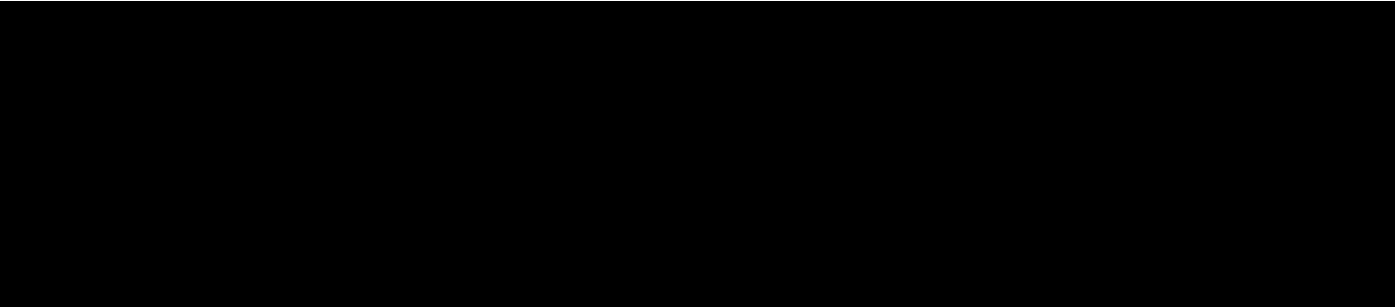
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IRTH Holdings, LLC	Damage Prevention Technology Information Services	12% Secured Debt (Maturity - December 29, 2015)	3,923	3,868	3,923
		Member Units (Fully diluted 22.3%)		850	2,970
				4,718	6,893

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Laurus Healthcare, LP	Management of Outpatient Cardiac Cath Labs	9% Secured Debt (Maturity - May 12, 2016)	5,725	5,725	5,725
		Class A and C Units (Fully diluted 13.1%) (8)		80	5,430
				5,805	11,155
OnAsset Intelligence, Inc.	Transportation Monitoring / Tracking Services	12% Secured Debt (Maturity - October 18, 2012)	1,500	1,225	1,225
		Preferred Stock (7% cumulative) (Fully diluted 5.75%) (8)		1,633	1,633
		Warrants (Fully diluted 4.0%)		830	640
				3,688	3,498
Radial Drilling Services Inc.	Oil and Gas Technology	12% Secured Debt (Maturity - November 23, 2016)	4,200	3,423	3,423
		Warrants (Fully diluted 24.0%)		758	758
				4,181	4,181
Spectrio LLC	Audio Messaging Services	8% Secured Debt (Maturity - June 16, 2016)	280	280	280
		12% Secured Debt (Maturity - June 16, 2016)	14,595	14,147	14,440
		Warrants (Fully diluted 9.8%)		887	2,830
				15,314	17,550



Walden Smokey Point, Inc.	Specialty Transportation Provider	Common Stock (Fully diluted 12.6%)	1,427	4,720
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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(in thousands)

(Unaudited)

Non-Control/Non-Affiliate Investments (7)

Academy, Ltd. (10)	Sporting Goods Stores	LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - August 3, 2018) (9)	2,985	2,974	3,004
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Ameritech College Operations, LLC	For-Profit Nursing and Healthcare College	18% Secured Debt (Maturity - March 9, 2017)	6,050	5,934	5,934
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Associated Asphalt Partners, LLC (10)	Liquid Asphalt Supplier	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - March 9, 2018) (9)	9,926	9,756	9,777
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B. J. Alan Company

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	Retailer and Distributor of Consumer Fireworks	12% Current / 2.5% PIK Secured Debt (Maturity - June 22, 2017)	10,006	9,907	9,907
Blue Coat Systems, Inc. (10)	Web Security and WAN Optimization	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - February 15, 2018) (9)	2,000	1,962	1,999
		LIBOR Plus 10.00%, Current Coupon 11.50%, Secured Debt (Maturity - August 15, 2018) (9)	2,000	1,943 3,905	2,013 4,012

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Business Development Corporation of America (11) (12)	Investment Management	LIBOR Plus 3.50%, Current Coupon 3.74%, Secured Debt (Maturity - January 14, 2013)	10,000	10,000	10,000
CCCG, LLC (10)	Manufacturer of Oil and Gas Equipment	LIBOR Plus 5.00%, Current Coupon 6.75%, Secured Debt (Maturity - March 31, 2014) (9)	3,369	3,300	3,353
Citadel Plastics Holding, Inc. (10)	Supplier of Commodity Chemicals / Plastic Parts	LIBOR Plus 5.25%, Current Coupon 6.75%, Secured Debt (Maturity - February 28, 2018) (9)	3,000	2,971	2,989
CST Industries (10)	Storage Tank Manufacturer	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - May 22, 2017) (9)	12,500	12,315	12,375
Drilling Info, Inc.	Information Services for the Oil and Gas Industry	Common Stock (Fully diluted 2.3%)		1,335	5,070

EnCap Energy Fund Investments (11)
(12)

Investment Partnership

LP Interests (EnCap Energy Capital Fund VIII, L.P.) (Fully diluted 0.1%) (8)	1,474	1,670
LP Interests (EnCap Energy Capital Fund VIII Co- Investors, L.P.) (Fully diluted 0.3%)	335	335
LP Interests (EnCap Flatrock Midstream Fund II, L.P.) (Fully diluted 1.1%)	113	113
	1,922	2,118

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Flexera Software LLC (10)	Software Licensing	LIBOR Plus 9.75%, Current Coupon 11.00%, Secured Debt (Maturity - September 30, 2018) (9)	3,000	2,777	3,015
GMACM Borrower LLC (10)	Mortgage Originator and Servicer	LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - November 13, 2015) (9)	1,000	981	1,006
Granite Broadcasting Corporation (10)	Regional TV Broadcaster	LIBOR Plus 7.25%, Current Coupon 8.50%, Secured Debt (Maturity - May 22, 2018) (9)	5,000	4,876	4,950
Gundle/SLT Environmental, Inc. (10)	Manufacturer of Geosynthetic Lining Products	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - May 27, 2016) (9)	7,972	7,887	7,872
Hearthside Food Solutions, LLC (10)	Contract Food Manufacturer	LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - June 5, 2018) (9)	4,000	3,960	3,990

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Hupah Finance Inc. (10)	Manufacturer of Industrial Machinery	LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - January 19, 2019) (9)	2,993	2,935	3,001
Ipreo Holdings LLC (10)	Application Software for Capital Markets	LIBOR Plus 6.50%, Current Coupon 8.00%, Secured Debt (Maturity - August 5, 2017) (9)	4,218	4,146	4,208

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Ivy Hill Middle Market Credit Fund III, Ltd. (11) (12)	Asset Management	LIBOR Plus 6.50%, Current Coupon 6.74%, Secured Debt (Maturity - January 15, 2022)	2,000	1,670	1,610
Kadmon Pharmaceuticals, LLC (10)	Biopharmaceutical Products	LIBOR Plus 13.00%, Current Coupon 15.00%, Secured Debt (Maturity - October 31, 2012) (9)	5,945	5,903	6,199
Maverick Healthcare Group LLC (10)	Home Healthcare Products and Services	LIBOR Plus 9.00%, Current Coupon 10.75%, Secured Debt (Maturity - December 30, 2016) (9)	4,925	4,925	4,900

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Media Holdings, LLC (10) (12)	Internet Traffic Generator	LIBOR Plus 13.00%, Current Coupon 15.00%, Secured Debt (Maturity - April 27, 2014) (9)	5,000	5,261	5,266
Metal Services LLC (10)	Steel Mill Services	LIBOR Plus 7.50%, Current Coupon 9.00%, Secured Debt (Maturity - September 29, 2017) (9)	7,794	7,646	7,745
Milk Specialties Company (10)	Processor of Nutrition Products	LIBOR Plus 7.00%, Current Coupon 8.50%, Secured Debt (Maturity - December 23, 2017) (9)	3,980	3,868	3,960
		LIBOR Plus 13.00%, Current Coupon 14.50%, Secured Debt (Maturity - December 23, 2018) (9)	1,000	962 4,830	1,015 4,975
Mood Media Corporation (10) (12)	Music Provider	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - May 6, 2018) (9)	2,970	2,942	2,942
National Healing Corporation (10)	Wound Care Management	LIBOR Plus 6.75%, Current Coupon 8.25%, Secured Debt (Maturity - November 30, 2017) (9)	2,736	2,609	2,736
		LIBOR Plus 10.00%, Current Coupon 11.50%, Secured Debt (Maturity - November 30, 2018) (9)	1,500	1,416	1,503

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		Common Equity (Fully diluted 0.02%)	50	50
			4,075	4,289
NGPL PipeCo, LLC (10)	Natural Gas Pipelines and Storage Facilities	LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - September 15, 2017) (9)	9,000	8,852
				8,843

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Oberthur Technologies SA (10) (12)	Smart Card, Printing, Identity, and Cash Protection Security	LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - November 30, 2018) (9)	7,000	6,660	6,843
Pacific Architects and Engineers Incorporated (10)	Provider of Contract Support Services	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - April 4, 2017) (9)	3,995	3,923	3,995
Physician Oncology Services, L.P. (10)	Provider of Radiation Therapy and Oncology Services	LIBOR Plus 4.75%, Current Coupon 6.25%, Secured Debt (Maturity - January 31, 2017) (9)	942	934	937
PL Propylene LLC (10) (12)	Propylene Producer	LIBOR Plus 5.75%, Current Coupon 7.00%, Secured Debt (Maturity - March 27, 2017) (9)	3,990	3,914	4,037
ProQuest LLC (10)	Academic Research Portal	LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - April 13, 2018) (9)	4,988	4,939	4,967

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Race Point Power, LLC (10)	Electric Utilities / Power Generation	LIBOR Plus 6.00%, Current Coupon 7.75%, Secured Debt (Maturity - January 11, 2018) (9)	2,206	2,169	2,205
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Relativity Media, LLC (10)	Full-scale Film and Television Production and Distribution	10.00% Secured Debt (Maturity - May 24, 2015)	5,000	4,905	4,905
		15.00% PIK Secured Debt (Maturity - May 24, 2015)	5,075	5,075 9,980	5,075 9,980

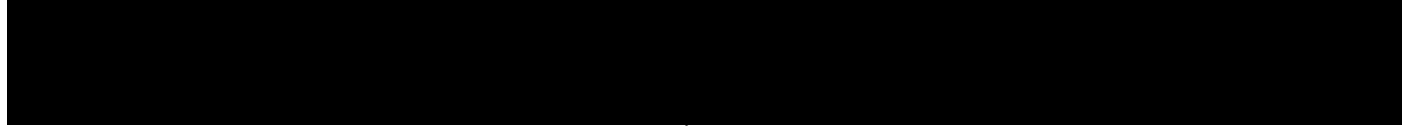
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Schiff Nutrition Group, Inc. (10) (12)	Vitamin and Nutritional Supplement Manufacturer and Distributor	LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - March 30, 2019) (9)	10,000	9,853	9,900
Sonneborn, LLC (10)	Specialty Chemicals Manufacturer	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - March 30, 2018) (9)	2,993	2,935	2,993
Speedy Cash Intermediate Holdings Corp. (10)	Consumer Finance	10.75% Bond (Maturity - May 15, 2018)	2,000	2,000	2,065
The Tennis Channel, Inc.	Television-Based Sports Broadcasting	LIBOR Plus 6% / 4% PIK, Current Coupon with PIK 14%, Secured Debt (Maturity - January 1, 2013) (9) Warrants (Fully diluted 0.1%)	10,826	12,104 235 12,339	12,104 235 12,339
Tube City IMS Corporation (10) (12)	Steel Mill Services	LIBOR Plus 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - March 20, 2019) (9)	1,000	990	1,000



UniTek Global Services, Inc. (10)	Provider of Outsourced Infrastructure Services	LIBOR Plus 7.50%, Current Coupon 9.00%, Secured Debt (Maturity - April 15, 2018) (9)	6,418	6,250	6,321
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VFH Parent LLC (10) (12)	Electronic Trading and Market Making	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - July 8, 2016) (9)	3,732	3,669	3,738
Vision Solutions, Inc. (10)	Computer Software	LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - July 23, 2016) (9)	2,764	2,548	2,559
		LIBOR Plus 8.00%, Current Coupon 9.50%, Secured Debt (Maturity - July 23, 2017) (9)	5,000	4,958 7,506	4,975 7,534
Walter Investment Management Corp. (10) (12)	Real Estate Services	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (9)	2,663	2,617	2,682
Willis Group, LLC	Staffing and Recruitment Services	12% Current / 3% PIK Secured Debt (Maturity - December 19, 2014)	9,038	8,883	8,883
Wyle Services Corporation (10)	Specialized Engineering and Technical Services	LIBOR Plus 4.25%, Current Coupon 5.75%, Secured Debt (Maturity - March 26, 2017) (9)	3,707	3,689	3,684

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Zilliant Incorporated	Price Optimization and Margin Management Solutions	12% Secured Debt (Maturity - June 15, 2017)	8,000	6,782	6,782
		Warrants (Fully diluted 3.0%)		1,071	1,071
				7,853	7,853

Main Street Capital Partners, LLC (Investment Manager)	Asset Management	100% of Membership Interests		2,668	202

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MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(in thousands)

(Unaudited)

Marketable Securities and Idle Funds Investments

NRG Energy Inc Bond (12)

8.00% Bond (Maturity - June 15,
2017)

2,000

2,023

2,090

United Refining Company
Bond10.50% Bond (Maturity -
February 28, 2017)

3,990

3,968

4,090

Total Investments, June 30,
2012

\$ 716,619 \$ 798,943

-
- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted.
 - (2) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
 - (3) See Note C for summary geographic location of portfolio companies.
 - (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
 - (5) Control investments are defined by the Investment Company Act of 1940, as amended (1940 Act) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
 - (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
 - (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.
 - (8) Income producing through dividends or distributions.
 - (9) Index based floating interest rate is subject to contractual minimum interest rate.
 - (10) Middle Market portfolio investment.
 - (11) Other Portfolio investment.
 - (12) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(in thousands)

Control Investments (5)

California Healthcare Medical Billing, Inc.	Outsourced Billing and Revenue Cycle Management	12% Secured Debt (Maturity - October 17, 2015)	8,623	8,290	8,528
		Warrants (Fully diluted 21.0%)		1,193	3,380
		Common Stock (Fully diluted 9.6%)		1,177	1,560
				10,660	13,468
Ceres Management, LLC (Lambs)	Aftermarket Automotive Services Chain	14% Secured Debt (Maturity - May 31, 2013)	3,770	3,749	3,749
		9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity - October 1, 2025)	1,115	1,115	1,115
		Member Units (Fully diluted 79.0%)		4,773	1,050
		Member Units (Lamb's Real Estate Investment I, LLC) (Fully diluted 100%)		625	800
				10,262	6,714
Currie Acquisitions, LLC	Retail Electric Bikes		4,750	4,112	4,750

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12% Secured Debt (Maturity - March 1, 2015)			
Warrants (Fully diluted 47.3%)	2,566		100
	6,678		4,850

Harrison Hydra-Gen, Ltd.

Manufacturer of Hydraulic Generators

12% Secured Debt (Maturity - June 4, 2015)	5,507	4,938	5,230
Preferred Stock (8% cumulative) (8)		1,081	1,081
Warrants (Fully diluted 34.5%)		718	2,240
		6,737	8,551

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Hydratec, Inc.	Designer and Installer of Micro-Irrigation Systems	Common Stock (Fully diluted 92.5%) (8)	7,092	12,337
Jensen Jewelers of Idaho, LLC	Retail Jewelry Store	Prime Plus 2%, Current Coupon 5.25%, Secured Debt (Maturity - November 14, 2013) (9)	2,260	2,260
		13% Current / 6% PIK Secured Debt (Maturity - November 14, 2013)	2,345	2,345
		Member Units (Fully diluted 60.8%) (8)	811	1,750
			5,416	6,355
Mid-Columbia Lumber Products, LLC	Manufacturer of Finger-Jointed Lumber Products	10% Secured Debt (Maturity - December 18, 2014)	1,250	1,250
		12% Secured Debt (Maturity - December 18, 2014)	3,670	3,670
		9.5% Secured Debt (Mid - Columbia Real Estate, LLC) (Maturity - May 13, 2025)	1,062	1,062
		Warrants (Fully diluted 9.2%)	250	890
		Member Units (Fully diluted 42.9%)	812	930
		Member Units (Mid - Columbia Real Estate, LLC) (Fully diluted 50.0%) (8)	250	810
			7,294	8,612
NRI Clinical Research, LLC	Clinical Research Center		5,500	5,183
				5,183

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14% Secured Debt (Maturity - September 8, 2016)		
Warrants (Fully diluted 12.5%)	252	252
Member Units (Fully diluted 24.8%)	500	500
	5,935	5,935

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NTS Holdings, Inc.	Trench and Traffic Safety Equipment Rental and Sales	12% Secured Debt (Maturity - April 30, 2015)	5,770	5,742	5,742
		Preferred Stock (12% cumulative, compounded quarterly) (8)		11,918	11,918
		Common Stock (Fully diluted 72.3%)		1,621	2,140
				19,281	19,800
Pegasus Research Group, LLC (Televerde)	Telemarketing and Data Services	13% Current / 3% PIK Secured Debt (Maturity - January 6, 2016)	6,160	6,089	6,089
		Member Units (Fully diluted 43.7%)		1,250	1,250
				7,339	7,339
Principle Environmental, LLC	Noise Abatement Services	12% Secured Debt (Maturity - February 1, 2016)	4,750	3,766	4,080
		12% Current / 2% PIK Secured Debt (Maturity - February 1, 2016)	3,507	3,450	3,507
		Warrants (Fully diluted 14.6%)		1,200	2,110
		Member Units (Fully diluted 25.0%)		2,000	3,600
				10,416	13,297
The MPI Group, LLC	Manufacturer of Custom Hollow Metal Doors, Frames and				

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Accessories		4.5% Current / 4.5% PIK Secured Debt (Maturity - October 2, 2013)	1,045	1,041	1,041
		6% Current / 6% PIK Secured Debt (Maturity - October 2, 2013)	5,406	5,294	5,294
		Warrants (Fully diluted 47.1%)		896	
		Member Units (Non-voting)		200	
				7,431	6,335
Uvalco Supply, LLC	Farm and Ranch Supply Store	Member Units (Fully diluted 42.8%) (8)		1,113	3,290

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Van Gilder Insurance Corporation	Insurance Brokerage				
		8% Secured Debt (Maturity - January 31, 2013)	1,000	987	987
		8% Secured Debt (Maturity - January 31, 2016)	1,721	1,705	1,705
		13% Secured Debt (Maturity - January 31, 2016)	5,400	4,387	4,387
		Warrants (Fully diluted 10.0%)		1,209	1,209
		Common Stock (Fully diluted 15.5%)		2,500	2,500
				10,788	10,788
Ziegler s NYPD, LLC	Casual Restaurant Group				
		Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - October 1, 2013) (9)	1,000	996	996
		13% Current / 5% PIK Secured Debt (Maturity - October 1, 2013)	4,299	4,270	4,270
		Warrants (Fully diluted 46.6%)		600	400
				5,866	5,666

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MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(in thousands)

Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
<u>Affiliate Investments (6)</u>					
American Sensor Technologies, Inc.	Manufacturer of Commercial / Industrial Sensors	9% Secured Debt (Maturity - May 31, 2012)	3,046	3,039	3,039
		Warrants (Fully diluted 19.6%)		50	3,100
				3,089	6,139
Compact Power Equipment Centers LLC	Equipment / Tool Rental	6% Current / 6% PIK Secured Debt (Maturity - December 31, 2014)	2,855	2,831	2,831
		8% PIK Secured Debt (Maturity - December 31, 2011)	108	108	108
		Series A Member Units (8% cumulative) (8)		853	853
		Member Units (Fully diluted 10.6%)		1	1
				3,793	3,793
Drilling Info, Inc.	Information Services for the Oil and Gas Industry	12% Secured Debt (Maturity - November 20, 2014)	8,000	7,065	8,000
		8.75% Secured Debt (Maturity - April 18, 2016)	750	750	750
		Warrants (Fully diluted 4.9%)		1,250	10,360
		Common Stock (Fully diluted 2.4%)		1,335	4,890
				10,400	24,000
East Teak Fine Hardwoods, Inc.	Hardwood Products	Common Stock (Fully diluted 5.0%)		480	380
Gault Financial, LLC (RMB Capital, LLC)	Purchases and Manages Liquidation of Distressed Assets	14% Secured Debt (Maturity - November 21, 2016)	10,500	9,897	9,897
		Warrants (Fully diluted 22.5%)		400	400
				10,297	10,297
Houston Plating and Coatings, LLC	Plating and Industrial Coating Services	Member Units (Fully diluted 11.1%) (8)		635	5,990
Integrated Printing Solutions, LLC	Specialty Card Printing	13% Secured Debt (Maturity - September 23, 2016)	10,000	9,228	9,228

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Warrants (Fully diluted 9.0%)	600	600
	9,828	9,828

IRTH Holdings, LLC	Damage Prevention Technology Information Services	12% Secured Debt (Maturity - December 29, 2015)	5,084	5,006	5,084
		Member Units (Fully diluted 22.3%)		850	2,480
				5,856	7,564
KBK Industries, LLC	Specialty Manufacturer of Oilfield and Industrial Products	10% Secured Debt (Maturity - March 31, 2012)	15	15	15
		14% Secured Debt (Maturity - January 23, 2014)	5,250	5,250	5,250
		Member Units (Fully diluted 18.8%) (8)		341	2,800
				5,606	8,065
Laurus Healthcare, LP	Management of Outpatient Cardiac Cath Labs	9% Secured Debt (Maturity - May 12, 2016)	5,850	5,850	5,850
		Class A and C Units (Fully diluted 13.1%) (8)		80	5,430
				5,930	11,280
Olympus Building Services, Inc.	Custodial / Facilities Services	10% Current / 2% PIK Secured Debt (Maturity - March 27, 2014)	2,434	2,306	2,306
		15% PIK Secured Debt (Maturity - March 27, 2014)	994	994	994
		Warrants (Fully diluted 22.5%)		470	70
				3,770	3,370

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
OnAsset Intelligence, Inc.	Transportation Monitoring / Tracking Services	12% Secured Debt (Maturity - October 18, 2012)	1,500	916	916
		Preferred Stock (7% cumulative) (Fully diluted 5.75%) (8)		1,577	1,577
		Warrants (Fully diluted 4.0%)		830	830
				3,323	3,323
OPI International Ltd. (11)	Oil and Gas Construction Services	12% Secured Debt (Maturity - November 30, 2015)	11,520	10,882	11,130
		Warrants (Fully diluted 8.0%)		500	4,100
				11,382	15,230
Radial Drilling Services Inc.	Oil and Gas Technology	12% Secured Debt (Maturity - November 23, 2016)	4,200	3,367	3,367
		Warrants (Fully diluted 24.0%)		758	758
				4,125	4,125
Samba Holdings, Inc.	Intelligent Driver Record Monitoring Software and Services	12.5% Secured Debt (Maturity - November 17, 2016)	3,000	2,941	2,941
		Common Stock (Fully diluted 14.7%)		950	950
				3,891	3,891
Schneider Sales Management, LLC	Sales Consulting and Training	13% Secured Debt (Maturity - October 15, 2013)	3,568	3,488	250
		Warrants (Fully diluted 20.0%)		45	
				3,533	250
Spectrio LLC	Audio Messaging Services	8% Secured Debt (Maturity - June 16, 2016)	168	168	168
		12% Secured Debt (Maturity - June 16, 2016)	13,475	13,008	13,340
		Warrants (Fully diluted 9.8%)		887	2,720
				14,063	16,228
SYNEO, LLC	Manufacturer of Specialty Cutting Tools and Punches	12% Secured Debt (Maturity - July 13, 2016)	5,500	5,374	5,374
		10% Secured Debt (Maturity - May 4, 2026)	1,440	1,412	1,412
		Member Units (Fully diluted 11.1%)		1,000	1,000
				7,786	7,786
Walden Smokey Point, Inc.	Specialty Transportation Provider				

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		Common Stock (Fully diluted 12.6%)		1,427	4,220
WorldCall, Inc.	Telecommunication / Information Services				
		13% Secured Debt (Maturity - April 22, 2012)	646	646	646
		Common Stock (Fully diluted 10.0%)		297	
				943	646
Subtotal Affiliate Investments (21.4% of total investments at fair value)				110,157	146,405

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(in thousands)

Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
<u>Non-Control/Non-Affiliate Investments (7)</u>					
Academy, Ltd. (10)	Sporting Goods Stores	LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - August 3, 2018) (9)	3,000	2,989	2,977
Affinity Videonet, Inc.	Video Conferencing and Managed Services	13% Secured Debt (Maturity - December 31, 2015) 13% Current / 1% PIK Secured Debt (Maturity - December 31, 2015) Warrants (Fully diluted 2.6%)	2,000 1,132	1,914 1,125 63 3,102	2,000 1,125 63 3,188
API Technologies Corp. (10)	Manufacturer of Electrical Components and Equipment	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 27, 2016) (9)	2,486	2,406	2,374
Arrowhead General Insurance Agency, Inc. (10)	Insurance	LIBOR Plus 5.75%, Current Coupon 7.50%, Secured Debt (Maturity - March 4, 2017) (9) LIBOR Plus 9.5%, Current Coupon 11.25%, Secured Debt (Maturity - September 30, 2017) (9)	3,970 2,000	3,900 1,944 5,844	3,932 2,010 5,942
ATI Acquisition I Corp. (10)	Physical Therapy Facilities	LIBOR Plus 5.50%, Current Coupon 7.50%, Secured Debt (Maturity - March 11, 2016) (9)	2,849	2,812	2,725
Bourland and Leverich Supply Co., LLC (10)	Distributor of Oil and Gas Tubular Goods	LIBOR Plus 9.00%, Current Coupon 11.00%, Secured Debt (Maturity - August 19, 2015) (9)	4,191	4,028	4,065
Brand Connections, LLC	Venue-Based Marketing and Media	14% Secured Debt (Maturity - April 30, 2015)	6,761	6,639	6,639

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Brickman Group Holdings, Inc. (10)	Commercial Landscape Services	LIBOR Plus 5.50%, Current Coupon 7.25%, Secured Debt (Maturity - October 14, 2016) (9)	1,990	1,962	1,997
Business Development Corporation of America (11) (12)	Investment Management	LIBOR Plus 3.50%, Current Coupon 3.77%, Secured Debt (Maturity - January 14, 2013)	5,900	5,900	5,900
Carestream Health, Inc. (10)	Medical Imaging Products	LIBOR Plus 3.50%, Current Coupon 5.00%, Secured Debt (Maturity - February 25, 2017) (9)	2,985	2,704	2,690
Centerplate, Inc. (10)	Food and Catering Services	LIBOR Plus 8.50%, Current Coupon 10.50%, Secured Debt (Maturity - September 16, 2016) (9)	2,970	2,896	2,966

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
CHI Overhead Doors, Inc. (10)	Manufacturer of Overhead Garage Doors	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - August 17, 2017) (9)	2,494	2,446	2,462
		LIBOR Plus 9.50%, Current Coupon 11.00%, Secured Debt (Maturity - February 17, 2018) (9)	2,500	2,452	2,463
				4,898	4,925
Diversified Machine, Inc. (10)	Automotive Component Supplier	LIBOR Plus 7.75%, Current Coupon 9.25%, Secured Debt (Maturity - November 28, 2017) (9)	2,000	1,960	2,001
EnCap Energy Capital Fund VIII, L.P. (11) (12)	Investment Partnership	LP Interests (Fully diluted 0.2%)		709	709
Fairway Group Acquisition Company (10)	Retail Grocery	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - March 3, 2017) (9)	7,463	7,403	7,253
Flexera Software LLC (10)	Software Licensing	LIBOR Plus 9.75%, Current Coupon 11.00%, Secured Debt (Maturity - September 30, 2018) (9)	3,000	2,765	2,790
Fram Group Holdings, Inc. (10)	Manufacturer of Automotive Maintenance Products	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - July 29, 2017) (9)	998	993	998
		LIBOR Plus 9.00%, Current Coupon 10.50%, Secured Debt (Maturity - January 29, 2018) (9)	1,000	995	968
				1,988	1,966
Golden Nugget, LLC (10)	Hotel and Gaming	LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - May 24, 2016) (9)	10,000	9,636	9,450
Gundle/SLT Environmental, Inc. (10)	Manufacturer of Geosynthetic Lining Products	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - May 27, 2016) (9)	2,985	2,958	2,940
		LIBOR Plus 9.50%, Current Coupon 13.00%, Secured Debt (Maturity - November 23, 2016) (9)	4,000	3,926	3,980
				6,884	6,920
Hayden Acquisition, LLC	Manufacturer of Utility Structures	8% Secured Debt (Maturity - January 1, 2012)	1,800	1,781	

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Helm Financial Corporation (10)	Railcar Leasing	LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - June 1, 2017) (9)	1,985	1,967	1,940
Henniges Automotive Holdings, Inc. (10)	Auto Parts	LIBOR Plus 10.00%, Current Coupon 12.00%, Secured Debt (Maturity - October 28, 2016) (9)	2,833	2,785	2,785
HMS Income LLC (11) (12)	Investment Management	LIBOR Plus 3.00%, Current Coupon 3.27%, Secured Debt (Maturity - December 12, 2012)	7,500	7,500	7,500
HOA Restaurant Group, LLC (10)	Casual Restaurant Group	11.25% Bond (Maturity - April 1, 2017)	2,000	2,000	1,865
Il Fornaio Corporation (10)	Casual Restaurant Group	LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - June 10, 2017) (9)	1,985	1,976	1,978

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
Ipreo Holdings LLC (10)	Application Software for Capital Markets	LIBOR Plus 6.50%, Current Coupon 8.00%, Secured Debt (Maturity - August 5, 2017) (9)	4,239	4,160	4,144
Ivy Hill Middle Market Credit Fund III, Ltd. (10) (12)	Asset Management	LIBOR Plus 6.50%, Current Coupon 6.77%, Secured Debt (Maturity - January 15, 2022)	2,000	1,659	1,658
JJ Lease Funding Corp. (10)	Apparel Retail	LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - April 29, 2017) (9)	3,950	3,842	3,160
Kadmon Pharmaceuticals, LLC (10)	Biopharmaceutical Products	LIBOR Plus 13.00%, Current Coupon 15.00%, Secured Debt (Maturity - October 31, 2012) (9)	6,000	5,899	6,255
Lawson Software, Inc. (10)	Application Software	LIBOR Plus 5.25%, Current Coupon 6.75%, Secured Debt (Maturity - July 5, 2017) (9)	4,988	4,801	4,875
Liqui-Box, Inc. (10)	Supplier of Specialty Packaging	LIBOR Plus 5.25%, Current Coupon 6.75%, Secured Debt (Maturity - December 29, 2017) (9)	3,000	2,955	2,985
Media Holdings, LLC (10) (12)	Internet Traffic Generator	LIBOR Plus 13.00%, Current Coupon 15.00%, Secured Debt (Maturity - April 28, 2014) (9)	5,000	5,129	5,000
Medpace Intermediateco, Inc. (10)	Clinical Trial Development and Execution	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - June 17, 2017) (9)	4,975	4,905	4,726
Megapath, Inc. (10)	Communications Technology	LIBOR Plus 10.00%, Current Coupon 12.00%, Secured Debt (Maturity - November 3, 2015) (9)	3,600	3,541	3,546
Metropolitan Health Networks, Inc. (10) (12)	Healthcare Network Provider	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - October 4, 2016) (9) LIBOR Plus 11.75%, Current Coupon 13.50%, Secured Debt (Maturity - October 4, 2017) (9)	2,000 3,250	1,971 3,187 5,158	1,940 3,185 5,125

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Milk Specialties Company (10)	Processor of Nutrition Products	LIBOR Plus 7.00%, Current Coupon 8.50%, Secured Debt (Maturity - December 27, 2017) (9)	4,000	3,880	3,900
		LIBOR Plus 13.00%, Current Coupon 14.50%, Secured Debt (Maturity - December 27, 2018) (9)	1,000	960	965
				4,840	4,865
Miramax Film NY, LLC (10)	Motion Picture Producer and Distributor	Class B Units (Fully diluted 0.2%)		500	500
Mood Media Corporation (10) (12)	Music Provider	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - May 6, 2018) (9)	2,985	2,956	2,779
MultiPlan, Inc. (10)	Managed Healthcare Provider	LIBOR Plus 3.25%, Current Coupon 4.75%, Secured Debt (Maturity - August 26, 2017) (9)	2,956	2,956	2,821

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
National Healing Corporation (10)	Wound Care Management	LIBOR Plus 6.75%, Current Coupon 8.25%, Secured Debt (Maturity - November 30, 2017) (9)	2,750	2,614	2,653
		LIBOR Plus 10.00%, Current Coupon 11.50%, Secured Debt (Maturity - November 30, 2018) (9)	1,500	1,411	1,433
		Common Equity (Fully diluted 0.02%)		50	50
				4,075	4,136
Northland Cable Television, Inc. (10)	Television Broadcasting	LIBOR Plus 6.00%, Current Coupon 7.75%, Secured Debt (Maturity - December 30, 2016) (9)	4,950	4,823	4,802
Ocwen Financial Corporation (10) (12)	Residential and Commercial Loan Services	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - September 1, 2016) (9)	4,750	4,660	4,685
Pacific Architects and Engineers Incorporated (10)	Provider of Contract Support Services	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - April 4, 2017) (9)	3,995	3,917	3,875
Phillips Plastic Corporation (10)	Custom Molder of Plastics and Metals	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - February 12, 2017) (9)	1,750	1,733	1,737
Physician Oncology Services, L.P. (10)	Provider of Radiation Therapy and Oncology Services	LIBOR Plus 4.75%, Current Coupon 6.25%, Secured Debt (Maturity - January 31, 2017) (9)	942	934	904
Pierre Foods, Inc. (10)	Foodservice Supplier	LIBOR Plus 5.25%, Current Coupon 7.00%, Secured Debt (Maturity - September 30, 2016) (9)	4,950	4,868	4,945
		LIBOR Plus 9.50%, Current Coupon 11.25%, Secured Debt (Maturity - September 29, 2017) (9)	2,000	1,939	1,995
				6,807	6,940
Preferred Proppants, LLC (10)	Producer of Sand Based Proppants	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - December 15, 2016) (9)	5,000	4,877	4,889
Race Point Power, LLC (10)	Electric Utilities / Power Generation	LIBOR Plus 6.00%, Current Coupon 7.75%, Secured Debt (Maturity - January 11, 2018) (9)	4,658	4,576	4,617

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Radio One, Inc. (10)	Radio Broadcasting	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - March 31, 2016) (9)	2,978	2,925	2,775
Shearers Foods, Inc. (10)	Manufacturer of Food/ Snacks	12.00% Current /3.75% PIK Secured Debt (Maturity - March 31, 2016)	4,262	4,179	4,092
SonicWALL, Inc. (10)	IT Security Provider	LIBOR Plus 6.25%, Current Coupon 8.25%, Secured Debt (Maturity - January 23, 2016) (9)	1,072	1,073	1,074
Sourcehov LLC (10)	Business Process Services	LIBOR Plus 5.38%, Current Coupon 6.63%, Secured Debt (Maturity - April 28, 2017) (9)	2,993	2,896	2,526
		LIBOR Plus 9.25%, Current Coupon 10.50%, Secured Debt (Maturity - April 30, 2018) (9)	3,000	2,872 5,768	2,505 5,031
Speedy Cash Intermediate Holdings Corp. (10)	Consumer Finance	10.75% Bond (Maturity - May 15, 2018)	2,000	2,000	2,010

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
Surgery Center Holdings, Inc. (10)	Ambulatory Surgical Centers	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - February 6, 2017) (9)	4,963	4,940	4,628
The Tennis Channel, Inc.	Television-Based Sports Broadcasting	LIBOR Plus 6% / 4% PIK, Current Coupon with PIK 14%, Secured Debt (Maturity - January 1, 2013) (9) Warrants (Fully diluted 0.1%)	10,610	11,450 235 11,685	11,450 235 11,685
Totes Isotoner Corporation (10)	Weather Accessory Retail	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - July 7, 2017) (9)	4,976	4,883	4,839
Ulterra Drilling Technologies, L.P. (10)	Manufacturer of Oil and Gas Drilling Products	LIBOR Plus 7.50%, Current Coupon 9.50%, Secured Debt (Maturity - June 9, 2016) (9) LIBOR Plus 7.50%, Current Coupon 9.50%, Secured Debt (Maturity - June 9, 2016) (9)	6,572 1,848	6,452 1,803 8,255	6,441 1,754 8,195

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Portfolio Company (1)	Business Description	Type of Investment (2) (3)	Principal (4)	Cost (4)	Fair Value
UniTek Global Services, Inc. (10)	Provider of Outsourced Infrastructure Services	LIBOR Plus 7.50%, Current Coupon 9.00%, Secured Debt (Maturity - April 15, 2018) (9)	6,434	6,256	6,304
VFH Parent LLC (10)	Electronic Trading and Market Making	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - July 8, 2016) (9)	4,180	4,103	4,195
Visant Corporation (10)	School Affinity Stores	LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - December 22, 2016) (9)	3,998	3,998	3,760
Vision Solutions, Inc. (10)	Computer Software	LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - July 23, 2016) (9) LIBOR Plus 8.00%, Current Coupon 9.50%, Secured Debt (Maturity - July 23, 2017) (9)	2,838 5,000	2,586 4,955 7,541	2,585 4,850 7,435
Walter Investment Management Corp. (10) (12)	Real Estate Services	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (9) LIBOR Plus 11.00%, Current Coupon 12.50%, Secured Debt (Maturity - December 30, 2016) (9)	2,888 3,000	2,833 2,944 5,777	2,886 3,036 5,922
Willis Group, LLC	Staffing and Recruitment Services	12% Current / 3% PIK Secured Debt (Maturity - December 19, 2014)	9,000	8,824	8,824
Wyle Services Corporation (10)	Specialized Engineering and Technical Services	LIBOR Plus 4.25%, Current Coupon 5.75%, Secured Debt (Maturity - March 26, 2017) (9)	3,735	3,715	3,657
Yankee Cable Acquisition, LLC (10)	Broadband Service Provider	LIBOR Plus 4.50%, Current Coupon 6.50%, Secured Debt (Maturity - August 26, 2016) (9)	3,950	3,902	3,900
Subtotal Non-Control/Non-Affiliate Investments (39.6% of total investments at fair value)				275,061	270,895
Main Street Capital Partners, LLC (Investment Manager) (0.3% of total investments at fair value)	Asset Management				

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100% of Membership Interests

4,284

1,869

Total Portfolio Investments, December 31, 2011

596,289

658,093

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(in thousands)

Marketable Securities and Idle Funds Investments

Fairfield Redevelopment Bond (12)

9.50% Bond (Maturity - March 1, 2021)

3,085

3,132

3,254

Industry Bond (12)

8.00% Bond (Maturity - January 1, 2020)

3,500

3,668

3,763

San Diego Redevelopment Bond (12)

7.38% Bond (Maturity - September 1, 2037)

275

275

284

Stora Enso OYJ Bond (12)

7.25% Bond (Maturity - April 15, 2036)

5,700

4,596

4,646

United Refining Company Bond

10.50% Bond (Maturity - February 28, 2017)

3,990

3,966

3,731

**Total Investments,
December 31, 2011**

\$ 622,224 \$ 684,335

-
- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted.
 - (2) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
 - (3) See Note C for summary geographic location of portfolio companies.
 - (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
 - (5) Control investments are defined by the Investment Company Act of 1940, as amended (1940 Act) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
 - (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
 - (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.
 - (8) Income producing through dividends or distributions.
 - (9) Index based floating interest rate is subject to contractual minimum interest rate.
 - (10) Middle Market portfolio investment.
 - (11) Other Portfolio investment.
 - (12) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any non-qualifying assets.

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MAIN STREET CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A ORGANIZATION AND BASIS OF PRESENTATION

1. Organization

Main Street Capital Corporation (**MSCC**) was formed on March 9, 2007 for the purpose of (i) acquiring 100% of the equity interests of Main Street Mezzanine Fund, LP (**MSMF**) and its general partner, Main Street Mezzanine Management, LLC (**MSMF GP**), (ii) acquiring 100% of the equity interests of Main Street Capital Partners, LLC (the **Investment Manager**), (iii) raising capital in an initial public offering, which was completed in October 2007 (the **IPO**), and (iv) thereafter operating as an internally managed business development company (**BDC**) under the Investment Company Act of 1940, as amended (the **1940 Act**). MSMF is licensed as a Small Business Investment Company (**SBIC**) by the United States Small Business Administration (**SBA**) and the Investment Manager acts as MSMF's manager and investment adviser. Because the Investment Manager, which employs all of the executive officers and other employees of MSCC, is wholly owned by MSCC, MSCC does not pay any external investment advisory fees but instead incurs the operating costs associated with employing investment and portfolio management professionals through the Investment Manager. The IPO and related transactions discussed above were consummated in October 2007 and are collectively termed the **Formation Transactions**.

On January 7, 2010, MSCC consummated transactions (the **Exchange Offer**) to exchange 1,239,695 shares of its common stock for approximately 88% of the total dollar value of the limited partner interests in Main Street Capital II, LP (**MSC II**) and, together with MSMF, the **Funds**). Pursuant to the terms of the Exchange Offer, 100% of the membership interests in the general partner of MSC II, Main Street Capital II GP, LLC (**MSC II GP**), were also transferred to MSCC for no consideration. MSC II commenced operations in January 2006, is an investment fund that operates as an SBIC and is also managed by the Investment Manager. During the first quarter of 2012, MSCC exchanged 229,634 shares of its common stock to acquire all of the remaining minority ownership in the total dollar value of the MSC II limited partnership interests, including approximately 5% owned by affiliates of MSCC (the **Final MSC II Exchange**). After the completion of the Final MSC II Exchange, MSCC owns 100% of MSC II. The Exchange Offer and related transactions, including the transfer of the MSC II GP interests and the Final MSC II Exchange, are collectively termed the **Exchange Offer Transactions**.

MSCC has elected to be treated for federal income tax purposes as a regulated investment company (**RIC**) under Subchapter M of the Internal Revenue Code of 1986, as amended (the **Code**). As a result, MSCC generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that it distributes to its stockholders as dividends.

MSCC has direct and indirect wholly owned subsidiaries that have elected to be taxable entities (the **Taxable Subsidiaries**). The primary purpose of these entities is to hold certain investments that generate **pass through** income for tax purposes. The Taxable Subsidiaries are each taxed at

their normal corporate tax rates based on their taxable income.

Unless otherwise noted or the context otherwise indicates, the terms we, us, our and Main Street refer to MSCC and its consolidated subsidiaries which include the Funds and the Taxable Subsidiaries.

2. Basis of Presentation

Main Street's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). For the three and six months ended June 30, 2012 and 2011, Main Street's consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries. Portfolio investments, as used herein, refers to all of Main Street's investments in LMM portfolio companies, investments in Middle Market portfolio companies, Other Portfolio investments and investment in the Investment Manager but excludes all Marketable securities and idle funds investments (see Note C Fair Value Hierarchy for Investments and Debentures - Portfolio Investment Composition for additional discussion of Main Street's portfolio investment composition and definitions for the defined terms LMM, Middle Market and Other Portfolio). The Investment Manager is accounted for as a portfolio investment (see Note D) and is not consolidated with MSCC and its consolidated subsidiaries. Marketable securities and idle funds investments are classified as financial instruments and are reported separately on Main Street's Consolidated Balance Sheets and Consolidated Schedule of Investments due to the nature of such investments (see Note B.9). Main Street's results of operations for the three and six months ended June 30, 2012 and 2011, cash flows for the six months ended June 30, 2012 and 2011, and financial position as of June 30, 2012 and December 31,

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2011, are presented on a consolidated basis. The effects of all intercompany transactions between Main Street and its consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current financial statement presentation, including certain investments previously classified as Marketable securities and idle funds investments that are now considered a part of the Middle Market portfolio and are now classified as Non-Control/Non-Affiliate investments, as defined below.

The accompanying unaudited consolidated financial statements of Main Street are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2011. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Under the investment company rules and regulations pursuant to Article 6 of Regulation S-X and the Audit and Accounting Guide for Investment Companies issued by the American Institute of Certified Public Accountants (the AICPA Guide), Main Street is precluded from consolidating portfolio company investments, including those in which it has a controlling interest, unless the portfolio company is another investment company. An exception to this general principle in the AICPA Guide occurs if Main Street owns a controlled operating company that provides all or substantially all of its services directly to Main Street or to an investment company of Main Street. None of the investments made by Main Street qualify for this exception. Therefore, Main Street's portfolio investments are carried on the balance sheet at fair value, as discussed further in Note B, with any adjustments to fair value recognized as Net Change in Unrealized Appreciation (Depreciation) on the Statement of Operations until the investment is realized, usually upon exit, resulting in any gain or loss on exit being recognized as a Net Realized Gain (Loss) from Investments.

Portfolio Investment Classification

Main Street classifies its portfolio investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, (a) Control Investments are defined as investments in which Main Street owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation, (b) Affiliate Investments are defined as investments in which Main Street owns between 5% and 25% of the voting securities and does not have rights to maintain greater than 50% of the board representation, and (c) Non-Control/Non-Affiliate Investments are defined as investments that are neither Control Investments nor Affiliate Investments. The line item on Main Street's Consolidated Balance Sheets entitled Investment in affiliated Investment Manager represents Main Street's investment in a wholly owned investment manager subsidiary that is accounted for as a portfolio investment.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Valuation of Portfolio Investments

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Main Street accounts for its LMM portfolio investments, Middle Market portfolio investments, Other Portfolio investments and investment in the Investment Manager at fair value. As a result, Main Street follows the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification or ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires Main Street to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable, and willing and able to transact. With the adoption of this statement, Main Street incorporated the income approach to estimate the fair value of its LMM portfolio debt investments using a yield-to-maturity model.

Main Street's portfolio strategy calls for it to invest primarily in illiquid securities issued by private, LMM companies as well as debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. These portfolio investments may be subject to restrictions on resale. LMM companies generally have no established trading market while Middle Market securities generally have established markets that are not active. Main Street determines in good faith the fair value of its portfolio investments pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by its Board of Directors and in accordance with the 1940 Act. For LMM portfolio investments, Main Street reviews external events, including private mergers, sales and acquisitions involving comparable companies, and includes these events in the valuation process. For

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Middle Market portfolio investments, Main Street primarily uses observable inputs such as quoted prices in the valuation process. For Middle Market portfolio investments for which sufficient observable inputs are not available to determine fair value, Main Street generally uses an approach similar to the income approach using a yield-to-maturity model used to value its LMM portfolio debt investments. Main Street's valuation policy and process are intended to provide a consistent basis for determining the fair value of the portfolio.

For valuation purposes, control LMM portfolio investments are composed of equity and debt securities for which Main Street has a controlling interest in the portfolio company or has the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for Main Street's control LMM portfolio investments. As a result, Main Street determines the fair value of control LMM portfolio investments using a combination of market and income approaches. Under the market approach, Main Street will typically use the enterprise value methodology to determine the fair value of these investments. The enterprise value is the fair value at which an enterprise could be sold in a transaction between two willing parties, other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of earnings before interest, taxes, depreciation and amortization (EBITDA), cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for estimating enterprise value. For any one portfolio company, enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In estimating the enterprise value of a portfolio company, Main Street analyzes various factors, including the portfolio company's historical and projected financial results. Main Street allocates the enterprise value to investments in order of the legal priority of the investments. Main Street will also use the income approach to determine the fair value of these securities, based on projections of the discounted future free cash flows that the portfolio company or the debt security will likely generate. The valuation approaches for Main Street's control LMM portfolio investments estimate the value of the investment if Main Street were to sell, or exit, the investment. In addition, these valuation approaches consider the value associated with Main Street's ability to control the capital structure of the portfolio company, as well as the timing of a potential exit.

For valuation purposes, non-control LMM portfolio investments are composed of debt and equity securities for which Main Street does not have a controlling interest in the portfolio company, or the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for non-control LMM portfolio investments. For non-control LMM portfolio investments, Main Street uses a combination of the market and income approaches to value its equity investments and the income approach to value its debt investments. For non-control LMM debt investments, Main Street determines the fair value primarily using a yield approach that analyzes the discounted cash flows of interest and principal for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of each of these portfolio investments. Main Street's estimate of the expected repayment date of a LMM debt security is generally the legal maturity date of the instrument, as Main Street generally intends to hold its loans to maturity. The yield analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors. Main Street will use the value determined by the yield analysis as the fair value for that security; however, because of Main Street's general intent to hold its loans to maturity, the fair value will not exceed the face amount of the LMM debt security. A change in the assumptions that Main Street uses to estimate the fair value of its LMM debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or if a LMM debt security is in workout status, Main Street may consider other factors in determining the fair value of the LMM debt security, including the value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would most likely be received in a liquidation analysis.

Pursuant to its internal valuation process and the requirements under the 1940 Act, Main Street performs valuation procedures on its investments in each LMM portfolio company once a quarter. In addition to its internal valuation process, in arriving at estimates of fair value for its investments in its LMM portfolio companies, Main Street, among other things, consults with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to Main Street's investments in each LMM portfolio company at least once in every calendar year, and for Main Street's investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, Main Street may determine that it is not cost-effective, and as a result is not in its stockholders' best interest, to consult with the nationally recognized independent advisor on its investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of Main Street's investment in a LMM portfolio company is determined to be insignificant relative to the total investment portfolio. Main Street consulted with its independent advisor in arriving at Main Street's determination of fair value on its investments in a total of 22 LMM portfolio companies for the six months ended June 30, 2012, representing approximately 41% of the total LMM portfolio and investment in the affiliated Investment Manager at fair value as of June 30, 2012.

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For valuation purposes, all of Main Street's Middle Market portfolio investments are non-control investments and are composed of securities for which Main Street does not have a controlling interest in the portfolio company, or the ability to nominate a majority of the portfolio company's board of directors. Main Street primarily uses observable inputs to determine the fair value of these investments through obtaining third party quotes or other independent pricing. For Middle Market portfolio investments for which sufficient observable inputs are not available to determine fair value, Main Street generally uses an approach similar to the income approach using a yield-to-maturity model used to value its non-control LMM portfolio debt investments.

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For valuation purposes, all of Main Street's Other Portfolio investments are non-control investments and are composed of securities for which Main Street generally does not have a controlling interest in the portfolio company, or the ability to nominate a majority of the portfolio company's board of directors. Similar to the LMM investment portfolio, market quotations for Other Portfolio equity investments are generally not readily available. Main Street values its Other Portfolio equity investments based on the fair value of the portfolio company as determined by independent third parties and based on Main Street's proportional ownership in the portfolio company, as well as the financial position and assessed risk of each of these portfolio investments. For Other Portfolio debt investments with observable inputs, Main Street determines the fair value of these investments through obtaining third party quotes or other independent pricing. To the extent observable inputs are not available for its Other Portfolio debt investments, Main Street values these Other Portfolio debt investments through an approach similar to the income approach using a yield-to-maturity model used to value its non-control LMM portfolio debt investments.

Due to the inherent uncertainty in the valuation process, Main Street's determination of fair value for certain portfolio investments may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. Main Street determines the fair value of each individual investment and records changes in fair value as unrealized appreciation or depreciation.

Main Street uses a standard internal portfolio investment rating system in connection with its investment oversight, portfolio management/analysis and investment valuation procedures for its LMM portfolio companies. This system takes into account both quantitative and qualitative factors of the LMM portfolio company and the investments held therein.

The Board of Directors of Main Street has the final responsibility for reviewing and approving, in good faith, Main Street's determination of the fair value for its portfolio investments consistent with the 1940 Act requirements. Main Street believes its portfolio investments as of June 30, 2012 and December 31, 2011 approximate fair value as of those dates based on the market in which Main Street operates and other conditions in existence on those reporting dates.

2. Interest and Dividend Income

Interest and dividend income is recorded on the accrual basis to the extent amounts are expected to be collected. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. In accordance with Main Street's valuation policy, accrued interest and dividend income is evaluated periodically for collectability. When a loan or debt security becomes 90 days or more past due, and if Main Street otherwise does not expect the debtor to be able to service all of its debt or other obligations, Main Street will generally place the loan or debt security on non-accrual status and cease recognizing interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding the debtor's ability to service the debt or other obligations, or if a loan or debt security is fully impaired, sold or written off, it will be removed from non-accrual status.

Main Street holds debt and preferred equity instruments in its investment portfolio that contain payment-in-kind (PIK) interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any unpaid dividends are added to the balance of the preferred equity investment. The actual collection of these dividends may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed below), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even

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though Main Street may not have collected the PIK interest and cumulative dividends in cash. For the three months ended June 30, 2012 and 2011, (i) approximately 4.4% and 3.6%, respectively, of our total investment income was attributable to PIK interest income and (ii) approximately 0.8% and 2.9%, respectively, of our total investment income was attributable to cumulative dividend income. For the six months ended June 30, 2012 and 2011, (i) approximately 4.1% and 4.0%, respectively, of our total investment income was attributable to PIK interest income and (ii) approximately 1.4% and 2.9%, respectively, of our total investment income was attributable to cumulative dividend income.

As of June 30, 2012, Main Street had no investments with positive fair value on non-accrual status and one fully impaired investment which comprised approximately 0.2% of the total portfolio investments at cost, in each case, excluding the investment in the affiliated Investment Manager. As of December 31, 2011, Main Street had one investment with positive fair value on non-accrual status, which comprised less than 0.1% of the total portfolio investments at fair value and, together with another fully impaired investment, comprised approximately 0.9% of the total portfolio investments at cost, in each case excluding the investment in the affiliated Investment Manager.

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3. Fee Income Structuring and Advisory Services

Main Street may periodically provide services, including structuring and advisory services, to its portfolio companies. For services that are separately identifiable and evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment or other applicable transaction closes. Fees received in connection with debt financing transactions for services that do not meet these criteria are treated as debt origination fees and are accreted into interest income over the life of the financing.

4. Unearned Income Debt Origination Fees, Original Issue Discount and Discounts / Premiums to Par Value

Main Street capitalizes upfront debt origination fees received in connection with financings and reflects such fees as unearned income netted against the applicable debt investments. The unearned income from the fees is accreted into interest income based on the effective interest method over the life of the financing.

In connection with its portfolio debt investments, Main Street sometimes receives nominal cost warrants (nominal cost equity) that are valued as part of the negotiation process with the particular portfolio company. When Main Street receives nominal cost equity, Main Street allocates its cost basis in its investment between its debt security and its nominal cost equity at the time of origination. Any discount recorded on a debt investment resulting from this allocation is reflected as unearned income, which is netted against the applicable debt investment, and accreted into interest income based on the effective interest method over the life of the debt. The actual collection of this interest is deferred until the time of debt principal repayment.

Main Street may also purchase debt securities at a discount or at a premium to the par value of the debt security. When Main Street purchases a debt security at a discount to the par value of the debt security, Main Street records the par value of the debt security net of the discount, and the discount is accreted into interest income based on the effective interest method over the life of the debt investment. When Main Street purchases a debt security at a premium to the par value of the debt security, Main Street records the premium as incremental to the par value of the debt security, and the premium is amortized as a reduction to interest income based on the effective interest method over the life of the debt. To maintain RIC tax treatment (as discussed below in Note B.6.), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even though Main Street may not have collected the interest income.

5. Share-Based Compensation

Main Street accounts for its share-based compensation plans using the fair value method, as prescribed by ASC 718, *Compensation Stock Compensation*. Accordingly, for restricted stock awards, Main Street measures the grant date fair value based upon the market price of its common stock on the date of the grant and amortizes that fair value to share-based compensation expense over the requisite service period or vesting term.

6. Income Taxes

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MSCC has elected and intends to continue to qualify for the tax treatment applicable to a RIC under the Code, and, among other things, intends to make the required distributions to its stockholders as specified therein. In order to qualify as a RIC, MSCC is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, each year. Depending on the level of taxable income earned in a tax year, MSCC may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. As part of maintaining RIC status, undistributed taxable income (subject to a 4% excise tax) pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared prior to the filing of the federal income tax return for the prior year.

The Taxable Subsidiaries hold certain portfolio investments of Main Street. The Taxable Subsidiaries are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements. The Taxable Subsidiaries permit Main Street to hold equity investments in portfolio companies which are pass through entities for tax purposes in order to comply with the source income requirements contained in the RIC tax provisions. The Taxable Subsidiaries are not consolidated with Main Street for income tax purposes and may generate income tax expense, or benefit, as a result of their ownership of certain portfolio investments. This income tax expense, or benefit, is reflected in the consolidated statement of operations.

The Taxable Subsidiaries use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the temporary differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Taxable income generally excludes net unrealized appreciation or depreciation, as investment gains or losses are not included in taxable income until they are realized.

7. Net Realized Gains or Losses from Investments and Net Change in Unrealized Appreciation or Depreciation from Investments

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment and the cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period net of recoveries and realized gains or losses from in-kind redemptions. Net change in unrealized appreciation or depreciation from investments reflects the net change in the fair value of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments to realized gains or losses.

8. Concentration of Credit Risks

Main Street places its cash in financial institutions, and, at times, such balances may be in excess of the federally insured limit.

9. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Main Street believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items. Marketable securities and idle funds investments may include investments in certificates of deposit, U.S. government agency securities, independently rated debt investments, and diversified bond funds, and the fair value determination for these investments under the provisions of ASC 820 generally consists of Level 2 observable inputs.

The SBIC debentures provide a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. As part of the Exchange Offer, Main Street elected the fair value option under ASC 825, *Financial Instruments* (ASC 825) relating to accounting for debt obligations at their fair value, for those SBIC debentures acquired (the Acquired Debentures) as part of the acquisition accounting related to the Exchange Offer. In order to provide for a more consistent basis of presentation, Main Street has elected and will continue to elect the fair value option for SBIC debentures issued by MSC II subsequent to the Exchange Offer. Once the fair value option is elected for a given SBIC debenture, the deferred loan costs associated with the debenture are fully expensed in the current period to Net Change in Unrealized Appreciation (Depreciation) SBIC debentures as part of the fair value adjustment. Interest incurred in connection with SBIC debentures which are valued at fair value is included in interest expense.

10. Earnings per Share

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Basic and diluted per share calculations are computed utilizing the weighted average number of shares of common stock outstanding for the period. Main Street adopted the amended guidance in ASC 260, *Earnings Per Share*, and based on the guidance, determined that unvested shares of restricted stock are participating securities and should therefore be included in the basic earnings per share calculation. As a result, for all periods presented, there is no difference between diluted earnings per share and basic earnings per share amounts.

As a result of the Exchange Offer which left a minority portion of MSC II's equity interests owned by certain non-Main Street entities, the net earnings of MSC II attributable to the remaining externally owned noncontrolling interest in MSC II are excluded from all per share amounts presented, and the per share amounts only reflect the net earnings attributable to Main Street's ownership interest in MSC II. During the first quarter of 2012, MSCC completed the Final MSC II Exchange to acquire all of the minority portion of MSC II's equity interests not already owned by MSCC. The following table provides a reconciliation of Net Investment Income and Net Realized Income attributable to common stock by excluding amounts related to the noncontrolling interest in MSC II that remained owned by non-Main Street entities for the three and six months ended June 30, 2012 and 2011.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Net Investment Income	\$ 12,826	\$ 9,615	\$ 25,675	\$ 17,008
Noncontrolling interest share of Net Investment Income		(225)	(62)	(382)
Net Investment Income attributable to common stock	12,826	9,390	25,613	16,626
Total net realized gain (loss) from investments	(3,329)	250	4,809	250
Noncontrolling interest share of net realized (gain) from investments			(3)	(1)
Net Realized Income attributable to common stock	\$ 9,497	\$ 9,640	\$ 30,419	\$ 16,875
Net Investment Income per share - Basic and diluted	\$ 0.47	\$ 0.41	\$ 0.94	\$ 0.79
Net Realized Income per share - Basic and diluted	\$ 0.35	\$ 0.42	\$ 1.12	\$ 0.80
Weighted average shares outstanding - Basic and diluted	27,365,758	23,015,718	27,118,421	21,128,360

11. Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurements (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a significant impact on Main Street's financial condition and results of operations.

In February 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* (ASU 2011-02). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 provides guidance to clarify whether the creditor has granted a concession and whether a debtor is experiencing financial difficulties. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The adoption of ASU 2011-02 did not have a significant impact on Main Street's financial condition and results of operations.

NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. Main Street accounts for its investments at fair value.

Fair Value Hierarchy

In accordance with ASC 820, Main Street has categorized its investments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical investments (Level 1) and the lowest priority to unobservable inputs (Level 3).

Investments recorded on Main Street's balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 Investments whose values are based on unadjusted quoted prices for identical assets in an active market that Main Street has the ability to access (examples include investments in active exchange-traded equity securities and investments in most U.S. government and agency securities).

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Level 2 Investments whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investment. Level 2 inputs include the following:

- Quoted prices for similar assets in active markets (for example, investments in restricted stock);
- Quoted prices for identical or similar assets in non-active markets (for example, investments in thinly traded public companies);
- Pricing models whose inputs are observable for substantially the full term of the investment (for example, market interest rate indices); and
- Pricing models whose inputs are derived principally from, or corroborated by, observable market data through correlation or other means for substantially the full term of the investment.

Level 3 Investments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (for example, investments in illiquid securities issued by private companies). These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the investment.

As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such investments categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Main Street conducts reviews of fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain investments.

As of June 30, 2012 and December 31, 2011, Main Street's LMM portfolio investments consisted of illiquid securities issued by private companies. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of Main Street's LMM portfolio investments were categorized as Level 3 as of June 30, 2012 and December 31, 2011.

As of June 30, 2012 and December 31, 2011, Main Street's Middle Market portfolio investments and Marketable securities and idle funds investments consisted primarily of investments in secured and unsecured debt investments and independently rated debt investments. The fair value determination for these investments primarily consisted of observable inputs in non-active markets. As a result, most of Main Street's Middle Market portfolio investments and all of Main Street's Marketable securities and idle funds investments were categorized as Level 2 as of June 30, 2012 and December 31, 2011. For those Middle Market portfolio investments for which sufficient observable inputs were not available to determine fair value, Main Street categorized such investments as Level 3 as of June 30, 2012 and December 31, 2011.

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As of June 30, 2012 and December 31, 2011, Main Street's Other Portfolio debt investments consisted of investments in secured and unsecured debt investments. The fair value determination for certain Other Portfolio debt investments consisted of observable inputs in non-active markets and, as such, were categorized as Level 2 as of June 30, 2012 and December 31, 2011. For those Other Portfolio debt investments for which sufficient observable inputs were not available to determine fair value, Main Street categorized such investments as Level 3 as of June 30, 2012 and December 31, 2011.

As of June 30, 2012 and December 31, 2011, Main Street's Other Portfolio equity investments consisted of illiquid securities issued by private companies. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of Main Street's Other Portfolio equity investments were categorized as Level 3 as of June 30, 2012 and December 31, 2011.

The fair value determination of each portfolio investment categorized as Level 3 required one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;

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- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio, and net debt/EBITDA ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);
- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant.

The significant unobservable inputs used in the fair value measurement of Main Street's LMM equity securities are (i) EBITDA multiples and (ii) the weighted average cost of capital (WACC). Significant increases (decreases) in EBITDA multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. On the contrary, significant increases (decreases) in WACC inputs in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of Main Street's

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LMM debt securities and Other Portfolio debt securities are (i) risk adjusted discount factors used in the yield valuation technique described above and (ii) loss severity adjustments used to estimate the percentage of expected principal recovery. Significant increases (decreases) in any of these yield valuation inputs in isolation would result in a significantly lower (higher) fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third-party appraisals of collateral, and not presented in the table below.

The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 portfolio investments as of June 30, 2012:

Type of Investment	Fair Value at June 30, 2012 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Range		Weighted Average
Equity investments	\$ 170,593	Discounted cash flow Market comparable / Enterprise Value	Weighted average cost of capital	11.0%	19.0%	15.1%
			EBITDA multiple	4.5x	6.5x (1)	5.7%
Debt investments	\$ 303,270	Discounted cash flow	Expected principal recovery	0.0%	100.0%	99.4%
			Risk adjusted discount factor	7.1%	(1)	14.1%

(1) Range excludes outliers that are greater than one standard deviation from the mean.

The following table provides a summary of changes in fair value of Main Street's Level 3 portfolio investments for the six months ended June 30, 2012 (amounts in thousands):

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Type of Investment	December 31, 2011 Fair Value	Transfers Into Level 3 Hierarchy	Accretion of Unearned Income	Redemptions/ Repayments/ Exits (1)	New Investments (1)	Net Changes from Unrealized to Realized	Net Unrealized Appreciation (Depreciation)	June 30, 2012 Fair Value
Debt	\$ 260,190	\$ 26,592	\$ 3,567	\$ (51,215)	\$ 61,696	\$ 3,489	\$ (1,049)	\$ 303,270
Equity	113,920	709		(15,540)	16,210	(222)	18,690	133,767
Equity warrants	43,269	235		(3,861)	1,271	(6,599)	2,309	36,624
Investment Manager (2)	1,869			(1,616)			(51)	202
	\$ 419,248	\$ 27,536	\$ 3,567	\$ (72,232)	\$ 79,177	\$ (3,332)	\$ 19,899	\$ 473,863

(1) Includes the impact of non-cash conversions

(2) Reflects the adjustment to the investment in the Investment Manager in connection with the acquisition of the remaining externally owned MSC II equity interests.

As of June 30, 2012 and December 31, 2011, the fair value determination for the SBIC debentures recorded at fair value primarily consisted of unobservable inputs. As a result, the SBIC debentures which are recorded at fair value were categorized as Level 3. Main Street determines the fair value of these instruments primarily using a yield approach that analyzes the discounted cash flows of interest and principal for each SBIC debenture recorded at fair value based on estimated market interest rates for debt instruments of similar structure, terms, and maturity. Main Street's estimate of the expected repayment date of principal for each SBIC debenture recorded at fair value is the legal maturity date of the instrument, as Main Street generally does not intend to repay its SBIC debentures prior to maturity.

The significant unobservable inputs used in the fair value measurement of Main Street's SBIC debentures recorded at fair value are the estimated market interest rates used to fair value each debenture using the yield valuation technique described above. Significant increases (decreases) in the yield valuation inputs in isolation would result in a significantly lower (higher) fair value measurement.

The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 SBIC debentures at fair value as of June 30, 2012:

	Fair Value at June 30, 2012 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average
SBIC Debentures	\$ 78,396	Discounted cash flow	Estimated market interest rates	8.9% - 9.5%	9.1%

The following table provides a summary of changes for the Level 3 SBIC Debentures recorded at fair value for the six months ended June 30, 2012 (amounts in thousands):

Type of Instrument	December 31, 2011 Fair Value	Repayments	New SBIC Debentures	Net Unrealized (Appreciation) Depreciation	June 30, 2012 Fair Value
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SBIC Debentures at fair value	\$	76,887	\$	\$	\$	1,509	\$	78,396
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At June 30, 2012 and December 31, 2011, Main Street's investments and SBIC Debentures at fair value were categorized as follows in the fair value hierarchy for ASC 820 purposes:

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At June 30, 2012	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements (in thousands)	
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
LMM portfolio investments	\$ 423,603	\$	\$	\$ 423,603
Middle Market portfolio investments	343,391		315,321	28,070
Other Portfolio investments	23,598		1,610	21,988
Investment in affiliated Investment Manager	202			202
Total portfolio investments	790,794		316,931	473,863
Marketable securities and idle funds investments	8,149		8,149	
Total investments	\$ 798,943	\$	\$ 325,080	\$ 473,863
SBIC Debentures at fair value	\$ 78,396	\$	\$	\$ 78,396

At December 31, 2011	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements (in thousands)	
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
LMM portfolio investments	\$ 415,664	\$	\$ 11,685	\$ 403,979
Middle Market portfolio investments	226,451		226,451	
Other Portfolio investments	14,109		709	13,400
Investment in affiliated Investment Manager	1,869			1,869
Total portfolio investments	658,093		238,845	419,248
Marketable securities and idle funds investments	26,242		26,242	
Total investments	\$ 684,335	\$	\$ 265,087	\$ 419,248
SBIC Debentures at fair value	\$ 76,887	\$	\$	\$ 76,887

For the six months ended June 30, 2012, there were six portfolio company investment transfers from the Level 2 to the Level 3 fair value hierarchy, totaling \$27.4 million at both fair value and cost as of June 30, 2012.

Portfolio Investment Composition

Main Street's lower middle market (LMM) portfolio investments principally consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies based in the United States. Main Street's LMM portfolio companies generally have annual

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revenues between \$10 million and \$150 million and our LMM investments generally range in size from \$5 million to \$25 million. The LMM debt investments are typically secured by either a first or second lien on the assets of the portfolio company, primarily bear interest at fixed rates, and generally mature between five and seven years from the original investment date.

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In most LMM portfolio companies, Main Street usually receives nominally priced equity warrants and/or makes direct equity investments in connection with a debt investment.

Main Street's middle market (Middle Market) portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies based in the United States that are generally larger in size than the LMM companies included in Main Street's LMM portfolio. Main Street's Middle Market portfolio companies generally have annual revenues between \$150 million and \$1.5 billion. Main Street's Middle Market portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and have an expected duration of between three and five years.

Main Street's other portfolio (Other Portfolio) investments primarily consist of investments which are not consistent with the typical profiles for LMM and Middle Market portfolio investments, including investments which may be managed by third parties.

Investment income, consisting of interest, dividends and fees, can fluctuate dramatically due to various factors, including the level of new investment activity, repayments of debt investments or sales of equity interests. Investment income in any given year could be highly concentrated among several portfolio companies. For the three and six month periods ended June 30, 2012 and 2011, Main Street did not record (i) investment income from any LMM portfolio company in excess of 10% of total LMM investment income, (ii) investment income from any Middle Market portfolio company in excess of 10% of total Middle Market investment income or (iii) investment income from any single portfolio company in excess of 10% of total investment income.

As of June 30, 2012, Main Street had debt and equity investments in 54 LMM portfolio companies with an aggregate fair value of \$423.6 million, with a total cost basis of approximately \$340.8 million, and a weighted average annual effective yield on its LMM debt investments of approximately 15.0%. Approximately 78% of Main Street's total LMM portfolio investments at cost were in the form of debt investments and 95% of such debt investments at cost were secured by first priority liens on the assets of Main Street's LMM portfolio companies as of June 30, 2012. At June 30, 2012, Main Street had equity ownership in approximately 91% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 33%. As of December 31, 2011, Main Street had debt and equity investments in 54 LMM portfolio companies with an aggregate fair value of \$415.7 million, with a total cost basis of approximately \$349.0 million, and a weighted average annual effective yield on its LMM debt investments of approximately 14.8%. The weighted average annual yields were computed using the effective interest rates for all debt investments as of June 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment and any debt investments on non-accrual status.

As of June 30, 2012, Main Street had Middle Market portfolio investments in 77 companies collectively totaling approximately \$343.4 million in fair value with a total cost basis of approximately \$341.8 million. The weighted average revenues for the 77 Middle Market portfolio company investments were approximately \$519 million. Main Street's Middle Market portfolio investments are primarily in the form of debt investments and 91% of such debt investments at cost were secured by first priority liens on portfolio company assets as of June 30, 2012. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 8.7% as of June 30, 2012. As of December 31, 2011, Main Street had Middle Market portfolio investments in 57 companies collectively totaling approximately \$226.5 million in fair value with a total cost basis of approximately \$228.9 million. The weighted average revenues for the 57 Middle Market portfolio company investments were approximately \$473 million. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 9.5% as of December 31, 2011. The weighted average annual yields were computed using the effective interest rates for all debt investments as of June 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment.

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As of June 30, 2012, Main Street had Other Portfolio investments in 4 companies collectively totaling approximately \$23.6 million in fair value and \$23.4 million in cost basis. As of December 31, 2011, Main Street had Other Portfolio investments in 3 companies collectively totaling approximately \$14.1 million in both fair value and cost basis.

For the six months ended June 30, 2012, there was 1 portfolio company investment transfer from the Middle Market portfolio investment category to the Other Portfolio investment category totaling \$1.6 million at fair value and \$1.7 million at cost as of June 30, 2012.

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The following table summarizes the composition of Main Street's LMM investment portfolio, Middle Market investment portfolio, and total combined LMM and Middle Market investment portfolio at cost and fair value by type of investment as a percentage of the total LMM investment portfolio, the total Middle Market investment portfolio, and the total combined LMM and Middle Market investment portfolio as of June 30, 2012 and December 31, 2011 (this information excludes the Other Portfolio investments and the Investment Manager):

Cost:	June 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	73.6%	90.7%	82.1%	69.5%	81.8%	74.4%
Equity	17.7%	0.2%	9.0%	20.5%	0.2%	12.5%
Second lien debt	4.1%	9.1%	6.6%	5.0%	18.0%	10.1%
Equity warrants	4.6%	0.0%	2.3%	5.0%	0.0%	3.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fair Value:	June 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	59.3%	90.7%	73.4%	57.7%	81.7%	66.2%
Equity	30.0%	0.2%	16.6%	29.0%	0.3%	18.8%
Second lien debt	3.3%	9.1%	5.9%	4.4%	18.0%	9.2%
Equity warrants	7.4%	0.0%	4.1%	8.9%	0.0%	5.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The following table shows Main Street's LMM investment portfolio, Middle Market investment portfolio, and total combined LMM and Middle Market investment portfolio composition by geographic region of the United States at cost and fair value as a percentage of the total LMM investment portfolio, the total Middle Market investment portfolio, and the total combined LMM and Middle Market investment portfolio as of June 30, 2012 and December 31, 2011 (this information excludes the Other Portfolio investments and the Investment Manager). The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

Cost:	June 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	42.7%	16.6%	29.6%	47.8%	16.4%	35.4%
West	32.4%	13.6%	23.0%	31.9%	13.7%	24.7%
Midwest	12.1%	28.5%	20.3%	9.0%	21.6%	14.0%
Northeast	4.6%	30.0%	17.3%	3.9%	32.6%	15.2%
Southeast	8.2%	7.0%	7.6%	7.4%	15.7%	10.7%
Other	0.0%	4.3%	2.2%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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Fair Value:	June 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	46.4%	16.6%	33.0%	52.1%	16.2%	39.3%
West	30.5%	13.6%	22.9%	28.9%	13.8%	23.6%
Midwest	11.9%	28.6%	19.4%	8.7%	21.9%	13.4%
Northeast	4.4%	29.9%	15.8%	3.9%	32.4%	14.0%
Southeast	6.8%	6.9%	6.9%	6.4%	15.7%	9.7%
Other	0.0%	4.4%	2.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Main Street's LMM and Middle Market portfolio investments are in companies conducting business in a variety of industries. The following tables show the composition of Main Street's LMM portfolio investments, Middle Market portfolio investments, and total combined LMM and Middle Market portfolio investments by industry at cost and fair value as of June 30, 2012 and December 31, 2011 (this information excludes the Other Portfolio investments and the Investment Manager):

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Cost:	June 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Media	8.8%	8.6%	8.7%	8.7%	6.6%	7.9%
Energy Equipment and Services	10.0%	5.0%	7.5%	9.2%	7.5%	8.5%
Health Care Providers and Services	6.3%	8.0%	7.2%	6.5%	9.1%	7.5%
Machinery	9.7%	4.3%	7.0%	9.9%	2.1%	6.9%
Commercial Services and Supplies	12.3%	1.4%	6.8%	15.4%	0.9%	9.7%
Software	4.8%	7.6%	6.2%	2.8%	8.4%	5.0%
Specialty Retail	8.2%	3.7%	6.0%	5.3%	5.6%	5.4%
Construction and Engineering	5.5%	2.9%	4.2%	5.3%	0.0%	5.0%
Chemicals	0.0%	6.8%	3.4%	0.0%	3.8%	1.5%
Food Products	0.0%	6.7%	3.4%	0.0%	3.9%	1.6%
Electronic Equipment, Instruments and Components	4.0%	1.9%	3.0%	4.6%	0.0%	2.8%
Containers and Packaging	0.0%	4.5%	2.2%	0.0%	1.3%	0.5%
Food and Staples Retailing	0.0%	4.1%	2.1%	0.0%	6.2%	2.5%
Diversified Consumer Services	4.3%	0.0%	2.1%	2.7%	0.0%	1.6%
IT Services	0.0%	4.2%	2.1%	0.0%	4.1%	1.6%
Construction Materials	1.2%	3.0%	2.0%	1.1%	4.4%	0.7%
Oil, Gas and Consumable Fuels	0.0%	3.7%	1.9%	0.0%	0.0%	0.0%
Metals and Mining	0.0%	3.9%	1.9%	0.0%	0.0%	0.0%
Consumer Finance	3.0%	0.6%	1.8%	3.0%	0.9%	2.1%
Health Care Equipment and Supplies	2.1%	1.5%	1.8%	2.2%	1.2%	1.8%
Hotels, Restaurants and Leisure	2.3%	1.1%	1.7%	2.1%	7.2%	4.1%
Insurance	3.4%	0.0%	1.7%	3.1%	2.6%	2.9%
Building Products	2.8%	0.7%	1.7%	2.6%	0.0%	1.6%
Professional Services	2.6%	0.0%	1.3%	3.5%	0.0%	2.1%
Internet Software and Services	0.4%	2.2%	1.3%	3.0%	0.0%	1.8%
Paper and Forest Products	2.3%	0.0%	1.2%	2.2%	0.0%	1.3