

Main Street Capital CORP  
Form 10-Q  
November 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from:                      to

Commission File Number: 001-33723

## Main Street Capital Corporation

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**41-2230745**

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

**1300 Post Oak Boulevard, Suite 800**

**Houston, TX**

(Address of principal executive offices)

**77056**

(Zip Code)

**(713) 350-6000**

(Registrant's telephone number including area code)

**n/a**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock as of November 7, 2012 was 31,657,264.



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	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Portfolio investments at fair value:		
Control investments (cost: \$184,526 and \$206,787 as of September 30, 2012 and December 31, 2011, respectively)	\$ 239,917	\$ 238,924
Affiliate investments (cost: \$111,143 and \$110,157 as of September 30, 2012 and December 31, 2011, respectively)	154,972	146,405
Non-Control/Non-Affiliate investments (cost: \$431,991 and \$275,061 as of September 30, 2012 and December 31, 2011, respectively)	439,501	270,895
Investment in affiliated Investment Manager (cost: \$2,668 and \$4,284 as of September 30, 2012 and December 31, 2011, respectively)	202	1,869
Total portfolio investments (cost: \$730,328 and \$596,289 as of September 30, 2012 and December 31, 2011, respectively)	834,592	658,093
Marketable securities and idle funds investments (cost: \$1,965 and \$25,935 as of September 30, 2012 and December 31, 2011, respectively)	2,038	26,242
Total investments (cost: \$732,293 and \$622,224 as of September 30, 2012 and December 31, 2011, respectively)	836,630	684,335
Cash and cash equivalents	19,584	42,650
Interest receivable and other assets	11,818	6,539
Deferred financing costs (net of accumulated amortization of \$2,968 and \$2,167 as of September 30, 2012 and December 31, 2011, respectively)	3,766	4,168
Total assets	\$ 871,798	\$ 737,692
<b>LIABILITIES</b>		
SBIC debentures (par: \$209,000 and \$220,000 as of September 30, 2012 and December 31, 2011, respectively; par of \$100,000 and \$95,000 is recorded at a fair value of \$85,083 and \$76,887 as of September 30, 2012 and December 31, 2011, respectively)	\$ 194,083	\$ 201,887
Credit facility	103,000	107,000
Interest payable	1,197	3,984
Dividend payable	4,743	2,856
Deferred tax liability, net	9,426	3,776

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Payable to affiliated Investment Manager	3,342	4,831
Accounts payable and other liabilities	2,853	2,170
Total liabilities	318,644	326,504
Commitments and contingencies		
<b>NET ASSETS</b>		
Common stock, \$0.01 par value per share (150,000,000 shares authorized; 31,619,333 and 26,714,384 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively)	316	267
Additional paid-in capital	464,141	360,164
Accumulated net investment income, net of cumulative dividends of \$101,853 and \$79,414 as of September 30, 2012 and December 31, 2011, respectively	31,289	12,531
Accumulated net realized loss from investments, net of cumulative dividends of \$27,852 and \$13,804 as of September 30, 2012 and December 31, 2011, respectively	(29,158)	(20,445)
Net unrealized appreciation, net of income taxes	86,566	53,194
Total Net Asset Value	553,154	405,711
Noncontrolling interest		5,477
Total net assets including noncontrolling interests	553,154	411,188
Total liabilities and net assets	\$ 871,798	\$ 737,692
<b>NET ASSET VALUE PER SHARE</b>	\$ 17.49	\$ 15.19

The accompanying notes are an integral part of these financial statements

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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Operations

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>INVESTMENT INCOME:</b>				
Interest, fee and dividend income:				
Control investments	\$ 5,991	\$ 6,286	\$ 17,841	\$ 18,577
Affiliate investments	4,838	3,162	14,652	8,468
Non-Control/Non-Affiliate investments	12,015	7,200	30,263	18,716
Total interest, fee and dividend income	22,844	16,648	62,756	45,761
Interest from marketable securities, idle funds and other	110	438	1,599	829
Total investment income	22,954	17,086	64,355	46,590
<b>EXPENSES:</b>				
Interest	(3,923)	(3,716)	(11,967)	(9,882)
General and administrative	(595)	(479)	(1,757)	(1,585)
Expenses reimbursed to affiliated Investment Manager	(2,215)	(1,950)	(7,574)	(6,287)
Share-based compensation	(699)	(580)	(1,860)	(1,466)
Total expenses	(7,432)	(6,725)	(23,158)	(19,220)
<b>NET INVESTMENT INCOME</b>	<b>15,522</b>	<b>10,361</b>	<b>41,197</b>	<b>27,370</b>
<b>NET REALIZED GAIN (LOSS) FROM INVESTMENTS:</b>				
Control investments	122	407	(1,940)	407
Affiliate investments			5,500	
Non-Control/Non-Affiliate investments	128	794	478	775
Marketable securities and idle funds investments	277	247	1,297	515
Total net realized gain from investments	527	1,448	5,335	1,697
<b>NET REALIZED INCOME</b>	<b>16,049</b>	<b>11,809</b>	<b>46,532</b>	<b>29,067</b>
<b>NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):</b>				
Portfolio investments	22,096	8,162	44,120	23,653
Marketable securities and idle funds investments	(151)	(1,712)	(235)	(1,025)
SBIC debentures	(1,858)	(3,636)	(3,367)	(5,715)
Investment in affiliated Investment Manager		(48)	(51)	(135)
Total net change in unrealized appreciation	20,087	2,766	40,467	16,778
Income tax provision	(4,169)	(139)	(7,041)	(3,302)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>31,967</b>	<b>14,436</b>	<b>79,958</b>	<b>42,543</b>
Noncontrolling interest			(54)	(158)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK</b>	<b>\$ 31,967</b>	<b>\$ 14,436</b>	<b>\$ 79,904</b>	<b>\$ 42,385</b>

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<b>NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED</b>	\$	0.49	\$	0.44	\$	1.44	\$	1.23
<b>NET REALIZED INCOME PER SHARE - BASIC AND DILUTED</b>	\$	0.51	\$	0.50	\$	1.62	\$	1.30
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK PER SHARE - BASIC AND DILUTED</b>	\$	1.01	\$	0.62	\$	2.79	\$	1.94
<b>DIVIDENDS PAID PER SHARE</b>	\$	0.44	\$	0.39	\$	1.26	\$	1.16
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED</b>		31,578,742		23,194,896		28,615,877		21,824,775

The accompanying notes are an integral part of these financial statements



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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Changes in Net Assets

(in thousands, except shares)

(Unaudited)

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Net Investment Income, Net of Dividends	Accumulated Net Realized Loss From Investments, Net of Dividends	Net Unrealized Appreciation from Investments, Net of Income Taxes	Total Net Asset Value	Noncontrolling Interest	Total Net Assets Including Noncontrolling Interest
<b>Balances at December 31, 2010</b>	18,797,444	\$ 188	\$ 224,485	\$ 9,262	\$ (20,542)	\$ 32,142	\$ 245,535	\$ 4,448	\$ 249,983
Public offering of common stock, net of offering costs	4,025,000	40	70,274				70,314		70,314
Share-based compensation			1,466				1,466		1,466
Purchase of vested stock for employee payroll tax withholding	(32,725)		(674)				(674)		(674)
Dividend reinvestment	303,659	3	5,719				5,722		5,722
Issuance of restricted stock	125,970	1	(1)						
Distributions to noncontrolling interest								(110)	(110)
Dividends to stockholders				(27,406)	(802)		(28,208)		(28,208)
Net increase resulting from operations				27,370	1,697	13,476	42,543		42,543
Noncontrolling interest						(158)	(158)	158	
<b>Balances at September 30, 2011</b>	23,219,348	\$ 232	\$ 301,269	\$ 9,226	\$ (19,647)	\$ 45,460	\$ 336,540	\$ 4,496	\$ 341,036
<b>Balances at December 31, 2011</b>	26,714,384	\$ 267	\$ 360,164	\$ 12,531	\$ (20,445)	\$ 53,194	\$ 405,711	\$ 5,477	\$ 411,188
Public offering of common stock, net of offering costs	4,312,500	43	92,950				92,993		92,993
MSC II noncontrolling interest acquisition	229,634	2	5,328				5,330	(5,417)	(87)
Adjustment to investment in Investment Manager related to MSC II noncontrolling interest acquisition			(1,616)				(1,616)		(1,616)
Share-based compensation			1,860				1,860		1,860
Purchase of vested stock for employee payroll tax withholding	(40,549)		(1,012)				(1,012)		(1,012)

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Dividend reinvestment	264,331	3	6,468		6,471	6,471
Issuance of restricted stock	139,033	1	(1)			
Distributions to noncontrolling interest					(114)	(114)
Dividends to stockholders			(22,439)	(14,048)	(36,487)	(36,487)
Net increase resulting from operations			41,197	5,335	33,426	79,958
Noncontrolling interest					(54)	54
<b>Balances at September 30, 2012</b>	31,619,333	\$ 316	\$ 464,141	\$ 31,289	\$ (29,158)	\$ 86,566
						\$ 553,154

The accompanying notes are an integral part of these financial statements

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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets resulting from operations	\$ 79,958	\$ 42,543
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net change in unrealized appreciation	(40,467)	(16,778)
Net realized gain from investments	(5,335)	(1,697)
Accretion of unearned income	(9,263)	(4,041)
Net payment-in-kind interest	(2,405)	(1,752)
Cumulative dividends	1,745	(1,246)
Share-based compensation expense	1,860	1,466
Amortization of deferred financing costs	802	480
Deferred taxes	5,650	3,002
Changes in other assets and liabilities:		
Interest receivable and other assets	(1,160)	(1,273)
Interest payable	(2,787)	(2,274)
Payable to affiliated Investment Manager	(1,489)	3,090
Accounts payable and other liabilities	316	269
Deferred fees and other	1,428	1,238
Net cash provided by operating activities	28,853	23,027
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in portfolio companies	(397,912)	(266,247)
Principal payments received on loans and debt securities in portfolio companies	246,138	97,043
Proceeds from sale of equity investments and related notes in portfolio companies	25,869	886
Investments in marketable securities and idle funds investments	(7,596)	(20,021)
Proceeds from marketable securities and idle funds investments	33,502	4,651
Net cash used in investing activities	(99,999)	(183,688)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from public offering of common stock, net of offering costs	92,993	70,314
Distributions to noncontrolling interest	(114)	(110)
Dividends paid to stockholders	(28,879)	(19,350)
Proceeds from issuance of SBIC debentures	5,000	40,000
Repayments of SBIC debentures	(16,000)	
Proceeds from credit facility	170,000	144,000
Repayments on credit facility	(174,000)	(69,000)
Purchase of vested stock for employee payroll tax withholding	(1,012)	(675)
Payment of deferred loan costs and SBIC debenture fees	(571)	(1,726)
Other	663	
Net cash provided by financing activities	48,080	163,453
Net increase (decrease) in cash and cash equivalents	(23,066)	2,792
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	42,650	22,334

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<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$	19,584	\$	25,126
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The accompanying notes are an integral part of these financial statements

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**September 30, 2012**

**(in thousands)**

**(Unaudited)**

**Control Investments (5)**

<b>California Healthcare Medical Billing, Inc.</b>	Outsourced Billing and Revenue Cycle Management	12% Secured Debt (Maturity - October 17, 2015) Warrants (Fully diluted 21.3%) Common Stock (Fully diluted 9.8%)	8,103	7,900 1,193 1,177 10,270	8,013 3,380 1,560 12,953
<b>Ceres Management, LLC (Lambs)</b>	Aftermarket Automotive Services Chain	14% Secured Debt (Maturity - May 31, 2013) Preferred Stock (12% cumulative) Member Units (Fully diluted 79.0%) 9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity - October 1, 2025) Member Units (Lamb's Real Estate Investment I, LLC) (Fully diluted 100%)	4,000   1,078	3,990 3,000 5,273 1,078 625 13,966	3,990 3,000  1,078 800 8,868

<b>Gulf Manufacturing, LLC</b>	Manufacturer of Specialty Fabricated Industrial Piping Products	9% PIK Secured Debt (Ashland Capital IX, LLC) (Maturity - June 30, 2017)	919	919	919
		Member Units (Fully diluted 34.2%) (8)		2,980	12,660
				3,899	13,579

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

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<b>Indianapolis Aviation Partners, LLC</b>	Fixed Base Operator	12% Secured Debt (Maturity - September 15, 2014)	4,275	4,081	4,124
		Warrants (Fully diluted 30.1%)		1,129	1,650
				5,210	5,774
<b>Lighting Unlimited, LLC</b>	Commercial and Residential Lighting Products and Design Services	8% Secured Debt (Maturity - August 22, 2014)	1,946	1,946	1,946
		Preferred Stock (non-voting)		502	502
		Warrants (Fully diluted 7.1%)		54	20
		Common Stock (Fully diluted 70.0%)		100	200
		(8)		2,602	2,668
<b>NAPCO Precast, LLC</b>	Precast Concrete Manufacturing	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (9)	3,385	3,382	3,382
		18% Secured Debt (Maturity - February 1, 2013)	5,173	5,163	5,163
		Member Units (Fully diluted 44.0%)		2,975	4,195
				11,520	12,740
<b>NRP Jones, LLC</b>					

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	Manufacturer of Hoses, Fittings and Assemblies	12% Secured Debt (Maturity - December 22, 2016)	12,100	11,158	11,890
		Warrants (Fully diluted 12.2%)		817	1,420
		Member Units (Fully diluted 43.2%) (8)		2,900	5,030
				14,875	18,340
<b>Pegasus Research Group, LLC (Televerde)</b>	Telemarketing and Data Services	13% Current / 5% PIK Secured Debt (Maturity - January 6, 2016)	5,191	5,141	5,191
		Member Units (Fully diluted 43.7%) (8)		1,250	1,880
				6,391	7,071
<b>Principle Environmental, LLC</b>	Noise Abatement Services	12% Secured Debt (Maturity - February 1, 2016)	4,750	3,897	4,750



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		12% Current / 2% PIK Secured Debt (Maturity - February 1, 2016)	3,576	3,518	3,576
		Warrants (Fully diluted 14.6%)		1,200	3,860
		Member Units (Fully diluted 22.6%)		1,863	6,150
				10,478	18,336
<b>The MPI Group, LLC</b>	Manufacturer of Custom Hollow Metal Doors, Frames and Accessories	4.5% Current / 4.5% PIK Secured Debt (Maturity - October 2, 2013)	1,079	1,077	1,077
		6% Current / 6% PIK Secured Debt (Maturity - October 2, 2013)	5,639	5,572	5,572
		Warrants (Fully diluted 52.3%)		896	
		Member Units (Non-voting)		200	
				7,745	6,649
<b>Uvalco Supply, LLC</b>	Farm and Ranch Supply Store	Member Units (Fully diluted 42.8%) (8)		1,113	2,840

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<b>Vision Interests, Inc.</b>	Manufacturer / Installer of Commercial Signage	6.5% Current /6.5% PIK Secured Debt (Maturity - December 23, 2016)	3,152	3,092	3,092
		Series A Preferred Stock (Fully diluted 50.9%)		3,000	3,280
		Common Stock (Fully diluted 19.1%)		3,706	100
				9,798	6,472
<b>Subtotal Control Investments (28.7% of total investments at fair value)</b>				184,526	239,917

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**September 30, 2012**

**(in thousands)**

**(Unaudited)**

**Affiliate Investments (6)**

<b>Bridge Capital Solutions Corporation</b>	Financial Services and Cash Flow Solutions	13% Secured Debt (Maturity - April 17, 2017) Warrants (Fully diluted 7.5%)	5,000	4,744 200 4,944	4,744 200 4,944
<b>Daseke, Inc.</b>	Specialty Transportation Provider	Common Stock (Fully diluted 12.6%)		1,427	6,620
<b>Gault Financial, LLC (RMB Capital, LLC)</b>	Purchases and Manages Liquidation of Distressed Assets				

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14% Secured Debt (Maturity - November 21, 2016)	10,000	9,489	9,489
Warrants (Fully diluted 22.5%)		400	400
		9,889	9,889

**Indianhead Pipeline Services, LLC**

Pipeline Support Services

12% Secured Debt (Maturity - February 6, 2017)	9,950	9,313	9,313
Preferred Equity (Fully diluted 8.0%) (8)		1,638	1,638
Warrants (Fully diluted 10.6%)		459	459
Member Units (Fully diluted 4.1%)		1	1
		11,411	11,411

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<b>IRTH Holdings, LLC</b>	Damage Prevention Technology Information Services	12% Secured Debt (Maturity - December 29, 2015) Member Units (Fully diluted 22.3%)	3,755	3,706 850 4,556	3,755 4,110 7,865
<b>Laurus Healthcare, LP</b>	Management of Outpatient Cardiac Cath Labs	Class A and C Units (Fully diluted 13.1%) (8)		80	12,400
<b>OnAsset Intelligence, Inc.</b>	Transportation Monitoring / Tracking Services	12% Secured Debt (Maturity - October 18, 2012) Preferred Stock (7% cumulative) (Fully diluted 5.75%) (8) Warrants (Fully diluted 4.0%)	1,500	1,425 1,662 830 3,917	1,425 1,662 640 3,727
<b>Radial Drilling Services Inc.</b>	Oil and Gas Technology	12% Secured Debt (Maturity - November 23, 2016) Warrants (Fully diluted 24.0%)	4,200	3,454 758 4,212	3,454 758 4,212

<b>Spectrio LLC</b>	Audio Messaging Services	8% Secured Debt (Maturity - June 16, 2016)	280	280	280
		12% Secured Debt (Maturity - June 16, 2016)	14,595	14,169	14,595
		Warrants (Fully diluted 9.8%)		887	3,040
				15,336	17,915
<b>Subtotal Affiliate Investments (18.5% of total investments at fair value)</b>				<b>111,143</b>	<b>154,972</b>

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**September 30, 2012**

**(in thousands)**

**(Unaudited)**

**Non-Control/Non-Affiliate Investments (7)**

<b>Ameritech College Operations, LLC</b>	For-Profit Nursing and Healthcare College	18% Secured Debt (Maturity - March 9, 2017)	6,050	5,938	5,938
<b>Associated Asphalt Partners, LLC (10)</b>	Liquid Asphalt Supplier	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - March 9, 2018) (9)	9,400	9,245	9,258
<b>Blackboard, Inc. (10)</b>	Education Software Provider	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - October 4, 2018) (9)	2,978	2,881	3,008

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		LIBOR Plus 10.00%, Current Coupon 11.50%, Secured Debt (Maturity - April 4, 2019) (9)	2,000	1,848 4,729	1,900 4,908
<b>Brand Connections, LLC</b>	Venue-Based Marketing and Media	14% Secured Debt (Maturity - April 30, 2015)	5,861	5,775	5,861



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<b>Calloway Laboratories, Inc. (10)</b>	Health Care Testing Facilities	10.00% Current / 2.00% PIK Secured Debt (Maturity - September 30, 2014) (9)	5,015	4,886	4,886
<b>CHI Overhead Doors, Inc. (10)</b>	Manufacturer of Overhead Garage Doors	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - August 17, 2017) (9)	2,416	2,375	2,415
		LIBOR Plus 9.50%, Current Coupon 11.00%, Secured Debt (Maturity - February 17, 2018) (9)	2,500	2,456	2,438
				4,831	4,853
<b>Congruent Credit Opportunities Fund II, LP (11) (12)</b>	Investment Partnership	LP Interests (Fully diluted 18.75%)		12,251	12,144
<b>CST Industries (10)</b>	Storage Tank Manufacturer	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - May 22, 2017) (9)	12,344	12,168	12,213
<b>Drilling Info, Inc.</b>	Information Services for the Oil and Gas Industry	Common Stock (Fully diluted 2.3%)		1,335	5,070

<b>Engility Corporation (10) (12)</b>	Defense Software	LIBOR Plus 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - July 18, 2017) (9)	5,000	4,952	5,012
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<b>EnCap Energy Fund Investments (11) (12)</b>	Investment Partnership	LP Interests (EnCap Energy Capital Fund VIII, L.P.) (Fully diluted 0.1%) (8)	1,288	1,484	
		LP Interests (EnCap Energy Capital Fund VIII Co - Investors, L.P.) (Fully diluted 0.3%)	358	358	
		LP Interests (EnCap Flatrock Midstream Fund II, L.P.) (Fully diluted 1.1%)	254	254	
			1,900	2,096	
<b>Flexera Software LLC (10)</b>	Software Licensing	LIBOR Plus 9.75%, Current Coupon 11.00%, Secured Debt (Maturity - September 30, 2018) (9)	3,000	2,783	3,060
<b>GFA Brands, Inc. (10) (12)</b>	Food Products	LIBOR Plus 5.75%, Current Coupon 7.00%, Secured Debt (Maturity - July 2, 2018) (9)	6,983	6,847	7,078
<b>Go Daddy Group, Inc. (10)</b>	Domain Name Management	LIBOR Plus 4.25%, Current Coupon 5.50%, Secured Debt (Maturity - December 17, 2018) (9)	7,444	7,444	7,432
<b>Halcon Resources Corporation (10) (12)</b>	Oil and Gas Exploration and Production		5,000	5,086	5,113

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9.75 Bond Secured Debt (Maturity -  
July 15, 2020)

<b>Hearthside Food Solutions, LLC (10)</b>	Contract Food Manufacturer	LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - June 5, 2018) (9)	4,000	3,962	4,010
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<b>Homeward Residential Holdings, Inc. (10)</b>	Mortgage Originator and Servicer	LIBOR Plus 6.75%, Current Coupon 8.25%, Secured Debt (Maturity - August 8, 2017) (9)	750	732	762
<b>Il Fornaio Corporation (10)</b>	Casual Restaurant Group	LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - June 10, 2017) (9)	1,822	1,815	1,826
<b>iStar Financial Inc. (10) (12)</b>	Real Estate Investment Trust	LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - March 19, 2016) (9)	2,239	2,202	2,256
<b>JJ Lease Funding Corp. (10)</b>	Apparel Retail	LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - April 29, 2017) (9)	2,883	2,813	2,208
<b>Maverick Healthcare Group LLC (10)</b>	Home Healthcare Products and Services	LIBOR Plus 9.00%, Current Coupon 10.75%, Secured Debt (Maturity - December 30, 2016) (9)	4,913	4,913	4,986



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<b>Medpace Intermediateco, Inc. (10)</b>	Clinical Trial Development and Execution	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - June 19, 2017) (9)	4,612	4,554	4,439
<b>Metropolitan Health Networks, Inc. (10) (12)</b>	Healthcare Network Provider	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - October 4, 2016) (9)	1,930	1,906	1,920
		LIBOR Plus 11.75%, Current Coupon 13.50%, Secured Debt (Maturity - October 4, 2017) (9)	3,250	3,192 5,098	3,234 5,154
<b>Miramax Film NY, LLC (10)</b>	Motion Picture Producer and Distributor	Class B Units (Fully diluted 0.2%)		500	500
<b>Mmodal Inc. (10)</b>	Healthcare Equipment and Services	LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - August 16, 2019) (9)	4,000	3,948	3,975
<b>National Vision, Inc. (10)</b>	Discount Optical Retailer		3,242	3,194	3,286

LIBOR Plus 5.75%, Current Coupon  
7.00%, Secured Debt (Maturity -  
August 2, 2018) (9)



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<b>NGPL PipeCo, LLC (10)</b>	Natural Gas Pipelines and Storage Facilities	LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - September 15, 2017) (9)	9,000	8,858	9,188
<b>Oberthur Technologies SA (10) (12)</b>	Smart Card, Printing, Identity, and Cash Protection Security	LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - November 30, 2018) (9)	7,000	6,670	6,952
<b>Panolam Industries International, Inc. (10)</b>	Decorative Laminate Manufacturer	LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - August 23, 2017) (9)	4,250	4,208	4,239
<b>Physician Oncology Services, L.P. (10)</b>	Provider of Radiation Therapy and Oncology Services	LIBOR Plus 4.75%, Current Coupon 6.25%, Secured Debt (Maturity - January 31, 2017) (9)	942	935	918

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<b>PL Propylene LLC (10) (12)</b>	Propylene Producer	LIBOR Plus 5.75%, Current Coupon 7.00%, Secured Debt (Maturity - March 27, 2017) (9)	3,990	3,917	4,055
<b>ProQuest LLC (10)</b>	Academic Research Portal	LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - April 13, 2018) (9)	4,975	4,929	5,000
<b>Race Point Power, LLC (10)</b>	Electric Utilities / Power Generation	LIBOR Plus 6.00%, Current Coupon 7.75%, Secured Debt (Maturity - January 11, 2018) (9)	2,104	2,070	2,093
<b>Relativity Media, LLC (10)</b>	Full-scale Film and Television Production and Distribution	10.00% Secured Debt (Maturity - May 24, 2015) 15.00% PIK Secured Debt (Maturity - May 24, 2015) Class A Units (Fully diluted 0.2%)	5,000 5,272	4,912 4,994 292 10,198	4,912 4,994 292 10,198
<b>Schiff Nutrition Group, Inc. (10) (12)</b>	Vitamin and Nutritional Supplement Manufacturer and Distributor	LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - March 30, 2019) (9)	9,923	9,783	9,923

<b>Sonneborn, LLC (10)</b>	Specialty Chemicals Manufacturer	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - March 30, 2018) (9)	2,985	2,929	2,996
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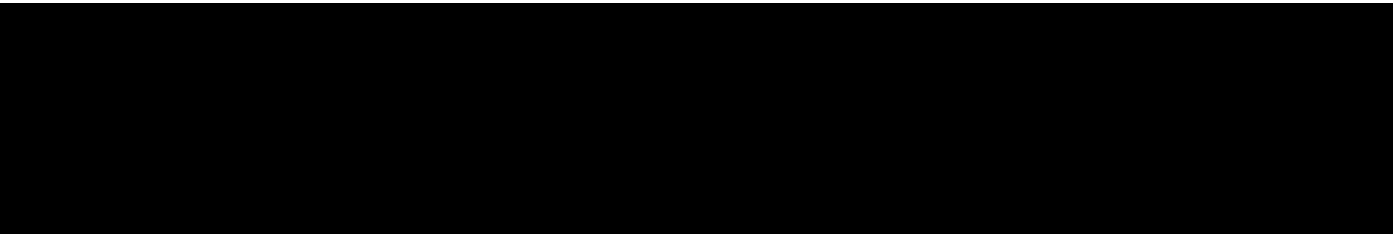
<b>Surgery Center Holdings, Inc. (10)</b>	Ambulatory Surgical Centers	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - February 6, 2017) (9)	4,894	4,874	4,894
<b>Tank Holding Corp. (10)</b>	Manufacturer of Storage Tanks	LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - June 28, 2019) (9)	5,909	5,794	5,924
<b>Tube City IMS Corporation (10) (12)</b>	Steel Mill Services	LIBOR Plus 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - March 20, 2019) (9)	995	986	1,009
<b>Universal Fiber Systems, LLC</b>	Manufacturer of Synthetic Fibers	LIBOR Plus 5.75%, Current Coupon 7.50%, Secured Debt (Maturity - June 26, 2015)	5,387	5,285	5,285
<b>VFH Parent LLC (10)</b>	Electronic Trading and Market Making	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - July 8, 2016) (9)	3,574	3,517	3,583



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<b>Vision Solutions, Inc. (10)</b>	Computer Software	LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - July 23, 2016) (9)	2,728	2,527	2,542
		LIBOR Plus 8.00%, Current Coupon 9.50%, Secured Debt (Maturity - July 23, 2017) (9)	5,000	4,960 7,487	5,013 7,555
<b>Walter Investment Management Corp. (10) (12)</b>	Real Estate Services	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (9)	2,550	2,509	2,576
<b>Wilton Brands LLC (10)</b>	Specialty Housewares Retailer	LIBOR Plus 6.25%, Current Coupon 7.50%, Secured Debt (Maturity - August 30, 2018) (9)	2,000	1,960	2,023
<b>Willis Group, LLC</b>	Staffing and Recruitment Services	12% Current / 3% PIK Secured Debt (Maturity - December 19, 2014)	7,875	7,750	7,875
<b>Wyle Services Corporation (10)</b>	Specialized Engineering and Technical Services	LIBOR Plus 3.50%, Current Coupon 5.00%, Secured Debt (Maturity - March 26, 2017) (9)	3,000	2,985	3,011



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<b>Subtotal Non-Control/Non-Affiliate Investments (52.5% of total investments at fair value)</b>	431,991	439,501
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<b>Total Portfolio Investments, September 30, 2012</b>	730,328	834,592
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MAIN STREET CAPITAL CORPORATION  
 CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(in thousands)

(Unaudited)

Marketable Securities and Idle Funds Investments

General Motors Company  
 (12)

Preferred stock (0.59%  
 cumulative) (8)

255

190

Subtotal Marketable Securities and Idle Funds Investments (0.3% of total investments at fair value)

1,965

2,038

- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted.
- (2) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
- (3) See Note C for summary geographic location of portfolio companies.
- (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
- (5) Control investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
- (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
- (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.



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

**(9) Index based floating interest rate is subject to contractual minimum interest rate.**

**(10) Middle Market portfolio investment.**

**(11) Other Portfolio investment.**

**(12) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.**

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2011**

**(in thousands)**

**Control Investments (5)**

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

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

<b>Harrison Hydra-Gen, Ltd.</b>	Manufacturer of Hydraulic Generators			
	12% Secured Debt (Maturity - June 4, 2015)	5,507	4,938	5,230
	Preferred Stock (8% cumulative) (8)		1,081	1,081
	Warrants (Fully diluted 34.5%)		718	2,240
			6,737	8,551

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<b>Hawthorne Customs and Dispatch Services, LLC</b>	Facilitator of Import Logistics, Brokerage, and Warehousing	Member Units (Fully diluted 47.6%) (8)	589	1,410
		Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%) (8)	1,215	1,215
			1,804	2,625
<b>Indianapolis Aviation Partners, LLC</b>	Fixed Base Operator	12% Secured Debt (Maturity - September 15, 2014)	4,270	4,003
		Warrants (Fully diluted 30.1%)		1,129
				5,132
				4,120
<b>Lighting Unlimited, LLC</b>	Commercial and Residential Lighting Products and Design Services	8% Secured Debt (Maturity - August 22, 2012)	2,000	1,984
		Preferred Stock (non-voting)		510
		Warrants (Fully diluted 7.1%)		54
		Common Stock (Fully diluted 70.0%)		100
			2,648	2,704
<b>NAPCO Precast, LLC</b>	Precast Concrete Manufacturing	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (9)	3,385	3,376
			5,173	5,142

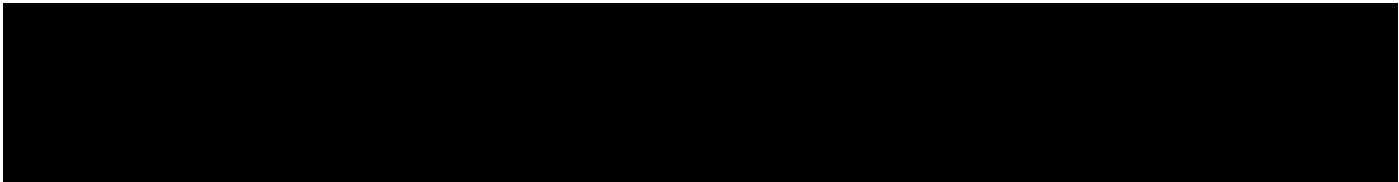
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18% Secured Debt (Maturity - February 1, 2013)	2,975	4,195
Member Units (Fully diluted 46.3%) (8)	11,493	12,713

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<b>NRP Jones, LLC</b>	Manufacturer of Hoses, Fittings and Assemblies	12% Secured Debt (Maturity - December 22, 2016)	12,100	11,041	11,041
		Warrants (Fully diluted 12.2%)		817	817
		Member Units (Fully diluted 43.2%)		2,900	2,900
				14,758	14,758
<b>OMi Holdings, Inc.</b>					
<b>OMi Holdings, Inc.</b>	Manufacturer of Overhead Cranes	12% Secured Debt (Maturity - April 1, 2013)	7,974	7,950	7,950
		Common Stock (Fully diluted 48.0%)		1,080	2,270
				9,030	10,220
<b>PPL RVs, Inc.</b>					
<b>PPL RVs, Inc.</b>	Recreational Vehicle Dealer	18% Secured Debt (Maturity - June 10, 2015)	4,235	4,186	4,235
		Common Stock (Fully diluted 51.1%)		2,150	3,980
				6,336	8,215
<b>River Aggregates, LLC</b>					
<b>River Aggregates, LLC</b>	Processor of Construction Aggregates	12% Secured Debt (Maturity - March 30, 2016)	3,470	3,227	3,227
		Warrants (Fully diluted 20.0%)		202	100
		Member Units (Fully diluted 40.0%)		550	200
				3,979	3,527



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<b>Thermal and Mechanical Equipment, LLC</b>	Commercial and Industrial Engineering Services	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - September 25, 2014) (9)	1,272	1,266	1,266
		13% Current / 5% PIK Secured Debt (Maturity - September 25, 2014)	4,053	4,010	4,053
		Member Units (Fully diluted 50.0%) (8)		1,000	5,660
				6,276	10,979
<b>Van Gilder Insurance Corporation</b>	Insurance Brokerage	8% Secured Debt (Maturity - January 31, 2013)	1,000	987	987
		8% Secured Debt (Maturity - January 31, 2016)	1,721	1,705	1,705
		13% Secured Debt (Maturity - January 31, 2016)	5,400	4,387	4,387
		Warrants (Fully diluted 10.0%)		1,209	1,209
		Common Stock (Fully diluted 15.5%)		2,500	2,500
			10,788	10,788	
<b>Ziegler s NYPD, LLC</b>	Casual Restaurant Group	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - October 1, 2013) (9)	1,000	996	996
		13% Current / 5% PIK Secured Debt (Maturity - October 1, 2013)	4,299	4,270	4,270
		Warrants (Fully diluted 46.6%)		600	400
				5,866	5,666



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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2011**

**(in thousands)**

**Affiliate Investments (6)**

<b>Compact Power Equipment Centers LLC</b>	Equipment / Tool Rental	6% Current / 6% PIK Secured Debt (Maturity - December 31, 2014)	2,855	2,831	2,831
		8% PIK Secured Debt (Maturity - December 31, 2011)	108	108	108
		Series A Member Units (8% cumulative) (8)		853	853
		Member Units (Fully diluted 10.6%)		1	1
				3,793	3,793
<b>East Teak Fine Hardwoods, Inc.</b>	Hardwood Products	Common Stock (Fully diluted 5.0%)		480	380
<b>Houston Plating and Coatings, LLC</b>	Plating and Industrial Coating Services	Member Units (Fully diluted 11.1%) (8)		635	5,990

<b>IRTH Holdings, LLC</b>	Damage Prevention Technology Information Services	12% Secured Debt (Maturity - December 29, 2015)	5,084	5,006	5,084
		Member Units (Fully diluted 22.3%)		850	2,480
				5,856	7,564

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<b>KBK Industries, LLC</b>	Specialty Manufacturer of Oilfield and Industrial Products	10% Secured Debt (Maturity - March 31, 2012)	15	15	15
		14% Secured Debt (Maturity - January 23, 2014)	5,250	5,250	5,250
		Member Units (Fully diluted 18.8%) (8)		341	2,800
				5,606	8,065
<b>Olympus Building Services, Inc.</b>	Custodial / Facilities Services	10% Current / 2% PIK Secured Debt (Maturity - March 27, 2014)	2,434	2,306	2,306
		15% PIK Secured Debt (Maturity - March 27, 2014)	994	994	994
		Warrants (Fully diluted 22.5%)		470	70
				3,770	3,370
<b>OPI International Ltd. (12)</b>	Oil and Gas Construction Services	12% Secured Debt (Maturity - November 30, 2015)	11,520	10,882	11,130
		Warrants (Fully diluted 8.0%)		500	4,100
				11,382	15,230
<b>Samba Holdings, Inc.</b>	Intelligent Driver Record Monitoring Software and Services	12.5% Secured Debt (Maturity - November 17, 2016)	3,000	2,941	2,941
		Common Stock (Fully diluted 14.7%)		950	950
				3,891	3,891

[Redacted]					
<b>Spectrio LLC</b>	Audio Messaging Services	8% Secured Debt (Maturity - June 16, 2016)	168	168	168
		12% Secured Debt (Maturity - June 16, 2016)	13,475	13,008	13,340
		Warrants (Fully diluted 9.8%)		887	2,720
				14,063	16,228

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<b>SYNEO, LLC</b>					
	Manufacturer of Specialty Cutting Tools and Punches				
		12% Secured Debt (Maturity - July 13, 2016)	5,500	5,374	5,374
		10% Secured Debt (Leadrock Properties, LLC) (Maturity - May 4, 2026)	1,440	1,412	1,412
		Member Units (Fully diluted 11.1%)		1,000	1,000
				7,786	7,786
<b>WorldCall, Inc.</b>					
	Telecommunication / Information Services				
		13% Secured Debt (Maturity - April 22, 2012)	646	646	646
		Common Stock (Fully diluted 10.0%)		297	
				943	646

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2011**

**(in thousands)**

**Non-Control/Non-Affiliate Investments (7)**

<b>Affinity Videonet, Inc.</b>	Video Conferencing and Managed Services	13% Secured Debt (Maturity - December 31, 2015)	2,000	1,914	2,000
		13% Current / 1% PIK Secured Debt (Maturity - December 31, 2015)	1,132	1,125	1,125
		Warrants (Fully diluted 2.6%)		63	63
				3,102	3,188
<b>Arrowhead General Insurance Agency, Inc. (10)</b>	Insurance	LIBOR Plus 5.75%, Current Coupon 7.50%, Secured Debt (Maturity - March 4, 2017) (9)	3,970	3,900	3,932
		LIBOR Plus 9.5%, Current Coupon 11.25%, Secured Debt (Maturity - September 30, 2017) (9)	2,000	1,944	2,010
				5,844	5,942
<b>Bourland and Leverich Supply Co., LLC (10)</b>	Distributor of Oil and Gas Tubular Goods	LIBOR Plus 9.00%, Current Coupon 11.00%, Secured Debt (Maturity - August 19, 2015) (9)	4,191	4,028	4,065

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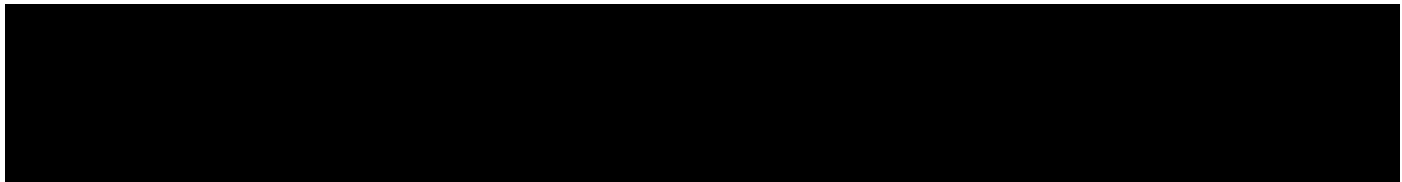
<b>Brickman Group Holdings, Inc.</b> <b>(10)</b>	Commercial Landscape Services	LIBOR Plus 5.50%, Current Coupon 7.25%, Secured Debt (Maturity - October 14, 2016) (9)	1,990	1,962	1,997
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<b>Carestream Health, Inc. (10)</b>	Medical Imaging Products	LIBOR Plus 3.50%, Current Coupon 5.00%, Secured Debt (Maturity - February 25, 2017) (9)	2,985	2,704	2,690
<b>CHI Overhead Doors, Inc. (10)</b>	Manufacturer of Overhead Garage Doors	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - August 17, 2017) (9)	2,494	2,446	2,462
		LIBOR Plus 9.50%, Current Coupon 11.00%, Secured Debt (Maturity - February 17, 2018) (9)	2,500	2,452 4,898	2,463 4,925
<b>EnCap Energy Capital Fund VIII, L.P. (11) (12)</b>	Investment Partnership	LP Interests (Fully diluted 0.2%)		709	709
<b>Flexera Software LLC (10)</b>	Software Licensing	LIBOR Plus 9.75%, Current Coupon 11.00%, Secured Debt (Maturity - September 30, 2018) (9)	3,000	2,765	2,790
<b>Golden Nugget, LLC (10)</b>	Hotel and Gaming	LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - May 24, 2016) (9)	10,000	9,636	9,450

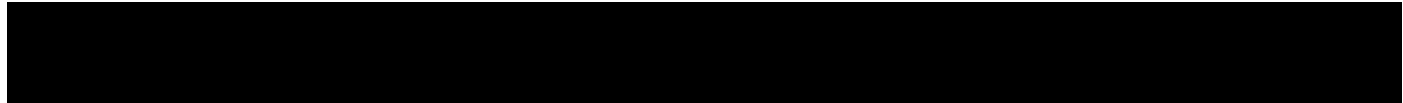




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<b>Hayden Acquisition, LLC</b>	Manufacturer of Utility Structures	8% Secured Debt (Maturity - January 1, 2012)	1,800	1,781	
<b>Henniges Automotive Holdings, Inc. (10)</b>	Manufacturer of Auto Parts	LIBOR Plus 10.00%, Current Coupon 12.00%, Secured Debt (Maturity - October 28, 2016) (9)	2,833	2,785	2,785
<b>HOA Restaurant Group, LLC (10)</b>	Casual Restaurant Group	11.25% Bond (Maturity - April 1, 2017)	2,000	2,000	1,865
<b>Ipreo Holdings LLC (10)</b>	Application Software for Capital Markets	LIBOR Plus 6.50%, Current Coupon 8.00%, Secured Debt (Maturity - August 5, 2017) (9)	4,239	4,160	4,144
<b>JJ Lease Funding Corp. (10)</b>	Apparel Retail	LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - April 29, 2017) (9)	3,950	3,842	3,160
<b>Lawson Software, Inc. (10)</b>	Application Software	LIBOR Plus 5.25%, Current Coupon 6.75%, Secured Debt (Maturity - July 5, 2017) (9)	4,988	4,801	4,875



<b>Media Holdings, LLC (10) (12)</b>	Internet Traffic Generator	LIBOR Plus 13.00%, Current Coupon 15.00%, Secured Debt (Maturity - April 28, 2014) (9)	5,000	5,129	5,000
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<b>Medpace Intermediateco, Inc. (10)</b>	Clinical Trial Development and Execution	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - June 17, 2017) (9)	4,975	4,905	4,726
<b>Metropolitan Health Networks, Inc. (10) (12)</b>	Healthcare Network Provider	LIBOR Plus 5.50%, Current Coupon 7.00%, Secured Debt (Maturity - October 4, 2016) (9)	2,000	1,971	1,940
		LIBOR Plus 11.75%, Current Coupon 13.50%, Secured Debt (Maturity - October 4, 2017) (9)	3,250	3,187 5,158	3,185 5,125
<b>Miramax Film NY, LLC (10)</b>	Motion Picture Producer and Distributor	Class B Units (Fully diluted 0.2%)		500	500
<b>MultiPlan, Inc. (10)</b>	Managed Healthcare Provider	LIBOR Plus 3.25%, Current Coupon 4.75%, Secured Debt (Maturity - August 26, 2017) (9)	2,956	2,956	2,821
<b>Northland Cable Television, Inc. (10)</b>	Television Broadcasting		4,950	4,823	4,802

LIBOR Plus 6.00%, Current Coupon  
7.75%, Secured Debt (Maturity -  
December 30, 2016) (9)

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<b>Pacific Architects and Engineers Incorporated (10)</b>	Provider of Contract Support Services	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - April 4, 2017) (9)	3,995	3,917	3,875
<b>Physician Oncology Services, L.P. (10)</b>	Provider of Radiation Therapy and Oncology Services	LIBOR Plus 4.75%, Current Coupon 6.25%, Secured Debt (Maturity - January 31, 2017) (9)	942	934	904
<b>Preferred Proppants, LLC (10)</b>	Producer of Sand Based Proppants	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - December 15, 2016) (9)	5,000	4,877	4,889
<b>Radio One, Inc. (10)</b>	Radio Broadcasting	LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - March 31, 2016) (9)	2,978	2,925	2,775
<b>SonicWALL, Inc. (10)</b>	IT Security Provider	LIBOR Plus 6.25%, Current Coupon 8.25%, Secured Debt (Maturity - January 23, 2016) (9)	1,072	1,073	1,074

**Speedy Cash Intermediate Holdings Corp. (10)**

Consumer Finance

10.75% Bond (Maturity - May 15, 2018)

2,000

2,000

2,010

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<b>Surgery Center Holdings, Inc. (10)</b>	Ambulatory Surgical Centers	LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - February 6, 2017) (9)	4,963	4,940	4,628
<b>Totes Isotoner Corporation (10)</b>	Weather Accessory Retail	LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - July 7, 2017) (9)	4,976	4,883	4,839
<b>UniTek Global Services, Inc. (10)</b>	Provider of Outsourced Infrastructure Services	LIBOR Plus 7.50%, Current Coupon 9.00%, Secured Debt (Maturity - April 15, 2018) (9)	6,434	6,256	6,304
<b>Visant Corporation (10)</b>	School Affinity Stores	LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - December 22, 2016) (9)	3,998	3,998	3,760
<b>Walter Investment Management Corp. (10) (12)</b>	Real Estate Services	LIBOR Plus 6.25%, Current Coupon 7.75%, Secured Debt (Maturity - June 30, 2016) (9)	2,888	2,833	2,886
		LIBOR Plus 11.00%, Current Coupon 12.50%, Secured Debt (Maturity - December 30, 2016) (9)	3,000	2,944	3,036



5,777

5,922

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<b>Wyle Services Corporation (10)</b>	Specialized Engineering and Technical Services	LIBOR Plus 4.25%, Current Coupon 5.75%, Secured Debt (Maturity - March 26, 2017) (9)	3,735	3,715	3,657
<b>Subtotal Non-Control/Non-Affiliate Investments (39.6% of total investments at fair value)</b>			275,061	270,895	
<b>Total Portfolio Investments, December 31, 2011</b>			596,289	658,093	

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**MAIN STREET CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2011**

**(in thousands)**

**Marketable Securities and Idle Funds Investments**

**A. M. Castle & Co. Bond (12)**

12.75% Bond (Maturity -  
December 15, 2016)

3,000

2,896

3,015

**General Motors Company (12)**

Preferred stock (0.59%  
cumulative) (8)

255

175

**Pretium Packaging Bond**

11.50% Bond (Maturity - April 1,  
2016)

4,500

4,515

4,410

**Stanton Redevelopment Tax  
Bond (12)**

9.00% Bond (Maturity -  
December 1, 2021)

980

1,012

1,024

**Toll Road Investors  
Partnership II, LP Bond (12)**

Zero Coupon Bond (Maturity -  
February 15, 2033)

7,500

1,620

1,940

Subtotal Marketable Securities and Idle Funds Investments (3.8% of total investments at fair value)	25,935	26,242
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- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted.
  - (2) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
  - (3) See Note C for summary geographic location of portfolio companies.
  - (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
  - (5) Control investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
  - (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
  - (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.
  - (8) Income producing through dividends or distributions.
  - (9) Index based floating interest rate is subject to contractual minimum interest rate.
  - (10) Middle Market portfolio investment.
  - (11) Other Portfolio investment.
  - (12) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any non-qualifying assets.

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**MAIN STREET CAPITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A ORGANIZATION AND BASIS OF PRESENTATION**

**1. Organization**

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

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

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

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

their normal corporate tax rates based on their taxable income.

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

## 2. Basis of Presentation

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

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September 30, 2012 and 2011, and financial position as of September 30, 2012 and December 31, 2011, are presented on a consolidated basis. The effects of all intercompany transactions between Main Street and its consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current financial statement presentation, including certain investments previously classified as Marketable securities and idle funds investments that are now considered a part of the Middle Market portfolio and are now classified as Non-Control/Non-Affiliate investments, as defined below.

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

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

### ***Portfolio Investment Classification***

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

## **NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **1. Valuation of Portfolio Investments**

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

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



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

For valuation purposes, control LMM portfolio investments are composed of debt and equity securities for which Main Street has a controlling interest in the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for Main Street's control LMM portfolio investments. For control LMM portfolio investments, Main Street determines the fair value 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 various components of the portfolio company's capital structure. Main Street will also use the income approach to determine the fair value of these securities, based on projections of the discounted future free cash flows that the portfolio company or the debt security will likely generate. The valuation approaches for Main Street's control LMM portfolio investments estimate the value of the investment if Main Street were to sell, or exit, the investment. In addition, these valuation approaches consider the value associated with Main Street's ability to control the capital structure of the portfolio company, as well as the timing of a potential exit.

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

Pursuant to its internal valuation process and the requirements under the 1940 Act, Main Street performs valuation procedures on its investments in each LMM portfolio company once a quarter. In addition to its internal valuation process, in arriving at estimates of fair value for its investments in its LMM portfolio companies, Main Street, among other things, consults with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to Main Street's investments in each LMM portfolio company at least once in every calendar year, and for Main Street's investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, Main Street may determine that it is not cost-effective, and as a result is not in its stockholders' best interest, to consult with the nationally recognized independent advisor on its investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of Main Street's investment in a LMM portfolio company is determined to be insignificant relative to the total investment portfolio. Main Street consulted with its independent advisor in arriving at Main Street's determination of fair value on its investments in a total of 36 LMM portfolio companies for the nine months ended

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September 30, 2012, representing approximately 63% of the total LMM portfolio and investment in the affiliated Investment Manager at fair value as of September 30, 2012.

For valuation purposes, all of Main Street's Middle Market portfolio investments are non-control investments and are composed of securities for which Main Street does not have a controlling interest in the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. Main Street primarily uses observable inputs to determine the fair value of

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these investments through obtaining third party quotes or other independent pricing. For Middle Market portfolio investments for which sufficient observable inputs are not available to determine fair value, Main Street generally uses an approach similar to the income approach using a yield-to-maturity model used to value its non-control LMM portfolio debt investments.

For valuation purposes, all of Main Street's Other Portfolio investments are non-control investments and are composed of securities for which Main Street generally does not have a controlling interest in the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. Main Street's Other Portfolio investments comprise 1.9% of Main Street's investment portfolio at fair value. Similar to the LMM investment portfolio, market quotations for Other Portfolio equity investments are generally not readily available. For its Other Portfolio equity investments, Main Street determines the fair value based on the fair value of the portfolio company as determined by independent third parties and based on Main Street's proportional ownership in the portfolio company, as well as the financial position and assessed risk of each of these portfolio investments. For Other Portfolio debt investments with observable inputs, Main Street determines the fair value of these investments through obtaining third party quotes or other independent pricing. To the extent observable inputs are not available for its Other Portfolio debt investments, Main Street values these Other Portfolio debt investments through an approach similar to the income approach using a yield-to-maturity model used to value its non-control LMM portfolio debt investments.

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

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

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

**2. Interest and Dividend Income**

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

Main Street holds debt and preferred equity instruments in its investment portfolio that contain payment-in-kind ( PIK ) interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any unpaid dividends are added to the balance of the preferred equity investment. The actual collection of these dividends may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed below), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even though Main Street may not have collected the PIK interest and cumulative dividends in cash. For the three months ended September 30, 2012 and 2011, (i) approximately 4.5%, and 3.7%, respectively, of Main Street's total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 0.4%, and 2.3%, respectively, of Main Street's total investment income was attributable to cumulative dividend income not paid currently in cash. For the nine months ended September 30, 2012 and 2011, (i) approximately 3.9%, and 3.9%, respectively, of Main Street's total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 0.3%, and 2.7%, respectively, of Main Street's total investment income was attributable to cumulative dividend income not paid currently in cash.

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

**3. Fee Income Structuring and Advisory Services**

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

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

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

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

Main Street may also purchase debt securities at a discount or at a premium to the par value of the debt security. When Main Street purchases a debt security at a discount to the par value of the debt security, Main Street records the par value of the debt security net of the discount, and the discount is accreted into interest income based on the effective interest method over the life of the debt investment. When Main Street purchases a debt security at a premium to the par value of the debt security, Main Street records the premium as incremental to the par value of the debt security, and the premium is amortized as a reduction to interest income based on the effective interest method over the life of the debt. To maintain RIC tax treatment (as discussed below in Note B.6.), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even though Main Street may not have collected the interest income. For the three months ended September 30, 2012 and 2011, (i) approximately 4.0%, and 3.6%, respectively, of Main Street's total investment income was attributable to interest income not paid currently in cash on the accretion of discounts associated with debt investments. For the nine months ended September 30, 2012 and 2011, (i) approximately 3.8%, and 3.4%, respectively, of Main Street's total investment income was attributable to interest income not paid currently in cash on the accretion of discounts associated with debt investments.

**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. As part of maintaining RIC status, undistributed taxable income (subject to a 4% excise tax) pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared prior to the filing of the federal income tax return for the prior year.

The Taxable Subsidiaries hold certain portfolio investments of Main Street. The Taxable Subsidiaries are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements. The Taxable Subsidiaries permit Main Street to hold equity investments in portfolio companies which are pass through entities for tax purposes in order to comply with the source income requirements contained in the RIC tax provisions. The Taxable Subsidiaries are

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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 fair value of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments to realized gains or losses.

**8. Concentration of Credit Risks**

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

**9. Fair Value of Financial Instruments**

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

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

### 10. Earnings per Share

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

As a result of the Exchange Offer which left a minority portion of MSC II s equity interests owned by certain non-Main Street entities, the net earnings of MSC II attributable to the remaining externally owned noncontrolling interest in MSC II are excluded from all per share amounts presented, and the per share amounts only reflect the net earnings attributable to Main Street s



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ownership interest in MSC II. During the first quarter of 2012, MSCC completed the Final MSC II Exchange to acquire all of the minority portion of MSC II's equity interests not already owned by MSCC. The following table provides a reconciliation of Net Investment Income and Net Realized Income attributable to common stock by excluding amounts related to the noncontrolling interest in MSC II that remained owned by non-Main Street entities for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Net Investment Income	\$ 15,522	\$ 10,361	\$ 41,197	\$ 27,370
Noncontrolling interest share of Net Investment Income		(179)	(62)	(560)
Net Investment Income attributable to common stock	15,522	10,182	41,135	26,810
Total net realized gain from investments	527	1,448	5,335	1,697
Noncontrolling interest share of net realized (gain) from investments		(47)	(3)	(48)
Net Realized Income attributable to common stock	\$ 16,049	\$ 11,583	\$ 46,467	\$ 28,459
Net Investment Income per share - Basic and diluted	\$ 0.49	\$ 0.44	\$ 1.44	\$ 1.23
Net Realized Income per share - Basic and diluted	\$ 0.51	\$ 0.50	\$ 1.62	\$ 1.30
Weighted average shares outstanding - Basic and diluted	31,578,742	23,194,896	28,615,877	21,824,775

## 11. Recently Issued Accounting Standards

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

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

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES**

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

**Fair Value Hierarchy**

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

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

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

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

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

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

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

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

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

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

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

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

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;

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- 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;

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- Contractual rights, obligations or restrictions associated with the investment; and
  
- Other factors deemed relevant.

The significant unobservable inputs used in the fair value measurement of Main Street's LMM equity securities are (i) EBITDA multiples and (ii) the weighted average cost of capital ( WACC ). Significant increases (decreases) in EBITDA multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. On the contrary, significant increases (decreases) in WACC inputs in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of Main Street's LMM debt securities and Other Portfolio debt securities are (i) risk adjusted discount factors used in the yield-to-maturity valuation technique (described in Note B.1. - Valuation of Portfolio Investments) and (ii) adjustment factors to estimate the percentage of expected principal recovery. Significant increases (decreases) in any of these yield valuation inputs in isolation would result in a significantly lower (higher) fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third-party appraisals of collateral, and not presented in the table below.

The following table is not intended to be all-inclusive, but, rather, provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 portfolio investments as of September 30, 2012:

Type of Investment	Fair Value as of September 30, 2012 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average
Equity investments	\$ 196,482	Discounted cash flow Market comparable / Enterprise Value	Weighted average cost of capital EBITDA multiple (1)	11.0% - 19.0%  4.0x - 7.0x (2)	14.9%  5.4x
Debt investments	\$ 323,418	Discounted cash flow	Risk adjusted discount factor  Adjustment factors	7.0% - 20.5% (2)  0.0% - 100.0%	13.9%  99.5%
Total Level 3 investments	\$ 519,900				

(1) EBITDA may include proforma adjustments and/or other addbacks based on specific circumstances related to each investment and does not include investments for which an EBITDA multiple was not used as a fair value input.

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

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

Type of Investment	Fair Value as of December 31, 2011	Transfers Into Level 3 Hierarchy	Redemptions/ Repayments/ Exits (1)	New Investments (1)	Net Changes from Unrealized		Other	Fair Value as of September 30, 2012
					Unrealized	Appreciation (Depreciation)		
Debt	\$ 260,190	\$ 33,067	\$ (89,810)	\$ 111,363	\$ 938	\$ 2,410	\$ 5,260	\$ 323,418
Equity	113,920	709	(17,758)	26,144	(453)	35,102	12,902	170,566
Equity warrants	43,269	235	(10,581)	8,450	(6,599)	3,840	(12,900)	25,714
Investment Manager (2)	1,869		(1,616)			(51)		202
	\$ 419,248	\$ 34,011	\$ (119,765)	\$ 145,957	\$ (6,114)	\$ 41,301	\$ 5,262	\$ 519,900

(1) Includes the impact of non-cash conversions.

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

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

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

The following table is not intended to be all-inclusive but, rather, provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 SBIC debentures at fair value as of September 30, 2012 (amounts in thousands):

	Fair Value as of September 30, 2012 (in thousands)	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average
SBIC Debentures	\$ 85,083	Discounted cash flow	Estimated market interest rates	7.9% - 9.2%	8.7%

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

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Type of Instrument	Fair Value as of December 31, 2011	Repayments	New SBIC Debentures	Net Unrealized (Appreciation) Depreciation	Fair Value as of September 30, 2012
SBIC Debentures at fair value	\$ 76,887	\$	\$ 5,000	\$ 3,196	\$ 85,083

At September 30, 2012 and December 31, 2011, Main Street's investments and SBIC Debentures at fair value were categorized as follows in the fair value hierarchy for ASC 820 purposes:

At September 30, 2012	Fair Value Measurements (in thousands)			
	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	\$ 467,600	\$	\$	\$ 467,600
Middle Market portfolio investments	350,646		312,787	37,859
Other Portfolio investments	16,144		1,905	14,239
Investment in affiliated Investment Manager	202			202
Total portfolio investments	834,592		314,692	519,900
Marketable securities and idle funds investments	2,038		2,038	
Total investments	\$ 836,630	\$	\$ 316,730	\$ 519,900
SBIC Debentures at fair value	\$ 85,083	\$	\$	\$ 85,083



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

For the nine months ended September 30, 2012, there were eight portfolio company investment transfers from the Level 2 to the Level 3 fair value hierarchy, totaling \$35.6 million at fair value and \$35.8 million at cost as of September 30, 2012.

**Portfolio Investment Composition**

Main Street's lower middle market ( LMM ) portfolio investments principally consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies based in the United States. Main Street's LMM portfolio companies generally have annual revenues between \$10 million and \$150 million, and its LMM investments generally range in size from \$5 million to \$25 million. The LMM debt investments are typically secured by either a first or second lien on the assets of the portfolio company, primarily bear interest at fixed rates, and generally mature between five and seven years from the original investment date. In most LMM portfolio companies, Main Street usually receives nominally priced equity warrants and/or makes direct equity investments in connection with a debt investment.

Main Street's middle market ( Middle Market ) portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies based in the United States that are generally larger in size than the LMM companies included in Main Street's LMM portfolio. Main Street's Middle Market portfolio companies generally have annual revenues between \$150 million and \$1.5 billion and its Middle Market investments generally range in size from \$3 million to \$15 million. Main Street's Middle Market portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and have an expected duration of between three and five years.

Main Street's other portfolio ( Other Portfolio ) investments primarily consist of investments which are not consistent with the typical profiles for LMM and Middle Market portfolio investments, including investments which may be managed by third parties. In the Other Portfolio, Main Street may incur indirect fees and expenses in connection with investments managed by third parties, such as investments in other investment companies or private funds.

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

As of September 30, 2012, Main Street had debt and equity investments in 57 LMM portfolio companies with an aggregate fair value of \$467.6 million, with a total cost basis of approximately \$365.9 million, and a weighted average annual effective yield on its LMM debt investments of approximately 14.7%. Approximately 78% of Main Street's total LMM portfolio investments at cost were in the form of debt investments and 95% of such debt investments at cost were secured by first priority liens on the assets of Main Street's LMM portfolio companies as of September 30, 2012. At September 30, 2012, Main Street had equity ownership in approximately 88% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 32%. As of December 31, 2011, Main Street had debt and equity investments in 54 LMM portfolio companies with an aggregate fair value of \$415.7 million, with a total cost basis of approximately \$349.0 million, and a weighted average annual effective yield on its LMM debt investments of approximately 14.8%. The weighted average annual yields were computed using the effective interest rates for all debt investments as of September 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment and any debt investments on non-accrual status.

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As of September 30, 2012, Main Street had Middle Market portfolio investments in 79 companies collectively totaling approximately \$350.7 million in fair value with a total cost basis of approximately \$345.9 million. The weighted average revenues for the 79 Middle Market portfolio company investments was approximately \$518 million. Main Street's Middle Market portfolio investments are primarily in the form of debt investments and 88% of such debt investments at cost were secured by first priority liens on portfolio company assets as of September 30, 2012. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 8.6% as of September 30, 2012. As of December 31, 2011, Main Street had Middle Market portfolio investments in 57 companies collectively totaling approximately \$226.5 million in fair value with a total cost basis of approximately \$228.9 million. The weighted average revenues for the 57 Middle Market portfolio company investments were approximately \$473 million. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 9.5% as of December 31, 2011. The weighted average annual yields were computed using the effective interest rates for all debt investments as of September 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment.

As of September 30, 2012, Main Street had Other Portfolio investments in 3 companies collectively totaling approximately \$16.1 million in fair value and \$15.8 million in cost basis. As of December 31, 2011, Main Street had Other Portfolio investments in 3 companies collectively totaling approximately \$14.1 million in both fair value and cost basis.

For the nine months ended September 30, 2012, there was one portfolio company investment transfer from the Middle Market portfolio investment category to the Other Portfolio investment category totaling \$1.9 million at fair value and \$1.7 million at cost as of September 30, 2012.

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

Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	73.9%	88.2%	80.8%	69.5%	81.8%	74.4%
Equity	18.3%	0.2%	9.5%	20.5%	0.2%	12.5%
Second lien debt	3.7%	10.1%	6.9%	5.0%	18.0%	10.1%
Equity warrants	4.1%	0.0%	2.1%	5.0%	0.0%	3.0%
Other	0.0%	1.5%	0.7%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	58.1%	88.1%	71.0%	57.7%	81.7%	66.2%
Equity	32.8%	0.2%	18.8%	29.0%	0.3%	18.8%
Second lien debt	3.0%	10.2%	6.1%	4.4%	18.0%	9.2%
Equity warrants	6.1%	0.0%	3.5%	8.9%	0.0%	5.8%
Other	0.0%	1.5%	0.6%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

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Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	39.0%	17.5%	28.5%	47.8%	16.4%	35.4%
West	32.5%	13.2%	23.1%	31.9%	13.7%	24.7%
Midwest	15.1%	28.0%	21.4%	9.0%	21.6%	14.0%
Northeast	5.7%	26.7%	15.9%	3.9%	32.6%	15.2%
Southeast	7.7%	10.3%	9.0%	7.4%	15.7%	10.7%
Other	0.0%	4.3%	2.1%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	44.1%	17.5%	32.7%	52.1%	16.2%	39.3%
West	29.9%	13.2%	22.7%	28.9%	13.8%	23.6%
Midwest	14.5%	28.2%	20.4%	8.7%	21.9%	13.4%
Northeast	5.2%	26.6%	14.3%	3.9%	32.4%	14.0%
Southeast	6.3%	10.2%	8.0%	6.4%	15.7%	9.7%
Other	0.0%	4.3%	1.9%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

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Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Software	7.0%	11.9%	9.4%	2.8%	8.4%	5.0%
Media	8.1%	6.1%	7.2%	8.7%	6.6%	7.9%
Machinery	8.8%	4.7%	6.8%	9.9%	2.1%	6.9%
Specialty Retail	8.5%	4.3%	6.4%	5.3%	5.6%	5.4%
Energy Equipment & Services	10.1%	1.7%	6.1%	9.2%	7.5%	8.5%
Commercial Services & Supplies	11.4%	0.0%	5.9%	15.4%	0.9%	9.7%
Health Care Providers & Services	4.3%	6.1%	5.2%	6.5%	9.1%	7.5%
Food Products	0.0%	8.6%	4.2%	0.0%	3.9%	1.6%
Hotels, Restaurants & Leisure	4.5%	2.6%	3.6%	2.1%	7.2%	4.1%
Chemicals	0.0%	6.7%	3.3%	0.0%	3.8%	1.5%
Construction & Engineering	5.1%	2.7%	3.2%	5.3%	0.0%	5.0%
Electronic Equipment, Instruments & Components	3.8%	1.9%	2.9%	4.6%	0.0%	2.8%
Diversified Consumer Services	5.1%	0.0%	2.6%	2.7%	0.0%	1.6%
Containers & Packaging	0.0%	5.2%	2.5%	0.0%	1.3%	0.5%
Oil, Gas & Consumable Fuels	0.0%	5.2%	2.5%	0.0%	0.0%	0.0%
Building Products	2.6%	1.9%	2.3%	2.6%	0.0%	1.6%
IT Services	0.0%	4.0%	1.9%	0.0%	4.1%	1.6%
Construction Materials	1.2%	1.2%	1.9%	1.1%	4.4%	0.7%
Health Care Equipment & Supplies	1.9%	1.4%	1.6%	2.2%	1.2%	1.8%
Insurance	3.1%	0.0%	1.6%	3.1%	2.6%	2.9%
Food & Staples Retailing	0.0%	3.1%	1.5%	0.0%	6.2%	2.5%
Metals & Mining	0.0%	3.1%	1.5%	0.0%	0.0%	0.0%
Consumer Finance	2.7%	0.0%	1.4%	3.0%	0.9%	2.1%
Internet Software & Services	0.4%	2.2%	1.2%	3.0%	0.0%	1.8%
Professional Services	2.1%	0.0%	1.1%	3.5%	0.0%	2.1%
Paper & Forest Products	2.2%	0.0%	1.1%	2.2%	0.0%	1.3%
Transportation Infrastructure	1.9%	0.0%	1.0%	2.0%	0.0%	1.2%
Pharmaceuticals	0.0%	1.8%	0.8%	0.0%	2.6%	1.0%
Internet & Catalog Retail	0.0%	1.5%	0.7%	0.0%	2.2%	0.9%
Biotechnology	0.0%	1.3%	0.6%	0.0%	2.2%	0.8%
Auto Components	0.0%	1.1%	0.5%	0.0%	2.9%	1.2%
Real Estate Management & Development	0.0%	0.7%	0.4%	0.0%	2.5%	1.0%
Electric Utilities	0.0%	0.6%	0.3%	0.0%	2.0%	0.8%
Thrifts & Mortgage Finance	0.0%	0.5%	0.2%	0.0%	2.0%	0.8%
Other (1)	5.2%	7.9%	6.6%	4.8%	7.8%	5.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes various industries with each industry individually less than 2.0% of the total LMM portfolio, total Middle Market portfolio and combined total LMM and Middle Market portfolio in each period.

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Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Software	6.3%	12.0%	8.8%	2.8%	8.4%	4.8%
Machinery	11.8%	4.7%	8.7%	10.7%	2.2%	7.7%
Energy Equipment & Services	13.1%	1.7%	8.2%	11.2%	7.5%	9.8%
Health Care Providers & Services	6.7%	6.1%	6.4%	7.4%	9.0%	7.9%
Media	6.5%	6.1%	6.3%	7.4%	6.5%	7.1%
Commercial Services & Supplies	9.7%	0.0%	5.5%	13.5%	0.9%	9.0%
Specialty Retail	5.7%	4.1%	5.0%	3.8%	5.2%	4.3%
Construction & Engineering	5.7%	2.6%	3.8%	6.0%	0.0%	5.5%
Food Products	0.0%	8.7%	3.7%	0.0%	4.0%	1.4%
Hotels, Restaurants & Leisure	4.1%	2.6%	3.5%	2.5%	7.2%	4.2%
Diversified Consumer Services	6.0%	0.0%	3.4%	3.7%	0.0%	2.4%
Chemicals	0.0%	6.7%	2.9%	0.0%	3.8%	1.3%
Electronic Equipment, Instruments & Components	3.0%	2.1%	2.6%	3.7%	0.0%	2.4%
Containers & Packaging	0.0%	5.2%	2.2%	0.0%	1.3%	0.5%
Oil, Gas & Consumable Fuels	0.0%	5.2%	2.2%	0.0%	0.0%	0.0%
IT Services	0.0%	4.0%	1.7%	0.0%	3.8%	1.4%
Construction Materials	0.8%	1.2%	1.7%	0.8%	4.5%	0.5%
Internet Software & Services	1.1%	2.2%	1.6%	5.8%	0.0%	3.7%
Insurance	2.4%	0.0%	1.4%	2.6%	2.6%	2.6%
Trading Companies & Distributors	2.4%	0.0%	1.4%	2.6%	0.0%	1.7%
Food & Staples Retailing	0.0%	3.1%	1.3%	0.0%	6.3%	2.2%
Metals & Mining	0.0%	3.1%	1.3%	0.0%	0.0%	0.0%
Consumer Finance	2.1%	0.0%	1.2%	2.5%	0.9%	1.9%
Paper & Forest Products	2.0%	0.0%	1.1%	2.2%	0.0%	1.4%
Transportation Infrastructure	1.8%	0.0%	1.1%	2.0%	0.0%	1.3%
Professional Services	1.7%	0.0%	1.0%	2.2%	0.0%	1.4%
Pharmaceuticals	0.0%	1.8%	0.9%	0.0%	2.8%	1.0%
Internet & Catalog Retail	0.0%	1.5%	0.7%	0.0%	2.2%	0.8%
Biotechnology	0.0%	1.3%	0.6%	0.0%	2.1%	0.7%
Auto Components	0.0%	1.0%	0.4%	0.0%	3.0%	1.1%
Real Estate Management & Development	0.0%	0.7%	0.3%	0.0%	2.6%	0.9%
Electric Utilities	0.0%	0.6%	0.3%	0.0%	2.0%	0.7%
Thrifts & Mortgage Finance	0.0%	0.5%	0.2%	0.0%	2.1%	0.7%
Other (1)	7.1%	11.2%	8.6%	6.6%	9.1%	7.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**(1) Includes various industries with each industry individually less than 2.0% of the total LMM portfolio, total Middle Market portfolio and combined total LMM and Middle Market portfolio in each period.**

At September 30, 2012 and December 31, 2011, Main Street had no LMM investments that were greater than 10% of its total LMM investment portfolio at fair value, no Middle Market investments that were greater than 10% of its total Middle Market investment portfolio at fair value and no portfolio investments that were greater than 10% of the 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 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 MSC II management fees that were not acquired in the Exchange Offer. Upon completion of the Final MSC II Exchange in the first quarter of 2012, the investment in the Investment Manager was further reduced to reflect MSCC's acquisition of all of the MSC II equity and the related MSC II management fees. The Investment Manager also receives certain management, consulting and advisory fees for providing these services to third parties (the External Services). During May of 2012, MSCC and the Investment Manager executed an investment sub-advisory agreement to provide certain investment advisory services to HMS Adviser, LP, which is the investment advisor to HMS Income Fund, Inc. (HMS Income). HMS Income is a newly-formed BDC whose registration statement on Form N-2 was declared effective by the Securities and Exchange Commission (the SEC) on June 4, 2012.

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



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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 by \$15.3 million and such reduction was 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.

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 each quarter by MSCC for its cash operating expenses, less fees that the Investment Manager receives from MSC II and third parties, associated with providing investment management and other services to MSCC, certain of its subsidiaries and third parties. 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. The expenses reimbursed by MSCC and management fees paid by MSC II to the Investment Manager totaled \$2.2 million and \$2.0 million, respectively, for the three months ended September 30, 2012 and 2011 and \$7.6 million and \$6.3 million, respectively, for the nine months ended September 30, 2012 and 2011.

In its separate stand-alone financial statements as summarized below, as part of the Formation Transactions 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-

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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. The Investment Manager recognized amortization expense associated with the intangible asset of \$0.3 million for each of the three months ended September 30, 2012 and 2011 and \$1.0 million and \$0.9 million for the nine months ended September 30, 2012 and 2011, respectively. 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 September 30, 2012		As of December 31, 2011
	(in thousands) (Unaudited)		
Cash	\$	142	\$ 99
Accounts receivable		152	28
Accounts receivable - MSCC		3,342	4,831
Intangible asset (net of accumulated amortization of \$5,349 and \$4,392 as of September 30, 2012 and December 31, 2011, respectively)		12,652	13,608
Deposits and other		159	145
Total assets	\$	16,447	\$ 18,711
Accounts payable and accrued liabilities	\$	3,940	\$ 5,248
Equity		12,507	13,463
Total liabilities and equity	\$	16,447	\$ 18,711

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012			2011	
	(in thousands) (Unaudited)				(in thousands) (Unaudited)			
Management fee income from Main Street Capital II	\$	707	\$	652	\$	1,867	\$	1,805
Other management advisory fees		145		298		247		473
Total income		852		950		2,114		2,278
Salaries, benefits and other personnel costs		(1,917)		(1,955)		(6,564)		(5,832)
Occupancy expense		(89)		(85)		(254)		(248)
Professional expenses		(67)		(39)		(99)		(128)
Amortization expense - intangible asset		(325)		(299)		(956)		(877)
Other expenses		(287)		(174)		(904)		(557)
Expense reimbursement from MSCC		1,508		1,303		5,707		4,487
Total net expenses		(1,177)		(1,249)		(3,070)		(3,155)
Net Loss	\$	(325)	\$	(299)	\$	(956)	\$	(877)

### **NOTE E SBIC DEBENTURES**

SBIC debentures payable at September 30, 2012 and December 31, 2011 were \$209 million and \$220 million, respectively. SBIC debentures provide for interest to be paid semi-annually, with principal due at the applicable 10-year maturity date of each debenture. The weighted average annual interest rate on the SBIC debentures as of September 30, 2012 and December 31, 2011 was 5.0% and 5.1%, respectively. The first principal maturity due under the existing SBIC debentures is in 2014, and the remaining weighted average duration as of September 30, 2012 is approximately 6.3 years. Main Street recognized interest expense attributable to the SBIC debentures of \$2.9 million and \$2.8 million, respectively, in the three months ended September 30, 2012 and 2011 and \$8.7 million and \$8.1 million, respectively, in the nine months ended September 30, 2012 and 2011. 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.

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As of September 30, 2012, the recorded value of the SBIC debentures was \$194.1 million which consisted of (i) \$85.1 million recorded at fair value, or \$14.9 million less than the \$100 million face value of the SBIC debentures held in MSC II, and (ii) \$109 million reported at face value and held in MSMF. As of September 30, 2012, 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 \$179.2 million, or \$29.8 million less than the \$209 million face value of the SBIC debentures.

**NOTE F CREDIT FACILITY**

In May 2012, Main Street amended its credit facility (the Credit Facility) to expand the commitments from \$235.0 million to \$277.5 million to provide additional liquidity in support of future investment and operational activities. The \$42.5 million increase in total commitments included commitment increases by three lenders currently participating in the Credit Facility under the accordion feature of the Credit Facility. In July 2012, Main Street expanded its commitments under its three-year credit facility from \$277.5 million to \$287.5 million. The \$10.0 million increase in total commitments was the result of the addition of one new lender relationship which further diversified the Main Street lending group to a total of nine participants. The amended Credit Facility contained an upsized accordion feature that allows for a further increase in total commitments under the facility up to \$350 million of total commitments from new and existing lenders on the same terms and conditions as the existing 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 average 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. The Credit Facility matured in September 2014. The Credit Facility contained two, one year extensions which could extend the maturity to September 2016. Subsequent to September 30, 2012, Main Street amended the Credit Facility to, among other things, extend its maturity and increase the accordion feature. See further discussion of this amendment to the Credit Facility at Note O Subsequent Events. At September 30, 2012, Main Street had \$103 million in borrowings outstanding under the Credit Facility. Main Street recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs, of \$1.0 million and \$0.9 million, respectively, for the three months ended September 30, 2012 and 2011 and \$3.3 million and \$1.8 million, respectively, for the nine months ended September 30, 2012 and 2011. As of September 30, 2012, the interest rate on the Credit Facility was 2.7%, and Main Street was in compliance with all financial covenants of the Credit Facility.

**NOTE G FINANCIAL HIGHLIGHTS**

	Nine Months Ended September 30,	
	2012	2011
<b>Per Share Data:</b>		
Net asset value at beginning of period	\$ 15.19	\$ 13.06
Net investment income (1) (3)	1.44	1.23
Net realized gain (loss) from investments (1) (2) (3)	0.19	0.07
Net change in unrealized appreciation (1) (2) (3)	1.41	0.79
Income tax provision (1) (2) (3)	(0.25)	(0.15)
Net increase in net assets resulting from operations (1)	2.79	1.94
Dividends paid to stockholders	(1.26)	(1.16)
Impact of the net change in monthly dividends declared prior to the end of the period		(0.14)
Accretive effect of public stock offerings (issuing shares above NAV per share)	0.64	0.62
Accretive effect of DRIP issuance (issuing shares above NAV per share)	0.06	0.06

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Other (4)		0.07		0.11
Net asset value at September 30, 2012 and 2011	\$	17.49	\$	14.49
Market value at September 30 2012 and 2011	\$	29.51	\$	17.76
Shares outstanding at September 30 2012 and 2011		31,619,333		23,219,348

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- (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.

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	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands, except percentages)</b>	
Net asset value at end of period	\$ 553,154	\$ 336,540
Average net asset value	\$ 479,451	\$ 307,805
Average outstanding debt	\$ 334,600	\$ 273,000
Ratio of total expenses, including income tax expense, to average net asset value (1) (2) (5)	6.27%	7.07%
Ratio of operating expenses to average net asset value (1) (5)	4.81%	6.03%
Ratio of operating expenses, excluding interest expense, to average net asset value (1) (5)	2.33%	2.96%
Ratio of net investment income to average net asset value (1) (5)	8.58%	8.70%
Portfolio turnover ratio (5)	36.94%	18.93%
Total investment return (4) (5)	46.24%	3.87%
Total return based on change in net asset value (3) (5)	19.70%	17.26%

(1) Ratios are net of amounts attributable to MSC II noncontrolling interest.

(2) 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.

(3) 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.

(4) Total investment return based on purchase of stock at the current market price on the first day and a sale at the current market price on the last day of each period reported on the table and assumes reinvestment of dividends at prices obtained by the registrant's dividend reinvestment plan during the period. The return does not reflect sales load.

(5) Not annualized.

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

Main Street paid monthly dividends of \$0.135 per share for each month of January 2012 through March 2012, monthly dividends of \$0.140 per share for each month of April 2012 through June 2012 and monthly dividends of \$0.145 per share for each month of July 2012 through September 2012, with such dividends totaling \$13.1 million, or \$0.435 per share for the three months ended September 30, 2012, and \$35.4 million, or \$1.260 per share, for the nine months ended September 30, 2012. During September 2012, Main Street declared and accrued a \$0.150 per share monthly dividend that was paid in October 2012. For the three and nine months ended September 30, 2011, Main Street paid total monthly dividends of approximately \$9.0 million, or \$0.390 per share, and \$25.1 million, or \$1.155 per share, respectively, for each period.

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

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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

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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 three months ended September 30, 2012 and 2011, Main Street recognized an income tax provision of \$4.2 million and \$0.1 million, respectively, consisting primarily of deferred tax expense related to net unrealized appreciation on certain portfolio investments held by the Taxable Subsidiaries. For the nine months ended September 30, 2012 and 2011, Main Street recognized an income tax provision of \$7.0 million and \$3.3 million, respectively, consisting of deferred tax expense of \$6.0 million and \$3.0 million, respectively, related to net unrealized appreciation on certain portfolio investments held by the Taxable Subsidiaries and \$1.0 million and \$0.3 million, respectively, for excise, state and other taxes.

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 nine months ended September 30, 2012 and 2011.

	Nine Months Ended September 30,	
	2012	2011
	(amounts in thousands)	
	(estimated)	
Net increase in net assets resulting from operations	\$ 79,958	\$ 42,543
Share-based compensation expense	1,860	1,466
Net realized income allocated to noncontrolling interest	(65)	(608)
Net change in unrealized appreciation on investments	(40,467)	(16,778)
Income tax provision	7,041	3,302
Pre-tax book (income) loss not consolidated for tax purposes	9,927	(421)
Book income and tax income differences, including debt origination, structuring fees, dividends, and realized gains	1,983	3,547
Estimated taxable income	60,237	33,051
Taxable income earned in prior year and carried forward for distribution in current year	6,535	586
Ordinary taxable income earned in current period and carried forward for distribution	(35,028)	(8,564)
Dividend accrued as of September 30 and paid in October	4,743	3,135
Total distributions accrued or paid to common stockholders	\$ 36,487	\$ 28,208

The net deferred tax liability at September 30, 2012 and December 31, 2011 was \$9.4 million and \$3.8 million, respectively, and primarily related to timing differences from net unrealized appreciation of portfolio investments held by the Taxable Subsidiaries, partially offset by net loss carryforwards primarily resulting from historical realized losses on portfolio investments held by the Taxable Subsidiaries and basis differences of portfolio investments held by the Taxable Subsidiaries which are pass through entities for tax purposes.

### **NOTE I COMMON STOCK**

In June 2012, Main Street completed a public stock offering of 4,312,500 shares of common stock, including the underwriters' full exercise of the over-allotment option, at a price to the public of \$22.50 per share, resulting in total gross proceeds of approximately \$97.0 million, less (i) underwriters' commissions of approximately \$3.8 million and (ii) offering costs of approximately \$0.2 million.



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In October 2011, Main Street completed a public stock offering of 3,450,000 shares of common stock, including the underwriters' full exercise of the over-allotment option, at a price to the public of \$17.50 per share, resulting in total gross proceeds of approximately \$60.4 million, less (i) underwriters' commissions of approximately \$2.7 million and (ii) offering costs of approximately \$0.2 million.

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 gross proceeds of approximately \$73.9 million, less (i) underwriters' commissions of approximately \$3.3 million and (ii) offering costs of approximately \$0.2 million.

### **NOTE J 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

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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 nine months ended September 30, 2012, \$7.7 million of the total \$36.5 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 264,331 newly issued shares and with the purchase of 52,404 shares of common stock in the open market. For the nine months ended September 30, 2011, \$7.8 million of the total \$25.1 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 303,659 newly issued shares and with the purchase of 117,585 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 K 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. The fair value is 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 September 30, 2012.

Restricted stock authorized under the plan	2,000,000
Less restricted stock granted on:	
July 1, 2008	(245,645)
July 1, 2009	(99,312)
July 1, 2010	(149,357)
June 20, 2011	(117,728)
June 20, 2012	(133,973)
Restricted stock available for issuance as of September 30, 2012	1,253,985

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.

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Restricted stock authorized under the 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)
August 3, 2011	(1,658)
June 20, 2012	(5,060)
Restricted stock available for issuance as of September 30, 2012	150,266

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Main Street recognized total share-based compensation expense of \$0.7 million and \$0.6 million, respectively, for the three months ended September 30, 2012 and 2011 and \$1.9 million and \$1.5 million, respectively, for the nine months ended September 30, 2012 and 2011 related to the restricted stock issued to Main Street employees and independent directors.

As of September 30, 2012, there was \$5.7 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 remaining weighted-average period of approximately 3.0 years as of September 30, 2012.

**NOTE L COMMITMENTS**

At September 30, 2012, Main Street had a total of \$44.3 million in outstanding commitments comprised of (i) five commitments to fund revolving loans that had not been fully drawn and (ii) two capital commitments that had not been fully called.

**NOTE M SUPPLEMENTAL CASH FLOW DISCLOSURES**

Listed below are the supplemental cash flow disclosures for the nine months ended September 30, 2012 and 2011:

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Interest paid	\$ 13,953	\$ 11,675
Taxes paid	\$ 561	\$ 166
Non-cash financing activities:		
Shares issued pursuant to the DRIP	\$ 6,471	\$ 5,722

**NOTE N 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 September 30, 2012 and December 31, 2011, the Investment Manager had a receivable of \$3.3 million and \$4.8 million respectively due from MSCC related to operating expenses incurred by the Investment Manager required to support Main Street's business.

**NOTE O SUBSEQUENT EVENTS**

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During October 2012, Main Street sold the majority of its LMM equity investment in Laurus Healthcare, LP ( Laurus ) to a leading private equity investment firm which has made numerous growth investments within the healthcare sector. Main Street realized a gain of approximately \$9.9 million on the sale. Laurus is a leader in developing and managing outpatient healthcare facilities, in partnership with physicians and hospitals, which are focused on the identification and treatment of cardiovascular disease. Main Street's cumulative secured debt investment in Laurus was fully refinanced during the second quarter of 2012. While Main Street sold the majority of its equity interest in Laurus, Main Street also retained a portion of its equity investment in Laurus through an equity ownership position in a new entity owned by the Laurus management team and the private equity investment firm.

During November 2012, Main Street declared a special dividend of \$0.35 per share for January 2013 and regular monthly dividends of \$0.15 per share for each of January, February and March 2013. These regular monthly dividends equal a total of \$0.45 per share for the first quarter of 2013. The first quarter 2013 regular monthly dividends represent an 11.1% increase from the dividends declared for the first quarter of 2012. Including the special dividend and the regular monthly dividends declared for the first quarter of 2013, Main Street will have paid \$8.83 per share in cumulative dividends since its October 2007 initial public offering.

During November 2012, Main Street amended the Credit Facility to extend the final maturity to five years, through September 2017. The amended Credit Facility contains an upsized accordion feature which allows Main Street to increase the total commitments under the facility up to \$400 million from new or existing lenders on the same terms and conditions as the existing commitments. The Credit Facility includes an initial revolving period through September 2015 followed by a two-year term out period with a final maturity in September 2017, and contains two, one-year extension options which could extend both the revolving period and the final maturity by up to two years.

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**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, 2011, filed with the Securities and Exchange Commission (the SEC) on March 9, 2012, 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, 2011.*

**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. During the first quarter of 2012, MSCC exchanged 229,634 shares of its common stock to acquire all of the remaining minority ownership in the total dollar value of the MSC II limited partnership interests, including approximately 5% owned by affiliates of MSCC (the Final MSC II Exchange). After the completion of the Final MSC II Exchange, MSCC owns 100% of MSC II. The Exchange Offer and related transactions, including the transfer of the MSC II GP interests and the Final MSC II Exchange, are collectively termed the Exchange Offer Transactions.

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

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

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

**OVERVIEW**

We are a principal investment firm primarily focused on providing customized debt and equity financing to lower middle market (LMM) companies and debt capital to middle market (Middle Market) companies. Our portfolio investments are typically made to support management buyouts, recapitalizations, growth financings, refinancings and acquisitions of companies that operate in diverse industry sectors. We seek to partner with entrepreneurs, business owners and management teams and generally provide one stop financing alternatives within our LMM portfolio. We invest primarily in secured debt investments, equity investments, warrants and other securities of LMM companies based in the United States and in secured debt investments of Middle Market companies generally headquartered 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 companies generally have annual revenues between \$10 million and \$150 million, and our LMM portfolio investments generally range in size from \$5 million to \$25 million. Our Middle Market investments are made in businesses that are generally larger in size than our LMM portfolio companies, with annual revenues typically between \$150 million and \$1.5 billion, and our Middle Market investments generally range in size from \$3 million to \$15 million. Our other portfolio (Other Portfolio) investments primarily consist of investments which are not consistent with the typical profiles for LMM and Middle Market portfolio investments, including investments which may be managed by third parties. In our Other Portfolio, we may incur indirect fees and expenses in connection with investments managed by third parties, such as investments in other investment companies or private funds.

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.

As of September 30, 2012, we had debt and equity investments in 57 LMM portfolio companies with an aggregate fair value of \$467.6 million, with a total cost basis of approximately \$365.9 million, and a weighted average annual effective yield on our LMM debt investments of approximately 14.7%. Approximately 78% of our total LMM portfolio investments at cost were in the form of debt investments and 95% of such debt investments at cost were secured by first priority liens on the assets of our LMM portfolio companies as of September 30, 2012. At September 30, 2012, we had equity ownership in approximately 88% of our LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 32%. As of December 31, 2011, we had debt and equity investments in 54 LMM portfolio companies with an aggregate fair value of \$415.7 million with a total cost basis of approximately \$349.0 million and a weighted average annual effective yield on our LMM debt investments of approximately 14.8%. The weighted average annual yields were computed using the effective interest rates for all debt investments as of September 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment and any debt investments on non-accrual status.

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In addition to our LMM investment strategy, we pursue investments in Middle Market companies. Our Middle Market 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 LMM portfolio. Our Middle Market portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and have an expected duration of between three and five years.

As of September 30, 2012, we had Middle Market portfolio investments in 79 companies collectively totaling approximately \$350.7 million in fair value with a total cost basis of approximately \$345.9 million. The weighted average revenues for the 79 Middle Market portfolio company investments was approximately \$518 million. Our Middle Market portfolio investments are primarily in the form of debt investments and 88% of such debt investments at cost were secured by first priority liens on portfolio company assets as of September 30, 2012. The weighted average annual effective yield on our Middle Market portfolio debt investments was approximately 8.6% as of September 30, 2012. As of December 31, 2011, we had Middle Market portfolio investments in 57



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companies collectively totaling approximately \$226.5 million in fair value with a total cost basis of approximately \$228.9 million. The weighted average revenues for the 57 Middle Market portfolio company investments were approximately \$473 million. The weighted average annual effective yield on our Middle Market portfolio debt investments was approximately 9.5% as of December 31, 2011. The weighted average annual yields were computed using the effective interest rates for all debt investments as of September 30, 2012 and December 31, 2011, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment.

As of September 30, 2012, we had Other Portfolio investments in 3 companies collectively totaling approximately \$16.1 million in fair value and \$15.8 million in cost basis. As of December 31, 2011, we had Other Portfolio investments in 3 companies collectively totaling approximately \$14.1 million in both fair value and cost basis.

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 and MSC II are both wholly owned subsidiaries 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.

MSCC and its consolidated subsidiaries are internally managed by the Investment Manager, a wholly owned subsidiary of MSCC, which employs all of the executive officers and other employees of Main Street. Because the Investment Manager 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. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly-traded and privately-held investment firms which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. For the three and nine months ended September 30, 2012, the ratio of our total operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 1.6% and 1.9% respectively, on an annualized basis, compared to 1.9% and 2.2% respectively, on an annualized basis for the three and nine months ended September 30, 2011 and 2.2% for the year ended December 31, 2011.

In addition, during May of 2012, we and the Investment Manager executed an investment sub-advisory agreement with HMS Adviser, LP, which is the investment advisor to HMS Income Fund, Inc., a newly-formed BDC whose registration statement on Form N-2 was declared effective by the SEC on June 4, 2012, to provide certain investment advisory services to HMS Adviser, LP. We are initially providing such investment advisory services to HMS Adviser, LP, but ultimately intend that the Investment Manager provide such services because the fees we receive from such arrangement have negative consequences on our ability to meet the source-of-income requirement necessary for us to maintain our RIC tax treatment. We will need to obtain certain relief from the SEC before the Investment Manager is permitted to provide these services to HMS Adviser, LP, which we are seeking, but there can be no assurance that we will obtain such relief.

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For the nine months ended September 30, 2012, we paid dividends on a monthly basis totaling \$1.260 per share, or \$35.4 million. In July 2012, we declared monthly dividends of \$0.15 per share for each of October, November and December 2012. These monthly dividends equal a total of \$0.45 per share for the fourth quarter of 2012. The fourth quarter 2012 dividends represent an 11.1% increase from the dividends declared for the fourth quarter of 2011 and a 3.4% increase compared to the third quarter of 2012. During November 2012, we declared a special dividend of \$0.35 per share for January 2013 and regular monthly dividends of \$0.15 per share for each of January, February and March 2013. These regular monthly dividends equal a total of \$0.45 per share for the first quarter of 2013. The first quarter 2013 regular monthly dividends represent an 11.1% increase from the dividends declared for the first quarter of 2012. During 2011, we paid monthly dividends of \$1.56 per share for the entire year. Including the dividends declared for the third and fourth quarters, we will pay a total of \$1.71 per share during 2012. Including the special dividend and the regular monthly dividends declared through the first quarter of 2013, we will have paid \$8.83 per share in cumulative dividends since our October 2007 initial public offering.

At September 30, 2012, we had \$19.6 million in cash and cash equivalents and \$2.0 million in Marketable securities and idle funds investments .

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In May 2012, we expanded the Credit Facility from \$235.0 million to \$277.5 million to provide additional liquidity in support of future investment and operational activities. The \$42.5 million increase in total commitments included commitment increases by three lenders currently participating in the Credit Facility. The Credit Facility contained an upsized accordion feature that allowed for a further increase in total commitments under the facility up to \$350.0 million of total commitments from new and existing lenders on the same terms and conditions as the existing commitments. In July 2012, we expanded the Credit Facility from \$277.5 million to \$287.5 million. The \$10.0 million increase in total commitments included the addition of one new lender relationship which further diversifies our lending group to a total of nine participants. At September 30, 2012, Main Street had \$103 million in borrowings outstanding under the Credit Facility. Subsequent to September 30, 2012, Main Street amended the Credit Facility to, among other things, extend its maturity and increase the accordion feature. See further discussion of this amendment to the Credit Facility below in Management's Discussion and Analysis - Recent Developments.

In June 2012, we completed a follow-on public stock offering in which we sold 4,312,500 shares of common stock, including the underwriters full exercise of the over-allotment option, at a price to the public of \$22.50 per share (or approximately 143% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately \$93.0 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 nine months ended September 30, 2012 and 2011, our consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries, which include the Funds and the Taxable Subsidiaries. Portfolio investments, as used herein, refers to all of our portfolio investments in LMM companies, Middle Market portfolio investments, Other Portfolio investments and our investment in the Investment Manager but excludes all of our Marketable securities and idle funds 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 for the three and nine months ended September 30, 2012 and 2011, cash flows for the nine months ended September 30, 2012 and 2011 and financial position as of September 30, 2012 and December 31, 2011, are presented on a consolidated basis. The effects of all intercompany transactions between Main Street and its consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current financial statement presentation, including certain investments previously classified as Marketable securities and idle funds investments that are now considered a part of the Middle Market portfolio and are now classified as Non-Control/Non-Affiliate investments.

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 nine months ended September 30, 2012 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2011. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

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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 realized, usually upon exit, resulting in any gain or loss being recognized as a "Net Realized Gain (Loss) from Investments."

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***Portfolio Investment Valuation***

The most significant determination 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 September 30, 2012 and December 31, 2011, approximately 96% and 89%, 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 debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. Our portfolio also includes Other Portfolio investments which primarily consist of investments which are not consistent with the typical profiles for LMM and Middle Market portfolio investments, including investments which may be managed by third parties. All of our portfolio investments may be subject to restrictions on resale. LMM companies and Other Portfolio companies generally have no established trading market while Middle Market securities generally have established markets that are not active. 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. For LMM investments, we review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process. For Middle Market portfolio debt and Other Portfolio debt investments, we primarily use observable inputs such as quoted prices in the valuation process. For Other Portfolio equity investments we generally value such investments based on the fair value of the portfolio company as determined by independent third parties, and based on our proportional ownership in the portfolio company, as well as the financial position and assessed risk of each of these portfolio investments. Our valuation policy and process is intended to provide a consistent basis for determining the fair value of the portfolio.

For valuation purposes, control LMM portfolio investments are composed of debt and equity securities for which we have a controlling interest in the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for our control LMM portfolio investments. For control LMM portfolio investments, we determine the fair value 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 various components of the portfolio company's capital structure. We 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 our control LMM portfolio investments estimate the value of the investment if we were to sell, or exit, the investment. 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 are generally not readily available for non-control LMM portfolio investments. For our non-control LMM investments, we use a combination of the market and income approaches to value our equity investments and the income approach to value our debt investments. 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 a LMM debt security is generally the legal maturity date of the

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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 if a 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 most likely be received in a liquidation analysis.

Our Middle Market 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 Middle Market portfolio investments are non-control investments and are primarily composed of debt securities

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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. For Middle Market portfolio investments for which sufficient observable inputs are not available to determine fair value, we generally use an approach similar to the income approach using a yield-to-maturity model used to value our LMM portfolio debt investments.

For valuation purposes, all of our Other Portfolio investments are non-control investments and are composed of securities for which we generally 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. Similar to the LMM investment portfolio, market quotations for Other Portfolio equity investments are generally not readily available. We value our Other Portfolio equity investments based on the fair value of the portfolio company as determined by independent third parties and based on our proportional ownership in the portfolio company, as well as the financial position and assessed risk of each of these portfolio investments. For Other Portfolio debt investments with observable inputs, we determine the fair value of these investments through obtaining third party quotes or other independent pricing. To the extent observable inputs are not available for our Other Portfolio debt instruments, we value these Other Portfolio debt investments through an approach similar to the income approach using a yield-to-maturity model used to value our non-control LMM portfolio debt investments.

Due to the inherent uncertainty in the valuation process, our determination of fair value for certain portfolio investments may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We determine 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 unpaid dividends are added to the balance of the preferred equity investment. The actual collection of these dividends may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed below), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even 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



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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 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.

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.

**PORTFOLIO INVESTMENT 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 primarily 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.

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Middle Market 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 LMM portfolio. Our Middle Market portfolio debt investments are generally secured by either a first or second priority lien.

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

Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	73.9%	88.2%	80.8%	69.5%	81.8%	74.4%
Equity	18.3%	0.2%	9.5%	20.5%	0.2%	12.5%
Second lien debt	3.7%	10.1%	6.9%	5.0%	18.0%	10.1%
Equity warrants	4.1%	0.0%	2.1%	5.0%	0.0%	3.0%
Other	0.0%	1.5%	0.7%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
First lien debt	58.1%	88.1%	71.0%	57.7%	81.7%	66.2%
Equity	32.8%	0.2%	18.8%	29.0%	0.3%	18.8%
Second lien debt	3.0%	10.2%	6.1%	4.4%	18.0%	9.2%
Equity warrants	6.1%	0.0%	3.5%	8.9%	0.0%	5.8%
Other	0.0%	1.5%	0.6%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	39.0%	17.5%	28.5%	47.8%	16.4%	35.4%
West	32.5%	13.2%	23.1%	31.9%	13.7%	24.7%
Midwest	15.1%	28.0%	21.4%	9.0%	21.6%	14.0%
Northeast	5.7%	26.7%	15.9%	3.9%	32.6%	15.2%
Southeast	7.7%	10.3%	9.0%	7.4%	15.7%	10.7%
Other	0.0%	4.3%	2.1%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Southwest	44.1%	17.5%	32.7%	52.1%	16.2%	39.3%
West	29.9%	13.2%	22.7%	28.9%	13.8%	23.6%
Midwest	14.5%	28.2%	20.4%	8.7%	21.9%	13.4%
Northeast	5.2%	26.6%	14.3%	3.9%	32.4%	14.0%
Southeast	6.3%	10.2%	8.0%	6.4%	15.7%	9.7%
Other	0.0%	4.3%	1.9%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Cost:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Software	7.0%	11.9%	9.4%	2.8%	8.4%	5.0%
Media	8.1%	6.1%	7.2%	8.7%	6.6%	7.9%
Machinery	8.8%	4.7%	6.8%	9.9%	2.1%	6.9%
Specialty Retail	8.5%	4.3%	6.4%	5.3%	5.6%	5.4%
Energy Equipment & Services	10.1%	1.7%	6.1%	9.2%	7.5%	8.5%
Commercial Services & Supplies	11.4%	0.0%	5.9%	15.4%	0.9%	9.7%
Health Care Providers & Services	4.3%	6.1%	5.2%	6.5%	9.1%	7.5%
Food Products	0.0%	8.6%	4.2%	0.0%	3.9%	1.6%
Hotels, Restaurants & Leisure	4.5%	2.6%	3.6%	2.1%	7.2%	4.1%
Chemicals	0.0%	6.7%	3.3%	0.0%	3.8%	1.5%
Construction & Engineering	5.1%	2.7%	3.2%	5.3%	0.0%	5.0%
Electronic Equipment, Instruments & Components	3.8%	1.9%	2.9%	4.6%	0.0%	2.8%
Diversified Consumer Services	5.1%	0.0%	2.6%	2.7%	0.0%	1.6%
Containers & Packaging	0.0%	5.2%	2.5%	0.0%	1.3%	0.5%
Oil, Gas & Consumable Fuels	0.0%	5.2%	2.5%	0.0%	0.0%	0.0%
Building Products	2.6%	1.9%	2.3%	2.6%	0.0%	1.6%
IT Services	0.0%	4.0%	1.9%	0.0%	4.1%	1.6%
Construction Materials	1.2%	1.2%	1.9%	1.1%	4.4%	0.7%
Health Care Equipment & Supplies	1.9%	1.4%	1.6%	2.2%	1.2%	1.8%
Insurance	3.1%	0.0%	1.6%	3.1%	2.6%	2.9%
Food & Staples Retailing	0.0%	3.1%	1.5%	0.0%	6.2%	2.5%
Metals & Mining	0.0%	3.1%	1.5%	0.0%	0.0%	0.0%
Consumer Finance	2.7%	0.0%	1.4%	3.0%	0.9%	2.1%
Internet Software & Services	0.4%	2.2%	1.2%	3.0%	0.0%	1.8%
Professional Services	2.1%	0.0%	1.1%	3.5%	0.0%	2.1%
Paper & Forest Products	2.2%	0.0%	1.1%	2.2%	0.0%	1.3%
Transportation Infrastructure	1.9%	0.0%	1.0%	2.0%	0.0%	1.2%
Pharmaceuticals	0.0%	1.8%	0.8%	0.0%	2.6%	1.0%
Internet & Catalog Retail	0.0%	1.5%	0.7%	0.0%	2.2%	0.9%
Biotechnology	0.0%	1.3%	0.6%	0.0%	2.2%	0.8%
Auto Components	0.0%	1.1%	0.5%	0.0%	2.9%	1.2%
Real Estate Management & Development	0.0%	0.7%	0.4%	0.0%	2.5%	1.0%
Electric Utilities	0.0%	0.6%	0.3%	0.0%	2.0%	0.8%
Thriffs & Mortgage Finance	0.0%	0.5%	0.2%	0.0%	2.0%	0.8%
Other (1)	5.2%	7.9%	6.6%	4.8%	7.8%	5.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes various industries with each industry individually less than 2.0% of the total LMM portfolio, total Middle Market portfolio and combined total LMM and Middle Market portfolio in each period.



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Fair Value:	September 30, 2012			December 31, 2011		
	LMM	Middle Market	Total	LMM	Middle Market	Total
Software	6.3%	12.0%	8.8%	2.8%	8.4%	4.8%
Machinery	11.8%	4.7%	8.7%	10.7%	2.2%	7.7%
Energy Equipment & Services	13.1%	1.7%	8.2%	11.2%	7.5%	9.8%
Health Care Providers & Services	6.7%	6.1%	6.4%	7.4%	9.0%	7.9%
Media	6.5%	6.1%	6.3%	7.4%	6.5%	7.1%
Commercial Services & Supplies	9.7%	0.0%	5.5%	13.5%	0.9%	9.0%
Specialty Retail	5.7%	4.1%	5.0%	3.8%	5.2%	4.3%
Construction & Engineering	5.7%	2.6%	3.8%	6.0%	0.0%	5.5%
Food Products	0.0%	8.7%	3.7%	0.0%	4.0%	1.4%
Hotels, Restaurants & Leisure	4.1%	2.6%	3.5%	2.5%	7.2%	4.2%
Diversified Consumer Services	6.0%	0.0%	3.4%	3.7%	0.0%	2.4%
Chemicals	0.0%	6.7%	2.9%	0.0%	3.8%	1.3%
Electronic Equipment, Instruments & Components	3.0%	2.1%	2.6%	3.7%	0.0%	2.4%
Containers & Packaging	0.0%	5.2%	2.2%	0.0%	1.3%	0.5%
Oil, Gas & Consumable Fuels	0.0%	5.2%	2.2%	0.0%	0.0%	0.0%
IT Services	0.0%	4.0%	1.7%	0.0%	3.8%	1.4%
Construction Materials	0.8%	1.2%	1.7%	0.8%	4.5%	0.5%
Internet Software & Services	1.1%	2.2%	1.6%	5.8%	0.0%	3.7%
Insurance	2.4%	0.0%	1.4%	2.6%	2.6%	2.6%
Trading Companies & Distributors	2.4%	0.0%	1.4%	2.6%	0.0%	1.7%
Food & Staples Retailing	0.0%	3.1%	1.3%	0.0%	6.3%	2.2%
Metals & Mining	0.0%	3.1%	1.3%	0.0%	0.0%	0.0%
Consumer Finance	2.1%	0.0%	1.2%	2.5%	0.9%	1.9%
Paper & Forest Products	2.0%	0.0%	1.1%	2.2%	0.0%	1.4%
Transportation Infrastructure	1.8%	0.0%	1.1%	2.0%	0.0%	1.3%
Professional Services	1.7%	0.0%	1.0%	2.2%	0.0%	1.4%
Pharmaceuticals	0.0%	1.8%	0.9%	0.0%	2.8%	1.0%
Internet & Catalog Retail	0.0%	1.5%	0.7%	0.0%	2.2%	0.8%
Biotechnology	0.0%	1.3%	0.6%	0.0%	2.1%	0.7%
Auto Components	0.0%	1.0%	0.4%	0.0%	3.0%	1.1%
Real Estate Management & Development	0.0%	0.7%	0.3%	0.0%	2.6%	0.9%
Electric Utilities	0.0%	0.6%	0.3%	0.0%	2.0%	0.7%
Thriffs & Mortgage Finance	0.0%	0.5%	0.2%	0.0%	2.1%	0.7%
Other (1)	7.1%	11.2%	8.6%	6.6%	9.1%	7.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes various industries with each industry individually less than 2.0% of the total LMM portfolio, total Middle Market portfolio and combined total LMM and Middle Market portfolio in each period.

Our LMM, Middle Market and Other Portfolio investments carry a number of risks including, but not limited to: (1) investing in LMM, Middle Market and Other Portfolio companies which may have limited operating histories and financial resources; (2) holding investments that generally 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 LMM, Middle Market and Other Portfolio companies.

**PORTFOLIO ASSET QUALITY**

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

The following table shows the distribution of our LMM portfolio investments on the 1 to 5 investment rating scale at fair value as of September 30, 2012 and December 31, 2011:

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Investment Rating	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(dollars in thousands)			
1	\$ 179,037	38.3%	\$ 125,505	30.2%
2	109,039	23.3%	119,234	28.7%
3	151,742	32.5%	152,910	36.7%
4	27,782	5.9%	17,765	4.3%
5		0.0%	250	0.1%
Totals	\$ 467,600	100.0%	\$ 415,664	100.0%

Based upon our investment rating system, the weighted average rating of our LMM portfolio was approximately 2.1 as of September 30, 2012 and 2.2 as of December 31, 2011.

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

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.

**DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS***Comparison of the three months ended September 30, 2012 and September 30, 2011*

	Three Months Ended September 30,		Net Change	
	2012	2011	Amount	%
	(dollars in millions)			
Total investment income	\$ 23.0	\$ 17.1	\$ 5.9	34%
Total expenses	(7.5)	(6.7)	(0.8)	11%
Net investment income	15.5	10.4	5.1	50%
Net realized gain (loss) from investments	0.5	1.4	(0.9)	NM
Net realized income	16.0	11.8	4.2	36%
Net change in unrealized appreciation	20.2	2.8	17.4	626%
Income tax provision	(4.2)	(0.1)	(4.1)	NM
Net increase in net assets resulting from operations attributable to common stock	\$ 32.0	\$ 14.5	\$ 17.5	121%



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	Three Months Ended September 30,		Net Change	
	2012	2011	Amount	%
	(dollars in millions)			
Net investment income	\$ 15.5	\$ 10.4	\$ 5.1	50%
Share-based compensation expense	0.7	0.6	0.1	21%
Distributable net investment income (a)	16.2	11.0	5.2	48%
Net realized gain (loss) from investments	0.5	1.4	(0.9)	NM
Distributable net realized income (a)	\$ 16.7	\$ 12.4	\$ 4.3	35%
Distributable net investment income per share -				
Basic and diluted (a) (b)	\$ 0.51	\$ 0.46	\$ 0.05	11%
Distributable net realized income per share -				
Basic and diluted (a) (b)	\$ 0.53	\$ 0.52	\$ 0.01	2%

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(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. We believe presenting distributable net investment income and distributable net realized income, and related per share amounts, is useful and appropriate supplemental disclosure of information 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) For the three months ended September 30, 2012, per share amounts reflect MSCC ownership of 100% of the equity interests in MSC II in connection with the completion of the Final MSC II Exchange during the first quarter of 2012. For the three months ended September 30, 2011, 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 September 30, 2012, total investment income was \$ 23.0 million, a 34% increase over the \$17.1 million for the corresponding period of 2011. This comparable period increase was principally attributable to (i) a \$5.0 million increase in interest income from higher average levels of portfolio debt investments and (ii) a \$0.7 million increase in dividend income from portfolio equity investments. The increase in investment income included a \$0.8 million increase in investment income associated with higher levels of accelerated prepayment activity for certain portfolio debt investments and marketable securities investments in comparison to the third quarter of 2011.

*Expenses*

For the three months ended September 30, 2012, total expenses increased by approximately \$0.8 million to \$7.5 million from \$6.7 million in the corresponding period of 2011. This comparable period increase in expenses was principally attributable to (i) higher interest expense of \$0.2 million as a result of increased costs associated with the expansion of the Credit Facility subsequent to September 30, 2011 and (ii) higher compensation and other operating expenses of \$0.4 million related to the increases in investment income and the investment portfolio compared to the corresponding period of 2011. The ratio of total operating expenses, excluding interest expense, as a percentage of average total assets for the three months ended September 30, 2012 was 1.6% on an annualized basis, compared to 1.9% on an annualized basis for the corresponding period of 2011.

*Distributable Net Investment Income*

Distributable net investment income for the three months ended September 30, 2012 increased 48% to \$16.2 million, or \$0.51 per share, compared with \$11.0 million, or \$0.46 per share, in the corresponding period of 2011. 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 third quarter of 2012 reflects (i) an increase of approximately \$0.02 per share from the comparable period in 2011 in investment income attributable to higher levels of accelerated prepayment activity for

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certain portfolio debt investments and marketable securities investments and (ii) a greater number of average shares outstanding compared to the corresponding period in 2011 primarily due to the October 2011 and June 2012 follow-on stock offerings.

### *Net Investment Income*

Net investment income for the three months ended September 30, 2012 was \$15.5 million, or a 50% increase, compared to net investment income of \$10.4 million during the corresponding period of 2011. 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 for the three months ended September 30, 2012 increased 35% to \$16.7 million, or \$0.53 per share, compared with distributable net realized income of \$12.4 million, or \$0.52 per share, in the corresponding period of 2011. This increase was primarily attributable to the higher level of total distributable net investment income in the third quarter of 2012

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compared to the corresponding period of 2011, offset by a \$0.9 million decrease in net realized gains during the third quarter of 2012 compared to the corresponding period of 2011.

### *Net Realized Income*

The \$5.1 million increase in net investment income for the three months ended September 30, 2012 as discussed above, offset by the \$0.9 million decrease in net realized gains from investments during the same period, resulted in a \$4.2 million increase in net realized income compared with the corresponding period of 2011.

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

The net increase in net assets resulting from operations attributable to common stock was \$32.0 million, or \$1.01 per share, in the third quarter of 2012, representing an increase of 121% compared with \$14.5 million, or \$0.62 per share, in the corresponding period of 2011. This \$17.5 million increase was the result of the increase in distributable net realized income discussed above, plus differences in the net change in unrealized appreciation and the income tax provision. The \$20.2 million net change in unrealized appreciation during the third quarter of 2012 was principally attributable to (i) unrealized appreciation on 19 LMM portfolio investments totaling \$21.1 million, partially offset by unrealized depreciation on 6 LMM portfolio investments totaling \$1.5 million, (ii) \$3.9 million of net unrealized appreciation on the Middle Market investment portfolio and (iii) accounting reversals of net unrealized appreciation of \$1.6 million related to exits and repayments of portfolio debt and equity investments and Marketable securities and idle funds investments during the third quarter of 2012 and (iv) \$1.9 million of net unrealized depreciation attributable to SBIC debentures held by MSC II. For the third quarter of 2012, we also recognized a net income tax provision of \$4.2 million primarily related to deferred taxes on net unrealized appreciation of equity investments held in our taxable subsidiaries.

### *Comparison of the nine months ended September 30, 2012 and September 30, 2011*

	Nine Months Ended September 30,		Net Change	
	2012	2011	Amount	%
	(dollars in millions)			
Total investment income	\$ 64.4	\$ 46.6	\$ 17.8	38%
Total expenses	(23.2)	(19.2)	(4.0)	20%
Net investment income	41.2	27.4	13.8	51%
Net realized gain from investments	5.3	1.7	3.6	NM
Net realized income	46.5	29.1	17.4	60%
Net change in unrealized appreciation from investments	40.5	16.8	23.7	141%
Income tax provision	(7.0)	(3.3)	(3.7)	113%
Noncontrolling interest	(0.1)	(0.2)	0.1	-66%
Net increase in net assets resulting from operations attributable to common stock	\$ 79.9	\$ 42.4	\$ 37.5	89%

	Nine Months Ended September 30,	2011	Net Change	%
	2012		Amount	

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(dollars in millions)

Net investment income	\$	41.2	\$	27.4	\$	13.8	51%
Share-based compensation expense		1.9		1.5		0.4	27%
Distributable net investment income (a)		43.1		28.9		14.2	49%
Net realized gain from investments		5.3		1.7		3.6	NM
Distributable net realized income (a)	\$	48.4	\$	30.6	\$	17.8	58%
Distributable net investment income per share -							
Basic and diluted (a) (b)	\$	1.50	\$	1.29	\$	0.21	16%
Distributable net realized income per share -							
Basic and diluted (a) (b)	\$	1.69	\$	1.37	\$	0.32	23%

(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, is useful and appropriate supplemental disclosure of information 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

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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) For the nine months ended September 30, 2012, per share amounts exclude the earnings attributable to the remaining noncontrolling equity interests in MSC II held by third parties prior to the completion of the Final MSC II Exchange during the first quarter of 2012. For the nine months ended September 30, 2011, 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 nine months ended September 30, 2012, total investment income was \$64.4 million, a 38% increase over the \$46.6 million for the corresponding period of 2011. This comparable period increase was principally attributable to (i) a \$16.7 million increase in interest income from higher average levels of both portfolio debt investments and interest-bearing marketable securities investments, (ii) a \$0.7 million increase in dividend income from portfolio equity investments, and (iii) a \$0.4 million increase in fee income due to the increased size of the investment portfolio. The increase in investment income included (i) \$1.8 million of non-recurring investment income during the first quarter of 2012 associated with repayment and financing activities for two LMM portfolio investments, and (ii) a \$1.5 million increase in investment income associated with higher levels of accelerated prepayment activity for certain Middle Market portfolio debt investments and marketable securities investments.

*Expenses*

For the nine months ended September 30, 2012, total expenses increased by approximately \$4.0 million to \$23.2 million from \$19.2 million in the corresponding period of 2011. 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 additional SBIC debentures during 2011 totaling \$40 million and during the third quarter of 2012 totaling \$5 million and increased borrowing activity under the Credit Facility, partially offset by the early repayment of \$16 million in SBIC debentures during the third quarter of 2012, (ii) higher share-based compensation expense of \$0.4 million related to non-cash amortization for restricted share grants, and (iii) higher compensation and other operating expenses of \$1.5 million related to the increase in investment income and the investment portfolio compared to the corresponding period of 2011. The ratio of total operating expenses, excluding interest expense, as a percentage of average total assets for the nine months ended September 30, 2012 was 1.9% on an annualized basis, compared to 2.2% on an annualized basis for the corresponding period of 2011 and 2.2% for the year ended December 31, 2011.

*Distributable Net Investment Income*

Distributable net investment income for the nine months ended September 30, 2012 increased 49% to \$43.1 million, or \$1.50 per share, compared with \$28.9 million, or \$1.29 per share, in the corresponding period of 2011. 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 nine months of 2012 reflects (i) approximately \$0.06 per

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share of investment income attributable to higher levels of accelerated prepayment activity for certain LMM portfolio investments, (ii) approximately \$0.04 per share of investment income attributable to higher levels of accelerated prepayment activity for certain Middle Market portfolio debt investments and marketable securities investments and (iii) a greater number of average shares outstanding compared to the corresponding period in 2011 primarily due to the March 2011, October 2011, and June 2012 follow-on stock offerings.

### *Net Investment Income*

Net investment income for the nine months ended September 30, 2012 was \$41.2 million, or a 51% increase, compared to net investment income of \$27.4 million during the corresponding period of 2011. 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 \$48.4 million, or \$1.69 per share, in the first nine months of 2012 compared with distributable net realized income of \$30.6 million, or \$1.37 per share, in the corresponding period of 2011. This increase was due to (i) the higher level of total distributable net investment income in the first nine months of 2012 and (ii) the \$3.6 million increase in total net realized gain from investments during the first nine months of 2012 compared to the corresponding period of 2011. The \$5.3 million net realized gain from investments during the first nine months of 2012 was primarily attributable to (i) a \$9.2 million realized

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gain recognized on the partial exit of equity investments in one LMM portfolio company, (ii) a realized gain of \$1.7 million recognized on the full exit of equity investments in one LMM portfolio company and (iii) \$1.8 million of net realized gains related to Middle Market and marketable securities investments, partially offset by (i) a \$3.8 million realized loss on the full exit of debt and equity investments in two LMM portfolio companies, (ii) a \$1.8 million realized loss on the full exit of equity investments in one LMM portfolio company and (iii) a \$2.0 million realized loss on a debt investment related to the full exit of a LMM portfolio company.

*Net Realized Income*

The higher level of net investment income and the increase in net realized gain from investments during the nine months ended September 30, 2012, both as discussed above, resulted in a \$17.4 million increase in net realized income compared with the corresponding period of 2011.

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

The net increase in net assets resulting from operations attributable to common stock during the nine months ended September 30, 2012 was \$79.9 million, or \$2.79 per share, compared with a net increase in net assets resulting from operations attributable to common stock of \$42.4 million, or \$1.94 per share, in the corresponding period of 2011. This \$37.5 million increase was the result of the increase in distributable net realized income discussed above, plus differences in the net change in unrealized appreciation and the income tax provision. For the nine months ended September 30, 2012, the \$40.5 million net change in unrealized appreciation was principally attributable to (i) unrealized appreciation on 28 LMM portfolio investments totaling \$44.5 million, partially offset by unrealized depreciation on 9 LMM portfolio investments totaling \$3.4 million, (ii) \$8.8 million of net unrealized appreciation on the Middle Market investment portfolio, (iii) \$0.7 million of net unrealized appreciation on the Other Portfolio investments and Marketable securities and idle funds investments, (iv) accounting reversals of net unrealized appreciation of \$5.8 million related to portfolio debt and equity investment exits and repayments, and accounting reversals of net unrealized appreciation of \$0.6 million related to Marketable securities and idle funds investments exits and repayments, both recognized during the first nine months of 2012, and (v) \$3.4 million of net unrealized depreciation attributable to SBIC debentures held by MSC II. The noncontrolling interest of \$0.1 million recognized during the first quarter of 2012 reflects the pro rata portion of the net increase in net assets resulting from operations for MSCII attributable to the equity interests in MSCII that were not owned by MSCC prior to MSCC's completion of the Final MSC II Exchange. For the first nine months of 2012, we also recognized a net income tax provision of \$7.0 million related to deferred taxes of \$6.0 million on net unrealized appreciation of equity investments held in our taxable subsidiaries and other taxes of \$1.0 million primarily related to an accrual for excise tax on our estimated spillover taxable income as of September 30, 2012.

*Liquidity and Capital Resources*

*Cash Flows*

For the nine months ended September 30, 2012, we experienced a net decrease in cash and cash equivalents in the amount of \$23.1 million. During that period, we generated \$28.9 million of cash from our operating activities, primarily from distributable net investment income, partially offset by (i) reimbursements to the Investment Manager to cover operating expenses under a support services agreement between MSCC and the Investment Manager, (ii) accretion of unearned income, (iii) net payment-in-kind interest income and (iv) semi-annual interest payments made on our SBIC debentures. We used \$100.0 million in net cash from investing activities, principally including the funding



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of \$397.9 million for portfolio company investments and the funding of \$7.6 million for Marketable securities and idle funds investments, partially offset by (i) \$272.0 million in cash proceeds from the repayment of portfolio debt investments and from the exit of portfolio equity investments and (ii) \$33.5 million of cash proceeds from the sale of Marketable securities and idle funds investments. During the first nine months of 2012, \$48.1 million in cash was provided by financing activities, which principally consisted of (i) \$93.0 million in net cash proceeds from a public stock offering in June 2012 and (ii) \$5 million in proceeds from the issuance of SBIC debentures during the third quarter of 2012, partially offset by (i) \$16 million in SBIC debenture repayments during the third quarter of 2012, (ii) \$28.9 million in cash dividends paid to stockholders, and (iii) \$4.0 million in net repayments under the Credit Facility.

For the nine months ended September 30, 2011, we experienced a net increase in cash and cash equivalents in the amount of \$2.8 million. During that period, we generated \$23.0 million of cash from our operating activities, primarily from distributable net investment income partially offset by (i) accretion of unearned income, (ii) net payment-in-kind interest income, (iii) increases in interest receivable and other assets and (iv) semi-annual interest payments made on our SBIC debentures. We used \$183.7 million in net cash from investing activities for the nine months ended September 30, 2011, principally including the funding of \$266.2 million for portfolio company investments and the funding of \$20.0 million for Marketable securities and idle funds investments, partially offset by (i) \$97.9 million in cash proceeds from the repayment of portfolio debt investments and from the exit of portfolio equity investments and (ii) \$4.7 million of cash proceeds from the sale of Marketable securities and idle funds investments. For the first nine months of 2011, \$163.5 million in cash was provided by financing activities, which principally consisted of (i) \$70.3 million in net

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cash proceeds from a public stock offering in March 2011, (ii) \$40.0 million in cash proceeds from the issuance of SBIC debentures, and (iii) \$75.0 million in net borrowings under the Credit Facility, partially offset by (i) \$19.4 million in cash dividends paid to stockholders and (ii) \$1.7 million in deferred loan costs paid in connection with the Credit Facility and the issuance of additional SBIC debentures.

*Capital Resources*

As of September 30, 2012, we had \$19.6 million in cash and cash equivalents and \$2.0 million in Marketable securities and idle funds investments, and our net asset value totaled \$553.2 million, or \$17.49 per share. In June 2012, we completed a follow-on public stock offering in which we sold 4,312,500 shares of common stock, including the underwriters' full exercise of the over-allotment option, at a price to the public of \$22.50 per share (or approximately 143% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately \$93.0 million, after deducting underwriters' commissions and offering costs. As of September 30, 2012, we had \$184.5 million of unused capacity under the Credit Facility. In May 2012, we expanded the Credit Facility from \$235.0 million to \$277.5 million. The \$42.5 million increase in total commitments included commitment increases by three lenders currently participating in the Credit Facility. The amended Credit Facility contained an upsized accordion feature that allows for a further increase in total commitments under the facility up to \$350.0 million of total commitments from new and existing lenders on the same terms and conditions as the existing commitments. In July 2012, we further expanded the Credit Facility from \$277.5 million to \$287.5 million. The expansion of the Credit Facility included the addition of one new lender relationship which further diversifies the Main Street lending group to a total of nine participants. Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) the applicable LIBOR average 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. Subsequent to September 30, 2012, Main Street amended the Credit Facility to, among other things, extend its maturity and increase the accordion feature. See further discussion of this amendment to the Credit Facility below in Management's Discussion and Analysis - Recent Developments. At September 30, 2012, we had \$103.0 million in borrowings outstanding under the Credit Facility, bearing interest at an interest rate of 2.7%. As of September 30, 2012, we were in compliance with all financial covenants of the Credit Facility.

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 with no prepayment penalty. On September 30, 2012, we, through the Funds, had \$209 million of outstanding indebtedness guaranteed by the SBA, which carried a weighted average annual fixed interest rate of approximately 5.0%. The first maturity related to the SBIC debentures does not occur until 2014, and the remaining weighted average duration is approximately 6.3 years as of September 30, 2012. During the third quarter ended September 30, 2012, we voluntarily prepaid \$16 million of SBIC debentures and issued \$5 million of new SBIC debentures. We also maintain a commitment from the U.S. Small Business Administration that will allow us to borrow up to \$16 million of new SBIC debentures to reach the \$225 million SBIC leverage cap for affiliated investment 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.

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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 Middle Market 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 Middle Market 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 2012 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 the period ending on the earlier of (i) June 14, 2013, the one year anniversary of our 2012 annual meeting of stockholders, or (ii) the date of our 2013 annual

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meeting of stockholders. 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 an exemptive order from the SEC to exclude SBA-guaranteed debt securities issued by MSMF and any other wholly owned subsidiaries of ours which operate as SBICs from the asset coverage requirements of the 1940 Act as applicable to Main Street, which, in turn, enables us to fund more investments with debt capital.

Although we have been able to secure access to additional liquidity, including recent public stock offerings, our expanded \$287.5 million Credit Facility and the increase in available leverage through the SBIC program, 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 did not have a significant impact on Main Street's financial condition and results of operations.

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

***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 September 30, 2012, we had a total of \$44.3 million in outstanding commitments comprised of (i) five commitments to fund revolving loans that had not been fully drawn and (ii) two capital commitments that had not been fully called.

**Contractual Obligations**

As of September 30, 2012, the future fixed commitments for cash payments in connection with our SBIC debentures for each of the next five years and thereafter are as follows:

	Total	2013	2014	2015	2016	2017	2018 and thereafter
	(dollars in thousands)						
SBIC debentures	\$ 209,000	\$	\$ 6,000	\$ 23,100	\$ 5,000	\$ 34,800	\$ 140,100
Interest due on SBIC debentures	61,901	10,381	10,388	9,607	8,735	7,848	14,942
Total	\$ 270,901	\$ 10,381	\$ 16,388	\$ 32,707	\$ 13,735	\$ 42,648	\$ 155,042

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As of September 30, 2012, we had \$103.0 million in borrowings outstanding under our Credit Facility. The Credit Facility was scheduled to mature in September 2014. The Credit Facility contained two, one year extension options which could extend the maturity to September 2016. Subsequent to September 30, 2012, Main Street amended the Credit Facility to, among other things, extend its maturity and increase the accordion feature. See further discussion of this amendment below in Management's Discussion and Analysis - Recent Developments.

Pursuant to the support services agreement with MSCC, the Investment Manager is reimbursed each quarter by MSCC for its cash operating expenses, less fees that the Investment Manager receives from MSC II and third parties, associated with providing investment management and other services to MSCC, certain of its subsidiaries and third parties. For the three months ended September 30, 2012 and 2011, the expenses reimbursed by MSCC to the Investment Manager and management fees paid by MSC II were \$2.2 million and \$2.0 million, respectively. For the nine months ended September 30, 2012 and 2011, the expenses reimbursed by MSCC to the Investment Manager and management fees paid by MSC II were \$7.6 million and \$6.3 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 September 30, 2012, the Investment Manager had a receivable of \$3.3 million due from MSCC related to operating expenses incurred by the Investment Manager required to support Main Street's business.

### ***Recent Developments***

During October 2012, we sold the majority of our LMM equity investment in Laurus Healthcare, LP (Laurus) to a leading private equity investment firm which has made numerous growth investments within the healthcare sector. We realized a gain of approximately \$9.9 million on the sale. Laurus is a leader in developing and managing outpatient healthcare facilities, in partnership with physicians and hospitals, which are focused on the identification and treatment of cardiovascular disease. Our cumulative secured debt investment in Laurus was fully refinanced during the second quarter of 2012. While we sold the majority of our equity interest in Laurus, we also retained a portion of our equity investment in Laurus through an equity ownership position in a new entity owned by the Laurus management team and the private equity investment firm.

During November 2012, we declared a special dividend of \$0.35 per share for January 2013 and regular monthly dividends of \$0.15 per share for each of January, February and March 2013. These regular monthly dividends equal a total of \$0.45 per share for the first quarter of 2013. The first quarter 2013 regular monthly dividends represent an 11.1% increase from the dividends declared for the first quarter of 2012. Including the special dividend and the regular monthly dividends declared for the first quarter of 2013, we will have paid \$8.83 per share in cumulative dividends since our October 2007 initial public offering.

During November 2012, we amended the Credit Facility to extend the final maturity to five years, through September 2017. The amended Credit Facility contains an upsized accordion feature which allows us to increase the total commitments under the facility up to \$400 million from new or existing lenders on the same terms and conditions as the existing commitments. The Credit Facility includes an initial revolving period through September 2015 followed by a two-year term out period with a final maturity in September 2017, and contains two, one-year

extension options which could extend both the revolving period and the final maturity by up to two years.

**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 either fixed interest rates or floating rates that are subject to contractual minimum interest rates for the term of the investment. As of September 30, 2012, approximately 54% of our debt investment portfolio (at cost) bore interest at floating rates with 99% of those floating-rate debt investments (at cost) subject to contractual minimum interest rates. As of September 30, 2012, none of our Marketable securities and idle funds investments bore interest at floating 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 September 30, 2012, we had not entered into any interest rate hedging arrangements. At September 30, 2012, based on our applicable levels of our Credit Facility and floating-rate debt investments, a 1% change in interest rates would not have a material effect on our level of interest expense or our level of interest income from debt investments.

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**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, Chief Executive Officer and 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, Chief Executive Officer and 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 September 30, 2012 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, 2011, that we filed with the SEC on March 9, 2012, and as updated in our Form N-2 filed on October 19, 2012.

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

During the three months ended September 30, 2012, we issued 63,370 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 September 30, 2012, under the dividend reinvestment plan was approximately \$1.8 million.

**Item 5. Other Information**



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On November 6, 2012, the Board of Directors of Main Street appointed Shannon D. Martin as Vice President, Chief Accounting Officer and Assistant Treasurer of the Company, succeeding Michael Galvan, who resigned from his position as Vice President and Chief Accounting Officer of Main Street to pursue other professional opportunities, effective immediately.

Mr. Martin, age 43, joined Main Street on September 1, 2012 as an Assistant Treasurer. From 2006 to 2012, Mr. Martin served as an independent consultant, including being the owner/President of Smartin Consulting LLC. In this role, Mr. Martin performed financial advisory services for several clients, including functioning as acting Chief Accounting Officer from 2008 to 2011 for EquaTerra, Inc. From 1999 to 2006, Mr. Martin was a director of accounting integration and audit with Quanta Services, Inc. (NYSE: PWR), which provides specialty contracting services to the power, natural gas and telecommunications industries, where he focused on the development of integrated accounting, business and information system processes and the company's acquisition and integration strategies. In addition, Mr. Martin also had a significant role in the development of the company's internal audit function and its mergers and acquisitions and corporate finance activities. Following his graduation from the University of Texas with a Masters in Professional Accounting, Mr. Martin, a C.P.A., had a seven year career with Arthur Andersen, where he was a manager in the Commercial Services group from 1992 to 1999 and specialized in working with companies involved in consolidating their respective industries.

There are no related party transactions between the Company and Mr. Martin. There were no arrangements or understandings between Mr. Martin and any other person pursuant to which he was appointed as an officer of the Company. Mr. Martin is not related to any director or executive officer of the Company by blood, marriage or adoption. Mr. Martin has not entered into an employment contract or agreement with the Company.

Mr. Galvan will remain an employee of the Company through November 30, 2012 to assist in the transition of his duties to Mr. Martin, and his separation from the Company is not the result of any disagreement with the Company's management or Board of Directors.

**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):

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1*	Supplement and Joinder Agreement dated July 17, 2012 (previously filed as Exhibit 10.1 to Main Street Capital Corporation's Current Report on Form 8-K filed on July 18, 2012 (File No. 1-33723)).
10.2*	Fifth Amendment to Amended and Restated Credit Agreement and First Amendment to Each of the Security Agreement and the Pledge Agreement dated November 1, 2012 (previously files as Exhibit 10.1 to Main Street Capital Corporation's Current Report on Form 8-K filed on November 2, 2012 (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).

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

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**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: November 8, 2012

/s/ Vincent D. Foster  
Vincent D. Foster  
Chairman, President and Chief Executive Officer (principal executive officer)

Date: November 8, 2012

/s/ Todd A. Reppert  
Todd A. Reppert  
Executive Vice Chairman

Date: November 8, 2012

/s/ Dwayne L. Hyzak  
Dwayne L. Hyzak  
Chief Financial Officer and Senior Managing Director (principal financial officer)

Date: November 8, 2012

/s/ Shannon D. Martin  
Shannon D. Martin  
Vice President and Chief Accounting Officer (principal accounting officer)

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