Main Street Capital CORP
Form 10-Q
August 05, 2011
Table of Contents

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2011**

**OR**

**o 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** | **41-2230745** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1300 Post Oak Boulevard, Suite 800**<br>**Houston, TX** | **77056** |
| (Address of principal executive offices) | (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 x No o

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 o No o

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 o | Accelerated filer x |
|---|---|
| Non-accelerated filer o | Smaller reporting company o |

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

The number of shares outstanding of the issuer s common stock as of August 4, 2011 was 23,197,465.

Table of Contents

**TABLE OF CONTENTS**


| | | |
|---|---|---|
| | PART I<br>FINANCIAL INFORMATION | |
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets June 30, 2011 (unaudited) and December 31, 2010 | 1 |
| | Consolidated Statements of Operations (unaudited) Three and six months ended June 30, 2011 and 2010 | 2 |
| | Consolidated Statements of Changes in Net Assets (unaudited) Six months ended June 30, 2011 and 2010 | 3 |
| | Consolidated Statements of Cash Flows (unaudited) Six months ended June 30, 2011 and 2010 | 4 |
| | Consolidated Schedule of Investments (unaudited) June 30, 2011 | 5 |
| | Consolidated Schedule of Investments December 31, 2010 | 13 |
| | Notes to Consolidated Financial Statements (unaudited) | 20 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 39 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 54 |
| Item 4. | Controls and Procedures | 54 |
| | PART II<br>OTHER INFORMATION | |
| Item 1. | Legal Proceedings | 54 |
| Item 1A. | Risk Factors | 54 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 54 |
| Item 6. | Exhibits | 55 |
| | Signatures | 56 |

Table of Contents

## PART I FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

### MAIN STREET CAPITAL CORPORATION

### Consolidated Balance Sheets

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Portfolio investments at fair value: | | |
| Control investments (cost: $187,884,250 and $161,009,443 as of June 30, 2011 and December 31, 2010, respectively) | $ 206,162,509 | $ 174,596,394 |
| Affiliate investments (cost: $79,599,578 and $65,650,789 as of June 30, 2011 and December 31, 2010, respectively) | 103,864,454 | 80,206,804 |
| Non-Control/Non-Affiliate investments (cost: $157,923,128 and $91,911,304 as of June 30, 2011 and December 31, 2010, respectively) | 159,737,085 | 91,956,221 |
| Investment in affiliated Investment Manager (cost: $4,284,042 as of June 30, 2011 and December 31, 2010) | 1,964,649 | 2,051,655 |
| Total portfolio investments (cost: $429,690,998 and $322,855,578 as of June 30, 2011 and December 31, 2010, respectively) | 471,728,697 | 348,811,074 |
| Marketable securities and idle funds investments (cost: $118,916,360 and $67,970,907 as of June 30, 2011 and December 31, 2010, respectively) | 120,299,248 | 68,752,858 |
| Total investments (cost: $548,607,358 and $390,826,485 as of June 30, 2011 and December 31, 2010, respectively) | 592,027,945 | 417,563,932 |
| Cash and cash equivalents | 14,132,738 | 22,334,340 |
| Deferred tax asset | | 1,958,593 |
| Interest receivable and other assets | 7,377,424 | 4,523,792 |
| Deferred financing costs (net of accumulated amortization of $1,810,987 and $1,504,584 as of June 30, 2011 and December 31, 2010, respectively) | 3,715,272 | 2,543,645 |
| Total assets | $ 617,253,379 | $ 448,924,302 |
| **LIABILITIES** | | |
| SBIC debentures (par: $210,000,000 and $180,000,000 as of June 30, 2011 and December 31, 2010, respectively; of which $72,637,267 and $70,557,975 are recorded at fair value as of June 30, 2011 and December 31, 2010, respectively) | $ 187,637,267 | $ 155,557,975 |
| Credit facility | 73,000,000 | 39,000,000 |
| Payable for securities purchased | 10,805,000 | |
| Interest payable | 3,717,072 | 3,194,870 |
| Dividend payable | 3,013,738 | |
| Deferred tax liability | 953,719 | |
| Payable to affiliated Investment Manager | 2,237,417 | 15,124 |

| | | | | |
|---|---|---|---|---|
| Accounts payable and other liabilities | | 1,261,674 | | 1,173,295 |
| | | | | |
| Total liabilities | | 282,625,887 | | 198,941,264 |
| Commitments and contingencies | | | | |
| | | | | |
| **NET ASSETS** | | | | |
| | | | | |
| Common stock, $0.01 par value per share (150,000,000 shares authorized; 23,182,600 and 18,797,444 issued and outstanding as of June 30, 2011 and December 31, 2010, respectively) | | 231,826 | | 187,975 |
| Additional paid-in capital | | 300,130,851 | | 224,485,165 |
| Accumulated net investment income | | 7,435,312 | | 9,261,405 |
| Accumulated net realized loss from investments | | (20,499,798) | | (20,541,897) |
| Net unrealized appreciation, net of income taxes | | 42,833,531 | | 32,141,997 |
| | | | | |
| Total Net Asset Value | | 330,131,722 | | 245,534,645 |
| | | | | |
| Noncontrolling interest | | 4,495,770 | | 4,448,393 |
| | | | | |
| Total net assets including noncontrolling interests | | 334,627,492 | | 249,983,038 |
| | | | | |
| Total liabilities and net assets | $ | 617,253,379 | $ | 448,924,302 |
| | | | | |
| **NET ASSET VALUE PER SHARE** | $ | 14.24 | $ | 13.06 |

The accompanying notes are an integral part of these financial statements

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**Consolidated Statements of Operations**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **INVESTMENT INCOME:** | | | | |
| Interest, fee and dividend income: | | | | |
| Control investments | $ 6,491,097 | $ 4,532,343 | $ 12,140,859 | $ 8,127,651 |
| Affiliate investments | 3,113,091 | 1,953,832 | 5,259,510 | 3,762,445 |
| Non-Control/Non-Affiliate investments | 4,325,520 | 1,686,032 | 7,656,629 | 2,549,428 |
| Total interest, fee and dividend income | 13,929,708 | 8,172,207 | 25,056,998 | 14,439,524 |
| Interest from marketable securities, idle funds and other | 2,199,054 | 560,012 | 4,446,336 | 1,385,534 |
| Total investment income | 16,128,762 | 8,732,219 | 29,503,334 | 15,825,058 |
| **EXPENSES:** | | | | |
| Interest | (3,263,807) | (2,111,868) | (6,166,012) | (4,105,105) |
| General and administrative | (599,361) | (246,194) | (1,106,543) | (671,898) |
| Expenses reimbursed to affiliated Investment Manager | (2,207,606) | (1,330,611) | (4,337,412) | (2,482,798) |
| Share-based compensation | (442,897) | (301,458) | (885,794) | (602,916) |
| Total expenses | (6,513,671) | (3,990,131) | (12,495,761) | (7,862,717) |
| **NET INVESTMENT INCOME** | 9,615,091 | 4,742,088 | 17,007,573 | 7,962,341 |
| | | | | |
| **NET REALIZED GAIN (LOSS) FROM INVESTMENTS:** | | | | |
| Control investments | | 2,301,745 | | (1,719,173) |
| Marketable securities and idle funds investments | 249,654 | 353,487 | 249,654 | 313,948 |
| Total net realized gain (loss) from investments | 249,654 | 2,655,232 | 249,654 | (1,405,225) |
| **NET REALIZED INCOME** | 9,864,745 | 7,397,320 | 17,257,227 | 6,557,116 |
| | | | | |
| **NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):** | | | | |
| Portfolio investments | 11,524,983 | 957,432 | 15,543,567 | 6,072,091 |
| Marketable securities and idle funds investments | 519,734 | (484,585) | 634,477 | (231,281) |
| SBIC debentures | (2,117,924) | 1,475,861 | (2,079,292) | 1,757,054 |
| Investment in affiliated Investment Manager | (45,700) | (141,117) | (87,006) | (286,196) |
| Total net change in unrealized appreciation | 9,881,093 | 1,807,591 | 14,011,746 | 7,311,668 |
| | | | | |
| Income tax provision | (1,962,206) | (36,686) | (3,162,612) | (421,260) |
| Bargain purchase gain | | | | 4,890,582 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | 17,783,632 | 9,168,225 | 28,106,361 | 18,338,106 |
| Noncontrolling interest | (157,600) | (295,559) | (157,600) | (408,895) |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK** | $ 17,626,032 | $ 8,872,666 | $ 27,948,761 | $ 17,929,211 |
| | | | | |
| **NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED** | $ 0.41 | $ 0.31 | $ 0.79 | $ 0.53 |
| | $ 0.42 | $ 0.49 | $ 0.80 | $ 0.44 |

| | | | | |
|---|---|---|---|---|
| **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** | $ 0.77 | $ 0.59 | $ 1.32 | $ 1.22 |
| **DIVIDENDS PAID PER SHARE** | $ 0.39 | $ 0.38 | $ 0.77 | $ 0.75 |
| **WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED** | 23,015,718 | 15,147,091 | 21,128,360 | 14,754,121 |

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**

**(Unaudited)**

| | Common Stock Number of Shares | Common Stock Par Value | Additional Paid-In Capital | Accumulated Net Investment Income | Accumulated Net Realized Loss From Investments | 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, 2009** | 10,842,447 | $ 108,425 | $ 123,534,156 | $ 7,269,866 | $ (15,922,020) | $ 14,669,704 | $ 129,660,131 | $ | $ 129,660,131 |
| MSC II exchange offer and related transactions | 1,246,803 | 12,468 | 20,080,623 | 4,890,582 | | | 24,983,673 | 3,237,210 | 28,220,883 |
| Public offering of common stock, net of offering costs | 2,875,000 | 28,750 | 40,079,845 | | | | 40,108,595 | | 40,108,595 |
| Share-based compensation | | | 602,916 | | | | 602,916 | | 602,916 |
| Dividend reinvestment | 248,803 | 2,487 | 3,793,741 | | | | 3,796,228 | | 3,796,228 |
| Adjustment to investment in Investment Manager related to the MSC II Exchange Offer | | | (13,715,958) | | | | (13,715,958) | | (13,715,958) |
| Dividends to stockholders | | | | (11,331,527) | (1,349,863) | | (12,681,390) | | (12,681,390) |
| Net increase resulting from operations | | | | 7,962,341 | (1,405,225) | 6,890,408 | 13,447,524 | | 13,447,524 |
| Noncontrolling interest | | | | | | (408,895) | (408,895) | 408,895 | |
| **Balances at June 30, 2010** | 15,213,053 | $ 152,130 | $ 174,375,323 | $ 8,791,262 | $ (18,677,108) | $ 21,151,217 | $ 185,792,824 | $ 3,646,105 | $ 189,438,929 |
| **Balances at December 31, 2010** | 18,797,444 | $ 187,975 | $ 224,485,165 | $ 9,261,405 | $ (20,541,897) | $ 32,141,997 | $ 245,534,645 | $ 4,448,393 | $ 249,983,038 |
| Public offering of common stock, net of offering costs | 4,025,000 | 40,250 | 70,309,656 | | | | 70,349,906 | | 70,349,906 |
| Share-based compensation | | | 885,794 | | | | 885,794 | | 885,794 |
| Dividend reinvestment | 235,844 | 2,358 | 4,451,479 | | | | 4,453,837 | | 4,453,837 |
| Issuance of restricted stock | 124,312 | 1,243 | (1,243) | | | | | | |
| Distributions to noncontrolling interest | | | | | | | | (110,223) | (110,223) |
| Dividends to stockholders | | | | (18,833,666) | (207,555) | | (19,041,221) | | (19,041,221) |
| | | | | 17,007,573 | 249,654 | 10,849,134 | 28,106,361 | | 28,106,361 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net increase resulting from operations | | | | | | | | | | |
| Noncontrolling interest | | | | | | | (157,600) | (157,600) | 157,600 | |
| **Balances at June 30, 2011** | 23,182,600 | $ 231,826 | $ 300,130,851 | $ 7,435,312 | $ (20,499,798) | $ | 42,833,531 | $ 330,131,722 | $ 4,495,770 | $ 334,627,492 |

The accompanying notes are an integral part of these financial statements

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net increase in net assets resulting from operations | $ 28,106,361 | $ 18,338,106 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: | | |
| Net change in unrealized appreciation | (14,011,746) | (7,311,668) |
| Net realized (gain) loss from investments | (249,654) | 1,405,225 |
| Bargain purchase gain | | (4,890,582) |
| Accretion of unearned income | (2,699,360) | (1,092,705) |
| Net payment-in-kind interest accrual | (2,014,999) | (429,153) |
| Share-based compensation expense | 885,794 | 602,916 |
| Amortization of deferred financing costs | 306,403 | 195,868 |
| Deferred taxes | 2,912,311 | (185) |
| Changes in other assets and liabilities: | | |
| Interest receivable and other assets | (1,400,332) | (1,204,605) |
| Interest payable | 522,202 | 233,897 |
| Payable to affiliated Investment Manager | 2,222,293 | 384,431 |
| Accounts payable and other liabilities | 88,379 | 431,922 |
| Deferred fees and other | 737,240 | 689,700 |
| Net cash provided by operating activities | 15,404,892 | 7,353,167 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investments in portfolio companies | (116,120,574) | (85,739,245) |
| Principal payments received on loans and debt securities in portfolio companies | 19,627,346 | 2,670,737 |
| Proceeds from sale of equity investments and related notes in portfolio companies | 375,906 | 3,151,500 |
| Cash acquired in MSC II exchange offer | | 2,489,920 |
| Investments in marketable securities and idle funds investments | (77,953,572) | (30,734,400) |
| Proceeds from marketable securities and idle funds investments | 29,276,393 | 19,546,235 |
| Net cash used in investing activities | (144,794,501) | (88,615,253) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from public offering of common stock, net of offering costs | 70,349,906 | 40,108,595 |
| Distributions to noncontrolling interest | (110,223) | |
| Dividends paid to stockholders | (11,573,646) | (6,983,532) |
| Proceeds from issuance of SBIC debentures | 30,000,000 | 10,000,000 |
| Proceeds from credit facility | 99,000,000 | 30,650,000 |
| Repayments on credit facility | (65,000,000) | (18,150,000) |
| Payment of deferred loan costs and SBIC debenture fees | (1,478,030) | (252,810) |
| Net cash provided by financing activities | 121,188,007 | 55,372,253 |
| | | |
| Net decrease in cash and cash equivalents | (8,201,602) | (25,889,833) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 22,334,340 | 30,619,998 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 14,132,738 | $ 4,730,165 |

The accompanying notes are an integral part of these financial statements

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Control Investments** (3) | | | | |
| **Café Brazil, LLC** | Casual Restaurant Group | | | |
| 12% Secured Debt (Maturity - April 20, 2013) | | 1,700,000 | 1,698,240 | 1,700,000 |
| Member Units (Fully diluted 41.0%) (7) | | | 41,837 | 2,860,220 |
| | | | 1,740,077 | 4,560,220 |
| **California Healthcare Medical Billing, Inc.** | Healthcare Billing and Records Management | | | |
| 12% Secured Debt (Maturity - October 17, 2015) | | 7,803,000 | 7,419,403 | 7,718,351 |
| Warrants (Fully diluted 20.1%) | | | 1,193,333 | 3,380,333 |
| Common Stock (Fully diluted 9.7%) | | | 1,176,667 | 1,390,000 |
| | | | 9,789,403 | 12,488,684 |
| **CBT Nuggets, LLC** | Produces and Sells IT Certification Training Videos | | | |
| 14% Secured Debt (Maturity - December 31, 2013) | | 2,725,000 | 2,725,000 | 2,725,000 |
| Member Units (Fully diluted 40.8%) (7) | | | 1,299,520 | 4,360,000 |
| | | | 4,024,520 | 7,085,000 |
| **Ceres Management, LLC (Lambs)** | Aftermarket Automotive Services Chain | | | |
| 14% Secured Debt (Maturity - May 31, 2013) | | 4,000,000 | 3,970,924 | 3,970,924 |
| 9.5% Secured Debt (Lamb s Real Estate Investment I, LLC) (Maturity - October 1, 2025) | | 1,225,000 | 1,225,000 | 1,225,000 |
| Class B Member Units (15% cumulative) (Non-voting) (7) | | | 2,409,667 | 2,409,667 |
| Member Units (Fully diluted 100%) | | | 1,813,333 | 390,000 |
| Member Units (Lamb s Real Estate Investment I, LLC) (Fully diluted 100%) (7) | | | 625,000 | 750,000 |
| | | | 10,043,924 | 8,745,591 |
| **Condit Exhibits, LLC** | Tradeshow Exhibits/Custom Displays | | | |
| 9% Current / 9% PIK Secured Debt (Maturity - July 1, 2013) | | 4,660,948 | 4,626,472 | 4,626,472 |
| Warrants (Fully diluted 47.9%) | | | 320,000 | 220,000 |
| | | | 4,946,472 | 4,846,472 |
| **Currie Acquisitions, LLC** | Consumer Products | | | |
| 12% Secured Debt (Maturity - March 1, 2015) | | 4,750,000 | 4,039,149 | 3,039,149 |
| Warrants (Fully diluted 47.3%) | | | 2,566,204 | |
| | | | 6,605,353 | 3,039,149 |

| | | | | |
|---|---|---|---|---|
| **Gulf Manufacturing, LLC** | Industrial Metal Fabrication | | | |
| 9% PIK Secured Debt (Maturity - June 30, 2017) | | 1,185,131 | 1,185,131 | 1,185,131 |
| Member Units (Fully diluted 34.2%) (7) | | | 2,979,813 | 8,560,000 |
| | | | 4,164,944 | 9,745,131 |
| **Harrison Hydra-Gen, Ltd.** | Manufacturer of Hydraulic Generators | | | |
| 12% Secured Debt (Maturity - June 4, 2015) | | 5,737,375 | 5,082,668 | 5,400,000 |
| Preferred stock (8% cumulative) (7) | | | 1,040,222 | 1,040,222 |
| Warrants (Fully diluted 35.2%) | | | 717,640 | 1,360,000 |
| | | | 6,840,530 | 7,800,222 |
| **Hawthorne Customs & Dispatch Services, LLC** | Transportation/ Logistics | | | |
| Member Units (Fully diluted 59.1%) (7) | | | 692,500 | 1,300,000 |
| Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%) (7) | | | 1,214,784 | 1,214,784 |
| | | | 1,907,284 | 2,514,784 |
| **Hydratec, Inc.** | Agricultural Services | | | |
| Common Stock (Fully diluted 92.5%) (7) | | | 7,089,911 | 10,414,911 |
| **Indianapolis Aviation Partners, LLC** | FBO / Aviation Support Services | | | |
| 12% Secured Debt (Maturity - September 15, 2014) | | 4,500,000 | 4,178,150 | 4,350,000 |
| Warrants (Fully diluted 30.1%) | | | 1,129,286 | 1,270,286 |
| | | | 5,307,436 | 5,620,286 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Control Investments** (3) | | | | |
| **Jensen Jewelers of Idaho, LLC** | Retail Jewelry | | | |
| Prime Plus 2%, Current Coupon 5.25%, Secured Debt (Maturity - November 14, 2013) | | 2,260,000 | 2,258,575 | 2,260,000 |
| 13% Current / 6% PIK Secured Debt (Maturity - November 14, 2013) | | 2,344,896 | 2,343,198 | 2,344,896 |
| Member Units (Fully diluted 60.8%) (7) | | | 811,000 | 1,750,000 |
| | | | 5,412,773 | 6,354,896 |
| **Lighting Unlimited, LLC** | Commercial and Residential Lighting Products and Design Services | | | |
| 8% Secured Debt (Maturity - August 22, 2012) | | 2,000,000 | 1,972,676 | 1,972,676 |
| Preferred Stock (non-voting) | | | 510,098 | 510,098 |
| Warrants (Fully diluted 7.07%) | | | 54,000 | |
| Common Stock (Fully diluted 70.0%) | | | 100,000 | 100,000 |
| | | | 2,636,774 | 2,582,774 |
| **Mid-Columbia Lumber Products, LLC** | Specialized Lumber Products | | | |
| 10% Secured Debt (Maturity - April 1, 2012) | | 1,250,000 | 1,250,000 | 1,250,000 |
| 12% Secured Debt (Maturity - December 18, 2011) | | 3,900,000 | 3,872,028 | 3,900,000 |
| 9.5% Secured Debt (Mid-Columbia Real Estate, LLC) (Maturity - May 13, 2025) | | 1,084,800 | 1,084,800 | 1,084,800 |
| Warrants (Fully diluted 9.2%) | | | 250,000 | 890,000 |
| Member Units (Fully diluted 42.9%) | | | 812,000 | 930,000 |
| Member Units (Mid-Columbia Real Estate, LLC) (Fully diluted 50.0%) | | | 250,000 | 810,000 |
| | | | 7,518,828 | 8,864,800 |
| **NAPCO Precast, LLC** | Precast Concrete Manufacturing | | | |
| 18% Secured Debt (Maturity - February 1, 2013) | | 5,923,077 | 5,873,252 | 5,923,077 |
| Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (8) | | 3,384,615 | 3,372,167 | 3,384,615 |
| Member Units (Fully diluted 35.3%) (7) | | | 2,020,000 | 3,510,000 |
| | | | 11,265,419 | 12,817,692 |
| **NTS Holdings, Inc.** | Trench & Traffic Safety Equipment | | | |
| 12% Secured Debt (Maturity - April 30, 2015) | | 6,000,000 | 5,967,193 | 5,967,193 |
| Preferred stock (12% cumulative) (7) | | | 11,251,405 | 11,251,405 |
| Common Stock (Fully diluted 72.3%) | | | 1,621,255 | 190,000 |
| | | | 18,839,853 | 17,408,598 |

| | | | | |
|---|---|---|---|---|
| **OMi Holdings, Inc.** | Manufacturer of Overhead Cranes | | | |
| 12% Secured Debt (Maturity - April 1, 2013) | | 9,770,000 | 9,729,276 | 9,729,276 |
| Common Stock (Fully diluted 48.0%) | | | 1,080,000 | 1,300,000 |
| | | | 10,809,276 | 11,029,276 |
| | | | | |
| **Pegasus Research Group, LLC (Televerde)** | Telemarketing and Data Services | | | |
| 13% Current / 3% PIK Secured Debt (Maturity - January 6, 2016) | | 6,342,002 | 6,261,422 | 6,261,422 |
| Member Units (Fully diluted 43.7%) | | | 1,250,000 | 1,250,000 |
| | | | 7,511,422 | 7,511,422 |
| | | | | |
| **PPL RVs, Inc.** | Recreational Vehicle Parts and Consignment | | | |
| 18% Secured Debt (Maturity - June 10, 2015) | | 5,750,000 | 5,677,710 | 5,750,000 |
| Member Units (Fully diluted 50.1%) | | | 2,150,000 | 3,250,000 |
| | | | 7,827,710 | 9,000,000 |
| | | | | |
| **Principle Environmental, LLC** | Noise Abatement Products/Services | | | |
| 12% Secured Debt (Maturity - February 1, 2016) | | 5,500,000 | 4,271,016 | 4,271,016 |
| 12% Current / 2% PIK Secured Debt (Maturity - February 1, 2016) | | 500,000 | 490,000 | 490,000 |
| Warrants (Fully diluted 15%) | | | 1,200,000 | 1,200,000 |
| Member Units (Fully diluted 25%) | | | 2,000,000 | 2,000,000 |
| | | | 7,961,016 | 7,961,016 |
| | | | | |
| **River Aggregates, LLC** | Construction Aggregates | | | |
| 12% Secured Debt (Maturity - March 30, 2016) | | 3,500,000 | 3,314,494 | 3,314,494 |
| Warrants (Fully diluted 10%) | | | 122,500 | 122,500 |
| Member Units (Fully diluted 45%) | | | 550,000 | 550,000 |
| | | | 3,986,994 | 3,986,994 |
| | | | | |
| **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) | | 1,022,013 | 1,016,675 | 1,016,675 |
| 6% Current / 6% PIK Secured Debt (Maturity October 2, 2013) | | 5,252,500 | 5,112,604 | 5,112,604 |
| Warrants (Fully diluted 47.1%) | | | 895,943 | |
| | | | 7,025,222 | 6,129,279 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Control Investments** (3) | | | | |
| **Thermal & Mechanical Equipment, LLC** | Heat Exchange / Filtration Products and Services | | | |
| Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - September 25, 2014) (8) | | 1,415,540 | 1,407,768 | 1,407,768 |
| 13% Current / 5% PIK Secured Debt (Maturity - September 25, 2014) | | 4,509,680 | 4,455,564 | 4,509,680 |
| Member Units (Fully diluted 50.0%) (7) | | | 1,000,000 | 3,720,000 |
| | | | 6,863,332 | 9,637,448 |
| **Uvalco Supply, LLC** | Farm and Ranch Supply | | | |
| Member Units (Fully diluted 42.8%) (7) | | | 1,113,243 | 2,060,000 |
| **Van Gilder Insurance Corporation** | Insurance Brokerage | | | |
| 8% Secured Debt (Maturity - January 31, 2016) | | 1,890,445 | 1,864,206 | 1,864,206 |
| 13% Secured Debt (Maturity - January 31, 2016) | | 6,150,000 | 4,906,126 | 4,906,126 |
| Warrants (Fully diluted 10%) | | | 1,208,643 | 1,208,643 |
| Common Stock (Fully diluted 15.51%) | | | 2,499,876 | 2,499,876 |
| | | | 10,478,851 | 10,478,851 |
| **Vision Interests, Inc.** | Manufacturer/Installer of Commercial Signage | | | |
| 2.6% Current /10.4% PIK Secured Debt (Maturity - June 5, 2012) | | 9,400,000 | 8,424,811 | 6,322,651 |
| 2.6% Current /10.4% PIK Secured Debt (Maturity - June 5, 2016) | | 760,000 | 740,587 | 740,587 |
| Warrants (Fully diluted 38.2%) | | | 160,010 | |
| Common Stock (Fully diluted 22.3%) | | | 372,000 | |
| | | | 9,697,408 | 7,063,238 |
| **Ziegler s NYPD, LLC** | Casual Restaurant Group | | | |
| Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - October 31, 2013) (8) | | 1,000,000 | 994,928 | 994,928 |
| 13% Current / 5% PIK Secured Debt (Maturity - October 31, 2013) | | 4,923,793 | 4,881,347 | 4,881,347 |
| Warrants (Fully diluted 46.6%) | | | 600,000 | 539,500 |
| | | | 6,476,275 | 6,415,775 |
| **Subtotal Control Investments (34.8% of total investments at fair value)** | | | 187,884,250 | 206,162,509 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Affiliate Investments** (4) | | | | |
| **American Sensor Technologies, Inc.** | Manufacturer of Commercial/ Industrial Sensors | | | |
| 9% Secured Debt (Maturity - May 31, 2012) | | 3,297,783 | 3,283,052 | 3,283,052 |
| Warrants (Fully diluted 19.6%) | | | 49,990 | 2,230,000 |
| | | | 3,333,042 | 5,513,052 |
| **Audio Messaging Solutions, LLC** | Audio Messaging Services | | | |
| 12% Secured Debt (Maturity - June 16, 2016) | | 14,560,000 | 14,008,544 | 14,426,000 |
| Warrants (Fully diluted 9.8%) | | | 886,933 | 2,110,000 |
| | | | 14,895,477 | 16,536,000 |
| **Compact Power Equipment Centers LLC** | Light to Medium Duty Equipment Rental | | | |
| 6% Current / 6% PIK Secured Debt (Maturity - December 30, 2014) | | 2,769,142 | 2,743,190 | 2,743,190 |
| Series A Member Units (8% cumulative) (7) | | | 820,110 | 820,110 |
| Member Units (Fully diluted 10.6%) | | | 1,147 | 1,147 |
| | | | 3,564,447 | 3,564,447 |
| **DrillingInfo, Inc.** | Information Services for the Oil and Gas Industry | | | |
| 12% Secured Debt (Maturity - November 20, 2014) | | 8,000,000 | 6,943,909 | 8,000,000 |
| 8.75% Secured Debt (Maturity - April 18, 2016) | | 750,000 | 750,000 | 750,000 |
| Warrants (Fully diluted 4.9%) | | | 1,250,000 | 8,330,000 |
| Common Stock (Fully diluted 2.4%) | | | 1,335,325 | 3,930,325 |
| | | | 10,279,234 | 21,010,325 |
| **East Teak Fine Hardwoods, Inc.** | Hardwood Products | | | |
| Common Stock (Fully diluted 5.0%) | | | 480,318 | 330,000 |
| **Houston Plating & Coatings, LLC** | Plating & Industrial Coating Services | | | |
| Prime Plus 2%, Current Coupon 5.25%, Debt (Maturity - July 18, 2013) | | 300,000 | 300,000 | 300,000 |
| Member Units (Fully diluted 11.1%) (7) | | | 335,000 | 3,605,000 |
| | | | 635,000 | 3,905,000 |
| **IRTH Holdings, LLC** | Utility Technology Services | | | |
| 12% Secured Debt (Maturity - December 29, 2015) | | 5,683,940 | 5,588,476 | 5,683,940 |
| Member Units (Fully diluted 22.3%) | | | 850,000 | 1,570,000 |

| | | | | |
|---|---|---|---|---|
| | | | 6,438,476 | 7,253,940 |
| | | | | |
| **KBK Industries, LLC** | Specialty Manufacturer of Oilfield and Industrial Products | | | |
| 10% Secured Debt (Maturity - March 31, 2012) | | 264,940 | 264,940 | 264,940 |
| 14% Secured Debt (Maturity - January 23, 2014) | | 5,250,000 | 5,250,000 | 5,250,000 |
| Member Units (Fully diluted 18.8%) (7) | | | 340,833 | 2,180,000 |
| | | | 5,855,773 | 7,694,940 |
| | | | | |
| **Laurus Healthcare, LP** | Healthcare Facilities / Services | | | |
| 9% Secured Debt (Maturity - May 12, 2016) | | 6,150,000 | 6,150,000 | 6,150,000 |
| Class A and C Units (Fully diluted 13.1%) (7) | | | 79,505 | 5,360,000 |
| | | | 6,229,505 | 11,510,000 |
| | | | | |
| **Merrick Systems, Inc.** | Software and Information Technology | | | |
| 13% Secured Debt (Maturity - May 5, 2015) | | 2,900,000 | 2,491,742 | 2,680,000 |
| Warrants (Fully diluted 6.5%) | | | 450,000 | 880,000 |
| | | | 2,941,742 | 3,560,000 |
| | | | | |
| **Olympus Building Services, Inc.** | Custodial/Facilities Services | | | |
| 12% Secured Debt (Maturity - March 27, 2014) | | 3,150,000 | 2,952,389 | 3,050,000 |
| 12% Current / 3% PIK Secured Debt (Maturity - March 27, 2014) | | 998,843 | 998,843 | 998,843 |
| Warrants (Fully diluted 22.5%) | | | 470,000 | 600,000 |
| | | | 4,421,232 | 4,648,843 |
| | | | | |
| **OnAsset Intelligence, Inc.** | Transportation Monitoring/Tracking Services | | | |
| 12% Secured Debt (Maturity - October 18, 2012) | | 1,500,000 | 697,470 | 697,470 |
| Preferred Stock (7% cumulative) (Fully diluted 5.75%) (7) | | | 1,521,585 | 1,521,585 |
| Warrants (Fully diluted 4.0%) | | | 830,000 | 830,000 |
| | | | 3,049,055 | 3,049,055 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **OPI International Ltd.** | Oil and Gas Construction Services | | | |
| 12% Secured Debt (Maturity - November 30, 2015) | | 11,750,000 | 11,072,627 | 11,072,627 |
| Common Stock (Fully diluted 8.0%) | | | 500,000 | 500,000 |
| | | | 11,572,627 | 11,572,627 |
| | | | | |
| **Schneider Sales Management, LLC** | Sales Consulting and Training | | | |
| 13% Secured Debt (Maturity - October 15, 2013) | | 3,567,542 | 3,489,127 | 250,000 |
| Warrants (Fully diluted 20.0%) | | | 45,000 | |
| | | | 3,534,127 | 250,000 |
| | | | | |
| **Walden Smokey Point, Inc.** | Specialty Transportation | | | |
| Common Stock (Fully diluted 12.6%) | | | 1,426,667 | 2,820,000 |
| | | | | |
| **WorldCall, Inc.** | Telecommunication/Information Services | | | |
| 13% Secured Debt (Maturity - April 22, 2012) | | 646,225 | 646,225 | 646,225 |
| Common Stock (Fully diluted 10%) | | | 296,631 | |
| | | | 942,856 | 646,225 |
| | | | | |
| **Subtotal Affiliate Investments (17.6% of total investments at fair value)** | | | 79,599,578 | 103,864,454 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments** (5) | | | | |
| **Affinity Videonet, Inc.** | Videoconferencing Services | | | |
| 13% Secured Debt (Maturity - December 31, 2015) | | 2,000,000 | 1,897,393 | 1,897,393 |
| 13% Current / 1% PIK Secured Debt (Maturity - December 31, 2015) | | 1,675,857 | 1,671,885 | 1,671,885 |
| Warrants (Fully diluted 2.5%) | | | 62,500 | 62,500 |
| | | | 3,631,778 | 3,631,778 |
| **Alon Refining Krotz Springs, Inc. (9)** | Petroleum Products/Refining | | | |
| 13.5% Secured Debt (Maturity - October 15, 2014) | | 4,000,000 | 3,849,696 | 4,180,000 |
| **Arrowhead General Insurance Agency, Inc. (9)** | Insurance | | | |
| LIBOR Plus 5.75%, Current Coupon 7.5%, Secured Debt (Maturity - March 4, 2017) (8) | | 3,990,000 | 3,913,652 | 3,963,407 |
| LIBOR Plus 9.5%, Current Coupon 11.25% Secured Debt (Maturity - September 30, 2017) (8) | | 2,000,000 | 1,941,398 | 1,990,000 |
| | | | 5,855,050 | 5,953,407 |
| **Bourland & Leverich Supply Co., LLC (9)** | Distributor of Oil & Gas Tubular Goods | | | |
| LIBOR Plus 9%, Current Coupon 11%, Secured Debt (Maturity - August 19, 2015) (8) | | 4,331,251 | 4,145,853 | 4,571,878 |
| **Brand Connections, LLC** | Venue-Based Marketing and Media | | | |
| 14% Secured Debt (Maturity - April 30, 2015) | | 6,948,943 | 6,808,751 | 6,808,751 |
| **Chef s Warehouse (9)** | Specialty Food Distributor | | | |
| LIBOR Plus 9%, Current Coupon 11%, Secured Debt (Maturity - April 23, 2014) (8) | | 7,861,250 | 7,667,420 | 8,057,781 |
| **Fairway Group Acquisition (9)** | Retail Grocery | | | |
| LIBOR Plus 6%, Current Coupon 7.5%, Secured Debt (Maturity - March 3, 2017) (8) | | 7,500,000 | 7,431,127 | 7,487,513 |
| **Global Tel*Link Corporation (9)** | Communications | | | |
| LIBOR Plus 11.25%, Current Coupon 13%, Secured Debt (Maturity - May 10, 2017) (8) | | 3,000,000 | 2,944,693 | 3,027,495 |
| **Golden Nugget, LLC (9)** | Hotel/Casino | | | |

| | | | | |
|---|---|---|---|---|
| LIBOR Plus 8.5%, Current Coupon 10%, Secured Debt (Maturity - April 25, 2016) (8) | | 10,000,000 | 9,605,024 | 9,850,000 |
| | | | | |
| **Gundle/SLT Environmental, Inc. (9)** | Environmental Services | | | |
| LIBOR Plus 5.5%, Current Coupon 7.0%, Secured Debt (Maturity - May 24, 2016) (8) | | 3,000,000 | 2,970,416 | 2,977,500 |
| LIBOR Plus 9.5%, Current Coupon 11%, Secured Debt (Maturity - November 23, 2016) (8) | | 4,000,000 | 3,920,823 | 3,949,920 |
| | | | 6,891,239 | 6,927,420 |
| | | | | |
| **Hayden Acquisition, LLC** | Manufacturer of Utility Structures | | | |
| 8% Secured Debt (Maturity - July 1, 2011) | | 1,800,000 | 1,781,303 | |
| | | | | |
| **Hoffmaster Group, Inc. (9)** | Manufacturer of Specialty Tabletop Products | | | |
| LIBOR Plus 5%, Current Coupon 7%, Secured Debt (Maturity - June 2, 2016) (8) | | 1,490,385 | 1,439,426 | 1,496,303 |
| 13.5% Secured Debt (Maturity - June 2, 2017) | | 5,000,000 | 4,887,082 | 5,075,000 |
| | | | 6,326,508 | 6,571,303 |
| | | | | |
| **Managed Health Care Associates, Inc. (9)** | Healthcare Products | | | |
| LIBOR Plus 3.25%, Current Coupon 3.53%, Secured Debt (Maturity - August 1, 2014) | | 2,987,606 | 2,560,959 | 2,905,447 |
| | | | | |
| **Megapath Inc. (9)** | Communications | | | |
| LIBOR Plus 10%, Current Coupon 12%, Secured Debt (Maturity - November 3, 2015) (8) | | 3,800,000 | 3,732,122 | 3,866,500 |
| | | | | |
| **Miramax Film NY, LLC (9)** | Motion Picture Producer and Distributor | | | |
| LIBOR Plus 11%, Current Coupon 13%, Secured Debt (Maturity - December 22, 2016) (8) | | 4,000,000 | 3,924,489 | 4,170,000 |
| Class B Units (Fully diluted 0.2%) | | | 500,000 | 500,000 |
| | | | 4,424,489 | 4,670,000 |
| | | | | |
| **Northland Cable Television, Inc. (9)** | Cable Broadcasting | | | |
| LIBOR Plus 6%, Current Coupon 7.75%, Secured Debt (Maturity - December 30, 2016) (8) | | 4,975,000 | 4,837,786 | 4,875,843 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments** (5) | | | | |
| **Physician Oncology Services, LP (9)** | Healthcare Services | | | |
| LIBOR Plus 4.75%, Current Coupon 6.25%, Secured Debt (Maturity - January 31, 2017) (8) | | 839,921 | 830,997 | 834,672 |
| **Pierre Foods, Inc. (9)** | Foodservice Supplier | | | |
| LIBOR Plus 5.25%, Current Coupon 7%, Secured Debt (Maturity - September 30, 2016) (8) | | 4,962,500 | 4,873,717 | 5,021,430 |
| LIBOR Plus 9.5%, Current Coupon 11.25%, Secured Debt (Maturity - September 29, 2017) (8) | | 2,000,000 | 1,935,419 | 2,052,500 |
| | | | 6,809,136 | 7,073,930 |
| **Shearer s Foods, Inc. (9)** | Manufacturer of Food / Snacks | | | |
| 12% Current / 3.5% PIK Secured Debt (Maturity - March 31, 2016) | | 4,181,772 | 4,093,050 | 4,202,681 |
| **Sourcehov LLC (9)** | Outsource/Consulting Services | | | |
| LIBOR Plus 5.375%, Current Coupon 6.625%, Secured Debt (Maturity - April 28, 2017) (8) | | 3,000,000 | 2,895,764 | 2,902,500 |
| LIBOR Plus 9.25%, Current Coupon 10.5%, Secured Debt (Maturity - April 30, 2018) (8) | | 3,000,000 | 2,865,692 | 2,870,640 |
| | | | 5,761,456 | 5,773,140 |
| **Standard Steel, LLC (9)** | Manufacturer of Steel Wheels and Axles | | | |
| 12% Secured Debt (Maturity - April 30, 2015) | | 3,000,000 | 2,911,366 | 3,133,200 |
| **Support Systems Homes, Inc.** | Manages Substance Abuse Treatment Centers | | | |
| 15% Secured Debt (Maturity - August 31, 2018) | | 576,600 | 576,600 | 576,600 |
| **Technical Innovations, LLC** | Manufacturer of Specialty Cutting Tools and Punches | | | |
| 13.5% Secured Debt (Maturity - January 16, 2015) | | 2,950,000 | 2,922,036 | 2,950,000 |
| 10% Secured Debt (Maturity - May 4, 2026) | | 1,440,000 | 1,411,335 | 1,411,335 |
| | | | 4,333,371 | 4,361,335 |
| **The Tennis Channel, Inc.** | Sports Broadcasting/Media | | | |
| LIBOR Plus 6% / 4% PIK, Current Coupon with PIK 14%, Secured Debt (Maturity - January 1, | | 10,395,656 | 10,801,470 | 10,801,470 |

| | | | | |
|---|---|---|---|---|
| 2013) (8) | | | | |
| Warrants (Fully diluted 0.11%) | | | 235,467 | 235,467 |
| | | | 11,036,937 | 11,036,937 |
| | | | | |
| **Ulterra Drilling Technologies, L.P. (9)** | Oilfield Services | | | |
| LIBOR Plus 7.5%, Current Coupon 9.5%, Secured Debt (Maturity - June 9, 2016) (8) | | 7,500,000 | 7,351,884 | 7,406,250 |
| LIBOR Plus 6.5%, Current Coupon 8.5% Secured Debt (Maturity - June 9, 2016) (8) | | 1,348,367 | 1,298,987 | 1,320,456 |
| | | | 8,650,871 | 8,726,706 |
| | | | | |
| **UniTek Global Services, Inc. (9)** | Telecommunications | | | |
| LIBOR Plus 7.5%, Current Coupon 9%, Secured Debt (Maturity - April 15, 2017) (8) | | 10,000,000 | 9,707,528 | 9,825,000 |
| | | | | |
| **Vision Solutions, Inc.** | Computers & Electronics | | | |
| LIBOR Plus 4.5%, Current Coupon 6%, Secured Debt (Maturity - July 23, 2016) (8) | | 4,937,500 | 4,884,750 | 4,928,242 |
| LIBOR Plus 8%, Current Coupon 9.5%, Secured Debt (Maturity - July 23, 2017) (8) | | 5,000,000 | 4,951,441 | 4,993,750 |
| | | | 9,836,191 | 9,921,992 |
| | | | | |
| **Walter Investment Management Corp. (9)** | Real Estate | | | |
| LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (8) | | 3,000,000 | 2,940,000 | 2,940,000 |
| LIBOR Plus 11%, Current Coupon 12.5%, Secured Debt (Maturity - December 30, 2016) (8) | | 3,000,000 | 2,940,000 | 2,940,000 |
| | | | 5,880,000 | 5,880,000 |
| | | | | |
| **Other Non-Control/Non-Affiliate Investments (10)** | | 5,000,000 | 5,001,827 | 5,005,776 |
| | | | | |
| **Subtotal Non-Control/Non-Affiliate Investments (27.0% of total investments at fair value)** | | | 157,923,128 | 159,737,085 |
| | | | | |
| **Main Street Capital Partners, LLC (Investment Manager) (0.3% of total investments at fair value)** | Asset Management | | | |
| 100% of Membership Interests | | | 4,284,042 | 1,964,649 |
| | | | | |
| **Total Portfolio Investments, June 30, 2011** | | | $ 429,690,998 | $ 471,728,697 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**June 30, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Marketable Securities and Idle Funds Investments** | Investments in Secured and Rated Debt Investments, Certificates of Deposit, and Diversified Bond Funds | | | |
| **AL Gulf Coast Terminals, LLC** | | | | |
| LIBOR Plus 5%, Current Coupon 6.75%, Secured Debt (Maturity - July 22, 2016) (8) | | $ 6,655,428 | $ 6,490,349 | $ 6,688,705 |
| **API Technologies Corp.** | | | | |
| LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 27, 2016) (8) | | 2,500,000 | 2,412,500 | 2,450,000 |
| **ATI Acquisition I Corp.** | | | | |
| LIBOR Plus 5.5%, Current Coupon 7.5%, Secured Debt (Maturity - March 11, 2016) (8) | | 2,856,137 | 2,815,493 | 2,838,286 |
| **Centerplate, Inc.** | | | | |
| LIBOR Plus 8.5%, Current Coupon 10.5%, Secured Debt (Maturity - September 16, 2016) (8) | | 2,985,000 | 2,905,023 | 3,004,597 |
| **Excelitas Technologies Corp.** | | | | |
| LIBOR Plus 4.5%, Current Coupon 5.5%, Secured Debt (Maturity - November 29, 2016) (8) | | 2,985,000 | 2,985,000 | 2,988,119 |
| **Flexera Software, Inc.** | | | | |
| LIBOR Plus 5.75%, Current Coupon 7.5%, Secured Debt (Maturity - January 20, 2017) (8) | | 4,387,500 | 4,306,722 | 4,420,406 |
| **Helm Financial Corporation** | | | | |
| LIBOR Plus 5%, Current Coupon 6.25%, Secured Debt (Maturity - June 1, 2017) (8) | | 1,995,000 | 1,975,270 | 1,996,995 |
| **Henniges Automotive Holdings, Inc.** | | | | |
| LIBOR Plus 10%, Current Coupon 12%, Secured Debt (Maturity - October 28, 2016) (8) | | 2,916,667 | 2,862,911 | 2,916,666 |
| **Il Fornaio Corporation** | | | | |
| LIBOR Plus 5.25%, Current Coupon 6.5%, Secured Debt (Maturity - June 10, 2017) (8) | | 1,995,000 | 1,985,137 | 1,997,504 |
| **JJ Lease Funding Corp.** | | | | |
| LIBOR Plus 8.5%, Current Coupon 10%, Secured Debt (Maturity - April 29, 2017) (8) | | 4,000,000 | 3,882,694 | 3,925,000 |
| **Medpace Intermediateco, Inc.** | | | | |
| LIBOR Plus 5%, Current Coupon 6.5%, Secured Debt (Maturity - June 17, 2017) (8) | | 5,000,000 | 4,925,000 | 4,925,000 |
| **MLM Holdings, Inc.** | | | | |
| LIBOR Plus 5.25%, Current Coupon 7%, Secured Debt (Maturity - December 1, 2016) (8) | | 6,947,500 | 6,852,244 | 6,951,842 |
| **Mood Media Corporation** | | | | |

| | | | |
|---|---|---|---|
| LIBOR Plus 5.5%, Current Coupon 7%, Secured Debt (Maturity - May 6, 2018) (8) | 3,000,000 | 2,970,136 | 2,973,750 |
| **MultiPlan, Inc.** | | | |
| LIBOR Plus 3.25%, Current Coupon 4.75%, Secured Debt (Maturity - August 26, 2017) (8) | 3,846,154 | 3,846,154 | 3,832,923 |
| **NAI Entertainment Holdings LLC** | | | |
| 8.25% Bond (Maturity - December 15, 2017) | 1,500,000 | 1,500,000 | 1,608,750 |
| **Pacific Architects and Engineers Incorporated** | | | |
| LIBOR Plus 6%, Current Coupon 7.5%, Secured Debt (Maturity - April 4, 2017) (8) | 5,000,000 | 4,902,149 | 4,987,500 |
| **Pretium Packaging Bond** | | | |
| 11.5% Bond (Maturity - April 1, 2016) | 1,500,000 | 1,500,000 | 1,518,750 |
| **Race Point Power, LLC** | | | |
| LIBOR Plus 6%, Current Coupon 7.75%, Secured Debt (Maturity - January 11, 2018) (8) | 4,783,891 | 4,694,485 | 4,809,317 |
| **Radio One, Inc.** | | | |
| LIBOR Plus 6%, Current Coupon 7.5%, Secured Debt (Maturity - March 31, 2016) (8) | 2,992,500 | 2,935,001 | 3,025,702 |
| **SonicWALL, Inc.** | | | |
| LIBOR Plus 6.25%, Current Coupon 8.25%, Secured Debt (Maturity - January 23, 2016) (8) | 1,394,355 | 1,396,512 | 1,401,327 |
| **Speedy Cash Intermediate Holdings Corp.** | | | |
| 10.75% Bond (Maturity - May 15, 2018) | 2,000,000 | 2,000,000 | 2,045,000 |
| **Sprouts Farmers Markets Holdings, LLC** | | | |
| LIBOR Plus 4.75%, Current Coupon 6%, Secured Debt (Maturity - April 18, 2018) (8) | 2,992,500 | 2,933,788 | 2,973,812 |
| **Surgery Center Holdings, Inc.** | | | |
| LIBOR Plus 5%, Current Coupon 6.5%, Secured Debt (Maturity - February 6, 2017) (8) | 4,987,500 | 4,963,069 | 5,031,141 |
| **United Refining Bond** | | | |
| 10.5% Bond (Maturity - February 28, 2017) | 3,000,000 | 3,000,000 | 3,000,000 |
| **Visant Corporation** | | | |
| LIBOR Plus 4%, Current Coupon 5.25%, Secured Debt (Maturity - December 22, 2016) (8) | 4,975,000 | 4,975,000 | 4,958,110 |
| **Wyle Services Corporation** | | | |
| LIBOR Plus 4.25%, Current Coupon 5.75%, Secured Debt (Maturity - March 26, 2017) (8) | 3,911,604 | 3,888,460 | 3,928,228 |
| **Yankee Cable Acquisition, LLC** | | | |
| LIBOR Plus 4.5%, Current Coupon 6.5%, Secured Debt (Maturity - August 26, 2016) (8) | 3,970,000 | 3,917,656 | 3,974,824 |
| | | | |
| **Other Marketable Securities and Idle Funds Investments** (11) | 24,545,983 | 25,095,607 | 25,126,994 |
| | | | |
| **Subtotal Marketable Securities and Idle Funds Investments (20.3% of total investments at fair value)** | | 118,916,360 | 120,299,248 |
| | | | |
| **Total Investments, June 30, 2011** | | $ 548,607,358 | $ 592,027,945 |

**(1) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.**

**(2) See Note C for summary geographic location of portfolio companies.**

**(3) Controlled 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.**

**(4) 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 Controlled investments.**

**(5) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.**

**(6) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.**

**(7) Income producing through dividends or distributions.**
**(8) Index based floating interest rate is subject to contractual minimum interest rates.**
**(9) Private placement portfolio investment.**
**(10) Other Non-Control/Non-Affiliate investments consist of equity investments in lower middle market companies.**
**(11) Other Marketable Securities and Idle Funds Investments consist of investments in secured and rated debt investments and diversified bond funds.**

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Control Investments** (3) | | | | |
| **Café Brazil, LLC** | Casual Restaurant Group | | | |
| 12% Secured Debt (Maturity - April 20, 2013) | | 2,000,000 | 1,997,439 | 2,000,000 |
| Member Units (Fully diluted 41.0%) (7) | | | 41,837 | 2,240,000 |
| | | | 2,039,276 | 4,240,000 |
| **California Healthcare Medical Billing, Inc.** | Healthcare Billing and Records Management | | | |
| 12% Secured Debt (Maturity - October 17, 2013) | | 7,303,000 | 6,937,251 | 6,985,748 |
| Warrants (Fully diluted 20.4%) | | | 1,193,333 | 3,380,333 |
| Common Stock (Fully diluted 9.7%) | | | 1,176,667 | 1,390,000 |
| | | | 9,307,251 | 11,756,081 |
| **CBT Nuggets, LLC** | Produces and Sells IT Certification Training Videos | | | |
| 10% Secured Debt (Maturity - March 31, 2012) | | 775,000 | 775,000 | 775,000 |
| 14% Secured Debt (Maturity - December 31, 2013) | | 2,800,000 | 2,787,551 | 2,792,180 |
| Member Units (Fully diluted 40.8%) (7) | | | 1,299,520 | 3,450,000 |
| | | | 4,862,071 | 7,017,180 |
| **Ceres Management, LLC (Lambs)** | Aftermarket Automotive Services Chain | | | |
| 14% Secured Debt (Maturity - May 31, 2013) | | 4,000,000 | 3,964,568 | 3,964,568 |
| 9.5% Secured Debt (Lamb s Real Estate Investment I, LLC) (Maturity - August 31, 2014) | | 1,225,000 | 1,225,000 | 1,225,000 |
| Class B Member Units (15% cumulative compounding quarterly) (Non-voting) (7) | | | 1,508,611 | 1,508,611 |
| Member Units (Fully diluted 70%) | | | 1,813,333 | 1,100,000 |
| Member Units (Lamb s Real Estate Investment I, LLC) (Fully diluted 100%) (7) | | | 625,000 | 625,000 |
| | | | 9,136,512 | 8,423,179 |
| **Condit Exhibits, LLC** | Tradeshow Exhibits/ Custom Displays | | | |
| 9% current / 9% PIK Secured Debt (Maturity - July 1, 2013) | | 4,660,948 | 4,619,659 | 4,619,659 |
| Warrants (Fully diluted 47.9%) | | | 320,000 | 50,000 |
| | | | 4,939,659 | 4,669,659 |
| **Currie Acquisitions, LLC** | Manufacturer of Electric Bicycles/Scooters | | | |
| 12% Secured Debt (Maturity - March 1, 2015) | | 4,750,000 | 3,971,699 | 3,971,699 |
| Warrants (Fully diluted 47.3%) | | | 2,566,204 | 2,340,204 |
| | | | 6,537,903 | 6,311,903 |

| | | | | |
|---|---|---|---|---|
| **Gulf Manufacturing, LLC** | Industrial Metal Fabrication | | | |
| 8% Secured Debt (Maturity - August 31, 2014) | | 3,620,000 | 3,620,000 | 3,620,000 |
| 13% Secured Debt (Maturity - August 31, 2012) | | 1,680,000 | 1,649,959 | 1,675,165 |
| 9% PIK Secured Debt (Maturity - June 30, 2017) | | 1,420,784 | 1,420,784 | 1,420,784 |
| Member Units (Fully diluted 34.2%) (7) | | | 2,979,813 | 5,870,000 |
| | | | 9,670,556 | 12,585,949 |
| | | | | |
| **Harrison Hydra-Gen, Ltd.** | Manufacturer of Hydraulic Generators | | | |
| 12% Secured Debt (Maturity - June 4, 2015) | | 6,000,000 | 5,255,101 | 5,255,101 |
| Warrants (Fully diluted 35.2%) | | | 717,640 | 717,640 |
| Mandatorily Redeemable Preferred Stock | | | 1,000,000 | 1,000,000 |
| | | | 6,972,741 | 6,972,741 |
| | | | | |
| **Hawthorne Customs & Dispatch Services, LLC** | Transportation/ Logistics | | | |
| Member Units (Fully diluted 59.1%) (7) | | | 692,500 | 1,250,000 |
| Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%) (7) | | | 1,214,784 | 1,214,784 |
| | | | 1,907,284 | 2,464,784 |
| | | | | |
| **Hydratec, Inc.** | Agricultural Services | | | |
| Common Stock (Fully diluted 92.5%) (7) | | | 7,087,911 | 9,177,911 |
| | | | | |
| **Indianapolis Aviation Partners, LLC** | FBO / Aviation Support Services | | | |
| 12% Secured Debt (Maturity - September 15, 2014) | | 4,500,000 | 4,140,255 | 4,350,000 |
| Warrants (Fully diluted 30.1%) | | | 1,129,286 | 1,570,286 |
| | | | 5,269,541 | 5,920,286 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Control Investments** (3) | | | | |
| **Jensen Jewelers of Idaho, LLC** | Retail Jewelry | | | |
| Prime Plus 2%, Current Coupon 5.25%, Secured Debt (Maturity - November 14, 2011) | | 2,260,000 | 2,256,486 | 2,260,000 |
| 13% current / 6% PIK Secured Debt (Maturity - November 14, 2011) | | 2,344,897 | 2,340,040 | 2,344,896 |
| Member Units (Fully diluted 60.8%) (7) | | | 811,000 | 1,060,000 |
| | | | 5,407,526 | 5,664,896 |
| **Mid-Columbia Lumber Products, LLC** | Specialized Lumber Products | | | |
| 10% Secured Debt (Maturity - April 1, 2012) | | 1,250,000 | 1,250,000 | 1,250,000 |
| 12% Secured Debt (Maturity - December 18, 2011) | | 3,900,000 | 3,803,664 | 3,900,000 |
| 9.5% Secured Debt (Mid - Columbia Real Estate, LLC) (Maturity - May 13, 2025) | | 1,107,400 | 1,107,400 | 1,107,400 |
| Warrants (Fully diluted 25.5%) | | | 250,000 | 740,000 |
| Member Units (Fully diluted 26.7%) | | | 500,000 | 770,000 |
| Member Units (Mid - Columbia Real Estate, LLC) (Fully diluted 50.0%) | | | 250,000 | 250,000 |
| | | | 7,161,064 | 8,017,400 |
| **NAPCO Precast, LLC** | Precast Concrete Manufacturing | | | |
| 18% Secured Debt (Maturity - February 1, 2013) | | 5,923,077 | 5,860,313 | 5,923,077 |
| Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (8) | | 3,384,615 | 3,368,600 | 3,384,615 |
| Member Units (Fully diluted 35.3%) (7) | | | 2,020,000 | 4,340,000 |
| | | | 11,248,913 | 13,647,692 |
| **NTS Holdings, Inc.** | Trench & Traffic Safety Equipment | | | |
| 12% Secured Debt (Maturity - April 30, 2015) | | 6,000,000 | 5,963,931 | 5,963,931 |
| Preferred stock (12% cumulative, compounded quarterly) (7) | | | 10,635,273 | 10,635,273 |
| Common Stock (Fully diluted 72.3%) | | | 1,621,255 | 776,000 |
| | | | 18,220,459 | 17,375,204 |
| **OMi Holdings, Inc.** | Manufacturer of Overhead Cranes | | | |
| 12% Secured Debt (Maturity - April 1, 2013) | | 10,170,000 | 10,116,824 | 10,116,824 |
| Common Stock (Fully diluted 48.0%) | | | 1,080,000 | 500,000 |
| | | | 11,196,824 | 10,616,824 |
| **PPL RVs, Inc.** | RV Aftermarket Consignment/Parts | | | |
| 18% Secured Debt (Maturity - June 10, 2015) | | 6,250,000 | 6,165,058 | 6,165,058 |
| Common Stock (Fully diluted 50.1%) | | | 2,150,000 | 2,150,000 |
| | | | 8,315,058 | 8,315,058 |

| | | | | |
|---|---|---|---|---|
| **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) | | 507,625 | 501,176 | 501,176 |
| 6% current / 6% PIK Secured Debt (Maturity October 2, 2013) | | 5,101,667 | 4,935,760 | 4,935,760 |
| Warrants (Fully diluted 47.1%) | | | 895,943 | 190,000 |
| | | | 6,332,879 | 5,626,936 |
| | | | | |
| **Thermal & Mechanical Equipment, LLC** | Heat Exchange / Filtration Products and Services | | | |
| Prime plus 2%, Current Coupon 9%, Secured Debt (Maturity - September 25, 2014) (8) | | 1,750,000 | 1,739,152 | 1,739,152 |
| 13% current / 5% PIK Secured Debt (Maturity - September 25, 2014) | | 5,575,220 | 5,501,111 | 5,575,220 |
| Warrants (Fully diluted 50.0%) | | | 1,000,000 | 1,940,000 |
| | | | 8,240,263 | 9,254,372 |
| | | | | |
| **Uvalco Supply, LLC** | Farm and Ranch Supply | | | |
| Member Units (Fully diluted 42.8%) (7) | | | 1,113,243 | 1,560,000 |
| | | | | |
| **Vision Interests, Inc.** | Manufacturer/Installer of | | | |
| 2.6% current /10.4% PIK Secured Debt (Maturity - June 5, 2012) | Commercial Signage | 9,400,000 | 8,424,811 | 8,022,651 |
| 2.6% current /10.4% PIK Secured Debt (Maturity - June 5, 2016) | | 760,000 | 739,663 | 739,663 |
| Warrants (Fully diluted 38.2%) | | | 160,010 | |
| Common Stock (Fully diluted 22.3%) | | | 372,000 | |
| | | | 9,696,484 | 8,762,314 |
| **Control Investments** (3) | | | | |
| **Ziegler s NYPD, LLC** | Casual Restaurant Group | | | |
| Prime plus 2%, Current Coupon 9%, Secured Debt (Maturity - October 1, 2013) (8) | | 1,000,000 | 993,937 | 993,937 |
| 13% current / 5% PIK Secured Debt (Maturity - October 1, 2013) | | 4,801,810 | 4,752,088 | 4,752,088 |
| Warrants (Fully diluted 46.6%) | | | 600,000 | 470,000 |
| | | | 6,346,025 | 6,216,025 |
| | | | | |
| **Subtotal Control Investments** | | | 161,009,443 | 174,596,394 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Affiliate Investments** (4) | | | | |
| **American Sensor Technologies, Inc.** | Manufacturer of Commercial/ Industrial Sensors | | | |
| 9% current / 2% PIK Secured Debt (Maturity - May 31, 2012) | | 3,536,182 | 3,514,113 | 3,514,113 |
| Warrants (Fully diluted 19.6%) | | | 49,990 | 1,830,000 |
| | | | 3,564,103 | 5,344,113 |
| **Audio Messaging Solutions, LLC** | Audio Messaging Services | | | |
| 12% Secured Debt (Maturity - May 8, 2014) | | 7,700,000 | 7,356,395 | 7,426,299 |
| Warrants (Fully diluted 8.4%) | | | 468,373 | 1,280,000 |
| | | | 7,824,768 | 8,706,299 |
| **Compact Power Equipment Centers, LLC** | Light to Medium Duty Equipment Rental | | | |
| 6% Current / 6% PIK Secured Debt (Maturity - September 23, 2014) | | 3,153,971 | 3,120,950 | 3,120,950 |
| Member Units (Fully diluted 11.5%) | | | 1,147 | 1,147 |
| | | | 3,122,097 | 3,122,097 |
| **DrillingInfo, Inc.** | Information Services for the Oil and Gas Industry | | | |
| 12% Secured Debt (Maturity - November 20, 2014) | | 8,000,000 | 6,832,370 | 7,770,000 |
| Warrants (Fully diluted 5.0%) | | | 1,250,000 | 4,010,000 |
| Common Stock (Fully diluted 2.1%) | | | 1,085,325 | 1,710,325 |
| | | | 9,167,695 | 13,490,325 |
| **East Teak Fine Hardwoods, Inc.** | Hardwood Products | | | |
| Common Stock (Fully diluted 5.0%) | | | 480,318 | 330,000 |
| **Houston Plating & Coatings, LLC** | Plating & Industrial Coating Services | | | |
| Prime plus 2%, Current Coupon 5.25%, Debt (Maturity - July 18, 2013) | | 300,000 | 300,000 | 300,000 |
| Member Units (Fully diluted 11.1%) (7) | | | 335,000 | 3,025,000 |
| | | | 635,000 | 3,325,000 |
| **IRTH Holdings, LLC** | Utility Technology Services | | | |
| 12% Secured Debt (Maturity - December 29, 2015) | | 6,000,000 | 5,891,126 | 5,891,126 |
| Member Units (Fully diluted 22.3%) | | | 850,000 | 850,000 |
| | | | 6,741,126 | 6,741,126 |

| | | | | |
|---|---|---|---|---|
| **KBK Industries, LLC** | Specialty Manufacturer of Oilfield and Industrial Products | | | |
| 10% Secured Debt (Maturity - March 31, 2011) | | 514,940 | 514,940 | 514,940 |
| 14% Secured Debt (Maturity - January 23, 2011) | | 5,250,000 | 5,241,999 | 5,241,999 |
| Member Units (Fully diluted 18.8%) (7) | | | 340,833 | 1,790,333 |
| | | | 6,097,772 | 7,547,272 |
| **Laurus Healthcare, LP** | Healthcare Facilities / Services | | | |
| 13% Secured Debt (Maturity - May 7, 2012) | | 2,275,000 | 2,275,000 | 2,275,000 |
| 13% Secured Debt (Maturity - December 31, 2011) | | 525,000 | 525,000 | 525,000 |
| Warrants (Fully diluted 13.1%) | | | 79,505 | 4,620,000 |
| | | | 2,879,505 | 7,420,000 |
| **Lighting Unlimited, LLC** | Commercial and Residential Lighting Products and Design Services | | | |
| Prime Plus 1% Secured Debt (Maturity - August 22, 2012) (8) | | 949,996 | 946,598 | 946,598 |
| 14% Secured Debt (Maturity - August 22, 2012) | | 1,760,101 | 1,723,326 | 1,723,326 |
| Warrants (Fully diluted 17.0%) | | | 54,000 | |
| | | | 2,723,924 | 2,669,924 |
| **Merrick Systems, Inc.** | Software and Information Technology | | | |
| 13% Secured Debt (Maturity - May 5, 2015) | | 3,000,000 | 2,540,849 | 2,540,849 |
| Warrants (Fully diluted 6.5%) | | | 450,000 | 450,000 |
| | | | 2,990,849 | 2,990,849 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Affiliate Investments** (4) | | | | |
| **Olympus Building Services, Inc.** | Custodial/Facilities Services | | | |
| 12% Secured Debt (Maturity - March 27, 2014) | | 3,150,000 | 2,976,408 | 3,050,000 |
| 12% Current / 3% PIK Secured Debt (Maturity - March 27, 2014) | | 984,000 | 984,001 | 984,001 |
| Warrants (Fully diluted 22.5%) | | | 470,000 | 930,000 |
| | | | 4,430,409 | 4,964,001 |
| | | | | |
| **OPI International Ltd.** | Oil and Gas Construction Services | | | |
| 12% Secured Debt (Maturity - November 30, 2015) | | 8,700,000 | 8,537,285 | 8,537,285 |
| 12% Secured Debt (Maturity - November 30, 2015) | | 750,000 | 252,288 | 252,288 |
| Warrants (Fully diluted 8.0%) | | | 500,000 | 500,000 |
| | | | 9,289,573 | 9,289,573 |
| | | | | |
| **Schneider Sales Management, LLC** | Sales Consulting and Training | | | |
| 13% Secured Debt (Maturity - October 15, 2013) | | 3,367,542 | 3,289,127 | 1,000,000 |
| Warrants (Fully diluted 20.0%) | | | 45,000 | |
| | | | 3,334,127 | 1,000,000 |
| | | | | |
| **Walden Smokey Point, Inc.** | Specialty Transportation | | | |
| Common Stock (Fully diluted 12.6%) | | | 1,426,667 | 2,620,000 |
| | | | | |
| **WorldCall, Inc.** | Telecommunication/Information Services | | | |
| 13% Secured Debt (Maturity - April 22, 2011) | | 646,225 | 646,225 | 646,225 |
| Common Stock (Fully diluted 10.0%) | | | 296,631 | |
| | | | 942,856 | 646,225 |
| | | | | |
| **Subtotal Affiliate Investments** | | | 65,650,789 | 80,206,804 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments** (5) | | | | |
| **Affinity Videonet, Inc.** | Videoconferencing Services | | | |
| 9% Secured Debt (Maturity - December 31, 2012) | | 500,000 | 490,000 | 490,000 |
| 13% Secured Debt (Maturity - December 31, 2015) | | 2,000,000 | 1,897,500 | 1,897,500 |
| 13% current / 1% PIK Secured Debt (Maturity - December 31, 2015) | | 2,000,000 | 1,995,652 | 1,995,652 |
| Warrants (Fully diluted 2.5%) | | | 62,500 | 62,500 |
| | | | 4,445,652 | 4,445,652 |
| **Alon Refining Krotz Springs, Inc. (9)** | Petroleum Products/Refining | | | |
| 13.5% Secured Debt (Maturity - October 15, 2014) | | 4,000,000 | 3,832,366 | 3,900,000 |
| **Bourland & Leverich Supply Co., LLC (9)** | Distributor of Oil & Gas Tubular Goods | | | |
| LIBOR Plus 8.0%, Current Coupon 11.25%, Secured Debt (Maturity - August 24, 2015) (8) | | 4,443,750 | 4,236,574 | 4,554,847 |
| **Brand Connections, LLC** | Venue-Based Marketing and Media | | | |
| 14% Secured Debt (Maturity - April 30, 2015) | | 7,312,500 | 7,151,303 | 7,151,303 |
| **Chef s Warehouse (9)** | Specialty Food Distributor | | | |
| LIBOR Plus 9.0%, Current Coupon 11%, Secured Debt (Maturity - April 24, 2014) (8) | | 8,137,083 | 7,907,586 | 8,219,225 |
| **Fairway Group Acquisition (9)** | Retail Grocery | | | |
| LIBOR plus 9.5%, Current Coupon 12%, Secured Debt (Maturity - October 1, 2014) (8) | | 4,950,008 | 4,827,316 | 4,968,818 |
| **Full Spectrum Holdings LLC (9)** | Professional Services | | | |
| LIBOR Plus 3.0%, Current Coupon 10.75%, Secured Debt (Maturity - December 12, 2012) (8) | | 1,523,341 | 1,301,663 | 1,301,663 |
| Warrants (Fully diluted 0.28%) | | | 412,523 | 412,523 |
| | | | 1,714,186 | 1,714,186 |
| **Global Tel*Link Corporation (9)** | Communications Technology | | | |
| LIBOR Plus 11.25%, Current Coupon 13%, Secured Debt (Maturity - May 10, 2017) (8) | | 3,000,000 | 2,941,728 | 2,948,271 |
| **Hayden Acquisition, LLC** | Manufacturer of Utility Structures | | | |
| 8% Secured Debt (Maturity - January 1, 2011) | | 1,800,000 | 1,781,303 | 250,000 |

| | | | | |
|---|---|---|---|---|
| **Hoffmaster Group, Inc. (9)** | Manufacturer of Specialty Tabletop Products | | | |
| LIBOR Plus 5.0%, Current Coupon 7%, Secured Debt (Maturity - June 13, 2016) (8) | | 1,509,615 | 1,453,860 | 1,490,745 |
| 13.5% Secured Debt (Maturity - June 3, 2017) | | 5,000,000 | 4,881,278 | 4,787,500 |
| | | | 6,335,138 | 6,278,245 |
| | | | | |
| **Managed Healthcare (9)** | Healthcare Products | | | |
| LIBOR plus 3.25%, Current Coupon 3.53%, Secured Debt (Maturity - August 31, 2014) | | 1,987,606 | 1,548,214 | 1,659,650 |
| | | | | |
| **Megapath Inc. (9)** | Communications Technology | | | |
| LIBOR plus 10%, Current Coupon 12%, Secured Debt (Maturity - November 4, 2015) (8) | | 4,000,000 | 3,922,670 | 4,040,770 |
| | | | | |
| **Miramax Film NY, LLC (9)** | Motion Picture Producer and Distributor | | | |
| LIBOR plus 6%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (8) | | 3,000,000 | 2,940,000 | 2,940,000 |
| LIBOR plus 11%, Current Coupon 13%, Secured Debt (Maturity - December 30, 2016) (8) | | 4,000,000 | 3,920,000 | 3,920,000 |
| Class B Units (Fully diluted 0.2%) | | | 500,000 | 500,000 |
| | | | 7,360,000 | 7,360,000 |
| | | | | |
| **Northland Cable Television, Inc. (9)** | Cable Broadcasting | | | |
| LIBOR Plus 8.0%, Current Coupon 8.26%, Secured Debt (Maturity - June 22, 2013) | | 5,000,000 | 4,851,285 | 4,988,785 |
| | | | | |
| **Pierre Foods, Inc. (9)** | Foodservice Supplier | | | |
| Base plus 4.25%, Current Coupon 7.5%, Secured Debt (Maturity - September 30, 2016) (8) | | 5,000,000 | 4,903,804 | 4,992,702 |
| Base plus 8.5%, Current Coupon 11.75%, Secured Debt (Maturity - September 29, 2017) (8) | | 2,000,000 | 1,932,106 | 1,992,181 |
| | | | 6,835,910 | 6,984,883 |
| | | | | |
| **Rentech Energy Midwest Corporation (9)** | Manufacturer of Fertilizer | | | |
| LIBOR plus 10%, Current Coupon 12.5%, Secured Debt (Maturity - July 29, 2014) (8) | | 2,331,606 | 2,274,262 | 2,274,262 |
| | | | | |
| **Shearer s Foods, Inc. (9)** | Manufacturer of Food/Snacks | | | |
| 12% Current / 3% PIK Secured Debt (Maturity - March 21, 2016) | | 4,092,707 | 3,999,396 | 4,154,098 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments** (5) | | | | |
| **Standard Steel, LLC (9)** | Manufacturer of Steel Wheels and Axles | | | |
| 12% Secured Debt (Maturity - April 30, 2015) | | 3,000,000 | 2,902,821 | 2,988,750 |
| **Support Systems Homes, Inc.** | Manages Substance Abuse Treatment Centers | | | |
| 15% Secured Debt (Maturity - August 21, 2018) | | 576,600 | 576,600 | 576,600 |
| **Technical Innovations, LLC** | Manufacturer of Specialty Cutting Tools and Punches | | | |
| 13.5% Secured Debt (Maturity - January 16, 2015) | | 2,950,000 | 2,919,118 | 2,950,000 |
| **The Tennis Channel, Inc.** | Sports Broadcasting/Media | | | |
| LIBOR plus 6% / 4% PIK, Current Coupon with PIK 14%, Secured Debt (Maturity - January 1, 2013) (8) | | 9,198,840 | 9,230,938 | 9,230,938 |
| Warrants (Fully diluted 0.10%) | | | 211,938 | 211,938 |
| | | | 9,442,876 | 9,442,876 |
| **Other Non-Control/Non-Affiliate Investments (10)** | | | 105,000 | 105,000 |
| **Subtotal Non-Control/Non-Affiliate Investments** | | | 91,911,304 | 91,956,221 |
| **Main Street Capital Partners, LLC (Investment Manager)** | Asset Management | | | |
| 100% of Membership Interests | | | 4,284,042 | 2,051,655 |
| **Total Portfolio Investments, December 31, 2010** | | | $ 322,855,578 | $ 348,811,074 |

Table of Contents

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2) | Industry | Principal (6) | Cost (6) | Fair Value |
|---|---|---|---|---|
| **Marketable Securities and Idle Funds Investments** | Investments in Secured and Rated Debt Investments, Certificates of Deposit, and Diversified Bond Funds | | | |
| **AL Gulf Coast Terminals, LLC** | | | | |
| LIBOR plus 5.0%, Current Coupon 6.75%, Secured Debt (Maturity - September 21, 2016) (8) | | $ 6,919,997 | $ 6,735,294 | $ 6,746,997 |
| **Aspen Dental Management, Inc.** | | | | |
| LIBOR plus 5.0%, Current Coupon 8.25%, Secured Debt (Maturity - October 13, 2016) (8) | | 4,987,500 | 4,691,670 | 4,806,974 |
| **ATI Acquisition I Corp.** | | | | |
| LIBOR plus 5.5%, Current Coupon 7.5%, Secured Debt (Maturity - September 14, 2016) (8) | | 2,885,675 | 2,841,517 | 2,857,332 |
| **Booz Allen Hamilton Inc.** | | | | |
| 13% Debt (Maturity - July 5, 2016) | | 1,716,044 | 1,781,625 | 1,765,380 |
| **Centerplate, Inc.** | | | | |
| LIBOR plus 7.5%, Current Coupon 10.75%, Secured Debt (Maturity - September 16, 2016) (8) | | 3,000,000 | 2,914,206 | 2,988,750 |
| **CHG Companies, Inc.** | | | | |
| LIBOR plus 5.5%, Current Coupon 7.25%, Secured Debt (Maturity - October 14, 2016) (8) | | 1,975,000 | 1,937,558 | 1,996,754 |
| **Excelitas Technologies Corp.** | | | | |
| LIBOR plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - December 2, 2016) (8) | | 3,000,000 | 2,971,096 | 3,020,771 |
| **Gentiva Health Services, Inc.** | | | | |
| LIBOR plus 5.0%, Current Coupon 6.75%, Secured Debt (Maturity - September 20, 2016) (8) | | 2,981,250 | 2,975,289 | 3,014,789 |
| **Henniges Automotive Holdings, Inc.** | | | | |
| LIBOR plus 10.0%, Current Coupon 12%, Secured Debt (Maturity - December 7, 2016) (8) | | 3,000,000 | 2,941,308 | 2,941,308 |
| **MLM Holdings, Inc.** | | | | |
| LIBOR plus 5.25%, Current Coupon 7%, Secured Debt (Maturity - December 1, 2016) (8) | | 6,982,500 | 6,879,686 | 6,897,406 |
| **MultiPlan, Inc.** | | | | |
| LIBOR plus 4.75%, Current Coupon 6.5%, Secured Debt (Maturity - August 26, 2017) (8) | | 3,876,923 | 3,863,709 | 3,913,269 |
| **Rite Aid Corporation** | | | | |
| 7.5% Bond (Maturity - March 1, 2017) | | 2,000,000 | 1,889,335 | 1,845,874 |
| **SonicWALL, Inc.** | | | | |
| LIBOR plus 6.25%, Current Coupon 8.25%, Secured Debt (Maturity - August 1, 2016) (8) | | 1,794,355 | 1,797,374 | 1,807,813 |
| **Terex Corporation** | | | | |

| | | | |
|---|---|---|---|
| 7.4% Bond (Maturity - January 15, 2014) | 2,000,000 | 2,023,301 | 2,023,301 |
| **Visant Corporation** | | | |
| LIBOR plus 5.25%, Current Coupon 7%, Secured Debt (Maturity - December 28, 2016) (8) | 4,987,500 | 4,891,963 | 5,057,003 |
| **Vision Solutions, Inc.** | | | |
| LIBOR plus 6.0%, Current Coupon 7.75%, Secured Debt (Maturity - July 23, 2016) (8) | 1,925,000 | 1,612,010 | 1,631,338 |
| **Western Refining Inc.** | | | |
| LIBOR plus 7.5%, Current Coupon 10.75%, Secured Debt (Maturity - August 1, 2014) (8) | 1,708,883 | 1,672,628 | 1,736,654 |
| **Wyle Services Corporation** | | | |
| LIBOR plus 4.0%, Current Coupon 6%, Secured Debt (Maturity - September 10, 2016) (8) | 3,989,992 | 3,964,645 | 4,003,290 |
| **Yankee Cable Acquisition, LLC** | | | |
| LIBOR plus 4.5%, Current Coupon 6.5%, Secured Debt (Maturity - August 26, 2016) (8) | 3,990,000 | 3,933,213 | 3,990,000 |
| **Other Marketable Securities and Idle Funds Investments** (11) | 5,529,450 | 5,653,480 | 5,707,855 |
| **Subtotal Marketable Securities and Idle Funds Investments** | | 67,970,907 | 68,752,858 |
| **Total Investments, December 31, 2010** | | $ 390,826,485 | $ 417,563,932 |

**(1) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.**

**(2) See Note C for summary geographic location of portfolio companies.**

**(3) Controlled 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.**

**(4) 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 Controlled investments.**

**(5) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.**

**(6) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.**

**(7) Income producing through dividends or distributions.**

**(8) Index based floating interest rate subject to contractual minimum interest rates.**

**(9) Private placement portfolio investment.**

**(10) Other Non-Control/Non-Affiliate investments consist of equity investments in lower middle market companies.**

**(11) Other Marketable Securities and Idle Funds Investments consist of investments in secured and rated debt investments and diversified bond funds.**

Table of Contents

**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. The Exchange Offer and related transactions, including the transfer of the MSC II GP interests, are collectively termed the Exchange Offer Transactions (see Note I).

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 or indirect 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 subsidiaries, including MSMF, MSC II, 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, 2011 and 2010, Main Street s consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries, including the Funds. Portfolio investments, as used herein, refers to all of Main Street s investments in lower middle market ( LMM ) portfolio companies, private placement portfolio investments, and the investment in the Investment Manager and excludes all Marketable securities and idle funds investments. Private placement portfolio investments include investments made through direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included as part of Main Street s portfolio investments. The Investment Manager is accounted for as a portfolio investment (see Note D). 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 and cash flows for the three and six months ended June 30, 2011 and 2010, and financial position as of June 30, 2011 and December 31, 2010, 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.

Table of Contents

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, 2011 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, 2010. 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**

Main Street accounts for its LMM portfolio investments, private placement portfolio investments, and the 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, or in the absence of a principal market, in the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous 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 principally 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 privately placed debt securities issued by private, middle market companies that are generally larger in size than the LMM companies. These portfolio investments may be subject to restrictions on resale and will generally have no established trading market. 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. Main Street reviews external events, including private mergers, sales and acquisitions involving comparable companies, and includes these events in the valuation process. 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 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 investments. As a result, Main Street determines the

Table of Contents

fair value of control 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 investments estimate the value of the investment if Main Street were to sell, or exit, the investment, assuming the highest and best use of the investment by market participants. 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 for non-control LMM portfolio investments are generally not readily available. 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 instruments. 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 an 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 an 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 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 each LMM portfolio company once a quarter. In addition to its internal valuation process, in arriving at estimates of fair value for portfolio companies, Main Street, among other things, consults with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to each LMM portfolio investment at least once in every calendar year, and for 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 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 an 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 a total of 20 LMM portfolio companies for the six months ended June 30, 2011, representing approximately 40% of the total LMM portfolio and investment in the affiliated Investment Manager at fair value as of June 30, 2011.

Main Street s private placement portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included in Main Street s LMM portfolio. For valuation purposes, all of Main Street s private placement 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. As of June 30, 2011, Main Street had privately placed portfolio investments in 23 companies collectively totaling approximately $133.3 million in fair value with a total cost basis of approximately $129.8 million. The weighted average revenues for the 23 privately placed

portfolio company investments were approximately $399 million. Main Street s privately placed portfolio investments are primarily in the form of debt investments and 69% of such debt investments at cost were secured by first priority liens on portfolio company assets as of June 30, 2011. The weighted average effective yield on Main Street s privately placed portfolio debt investments was approximately 11.0% as of June 30, 2011.

Table of Contents

Due to the inherent uncertainty in the valuation process, Main Street s estimate of fair value 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 estimates 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. This system takes into account both quantitative and qualitative factors of the 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 estimate of the fair value for its portfolio investments consistent with the 1940 Act requirements. Main Street believes its portfolio investments as of June 30, 2011 and December 31, 2010 approximate fair value as of those dates based on the market in which Main Street operates and other conditions in existence at those reporting periods.

**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 dividends in arrears are added to the balance of the preferred equity investment. The actual collection of dividends in arrears 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 though Main Street may not have collected the PIK interest and cumulative dividends in cash.

As of June 30, 2011, Main Street had two investments on non-accrual status, which comprised approximately 1.6% of the total portfolio investments at fair value and 3.7% of the total portfolio investments at cost (or 1.2% and 2.8%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager. As of December 31, 2010, Main Street had two investments on non-accrual status, which comprised approximately 2.6% of the total portfolio investments at fair value and 3.6% of the total portfolio investments at cost (or 2.2% and 3.0%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager.

**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 and Original Issue Discount**

Main Street capitalizes upfront debt origination fees received in connection with financings and reflects such fees as unearned income netted against investments. Main Street will also capitalize and offset direct loan origination costs against the origination fees received. The unearned income from the fees, net of direct debt origination costs, is accreted into interest income based on the effective interest method over the life of the financing.

Table of Contents

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 securities 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 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 may be deferred until the time of debt principal repayment. 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 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**

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. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.

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.

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 valuation of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments.

**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.

Table of Contents

**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, marketable securities, receivables, accounts payable and accrued liabilities approximate the fair values of such items. Marketable securities and idle funds investments generally include investments in certificates of deposit, U.S. government agency securities, intermediate-term secured debt, independently rated debt investments, and diversified bond funds. The fair value determination for these investments under the provisions of ASC 820 primarily consists of Level 2 observable inputs.

The SBIC debentures remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. As part of the Exchange Offer Transactions, 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 expensed.

**10. Earnings per Share**

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 Transactions, the net earnings attributable to the remaining externally owned noncontrolling interest in MSC II is 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. The following table provides a reconciliation of Net Investment Income and Net Realized Income excluding amounts related to the remaining noncontrolling interest in MSC II for the three and six months ended June 30, 2011 and 2010.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net Investment Income | $ 9,615,091 | $ 4,742,088 | $ 17,007,573 | $ 7,962,341 |
| Noncontrolling interest share of Net Investment Income | (224,532) | (73,271) | (381,973) | (140,445) |
| Net Investment Income attributable to common stock | 9,390,559 | 4,668,817 | 16,625,600 | 7,821,896 |
| | | | | |
| Total net realized gain (loss) from investments | 249,654 | 2,655,232 | 249,654 | (1,405,225) |

| | | | | |
|---|---|---|---|---|
| Noncontrolling interest share of net realized (gain) loss from investments | | 54,480 | | 54,480 |
| Net Realized Income attributable to common stock | $ 9,640,213 | $ 7,378,529 | $ 16,875,254 | $ 6,471,151 |
| | | | | |
| Net Investment Income per share - Basic and diluted | $ 0.41 | $ 0.31 | $ 0.79 | $ 0.53 |
| Net Realized Income per share - Basic and diluted | $ 0.42 | $ 0.49 | $ 0.80 | $ 0.44 |
| | | | | |
| Weighted average shares outstanding - Basic and diluted | 23,015,718 | 15,147,091 | 21,128,360 | 14,754,121 |

**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 is not expected to 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

Table of Contents

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.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures About Fair Value Measurements* ( ASU 2010-06 ). ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation, inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 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).

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. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the investment (for example, investments in illiquid securities issued by private companies).

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

Table of Contents

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, 2011 and December 31, 2010, all of Main Street s private placement 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, all of Main Street s private placement portfolio investments and marketable securities and idle funds investments were categorized as Level 2 as of June 30, 2011 and December 31, 2010.

As of June 30, 2011 and December 31, 2010, all of 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. The fair value determination of each portfolio investment 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;

- 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.

As of June 30, 2011 and December 31, 2010, 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 intends not to repay its SBIC debentures prior to maturity.

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, 2011:

Table of Contents

| Type of Investment | December 31, 2010 Fair Value | Accretion of Unearned Income | Redemptions/ Repayments/ Exits (1) | New Investments (1) | Net Unrealized Appreciation (Depreciation) | June 30, 2011 Fair Value |
|---|---|---|---|---|---|---|
| Debt | $ 183,894,069 | $ 1,234,210 | $ (12,362,506) | $ 37,058,938 | $ (2,667,507) | $ 207,157,204 |
| Equity | 61,201,721 | | | 11,371,073 | 13,381,667 | 85,954,461 |
| Equity warrants | 25,080,963 | | | 3,779,703 | 3,433,096 | 32,293,762 |
| Investment Manager | 2,051,655 | | | | (87,006) | 1,964,649 |
| | $ 272,228,408 | $ 1,234,210 | $ (12,362,506) | $ 52,209,714 | $ 14,060,250 | $ 327,370,076 |

(1) Includes the impact of non-cash conversions

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, 2011:

| Type of Investment | December 31, 2010 Fair Value | Repayments | New SBIC Debentures | Net Unrealized (Appreciation) Depreciation | June 30, 2011 Fair Value |
|---|---|---|---|---|---|
| SBIC Debentures at fair value | $ 70,557,975 | $ | $ | $ 2,079,292 | $ 72,637,267 |

At June 30, 2011 and December 31, 2010, Main Street s investments and SBIC Debentures at fair value were categorized as follows in the fair value hierarchy for ASC 820 purposes:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| At June 30, 2011 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| LMM portfolio investments | $ 336,442,364 | $ | $ 11,036,937 | $ 325,405,427 |
| Private placement portfolio investments | 133,321,684 | | 133,321,684 | |
| Investment in affiliated Investment Manager | 1,964,649 | | | 1,964,649 |
| Total portfolio investments | 471,728,697 | | 144,358,621 | 327,370,076 |
| Marketable securities and idle funds investments | 120,299,248 | | 120,299,248 | |
| Total investments | $ 592,027,945 | $ | $ 264,657,869 | $ 327,370,076 |
| SBIC Debentures at fair value | $ 72,637,267 | $ | $ | $ 72,637,267 |

| At December 31, 2010 | Fair Value | Fair Value Measurements: Quoted Prices in Active Markets for Identical Assets (Level 1) | Fair Value Measurements: Significant Other Observable Inputs (Level 2) | Fair Value Measurements: Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| LMM portfolio investments | $ 279,619,629 | $ | $ 9,442,876 | $ 270,176,753 |
| Private placement portfolio investments | 67,139,790 | | 67,139,790 | |
| Investment in affiliated Investment Manager | 2,051,655 | | | 2,051,655 |
| Total portfolio investments | 348,811,074 | | 76,582,666 | 272,228,408 |
| Marketable securities and idle funds investments | 68,752,858 | | 68,752,858 | |
| Total investments | $ 417,563,932 | $ | $ 145,335,524 | $ 272,228,408 |
| SBIC Debentures at fair value | $ 70,557,975 | $ | $ | $ 70,557,975 |

Table of Contents

For the six months ended June 30, 2011, there were no transfers within the three fair value hierarchy levels.

**LMM Portfolio Investments**

Main Street s LMM portfolio investments principally consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies. The LMM debt investments are 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. In most LMM portfolio companies, Main Street also receives nominally priced equity warrants and/or makes direct equity investments, usually in connection with a debt investment.

Investment income, consisting of interest, dividends and fees, can fluctuate dramatically due to various factors, including level of new investment activity, repayment of a debt investment or sale of an equity interest. Revenue recognition in any given year could be highly concentrated among several portfolio companies. For the six months ended June 30, 2011 and 2010, Main Street did not record investment income from any portfolio company in excess of 10% of total investment income.

As of June 30, 2011, Main Street had debt and equity investments in 49 LMM portfolio companies with an aggregate fair value of $336.4 million and a weighted average effective yield on its LMM debt investments of approximately 14.8%. Approximately 76% of Main Street s total LMM portfolio investments at cost were in the form of debt investments and 92% 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, 2011. At June 30, 2011, Main Street had equity ownership in approximately 92% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 35%. As of December 31, 2010, Main Street had debt and equity investments in 44 LMM portfolio companies with an aggregate fair value of $279.6 million and a weighted average effective yield on its LMM debt investments of approximately 14.5%. The weighted average yields were computed using the effective interest rates for all debt investments at June 30, 2011 and December 31, 2010, 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.

Summaries of the composition of Main Street s LMM investment portfolio at cost and fair value as a percentage of total LMM portfolio investments are shown in the following table:

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| First lien debt | 69.4% | 70.6% |
| Equity | 19.4% | 17.7% |
| Second lien debt | 6.1% | 6.7% |
| Equity warrants | 5.1% | 5.0% |
| | 100.0% | 100.0% |

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| First lien debt | 59.1% | 62.6% |
| Equity | 27.6% | 21.9% |
| Second lien debt | 5.6% | 6.5% |
| Equity warrants | 7.7% | 9.0% |

| | | |
|---|---|---|
| | 100.0% | 100.0% |

The following table shows the LMM portfolio composition by geographic region of the United States at cost and fair value as a percentage of total LMM portfolio investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

Table of Contents

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Southwest | 51.3% | 50.5% |
| West | 29.0% | 29.3% |
| Southeast | 8.8% | 7.0% |
| Midwest | 6.0% | 7.2% |
| Northeast | 4.9% | 6.0% |
| | 100.0% | 100.0% |

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Southwest | 54.5% | 51.8% |
| West | 26.4% | 28.4% |
| Southeast | 7.9% | 6.4% |
| Midwest | 6.1% | 7.2% |
| Northeast | 5.1% | 6.2% |
| | 100.0% | 100.0% |

Main Street s LMM portfolio investments are in companies conducting business in a variety of industries. Set forth below are tables showing the composition of Main Street s LMM portfolio investments by industry at cost and fair value as of June 30, 2011 and December 31, 2010:

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Professional services | 15.2% | 15.4% |
| Media/Marketing | 8.6% | 6.6% |
| Information services | 8.3% | 7.8% |
| Equipment rental | 7.6% | 8.4% |
| Retail | 6.5% | 7.4% |
| Industrial equipment | 6.0% | 7.2% |
| Health care services | 5.6% | 5.0% |
| Industrial services | 5.2% | 7.2% |
| Electronics manufacturing | 4.4% | 5.2% |
| Transportation/Logistics | 4.0% | 1.3% |
| Energy Services | 3.9% | 0.0% |
| Metal fabrication | 3.8% | 6.3% |
| Precast concrete manufacturing | 3.8% | 4.4% |
| Restaurant | 2.8% | 3.3% |
| Custom wood products | 2.7% | 3.0% |
| Agricultural services | 2.4% | 2.8% |
| Consumer Products | 2.2% | 2.6% |
| Manufacturing | 2.0% | 2.4% |
| Infrastructure products | 2.0% | 0.7% |
| Governmental services | 1.5% | 1.8% |
| Health care products | 1.5% | 1.2% |
| | 100.0% | 100.0% |

Table of Contents

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Professional services | 13.3% | 14.3% |
| Information services | 11.8% | 8.5% |
| Media/Marketing | 7.5% | 5.9% |
| Health care services | 7.3% | 7.1% |
| Industrial services | 6.4% | 7.8% |
| Equipment rental | 6.2% | 7.3% |
| Retail | 5.9% | 6.6% |
| Industrial equipment | 5.6% | 6.3% |
| Metal fabrication | 4.7% | 6.5% |
| Transportation/Logistics | 4.2% | 1.8% |
| Precast concrete manufacturing | 3.8% | 4.9% |
| Electronics manufacturing | 3.7% | 5.0% |
| Energy Services | 3.4% | 0.0% |
| Restaurant | 3.3% | 3.7% |
| Agricultural services | 3.1% | 3.3% |
| Custom wood products | 2.7% | 3.0% |
| Manufacturing | 2.3% | 2.7% |
| Governmental services | 1.4% | 1.8% |
| Health care products | 1.3% | 1.1% |
| Infrastructure products | 1.2% | 0.1% |
| Consumer Products | 0.9% | 2.3% |
| | 100.0% | 100.0% |

At June 30, 2011 and December 31, 2010, Main Street had no investments that were greater than 10% of its total investment portfolio at fair value.

**NOTE D WHOLLY OWNED INVESTMENT MANAGER**

As part of the Formation Transactions, the Investment Manager became a wholly owned subsidiary of MSCC. However, the Investment Manager is accounted for as a portfolio investment, since the Investment Manager is not an investment company and since it conducts a significant portion of its investment management activities for parties outside of MSCC and its consolidated subsidiaries. The Investment Manager receives recurring investment management fees from MSC II pursuant to a separate investment advisory agreement. The payments due under the investment advisory agreement were fixed at $3.3 million per year, paid quarterly, until September 30, 2010. Subsequent to September 30, 2010, under the investment advisory agreement, MSC II is obligated to pay a 2% annualized management fee based upon the MSC II assets under management. Subsequent to the closing of the Exchange Offer, the investment in the Investment Manager was reduced to reflect the remaining pro rata portion of the MSC II equity and the related portion of the MSCII management fees that were not acquired by MSCC. The Investment Manager also receives certain management, consulting and advisory fees for providing these services to third parties, and collectively with the MSC II management fees attributable to the remaining noncontrolling interest in MSC II is referred to as the External Services. The portfolio investment in the Investment Manager is accounted for using fair value accounting, with the fair value determined by Main Street and approved, in good faith, by Main Street s Board of Directors, based on the same valuation methodologies applied to determine the original valuation. The valuation for the Investment Manager is based on the total estimated present value of the net cash flows received for the External Services, over the estimated dollar averaged life of the related investment management, advisory or consulting contract, and is also based on comparable public market transactions. The net cash flows utilized in the valuation of the Investment Manager exclude any revenues and expenses from MSCC and its subsidiaries, but include the revenues attributable to External Services, and are reduced by an estimated allocation of costs related to providing such External Services. Any change in fair value of the investment in the Investment Manager is recognized on Main Street s statement of operations as Unrealized appreciation (depreciation) in Investment in affiliated Investment Manager, with a corresponding increase (in the case of appreciation) or decrease (in the case of depreciation) to Investment in affiliated Investment Manager on Main Street s balance sheet. As part of the Exchange Offer Transactions, the investment in the Investment Manager was reduced $13.7 million and recorded against Additional paid-in capital as an adjustment to the original valuation recorded as part of the Formation

Transactions. Main Street believes that the valuation for the Investment Manager will generally decrease over the life of the investment management, advisory and consulting contracts attributable to third parties, absent obtaining additional recurring cash flows from performing External Services for other external investment entities or other third parties.

Table of Contents

The Investment Manager has elected, for tax purposes, to be treated as a taxable entity and is taxed at normal corporate tax rates based on its taxable income. The taxable income of the Investment Manager may differ from its book income due to temporary book and tax timing differences, as well as permanent differences. The Investment Manager provides for any current taxes payable and deferred tax items in its separate financial statements.

MSCC has a support services agreement with the Investment Manager that is structured to provide reimbursement to the Investment Manager for any personnel, administrative and other costs it incurs in conducting its operational and investment management activities in excess of the fees received for providing management advisory services. As a wholly owned subsidiary of MSCC, the Investment Manager manages the day-to-day operational and investment activities of MSCC and its subsidiaries. The Investment Manager pays personnel and other administrative expenses, except those specifically required to be borne by MSCC which principally include direct costs that are specific to MSCC s status as a publicly traded entity. The expenses paid by the Investment Manager include the cost of salaries and related benefits, rent, equipment and other administrative costs required for day-to-day operations.

Pursuant to the support services agreement with MSCC, the Investment Manager is reimbursed by MSCC for its excess operating expenses associated with providing investment management and other services to MSCC and its subsidiaries, as well as third parties. Each quarter, as part of the support services agreement, MSCC makes payments to cover all cash operating expenses incurred by the Investment Manager, less fees that the Investment Manager receives pursuant to long-term investment advisory agreements and consulting agreements. Subsequent to the consolidation of MSC II in connection with the Exchange Offer, the management fees paid by MSC II to the Investment Manager are now included in Expenses reimbursed to affiliated Investment Manager on the statements of operations along with any additional net costs reimbursed by MSCC to the Investment Manager pursuant to the support services agreement. For the six months ended June 30, 2011 and 2010, the expenses reimbursed by MSCC and management fees paid by MSC II to the Investment Manager totaled $4.3 million and $2.5 million, respectively.

In its separate stand-alone financial statements as summarized below, the Investment Manager recognized an $18 million intangible asset related to the investment advisory agreement with MSC II consistent with Staff Accounting Bulletin No. 54, Application of Pushdown Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase ( SAB 54 ). Under SAB 54, push-down accounting is required in purchase transactions that result in an entity becoming substantially wholly owned. In this case, MSCC acquired 100% of the equity interests in the Investment Manager in the Formation Transactions. Because the $18 million value attributed to MSCC s investment in the Investment Manager was derived from the long-term, recurring management fees under the investment advisory agreement with MSC II, the same methodology used to determine the $18 million valuation of the Investment Manager in connection with the Formation Transactions was utilized to establish the push-down accounting basis for the intangible asset. The intangible asset is being amortized over the estimated economic life of the investment advisory agreement with MSC II. For the six months ended June 30, 2011 and 2010, the Investment Manager recognized $0.6 million and $0.5 million of amortization expense in each respective period associated with the intangible asset. Amortization expense is not included in the expenses reimbursed by MSCC to the Investment Manager based upon the support services agreement since it is non-cash and non-operating in nature.

Summarized financial information from the separate financial statements of the Investment Manager is as follows:

| | As of June 30, 2011 | As of December 31, 2010 |
|---|---|---|
| | (Unaudited) | |
| Cash | $ 46,961 | $ 191,645 |
| Accounts receivable | 129,095 | 75,501 |

| | | | | |
|---|---|---|---|---|
| Accounts receivable - MSCC | | 2,237,417 | | 15,124 |
| Intangible asset (net of accumulated amortization of $3,788,297 and $3,209,740 as of June 30, 2011 and December 31, 2010, respectively) | | 14,211,703 | | 14,790,260 |
| Deposits and other | | 44,734 | | 139,244 |
| Total assets | $ | 16,669,910 | $ | 15,211,774 |
| | | | | |
| Accounts payable and accrued liabilities | $ | 2,602,780 | $ | 566,087 |
| Equity | | 14,067,130 | | 14,645,687 |
| Total liabilities and equity | $ | 16,669,910 | $ | 15,211,774 |

Table of Contents

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | (Unaudited) | |
| Management fee income from Main Street Capital II | $ 643,256 | $ 831,300 | $ 1,152,935 | $ 1,662,600 |
| Other management advisory fees | 129,375 | 92,500 | 174,375 | 190,095 |
| Total income | 772,631 | 923,800 | 1,327,310 | 1,852,695 |
| Salaries, benefits and other personnel costs | (2,075,354) | (1,211,407) | (3,877,131) | (2,167,744) |
| Occupancy expense | (82,582) | (72,346) | (163,197) | (153,243) |
| Professional expenses | (23,137) | (39,962) | (89,319) | (65,380) |
| Amortization expense - intangible asset | (292,395) | (268,252) | (578,557) | (530,786) |
| Other expenses | (155,908) | (99,396) | (382,140) | (286,526) |
| Expense reimbursement from MSCC | 1,564,350 | 499,311 | 3,184,477 | 820,198 |
| Total net expenses | (1,065,026) | (1,192,052) | (1,905,867) | (2,383,481) |
| Net income | $ (292,395) | $ (268,252) | $ (578,557) | $ (530,786) |

**NOTE E SBIC DEBENTURES**

SBIC debentures payable at June 30, 2011 and December 31, 2010 were $210 million and $180 million, respectively. SBIC debentures provide for interest to be paid semi-annually, with principal due at the applicable 10-year maturity date. The weighted average interest rate as of June 30, 2011 and December 31, 2010 was 5.1% and 5.2%, respectively. The first principal maturity due under the existing SBIC debentures is in 2013, and the weighted average duration is approximately 7.0 years. For the six months ended June 30, 2011, Main Street recognized $5.3 million in interest expense attributable to the SBIC debentures. In accordance with SBA regulations, the Funds are precluded from incurring additional non-SBIC debt without the prior approval of the SBA. The Funds are subject to annual compliance examinations by the SBA. There have been no historical findings resulting from these examinations.

As of June 30, 2011, the recorded value of the SBIC debentures was $187.6 million which consisted of (i) $72.6 million recorded at fair value, or $22.4 million less than the face value of these SBIC debentures held in MSC II, and (ii) $115 million reported at face value and held in MSMF. As of June 30, 2011, if Main Street had adopted the fair value option under ASC 825 for all of its SBIC debentures, Main Street estimates the fair value of its SBIC debentures would be approximately $164.8 million, or $45.2 million less than the face value of the SBIC debentures.

**NOTE F CREDIT FACILITY**

In June 2011, Main Street closed an expansion of its credit facility (the Credit Facility ) from $100 million to $155 million to provide additional liquidity in support of future investment and operational activities. The $55 million increase in total commitments included commitment increases by all six lenders currently participating in the Credit Facility. In addition to the $55 million increase in total commitments, Main Street extended the maturity of the Credit Facility by one year to September 2014. The amended Credit Facility also contains an accordion feature that allows for a further increase in total commitments under the facility to $200 million on the same terms and conditions as the existing lender commitments. Borrowings under the Credit Facility bear interest, subject to Main Street s election, on a per annum basis equal to (i) the applicable LIBOR rate plus 2.50% or (ii) the applicable base rate plus 1.50%. Main Street pays unused commitment fees of 0.375% per annum

on the unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the assets of the Funds. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining an interest coverage ratio of at least 2.0 to 1.0, (ii) maintaining an asset coverage ratio of at least 2.5 to 1.0, and (iii) maintaining a minimum tangible net worth. At June 30, 2011, Main Street had $73.0 million in borrowings outstanding under the Credit Facility. For the six months ended June 30, 2011, Main Street recognized $0.9 million in interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs. As of June 30, 2011, the interest rate on the Credit Facility was 2.69%, and Main Street was in compliance with all financial covenants of the Credit Facility.

Table of Contents

**NOTE G FINANCIAL HIGHLIGHTS**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| **Per Share Data:** | | |
| Net asset value at beginning of period | $ 13.06 | $ 11.96 |
| | | |
| Net investment income (1) (3) | 0.79 | 0.53 |
| Net realized gain (loss) from investments (1) (2) (3) | 0.01 | (0.09) |
| Net change in unrealized appreciation (1) (2) (3) | 0.67 | 0.48 |
| Income tax provision (1) (2) (3) | (0.15) | (0.03) |
| Bargain purchase gain (1) | | 0.33 |
| Net increase in net assets resulting from operations (1) | 1.32 | 1.22 |
| Dividends paid to stockholders | (0.77) | (0.75) |
| Impact of monthly dividend declared as of June 30, 2011 and 2010 but paid on July 15, 2011 and 2010 | (0.13) | (0.13) |
| Accretive effect of public stock offerings (issuing shares above NAV per share) | 0.68 | 0.41 |
| Accretive effect of Exchange Offer | | 0.35 |
| Adjustment to investment in Investment Manager in connection with Exchange Offer Transactions | | (0.90) |
| Accretive effect of DRIP issuance (issuing shares above NAV per share) | 0.05 | 0.05 |
| Other (4) | 0.03 | |
| Net asset value at June 30, 2011 and 2010 | $ 14.24 | $ 12.21 |
| | | |
| Market value at June 30, 2011 and 2010 | $ 18.95 | $ 14.93 |
| Shares outstanding at June 30, 2011 and 2010 | 23,182,600 | 15,213,053 |

(1) Based on weighted average number of common shares outstanding for the period.
(2) Net realized gains or losses, net change in unrealized appreciation or depreciation, and income taxes can fluctuate significantly from period to period.
(3) Per share amounts are net of the earnings attributable to MSC II noncontrolling interest.
(4) Includes the impact of the different share amounts as a result of calculating certain per share data based on the weighted average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net asset value at end of period | $ 330,131,722 | $ 185,792,824 |
| Average net asset value | $ 298,226,195 | $ 165,233,659 |
| Average outstanding debt | $ 250,000,000 | $ 137,553,039 |
| Ratio of total expenses, including income tax expense, to average net asset value (1) (2) (3) | 5.05% | 4.84% |
| Ratio of operating expenses to average net asset value (1) (2) | 4.05% | 4.63% |
| Ratio of operating expenses, excluding interest expense, to average net asset value (1) (2) | 2.08% | 2.21% |
| Ratio of net investment income to average net asset value (1) (2) | 5.57% | 4.73% |
| Total return based on change in net asset value (1) (4) | 11.38% | 10.06% |

(1) Not annualized.
(2) Ratios are net of amounts attributable to MSC II noncontrolling interest.
(3) Total expenses are the sum of operating expenses and income tax expense. Income tax expense primarily relates to the accrual of deferred taxes on the net unrealized appreciation from portfolio investments held in Taxable Subsidiaries, which is non-cash in nature and may vary significantly from period to period. Main Street is required to include deferred taxes in calculating its total expenses even though these deferred taxes are not currently payable.
(4) Total return based on change in net asset value was calculated using the sum of ending net asset value plus dividends to stockholders and other non-operating changes during the period, as divided by the beginning net asset value.

**NOTE H DIVIDENDS, DISTRIBUTIONS AND TAXABLE INCOME**

Main Street paid monthly dividends of $0.125 per share for each month of January 2011 through March 2011 and monthly dividends of $0.13 per share for each month of April 2011 through June 2011, totaling $16.0 million, or $0.765 per share, for the six month period. During June 2011, Main Street declared and accrued a $0.13 per share monthly dividend to be paid in July 2011. For the six months ended June 30, 2010, Main Street paid total monthly dividends of approximately $10.8 million, or $0.750 per share, for the period.

Table of Contents

The determination of the tax attributes for Main Street s distributions is made annually, based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on an interim basis may not be representative of the actual tax attributes of distributions for a full year. Ordinary dividend distributions from a RIC do not qualify for the 15% maximum tax rate on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for dividends will generally include both ordinary income and capital gains but may also include qualified dividends or return of capital.

MSCC has elected to be treated for federal income tax purposes as a RIC. As a RIC, MSCC generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that MSCC distributes to its stockholders as dividends. MSCC must generally distribute at least 90% of its investment company taxable income to qualify for pass-through tax treatment and maintain its RIC status. 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 for Main Street. The Taxable Subsidiaries are consolidated with Main Street for financial reporting purposes, and the portfolio investments held by the Taxable Subsidiaries are included in Main Street s consolidated financial statements. The principal purpose of the Taxable Subsidiaries is to 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 of the Code. The Taxable Subsidiaries are not consolidated with Main Street for income tax purposes and may generate income tax expense or income tax benefit as a result of their ownership of various portfolio investments. This income tax expense or benefit, if any, is reflected in Main Street s Consolidated Statement of Operations. For the six months ended June 30, 2011, Main Street recognized an income tax provision of $3.2 million primarily consisting of deferred tax expense related to net unrealized appreciation on certain portfolio investments held by the Taxable Subsidiaries.

Listed below is a reconciliation of Net increase in net assets resulting from operations to taxable income and to total distributions declared to common stockholders for the six months ended June 30, 2011 and 2010.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (estimated) | |
| Net increase in net assets resulting from operations | $ 28,106,361 | $ 18,338,106 |
| Share-based compensation expense | 885,794 | 602,916 |
| Net realized income allocated to noncontrolling interest | (381,973) | (85,965) |
| Net change in unrealized appreciation on investments | (14,011,746) | (7,311,668) |
| Bargain purchase gain | | (4,890,582) |
| Income tax provision | 3,162,612 | 421,260 |
| Pre-tax book (income) loss not consolidated for tax purposes | (175,034) | 3,418,893 |
| Book income and tax income differences, including debt origination, structuring fees, dividends, and realized gains | 3,286,235 | 629,850 |
| Estimated taxable income | 20,872,249 | 11,122,810 |
| Taxable income earned in prior year and carried forward for distribution in current year | | 848,452 |
| Ordinary taxable income earned in current period and carried forward for distribution | (4,844,766) | (1,191,504) |
| Dividend accrued as of June 30, 2011 and 2010 and paid on July 15, 2011 and 2010 | 3,013,738 | 1,901,632 |
| Total distributions accrued or paid to common stockholders | $ 19,041,221 | $ 12,681,390 |

The net deferred tax liability at June 30, 2011 was $1.0 million and primarily related to timing differences from net unrealized appreciation from portfolio debt and equity investments as well as timing differences related to taxable income of equity investments in portfolio companies which are pass through entities for tax purposes. The net deferred tax asset at December 31, 2010 was $2.0 million and primarily related to timing differences from recognition of unrealized depreciation and unrealized appreciation from portfolio debt and equity investments as well as timing differences from taxable income from equity investments in portfolio companies which are pass through entities for tax purposes.

Table of Contents

**NOTE I EXCHANGE OFFER**

On January 7, 2010, MSCC consummated the Exchange Offer to exchange 1,239,695 shares (the Exchange Shares ) of its common stock for approximately 88% of the total dollar value of the limited partner interests in MSC II. Pursuant to the terms of the Exchange Offer, 100% of the membership interests in 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 managed by the Investment Manager. The Exchange Offer was applicable to all MSC II limited partner interests except for any limited partner interests owned by affiliates of MSCC, including any limited partner interests owned by officers or directors of MSCC. The Exchange Offer was formally approved by the SBA prior to closing. An approximately 12% minority ownership in the total dollar value of the MSC II limited partnership interests remains outstanding, including approximately 5% owned by affiliates of MSCC.

The Exchange Offer was accounted for under the acquisition method of accounting in accordance with ASC 805. Accordingly, the purchase price was preliminarily allocated to the acquired assets and liabilities based on their estimated fair values at the Exchange Offer acquisition date as summarized in the following table. The fair value of the MSC II net assets acquired exceeded the fair value of the stock consideration issued, resulting in a bargain purchase gain that was recorded by Main Street in the period that the Exchange Offer was completed.

| | | |
|---|---|---|
| Value of the stock consideration issued for limited partner interests acquired | $ | 19,934,296**(1)** |
| Fair value of noncontrolling limited partner interests | | 3,396,005**(2)** |
| Total stock consideration and noncontrolling interest value | | 23,330,301 |
| | | |
| Fair value of MSC II assets and liabilities on January 7, 2010: | | |
| Cash | | 2,489,920 |
| Debt investments acquired at fair value | | 64,925,164 |
| Equity investments acquired at fair value | | 14,930,614 |
| Other assets | | 808,560 |
| SBIC debentures at fair value | | (53,139,092) |
| Deferred tax liability assumed | | (82,827) |
| Other liabilities | | (1,519,608) |
| Total fair value of MSC II net assets | | 28,412,731 |
| | | |
| Bargain purchase gain | | 5,082,430 |
| | | |
| Transaction costs associated with the Exchange Offer | | (191,848) |
| | | |
| Bargain purchase gain, net of transaction costs | $ | 4,890,582 |

**(1)** The value of the shares of common stock exchanged for a majority of MSC II limited partner interests was based upon the closing price of Main Street s common stock at January 7, 2010, the closing date of the Exchange Offer.

**(2)** The fair value of the noncontrolling limited partner interests was based on the noncontrolling interests share in the total fair value of MSC II net assets at January 7, 2010.

Consummation of the Exchange Offer Transactions provided Main Street with access to additional long-term, low-cost leverage capacity through the SBIC program. The American Recovery and Reinvestment Act of 2009 enacted in February 2009 (the Stimulus Bill ) increased the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds from the previous SBIC leverage cap of approximately $137 million. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, Main Street is required

to allocate such increased borrowing capacity between MSMF and MSC II. Main Street currently has access to an incremental $15 million in SBIC leverage capacity, subject to the required capitalization of each of the Funds, in addition to the $210 million of existing SBIC leverage at the Funds.

**NOTE J COMMON STOCK**

In March 2011, Main Street completed a public stock offering of 4,025,000 shares of common stock, including the underwriters full exercise of the over-allotment option, at a price to the public of $18.35 per share, resulting in total net proceeds of approximately $70.3 million, after deducting underwriters commissions and offering costs.

Table of Contents

In August 2010, Main Street completed a public stock offering of 3,220,000 shares of common stock, including the underwriters exercise of the over-allotment option, at a price to the public of $15.00 per share, resulting in total net proceeds of approximately $45.8 million, after deducting underwriters commissions and offering costs.

In January 2010, Main Street completed a public stock offering of 2,875,000 shares of common stock, including the underwriters exercise of the over-allotment option, at a price to the public of $14.75 per share, resulting in total net proceeds of approximately $40.1 million, after deducting underwriters commissions and offering costs.

**NOTE K DIVIDEND REINVESTMENT PLAN ( DRIP )**

Main Street s DRIP provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if Main Street declares a cash dividend, the company s stockholders who have not opted out of the DRIP by the dividend record date will have their cash dividend automatically reinvested into additional shares of MSCC common stock. Main Street has the option to satisfy the share requirements of the DRIP through the issuance of shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly issued shares will be valued based upon the final closing price of MSCC s common stock on the valuation date determined for each dividend by Main Street s Board of Directors. Shares purchased in the open market to satisfy the DRIP requirements will be valued based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. Main Street s DRIP is administered by its transfer agent on behalf of Main Street s record holders and participating brokerage firms. Brokerage firms and other financial intermediaries may decide not to participate in Main Street s DRIP but may provide a similar dividend reinvestment plan.

For the six months ended June 30, 2011, $5.2 million of the total $16.0 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 235,844 newly issued shares and with the purchase of 40,726 shares of common stock in the open market. For the six months ended June 30, 2010, $3.8 million of the total $10.8 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 248,803 newly issued shares and with the purchase of 2,199 shares of common stock in the open market. The shares disclosed above relate only to Main Street s DRIP and exclude any activity related to broker-managed dividend reinvestment plans.

**NOTE L 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 measured the grant date fair value based upon the market price of its common stock on the date of the grant and will amortize this fair value to share-based compensation expense over the requisite service period or vesting term.

Main Street s Board of Directors approves the issuance of shares of restricted stock to Main Street employees pursuant to the Main Street Capital Corporation 2008 Equity Incentive Plan. These shares vest over a four-year period from the grant date and are expensed over the four-year service period starting on the grant date. The following table summarizes the restricted stock issuances approved by Main Street s Board of Directors and the remaining shares of restricted stock available for issuance as of June 30, 2011.

| | |
|---|---|
| Restricted stock authorized under plan | 2,000,000 |
| Less restricted stock granted on: | |
| July 1, 2008 | (245,645) |
| July 1, 2009 | (98,993) |
| July 1, 2010 | (149,357) |
| June 20, 2011 | (117,728) |
| | |
| Restricted stock available for issuance | 1,388,277 |

The following table summarizes the restricted stock issued to Main Street s independent directors pursuant to the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan. These shares vest on the day immediately preceding the annual meeting of stockholders following the respective grant date and are expensed over a one-year service period starting on the grant date.

Table of Contents

| | |
|---|---|
| Restricted stock authorized under plan | 200,000 |
| Less restricted stock granted on: | |
| July 1, 2008 | (20,000) |
| July 1, 2009 | (8,512) |
| July 1, 2010 | (7,920) |
| June 20, 2011 | (6,584) |
| | |
| Restricted stock available for issuance | 156,984 |

For the six months ended June 30, 2011 and 2010, Main Street recognized total share-based compensation expense of $0.9 million and $0.6 million, respectively, related to the restricted stock issued to Main Street employees and independent directors.

As of June 30, 2011, there was $5.4 million of total unrecognized compensation expense related to Main Street s non-vested restricted shares. This compensation expense is expected to be recognized over a weighted-average period of approximately 3.0 years.

**NOTE M COMMITMENTS**

At June 30, 2011, Main Street had seven outstanding commitments to fund unused revolving loans for up to $20.0 million in total.

**NOTE N SUPPLEMENTAL CASH FLOW DISCLOSURES**

Listed below are the supplemental cash flow disclosures for the six months ended June 30, 2011 and 2010:

| | Six Months Ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| Interest paid | $ 5,337,408 | $ 3,675,340 |
| Taxes paid | $ 165,571 | $ 189,573 |
| Non-cash financing activities: | | |
| Shares issued in connection with the MSC II Exchange Offer | $ | $ 20,093,091 |
| Shares issued pursuant to the DRIP | $ 4,453,837 | $ 3,796,228 |

**NOTE O RELATED PARTY TRANSACTIONS**

As discussed further in Note D, subsequent to the completion of the Formation Transactions, the Investment Manager is a wholly owned portfolio company of MSCC. At June 30, 2011, the Investment Manager had a receivable of $2.2 million due from MSCC related to operating expenses incurred by the Investment Manager required to support Main Street s business.

**NOTE P SUBSEQUENT EVENTS**

During August 2011, Main Street declared monthly dividends of $0.135 per share for each of October, November and December 2011. These monthly dividends equal a total of $0.405 per share for the fourth quarter of 2011. The fourth quarter 2011 dividends represent an 8.0% increase from the dividends declared for the fourth quarter of 2010 and a 3.8% increase compared to the third quarter of 2011. Including the dividends declared for the fourth quarter of 2011, Main Street will have paid $6.32 per share in cumulative dividends since its October 2007 initial public offering.

During July 2011, Main Street completed an LMM portfolio investment in SYNEO, LLC. This investment facilitated the merger of Technical Innovations, LLC ( TI ), an existing Main Street portfolio company, and ASG Medical Systems, LLC ( ASG ). The SYNEO investment consists of $5.5 million in first lien secured debt and a $1.0 million direct equity investment. TI designs and manufactures manual, semi-automated, pneumatic and computer numerically controlled (CNC) machines and tools used by medical device manufacturers to place holes in catheters and for tissue cutting applications. ASG is a leader in the automation of catheter and guidewire manufacturing. The current management of TI and ASG believes that the merger of TI and ASG will allow the two companies to better serve their customers through a broadened service capability and product offering.

Table of Contents

**Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information in this section contains forward-looking statements that involve risks and uncertainties. Please see Risk Factors and Cautionary Statement Concerning Forward Looking Statements in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 11, 2011, for a discussion of the uncertainties, risks and assumptions associated with these statements. You should read the following discussion in conjunction with the consolidated financial statements and related notes and other financial information included in the Annual Report on Form 10-K for the year ended December 31, 2010.*

**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 us, we do not pay any external investment advisory fees, but instead we incur 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. The Exchange Offer and related transactions, including the transfer of the MSC II GP interests, are collectively termed the Exchange Offer Transactions (see Note I to the consolidated financial statements). As of June 30, 2011, an approximately 12% minority ownership in the total dollar value of the MSC II limited partnership interests remained outstanding, including approximately 5% owned by affiliates of MSCC. We have submitted an exemptive relief application to the SEC to permit us to acquire the approximately 5% ownership in the total dollar value of the MSC II limited partnership interests held by affiliates of MSCC using the same valuation formula utilized in the Exchange Offer. There can be no assurance that we will obtain the exemptive relief or that if we do obtain such relief it will be obtained on the terms we have outlined in our request.

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 or indirect 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 subsidiaries, including the Funds and the Taxable Subsidiaries.

**OVERVIEW**

We are a principal investment firm primarily focused on providing customized debt and equity financing to lower middle market ( LMM ) companies, which we generally define as companies with annual revenues between $10 million and $100 million that operate in diverse industries. We invest primarily in secured debt instruments, equity investments, warrants and other securities of LMM companies based in the United States. Our principal investment objective is to maximize our portfolio s total return by generating current income from our debt investments and capital appreciation from our equity and equity related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. Our LMM portfolio investments generally range in size from $5 million to $25 million.

Table of Contents

We seek to fill the current financing gap for LMM businesses, which, historically, have had more limited access to financing from commercial banks and other traditional sources. The underserved nature of the lower middle market creates the opportunity for us to meet the financing needs of LMM companies while also negotiating favorable transaction terms and equity participations. Our ability to invest across a company s capital structure, from senior secured loans to equity securities, allows us to offer portfolio companies a comprehensive suite of financing solutions, or one stop financing. Providing customized, one stop financing solutions has become even more relevant to our LMM portfolio companies in the current investing environment. We generally seek to partner directly with entrepreneurs, management teams and business owners in making our investments. We believe that our LMM investment strategy has a lower correlation to the broader debt and equity markets.

In addition to our LMM investment strategy, we opportunistically pursue investments in privately placed debt securities. Our private placement investment portfolio primarily consists of direct or secondary private placements of interest bearing debt securities in companies that are generally larger in size than the LMM companies included in our investment portfolio. As of June 30, 2011, we had privately placed portfolio investments in 23 companies collectively totaling approximately $133.3 million in fair value with a total cost basis of approximately $129.8 million. The weighted average revenues for the 23 privately placed portfolio company investments were approximately $399 million as of June 30, 2011. Our privately placed portfolio investments are primarily in the form of debt investments and 69% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average effective yield on our privately placed portfolio debt investments was approximately 11.0% as of June 30, 2011.

Our portfolio investments are generally made through MSCC and the Funds. MSCC and the Funds share the same investment strategies and criteria, although they are subject to different regulatory regimes. An investor s return in MSCC will depend, in part, on the Funds investment returns as MSMF is a wholly owned subsidiary of MSCC and MSC II is a majority owned subsidiary of MSCC.

The level of new portfolio investment activity will fluctuate from period to period based upon our view of the current economic fundamentals, our ability to identify new investment opportunities that meet our investment criteria, and our ability to consummate the identified opportunities. The level of new investment activity, and associated interest and fee income, will directly impact future investment income. In addition, the level of dividends paid by portfolio companies and the portion of our portfolio debt investments on non-accrual status will directly impact future investment income. While we intend to grow our portfolio and our investment income over the long-term, our growth and our operating results may be more limited during depressed economic periods. However, we intend to appropriately manage our cost structure and liquidity position based on applicable economic conditions and our investment outlook. The level of realized gains or losses and unrealized appreciation or depreciation will also fluctuate depending upon portfolio activity and the performance of our individual portfolio companies. The changes in realized gains and losses and unrealized appreciation or depreciation could have a material impact on our operating results.

For the six months ended June 30, 2011, we paid dividends on a monthly basis totaling $0.765 per share, or $16.0 million. In June 2011, we declared monthly dividends for the third quarter of 2011 totaling $0.39 per share, and in August 2011, we declared monthly dividends for the fourth quarter of 2011 totaling $0.405 per share. During 2010, we paid monthly dividends of $0.125 per share, or $1.50 per share for the entire year. Including the dividends declared for the third and fourth quarters of 2011, we will have paid approximately $6.32 per share in cumulative dividends since our October 2007 initial public offering.

At June 30, 2011, we had $134.4 million in cash and cash equivalents, marketable securities, and idle funds investments. In June 2011, we closed an expansion of the three-year credit facility (the Credit Facility ) from $100 million to $155 million to provide additional liquidity in support of future investment and operational activities. The $55 million increase in total commitments included commitment increases by all six lenders currently participating in the Credit Facility. In addition to the $55 million increase in total commitments, we extended the maturity of the Credit Facility by one year to September 2014. In March 2011, we completed a follow-on public stock offering in which we sold 4,025,000 shares of common stock, including the underwriters full exercise of the over-allotment option, at a price to the public of $18.35 per share (or approximately 141% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately $70.3 million, after

deducting underwriters commissions and offering costs.

**CRITICAL ACCOUNTING POLICIES**

***Basis of Presentation***

Our 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, 2011 and 2010, our consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries, including the Funds. Portfolio investments, as used herein, refers to all of our portfolio investments in LMM companies, private placement portfolio investments, and our investment in the Investment Manager but excludes all of our Marketable securities and idle funds investments. Private placement portfolio investments include investments made through direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the

Table of Contents

LMM companies included as part of our portfolio investments. Marketable securities and idle funds investments are classified as financial instruments and are reported separately on our Consolidated Balance Sheets and Consolidated Schedule of Investments due to the nature of such investments. Our results of operations and cash flows for the three and six months ended June 30, 2011 and 2010, and financial position as of June 30, 2011 and December 31, 2010, 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.

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, 2011 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, 2010. 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 ), we are precluded from consolidating portfolio company investments, including those in which we have a controlling interest, unless the portfolio company is another investment company. An exception to this general principle in the AICPA Guide occurs if we own a controlled operating company that provides all or substantially all of its services directly to us, or to an investment company of ours. None of the investments made by us qualify for this exception. Therefore, our portfolio investments are carried on the balance sheet at fair value, as discussed further in Note B to our consolidated financial statements, with any adjustments to fair value recognized as Net Change in Unrealized Appreciation (Depreciation) on our Statement of Operations until the investment is exited, resulting in any gain or loss on exit being recognized as a Net Realized Gain (Loss) from Investments.

***Portfolio Investment Valuation***

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of our portfolio investments and the related amounts of unrealized appreciation and depreciation. As of June 30, 2011 and December 31, 2010, approximately 76% and 78%, respectively, of our total assets represented investments in portfolio companies valued at fair value (including our investment in the Investment Manager). We are required to report our investments at fair value. We follow the provisions of the 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.

Our portfolio strategy calls for us to invest primarily in illiquid securities issued by private, LMM companies as well as privately placed debt securities issued by private, middle market companies that are generally larger in size than the LMM companies. These portfolio investments may be subject to restrictions on resale and will generally have no established trading market. We determine in good faith the fair value of our portfolio investments pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors and in accordance with the 1940 Act. We review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process. Our valuation policy and process is intended to provide a consistent basis for

determining the fair value of the portfolio.

For valuation purposes, control investments are composed of equity and debt securities for which we have a controlling interest in the portfolio company or have the ability to nominate a majority of the portfolio company s board of directors. Market quotations are generally not readily available for our control investments. As a result, we determine the fair value of control investments using a combination of market and income approaches. Under the market approach, we 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, or 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, we analyze various factors, including the portfolio company s historical and projected financial results. We allocate the enterprise value to investments in order of the legal priority of the investments. We will also use the income approach to determine the fair value of these securities, based on projections of the

Table of Contents

discounted future free cash flows that the portfolio company or the debt security will likely generate. The valuation approaches for our control investments estimate the value of the investment if we were to sell, or exit, the investment, assuming the highest and best use of the investment by market participants. In addition, these valuation approaches consider the value associated with our 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 we do 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 for non-control LMM portfolio investments are generally not readily available. For our non-control LMM portfolio investments, we use a combination of the market and income approaches to value our equity investments and the income approach to value our debt instruments. For non-control LMM debt investments, we determine 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. Our estimate of the expected repayment date of an LMM debt security is generally the legal maturity date of the instrument, as we generally intend to hold our loans to maturity. The yield analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors. We will use the value determined by the yield analysis as the fair value for that security; however, because of our general intent to hold our loans to maturity, the fair value will not exceed the face amount of the LMM debt security. A change in the assumptions that we use to estimate the fair value of our 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 an LMM debt security is in workout status, we 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 be received in a liquidation analysis.

Our private placement portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included in our investment portfolio. For valuation purposes, all of our private placement portfolio investments are non-control investments and are composed of debt securities for which we do not have a controlling interest in the portfolio company, or the ability to nominate a majority of the portfolio company s board of directors. We primarily use observable inputs to determine the fair value of these investments through obtaining third party quotes or independent pricing.

Due to the inherent uncertainty in the valuation process, our estimate of fair value 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. We estimate the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

***Revenue Recognition***

*Interest and Dividend Income*

We record interest and dividend income 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 our valuation policy, we evaluate accrued interest and dividend income periodically for collectability. When a loan or debt security becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we 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, we will remove it from non-accrual status.

*Fee Income*

We may periodically provide services, including structuring and advisory services, to our 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.

*Payment-in-Kind ( PIK ) Interest and Cumulative Dividends*

We hold debt and preferred equity instruments in our 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 dividends in

Table of Contents

arrears are added to the balance of the preferred equity investment. The actual collection of dividends in arrears 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 though we may not have collected the PIK interest and cumulative dividends in cash. We will stop accruing PIK interest and cumulative dividends and will write off any accrued and uncollected interest and dividends in arrears when it is determined that such PIK interest and dividends in arrears are no longer collectible.

***Share-Based Compensation***

We account for our share-based compensation plans using the fair value method, as prescribed by ASC 718, *Compensation Stock Compensation*. Accordingly, for restricted stock awards, we measured the grant date fair value based upon the market price of our common stock on the date of the grant and will amortize this fair value to share-based compensation expense over the requisite service period or vesting term.

***Income Taxes***

MSCC has elected to be, 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. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.

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 Main Street s 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 Main Street s 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.

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.

**LMM PORTFOLIO COMPOSITION**

LMM portfolio investments principally consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies. The LMM debt investments are secured by either a first or second lien on the assets of the portfolio company, generally bear interest at fixed rates, and generally mature between five and seven years from the original investment date. In most LMM portfolio companies, we also receive nominally priced equity warrants and/or make direct equity investments, usually in connection with a debt investment.

Summaries of the composition of our LMM investment portfolio at cost and fair value as a percentage of total LMM portfolio investments are shown in the following table:

Table of Contents

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| First lien debt | 69.4% | 70.6% |
| Equity | 19.4% | 17.7% |
| Second lien debt | 6.1% | 6.7% |
| Equity warrants | 5.1% | 5.0% |
| | 100.0% | 100.0% |

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| First lien debt | 59.1% | 62.6% |
| Equity | 27.6% | 21.9% |
| Second lien debt | 5.6% | 6.5% |
| Equity warrants | 7.7% | 9.0% |
| | 100.0% | 100.0% |

The following table shows the LMM portfolio composition by geographic region of the United States at cost and fair value as a percentage of total LMM portfolio investments. The geographic composition is determined by the location of the corporate headquarters of the portfolio company:

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Southwest | 51.3% | 50.5% |
| West | 29.0% | 29.3% |
| Southeast | 8.8% | 7.0% |
| Midwest | 6.0% | 7.2% |
| Northeast | 4.9% | 6.0% |
| | 100.0% | 100.0% |

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Southwest | 54.5% | 51.8% |
| West | 26.4% | 28.4% |
| Southeast | 7.9% | 6.4% |
| Midwest | 6.1% | 7.2% |
| Northeast | 5.1% | 6.2% |
| | 100.0% | 100.0% |

Main Street s LMM portfolio investments are in companies conducting business in a variety of industries. Set forth below are tables showing the composition of Main Street s LMM portfolio investments by industry at cost and fair value as of June 30, 2011 and December 31, 2010:

Table of Contents

| Cost: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Professional services | 15.2% | 15.4% |
| Media/Marketing | 8.6% | 6.6% |
| Information services | 8.3% | 7.8% |
| Equipment rental | 7.6% | 8.4% |
| Retail | 6.5% | 7.4% |
| Industrial equipment | 6.0% | 7.2% |
| Health care services | 5.6% | 5.0% |
| Industrial services | 5.2% | 7.2% |
| Electronics manufacturing | 4.4% | 5.2% |
| Transportation/Logistics | 4.0% | 1.3% |
| Energy Services | 3.9% | 0.0% |
| Metal fabrication | 3.8% | 6.3% |
| Precast concrete manufacturing | 3.8% | 4.4% |
| Restaurant | 2.8% | 3.3% |
| Custom wood products | 2.7% | 3.0% |
| Agricultural services | 2.4% | 2.8% |
| Consumer Products | 2.2% | 2.6% |
| Manufacturing | 2.0% | 2.4% |
| Infrastructure products | 2.0% | 0.7% |
| Governmental services | 1.5% | 1.8% |
| Health care products | 1.5% | 1.2% |
| | 100.0% | 100.0% |

| Fair Value: | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Professional services | 13.3% | 14.3% |
| Information services | 11.8% | 8.5% |
| Media/Marketing | 7.5% | 5.9% |
| Health care services | 7.3% | 7.1% |
| Industrial services | 6.4% | 7.8% |
| Equipment rental | 6.2% | 7.3% |
| Retail | 5.9% | 6.6% |
| Industrial equipment | 5.6% | 6.3% |
| Metal fabrication | 4.7% | 6.5% |
| Transportation/Logistics | 4.2% | 1.8% |
| Precast concrete manufacturing | 3.8% | 4.9% |
| Electronics manufacturing | 3.7% | 5.0% |
| Energy Services | 3.4% | 0.0% |
| Restaurant | 3.3% | 3.7% |
| Agricultural services | 3.1% | 3.3% |
| Custom wood products | 2.7% | 3.0% |
| Manufacturing | 2.3% | 2.7% |
| Governmental services | 1.4% | 1.8% |
| Health care products | 1.3% | 1.1% |
| Infrastructure products | 1.2% | 0.1% |
| Consumer Products | 0.9% | 2.3% |
| | 100.0% | 100.0% |

Our LMM portfolio investments carry a number of risks including, but not limited to: (1) investing in LMM companies which may have limited operating histories and financial resources; (2) holding investments that are not publicly traded and which may be subject to legal and other restrictions on resale; and (3) other risks common to investing in below investment grade debt and equity investments in private, smaller companies.

45

Table of Contents

**PORTFOLIO ASSET QUALITY**

We utilize an internally developed investment rating system to rate the performance of each portfolio company. Investment Rating 1 represents a portfolio company that is performing in a manner which significantly exceeds expectations and projections. Investment Rating 2 represents a portfolio company that, in general, is performing above expectations. Investment Rating 3 represents a portfolio company that is generally performing in accordance with expectations. Investment Rating 4 represents a portfolio company that is underperforming expectations. Investments with such a rating require increased monitoring and scrutiny by us. Investment Rating 5 represents a portfolio company that is significantly underperforming. Investments with such a rating require heightened levels of monitoring and scrutiny by us and involve the recognition of significant unrealized depreciation on such investment. All new portfolio investments receive an initial 3 rating.

The following table shows the distribution of our LMM and privately placed portfolio investments (excluding the investment in our affiliated Investment Manager) on the 1 to 5 investment rating scale at fair value as of June 30, 2011 and December 31, 2010:

| | June 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| **Investment Rating** | **Investments at Fair Value** | **Percentage of Total Portfolio** | **Investments at Fair Value** | **Percentage of Total Portfolio** |
| | **(Unaudited) (dollars in thousands)** | | | |
| 1 | $ 93,597 | 19.9% | $ 52,147 | 15.0% |
| 2 | 236,729 | 50.4% | 153,408 | 44.2% |
| 3 | 122,310 | 26.0% | 122,249 | 35.3% |
| 4 | 16,878 | 3.6% | 17,705 | 5.1% |
| 5 | 250 | 0.1% | 1,250 | 0.4% |
| Totals | $ 469,764 | 100.0% | $ 346,759 | 100.0% |

Based upon our investment rating system, the weighted average rating of our portfolio was approximately 2.1 as of June 30, 2011 and approximately 2.3 as of December 31, 2010. As of June 30, 2011, we had two investments on non-accrual status, which comprised approximately 1.6% of the total portfolio investments at fair value and 3.7% of the total portfolio investments at cost (or 1.2% and 2.8%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager. As of December 31, 2010, we had two investments on non-accrual status, which comprised approximately 2.6% of the total portfolio investments at fair value and 3.6% of the total portfolio investments at cost (or 2.2% and 3.0%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager.

The broader fundamentals of the United States economy remain mixed, and unemployment remains elevated. In the event that the United States economy contracts, it is likely that the financial results of small- to mid-sized companies, like those in which we invest, could experience deterioration or limited growth from current levels, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults. Consequently, we can provide no assurance that the performance of certain portfolio companies will not be negatively impacted by economic cycles or other conditions, which could also have a negative impact on our future results.

Table of Contents

**DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS**

***Comparison of the three months ended June 30, 2011 and June 30, 2010***

| | Three Months Ended June 30, | | Net Change | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | % |
| | (dollars in millions) | | | |
| Total investment income | $ 16.1 | $ 8.7 | $ 7.4 | 85% |
| Total expenses | (6.5) | (4.0) | (2.5) | 63% |
| Net investment income | 9.6 | 4.7 | 4.9 | 103% |
| Net realized gain from investments | 0.3 | 2.7 | (2.4) | -91% |
| Net realized income | 9.9 | 7.4 | 2.5 | 33% |
| Net change in unrealized appreciation | 9.9 | 1.8 | 8.1 | 447% |
| Income tax provision | (2.0) | | (2.0) | NM |
| Noncontrolling interest | (0.2) | (0.3) | 0.1 | 47% |
| Net increase in net assets resulting from operations attributable to common stock | $ 17.6 | $ 8.9 | $ 8.7 | 99% |

| | Three Months Ended June 30, | | Net Change | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | % |
| | (dollars in millions) | | | |
| Net investment income | $ 9.6 | $ 4.7 | $ 4.9 | 103% |
| Share-based compensation expense | 0.4 | 0.3 | 0.1 | 47% |
| Distributable net investment income (a) | 10.0 | 5.0 | 5.0 | 99% |
| Net realized gain from investments | 0.3 | 2.7 | (2.4) | -91% |
| Distributable net realized income (a) | $ 10.3 | $ 7.7 | $ 2.6 | 34% |
| | | | | |
| Distributable net investment income per share - Basic and diluted (a) (b) | $ 0.43 | $ 0.33 | $ 0.10 | 30% |
| Distributable net realized income per share - Basic and diluted (a) (b) | $ 0.44 | $ 0.51 | $ (0.07) | -14% |

(a) Distributable net investment income and distributable net realized income are net investment income and net realized income, respectively, as determined in accordance with U.S. GAAP, excluding the impact of share-based compensation expense which is non-cash in nature. Main Street believes presenting distributable net investment income and distributable net realized income, and related per share amounts, are useful and appropriate supplemental disclosures for analyzing its financial performance since share-based compensation does not require settlement in cash. However, distributable net investment income and distributable net realized income are non- U.S. GAAP measures and should not be considered as a replacement to net investment income, net realized income, and other earnings measures presented in accordance with U.S. GAAP. Instead, distributable net investment income and distributable net realized income should be reviewed only in connection with such U.S. GAAP measures in analyzing Main Street s financial performance. A reconciliation of net investment income and net realized income in accordance with U.S. GAAP to distributable net investment income and distributable net realized income is presented in the table above.

(b) Per share amounts exclude the earnings attributable to the remaining noncontrolling equity interests in MSC II not owned by Main Street.

*Investment Income*

For the three months ended June 30, 2011, total investment income was $16.1 million, an 85% increase over the $8.7 million for the corresponding period of 2010. This comparable period increase was principally attributable to (i) a $5.9 million increase in interest income from higher average levels of both portfolio debt investments and interest-bearing marketable securities and idle funds investments and (ii) a $1.7 million increase in dividend income from portfolio equity investments. The increase in investment income included $0.5 million of non-recurring income associated with prepayment and repricing activity for certain debt investments and a $0.3 million special dividend from one portfolio equity investment.

Table of Contents

*Expenses*

For the three months ended June 30, 2011, total expenses increased by approximately $2.5 million to $6.5 million from $4.0 million in the corresponding period of 2010. This comparable period increase in expenses was principally attributable to (i) higher interest expense of $1.2 million as a result of the issuance of an additional $65 million in SBIC debentures subsequent to the second quarter of 2010 and increased borrowing activity under the Credit Facility, (ii) higher share-based compensation expense of $0.1 million related to non-cash amortization for restricted share grants, and (iii) higher compensation and other operating expenses of $1.2 million as a result of the significant increase in investment income and portfolio investments compared to the corresponding period of 2010.

*Distributable Net Investment Income*

Distributable net investment income for the three months ended June 30, 2011 increased 99% to $10.0 million, or $0.43 per share, compared with $5.0 million, or $0.33 per share, in the corresponding period of 2010. The increase in distributable net investment income was primarily due to the higher level of total investment income partially offset by higher interest and other operating expenses, due to the changes discussed above. Distributable net investment income on a per share basis for the second quarter of 2011 reflects (i) approximately $0.02 per share of non-recurring investment income associated with the prepayment and repricing activity discussed above, (ii) $0.01 per share of investment income due to the special dividend discussed above, and (iii) a greater number of average shares outstanding compared to the corresponding period in 2010 primarily due to the March 2011 and August 2010 follow-on stock offerings.

*Net Investment Income*

Net investment income for the three months ended June 30, 2011 was $9.6 million, or a 103% increase, compared to net investment income of $4.7 million during the corresponding period of 2010. The increase in net investment income was principally attributable to the increase in total investment income partially offset by the higher interest and other operating expenses discussed above.

*Distributable Net Realized Income*

Distributable net realized income increased to $10.3 million, or $0.44 per share, in the second quarter of 2011 compared with distributable net realized income of $7.7 million, or $0.51 per share, in the corresponding period of 2010. The increase was due to the higher level of total distributable net investment income in 2011, partially offset by the higher level of total net realized gain from investments in the corresponding period of 2010. The $2.7 million net realized gain during the second quarter of 2010 was primarily attributable to realized gains recognized on two partial exits and one full exit of portfolio company equity investments.

*Net Realized Income*

The higher level of net investment income partially offset by the change in net realized gain from investments during the three months ended June 30, 2011 resulted in a $2.5 million increase in net realized income compared with the corresponding period of 2010.

*Net Increase in Net Assets Resulting from Operations Attributable to Common Stock*

For the three months ended June 30, 2011, the $9.9 million net change in unrealized appreciation was principally attributable to (i) unrealized appreciation on 39 portfolio investments totaling $17.8 million, partially offset by unrealized depreciation on 15 portfolio investments totaling $6.2 million, (ii) $0.5 million of net unrealized appreciation on investments in marketable securities and idle funds investments, and (iii) $2.1 million of net unrealized depreciation attributable to our SBIC debentures. For the second quarter of 2011, we also recognized a net income tax provision of $2.0 million principally related to deferred taxes on net unrealized appreciation of certain portfolio investments held in our Taxable Subsidiaries. The noncontrolling interest of $0.2 million recognized in the second quarter of 2011 reflects the pro rata portion of MSC II net earnings attributable to the equity interests in MSC II not owned by Main Street.

As a result of these events, our net increase in net assets resulting from operations attributable to common stock during the three months ended June 30, 2011 was $17.6 million, or $0.77 per share, compared with a net increase in net assets resulting from operations attributable to common stock of $8.9 million, or $0.59 per share, in the corresponding period of 2010.

Table of Contents

***Comparison of the six months ended June 30, 2011 and June 30, 2010***

| | Six Months Ended June 30, | | Net Change | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | % |
| | (dollars in millions) | | | |
| Total investment income | $ 29.5 | $ 15.8 | $ 13.7 | 86% |
| Total expenses | (12.5) | (7.9) | (4.6) | 59% |
| Net investment income | 17.0 | 7.9 | 9.1 | 114% |
| Net realized gain (loss) from investments | 0.3 | (1.4) | 1.7 | 118% |
| Net realized income | 17.3 | 6.5 | 10.8 | 163% |
| Net change in unrealized appreciation from investments | 14.0 | 7.3 | 6.7 | 92% |
| Income tax provision | (3.2) | (0.4) | (2.8) | -651% |
| Bargain purchase gain | | 4.9 | (4.9) | NM |
| Noncontrolling interest | (0.2) | (0.4) | 0.2 | 61% |
| Net increase in net assets resulting from operations attributable to common | $ 27.9 | $ 17.9 | $ 10.0 | 56% |

| | Six Months Ended June 30, | | Net Change | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | % |
| | (dollars in millions) | | | |
| Net investment income | $ 17.0 | $ 7.9 | $ 9.1 | 114% |
| Share-based compensation expense | 0.9 | 0.6 | 0.3 | 47% |
| Distributable net investment income (a) | 17.9 | 8.5 | 9.4 | 109% |
| Net realized gain (loss) from investments | 0.3 | (1.4) | 1.7 | 118% |
| Distributable net realized income (a) | $ 18.2 | $ 7.1 | $ 11.1 | 153% |
| | | | | |
| Distributable net investment income per share - Basic and diluted (a) (b) | $ 0.83 | $ 0.57 | $ 0.26 | 46% |
| Distributable net realized income per share - Basic and diluted (a) (b) | $ 0.84 | $ 0.48 | $ 0.36 | 74% |

(a) Distributable net investment income and distributable net realized income are net investment income and net realized income, respectively, as determined in accordance with U.S. GAAP, excluding the impact of share-based compensation expense which is non-cash in nature. Main Street believes presenting distributable net investment income and distributable net realized income, and related per share amounts, are useful and appropriate supplemental disclosures for analyzing its financial performance since share-based compensation does not require settlement in cash. However, distributable net investment income and distributable net realized income are non- U.S. GAAP measures and should not be considered as a replacement to net investment income, net realized income, and other earnings measures presented in accordance with U.S. GAAP. Instead, distributable net investment income and distributable net realized income should be reviewed only in connection with such U.S. GAAP measures in analyzing Main Street s financial performance. A reconciliation of net investment income and net realized income in accordance with U.S. GAAP to distributable net investment income and distributable net realized income is presented in the table above.

(b) Per share amounts exclude the earnings attributable to the remaining noncontrolling equity interests in MSC II not owned by Main Street.

*Investment Income*

For the six months ended June 30, 2011, total investment income was $29.5 million, an 86% increase over the $15.8 million in the corresponding period of 2010. This comparable period increase was principally attributable to (i) an $11.1 million increase in interest income from higher average levels of both portfolio debt investments and interest-bearing marketable securities and idle funds investments and (ii) a $2.3 million increase in dividend income from portfolio equity investments. The increase in investment income included $1.1 million of non-recurring income associated with prepayment and repricing activity for certain debt investments and a $0.3 million special dividend from one portfolio equity investment.

Table of Contents

*Expenses*

For the six months ended June 30, 2011, total expenses increased by approximately $4.6 million to $12.5 million from $7.9 million in the corresponding period of 2010. This comparable period increase in expenses was principally attributable to (i) higher interest expense of $2.1 million as a result of the issuance of an additional $65 million in SBIC debentures subsequent to the second quarter of 2010 and increased borrowing activity under the Credit Facility, (ii) higher share-based compensation expense of $0.3 million related to non-cash amortization for restricted share grants, and (iii) higher compensation and other operating expenses of $2.2 million as a result of the significant increase in investment income and portfolio investments compared to the corresponding period of 2010.

*Distributable Net Investment Income*

Distributable net investment income for the six months ended June 30, 2011 increased 109% to $17.9 million, or $0.83 per share, compared with $8.5 million, or $0.57 per share, in the corresponding period of 2010. The increase in distributable net investment income was primarily due to the higher level of total investment income partially offset by higher interest and other operating expenses, due to the changes discussed above. Distributable net investment income on a per share basis for the first six months of 2011 reflects (i) approximately $0.05 per share of non-recurring investment income associated with the prepayment and repricing activity discussed above, (ii) $0.01 per share of investment income due to the special dividend discussed above, and (iii) a greater number of average shares outstanding compared to the corresponding period in 2010 primarily due to the March 2011 and August 2010 follow-on stock offerings.

*Net Investment Income*

Net investment income for the six months ended June 30, 2011 was $17.0 million, or a 114% increase, compared to net investment income of $7.9 million during the corresponding period of 2010. The increase in net investment income was principally attributable to the increase in total investment income partially offset by higher interest and other operating expenses as discussed above.

*Distributable Net Realized Income*

Distributable net realized income increased to $18.2 million, or $0.84 per share, in the first six months of 2011 compared with distributable net realized income of $7.1 million, or $0.48 per share, in the corresponding period of 2010. The increase was primarily attributable to the higher level of distributable net investment income as well as the change from net realized loss to net realized gain from investments. The $1.4 million net realized loss during the first six months of 2010 was primarily attributable to $4.0 million of realized loss from our debt and equity investment in one portfolio company, partially offset by $2.3 million of realized gain on two partial exits and one full exit of portfolio company equity investments.

*Net Realized Income*

The higher level of net investment income and the change from net realized loss to net realized gain from investments during the six months ended June 30, 2011 resulted in a $10.8 million increase in net realized income compared with the corresponding period of 2010.

*Net Increase in Net Assets Resulting from Operations Attributable to Common Stock*

For the six months ended June 30, 2011, the $14.0 million net change in unrealized appreciation was principally attributable to (i) unrealized appreciation on 45 portfolio investments totaling $25.4 million, partially offset by unrealized depreciation on 13 portfolio investments totaling $9.9 million, (ii) $0.6 million of net unrealized appreciation on investments in marketable securities and idle funds investments and, (iii) $2.1 million of net unrealized depreciation attributable to our SBIC debentures. For the six months ended June 30, 2011, we also recognized a net income tax provision of $3.2 million principally related to deferred taxes on net unrealized appreciation of certain portfolio investments held in our Taxable Subsidiaries. The noncontrolling interest of $0.2 million recognized during the first six months of 2011 reflects the pro rata portion of MSC II net earnings attributable to the equity interests in MSC II not owned by Main Street.

As a result of these events, our net increase in net assets resulting from operations attributable to common stock during the six months ended June 30, 2011 was $27.9 million, or $1.32 per share, compared with a net increase in net assets resulting from operations attributable to common stock of $17.9 million, or $1.22 per share, in the corresponding period of 2010.

Table of Contents

***Liquidity and Capital Resources***

*Cash Flows*

For the six months ended June 30, 2011, we experienced a net decrease in cash and cash equivalents in the amount of $8.2 million. During that period, we generated $15.4 million of cash from our operating activities, primarily from distributable net investment income partially offset by accretion of unearned income, net payment-in-kind interest income, and increases in interest receivable and other assets. We used $144.8 million in net cash from investing activities for the six months ended June 30, 2011, principally including the funding of $116.1 million for LMM and private placement portfolio investments and the funding of $78.0 million for marketable securities and idle funds investments, partially offset by (i) $29.3 million of cash proceeds from the sale of marketable securities and idle funds investments and (ii) $19.6 million in cash proceeds from the repayment of LMM and private placement portfolio debt investments. For the first six months of 2011, $121.2 million in cash was provided by financing activities, which principally consisted of (i) $70.3 million in net cash proceeds from a public stock offering in March 2011 (ii) $30.0 million in cash proceeds from the issuance of SBIC debentures, and (iii) $34.0 million in net borrowings under the Credit Facility, partially offset by (i) $11.6 million in cash dividends paid to stockholders and (ii) $1.5 million in deferred loan costs paid in connection with the Credit Facility and the issuance of additional SBIC debentures.

For the six months ended June 30, 2010, we experienced a net decrease in cash and cash equivalents in the amount of $25.9 million. During that period, we generated $7.4 million of cash from our operating activities, primarily from distributable net investment income partially offset by accretion of unearned income and increases in interest receivable and other assets. We used $88.7 million in net cash from investing activities for the six months ended June 30, 2010, principally including the funding of $85.7 million for LMM and private placement portfolio investments and the funding of $30.7 million for marketable securities and idle funds investments, partially offset by (i) $19.5 million of cash proceeds from the sale of marketable securities and idle funds investments, (ii) $2.5 million in cash acquired as part of the Exchange Offer, (iii) $3.2 million from the full and partial exits of equity investments and (iv) $2.7 million in cash proceeds from the repayment of LMM and private placement portfolio debt investments. For the first six months of 2010, $55.4 million in cash was provided by financing activities, which principally consisted of (i) $40.1 million in net cash proceeds from a January 2010 public stock offering, (ii) $10.0 million in cash proceeds from the issuance of SBIC debentures, and (iii) $12.5 million in net borrowings under the Credit Facility, partially offset by (i) $7.0 million in cash dividends paid to stockholders and (ii) $0.3 million in deferred loan costs paid in connection with the issuance of additional SBIC debentures.

*Capital Resources*

As of June 30, 2011, we had $134.4 million in cash and cash equivalents, marketable securities, and idle funds investments, and our net asset value totaled $330.1 million, or $14.24 per share. In June 2011, we expanded the Credit Facility from $100 million to $155 million to provide additional liquidity in support of future investment and operational activities. The $55 million increase in total commitments included commitment increases by all six lenders currently participating in the Credit Facility. In addition to the $55 million increase in total commitments, we extended the maturity of the Credit Facility by one year to September 2014. The amended Credit Facility also contains an accordion feature that allows for a further increase in total commitments under the facility to $200 million on the same terms and conditions as the existing lender commitments. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) the applicable LIBOR rate plus 2.50% or (ii) the applicable base rate plus 1.50%. We pay unused commitment fees of 0.375% per annum on the average unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the assets of the Funds. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining an interest coverage ratio of at least 2.0 to 1.0, (ii) maintaining an asset coverage ratio of at least 2.5 to 1.0, and (iii) maintaining a minimum tangible net worth. At June 30, 2011, we had $73.0 million in borrowings outstanding under the Credit Facility, bearing interest at an interest rate of 2.69%. As of June 30, 2011, we were in compliance with all financial covenants of the Credit Facility.

In March 2011, we completed a follow-on public stock offering in which we sold 4,025,000 shares of common stock, including the underwriters full exercise of the over-allotment option, at a price to the public of $18.35 per share (or approximately 141% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately $70.3 million, after deducting underwriters commissions and offering costs.

Due to each of the Funds status as a licensed SBIC, we have the ability to issue, through the Funds, debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, an SBIC can have outstanding debentures guaranteed by the SBA generally in an amount up to twice its regulatory capital, which effectively approximates the amount of its equity capital. Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity but may be pre-paid at any time. Debentures issued prior to September 2006 were subject to pre-payment penalties during their first five years. Those pre-payment penalties no longer apply to debentures issued after September 1, 2006. On June 30, 2011, we, through the Funds, had $210 million of outstanding indebtedness guaranteed by the SBA, which carried a

Table of Contents

weighted average fixed interest rate of approximately 5.1%. The first maturity related to the SBIC debentures does not occur until 2013, and the weighted average duration is approximately 7.0 years as of June 30, 2011.

The American Recovery and Reinvestment Act of 2009 enacted in February 2009 (the Stimulus Bill ) contained several provisions applicable to SBIC funds, including the Funds. One of the key SBIC-related provisions included in the Stimulus Bill increased the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately $137 million, subject to annual esclation. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, Main Street is required to allocate such increased borrowing capacity between the Funds.

We anticipate that we will continue to fund our investment activities through existing cash and cash equivalents, the liquidation of marketable securities and idle funds investments, and a combination of future debt and equity capital. Our primary uses of funds will be investments in portfolio companies, operating expenses and cash distributions to holders of our common stock.

We periodically invest excess cash balances into marketable securities and idle funds investments. The primary investment objective of marketable securities and idle funds investments is to generate incremental cash returns on excess cash balances prior to utilizing those funds for investment in our LMM and private placement portfolio investment strategy. Marketable securities and idle funds investments generally consist of debt investments, independently rated debt investments, certificates of deposit with financial institutions, and diversified bond funds. The composition of marketable securities and idle funds investments will vary in a given period based upon, among other things, changes in market conditions, the underlying fundamentals in our marketable securities and idle funds investments, our outlook regarding future LMM and private placement portfolio investment needs, and any regulatory requirements applicable to Main Street.

If our common stock trades below our net asset value per share, we will generally not be able to issue additional common stock at the market price unless our stockholders approve such a sale and our Board of Directors makes certain determinations. A proposal, approved by our stockholders at our June 2011 annual meeting of stockholders, authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year ending on June 15, 2012. We would need similar future approval from our stockholders to issue shares below the then current net asset value per share any time after the expiration of the current approval.

In order to satisfy the Code requirements applicable to a RIC, we intend to distribute to our stockholders substantially all of our taxable income, but we may also elect to periodically spillover certain excess undistributed taxable income from one tax year into the next tax year. In addition, as a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. In January 2008, we received exemptive relief from the SEC that permits us to exclude SBA-guaranteed debt issued by our wholly owned SBIC subsidiary, MSMF, from our asset coverage ratio, which, in turn, enables us to fund more investments with debt capital. We expect to obtain similar relief from the SEC with respect to SBIC debt securities issued by MSC II, including the $95 million of currently outstanding debt related to its participation in the SBIC program.

Although we have been able to secure access to additional liquidity, including our expanded $155 million Credit Facility, recent public stock offerings, and the increase in available leverage through the SBIC program as part of the Stimulus Bill, there is no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

***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 is not expected to 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,

Table of Contents

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.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures About Fair Value Measurements* ( ASU 2010-06 ). ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation, inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a significant impact on Main Street s financial condition and results of operations.

***Inflation***

Inflation has not had a significant effect on our results of operations in any of the reporting periods presented herein. However, our portfolio companies have experienced, and may in the future experience, the impacts of inflation on their operating results, including periodic escalations in their costs for raw materials and required energy consumption.

***Off-Balance Sheet Arrangements***

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At June 30, 2011, we had seven outstanding commitments to fund unused revolving loans for up to $20.0 million in total.

***Contractual Obligations***

As of June 30, 2011, our future fixed commitments for cash payments on contractual obligations for each of the next five years and thereafter are as follows:

| | Total | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 and thereafter |
|---|---|---|---|---|---|---|---|
| | | | | (dollars in thousands) | | | |
| SBIC debentures | $ 210,000 | $ | $ | $ 4,000 | $ 18,000 | $ 23,100 | $ 164,900 |
| Interest due on SBIC debentures | 75,456 | 5,338 | 10,833 | 10,803 | 10,497 | 9,411 | 28,574 |
| Total | $ 285,456 | $ 5,338 | $ 10,833 | $ 14,803 | $ 28,497 | $ 32,511 | $ 193,474 |

MSC II is obligated to make payments under an investment advisory agreement with the Investment Manager, MSCC s wholly owned subsidiary. The payments due under the investment advisory agreement were fixed for the first five years at $3.3 million per year, paid quarterly, until September 30, 2010. Subsequent to September 30, 2010, under the investment advisory agreement, MSC II is obligated to pay a 2% annualized management fee based upon MSC II assets under management.

MSCC is obligated to make payments under a support services agreement with the Investment Manager. The Investment Manager is reimbursed for its excess operating expenses associated with providing investment management and other services to MSCC and its subsidiaries, as well as MSC II and third parties. Each quarter, as part of the support services agreement, MSCC makes payments to cover all cash operating expenses incurred by the Investment Manager, less the recurring management fees that the Investment Manager receives from MSC II pursuant to a long-term investment advisory services agreement and any other fees received from third parties for providing external services. For the six months ended June 30, 2011 and 2010, the expenses reimbursed by MSCC to the Investment Manager and management fees paid by MSC II were $4.3 million and $2.5 million, respectively.

***Related Party Transactions***

As discussed further in Note D to the accompanying consolidated financial statements, subsequent to the completion of the Formation Transactions, the Investment Manager is a wholly owned portfolio company of MSCC. At June 30, 2011, the Investment Manager had a receivable of $2.2 million due from MSCC related to operating expenses incurred by the Investment Manager required to support Main Street s business.

Table of Contents

***Recent Developments***

During August 2011, Main Street declared monthly dividends of $0.135 per share for each of October, November and December 2011. These monthly dividends equal a total of $0.405 per share for the fourth quarter of 2011. The fourth quarter 2011 dividends represent an 8.0% increase from the dividends declared for the fourth quarter of 2010 and a 3.8% increase compared to the third quarter of 2011. Including the dividends declared for the fourth quarter of 2011, Main Street will have paid $6.32 per share in cumulative dividends since its October 2007 initial public offering.

During July 2011, Main Street completed an LMM portfolio investment in SYNEO, LLC. This investment facilitated the merger of Technical Innovations, LLC ( TI ), an existing Main Street portfolio company, and ASG Medical Systems, LLC ( ASG ). The SYNEO investment consists of $5.5 million in first lien secured debt and a $1.0 million direct equity investment. TI designs and manufactures manual, semi-automated, pneumatic and computer numerically controlled (CNC) machines and tools used by medical device manufacturers to place holes in catheters and for tissue cutting applications. ASG is a leader in the automation of catheter and guidewire manufacturing. The current management of TI and ASG believes that the merger of TI and ASG will allow the two companies to better serve their customers through a broadened service capability and product offering.

**Item 3.** ***Quantitative and Qualitative Disclosures about Market Risk***

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, marketable securities, and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. The majority of our debt investments are made with fixed interest rates for the term of the investment. However, as of June 30, 2011, approximately 35% of our debt investment portfolio (at cost) bore interest at floating rates with 96% of those floating-rate debt investments (at cost) subject to contractual minimum interest rates. Our interest expense will be affected by changes in the published LIBOR rate in connection with our Credit Facility; however, the long term interest rates on our outstanding SBIC debentures, which comprise the majority of our outstanding debt, are fixed for the 10-year life of such debt. As of June 30, 2011, we had not entered into any interest rate hedging arrangements. At June 30, 2011, based on our applicable levels of floating-rate debt investments, a 1% change in interest rates would not have a material effect on our level of interest income from debt investments.

**Item 4.** ***Controls and Procedures***

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, our President, our Chief Financial Officer, our Chief Compliance Officer and our Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chairman and Chief Executive Officer, our President, our Chief Financial Officer, our Chief Compliance Officer and our Chief Accounting Officer, have concluded that our current disclosure controls and procedures are effective in timely alerting them of material information relating to us that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934. There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, we do not expect any current matters will materially affect our financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on our financial condition or results of operations in any future reporting period.

**Item 1A.** ***Risk Factors***

There were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, that we filed with the SEC on March 11, 2011.

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

During the three months ended June 30, 2011, we issued 110,722 shares of our common stock under our dividend reinvestment plan pursuant to an exemption from the registration requirements of the Securities Act of 1933. The aggregate value for the shares of common stock issued during the three months ended June 30, 2011, under the dividend reinvestment plan was approximately $2.0 million.

Table of Contents

**Item 6.** ***Exhibits***

Listed below are the exhibits which are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

| Exhibit Number | Description of Exhibit |
|---|---|
| 10.1 * | First Amendment to Credit Agreement dated June 28, 2011 (previously filed as Exhibit 10.1 to Main Street Capital Corporation s Current Report on Form 8-K filed June 29, 2011 (File No. 1-33723)). |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |

* Exhibit previously filed with the Securities and Exchange Commission, as indicated, and incorporated herein by reference.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | **Main Street Capital Corporation** |
| Date: August 5, 2011 | /s/ Vincent D. Foster<br>Vincent D. Foster<br>Chairman and Chief Executive Officer (principal executive officer) |
| Date: August 5, 2011 | /s/ Todd A. Reppert<br>Todd A. Reppert<br>President |
| Date: August 5, 2011 | /s/ Dwayne L. Hyzak<br>Dwayne L. Hyzak<br>Chief Financial Officer (principal financial officer) |
| Date: August 5, 2011 | /s/ Michael S. Galvan<br>Michael S. Galvan<br>Vice President and Chief Accounting Officer (principal accounting officer) |
| Date: August 5, 2011 | /s/ Rodger A. Stout<br>Rodger A. Stout<br>Senior Vice President-Finance & Administration,<br>Chief Compliance Officer and Treasurer |

Table of Contents

**EXHIBIT INDEX**

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|---|---|
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