

Main Street Capital CORP  
Form 10-Q  
May 06, 2011  
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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 March 31, 2011

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 May 4, 2011 was 22,986,873.



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|   | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|---|-----------------------|--------------------------|
|   | <b>(Unaudited)</b>    |                          |
| <b>ASSETS</b>   |                       |                          |
| Portfolio investments at fair value:  |                       |                          |
| Control investments (cost: \$189,560,249 and \$161,009,443 as of March 31, 2011 and December 31, 2010, respectively)  | \$ 204,890,251        | \$ 174,596,394           |
| Affiliate investments (cost: \$68,681,860 and \$65,650,789 as of March 31, 2011 and December 31, 2010, respectively)  | 84,810,550            | 80,206,804               |
| Non-Control/Non-Affiliate investments (cost: \$99,475,430 and \$91,911,304 as of March 31, 2011 and December 31, 2010, respectively)  | 100,815,305           | 91,956,221               |
| Investment in affiliated Investment Manager (cost: \$4,284,042 as of March 31, 2011 and December 31, 2010)  | 2,010,349             | 2,051,655                |
| Total portfolio investments (cost: \$362,001,581 and \$322,855,578 as of March 31, 2011 and December 31, 2010, respectively)  | 392,526,455           | 348,811,074              |
| Marketable securities and idle funds investments (cost: \$97,854,377 and \$67,970,907 as of March 31, 2011 and December 31, 2010, respectively)   | 98,751,072            | 68,752,858               |
| Total investments (cost: \$459,855,958 and \$390,826,485 as of March 31, 2011 and December 31, 2010, respectively)  | 491,277,527           | 417,563,932              |
| Cash and cash equivalents   | 29,064,271            | 22,334,340               |
| Deferred tax asset  | 808,186               | 1,958,593                |
| Interest receivable and other assets  | 5,180,003             | 4,523,792                |
| Deferred financing costs (net of accumulated amortization of \$1,650,229 and \$1,504,584 as of March 31, 2011 and December 31, 2010, respectively)  | 3,485,980             | 2,543,645                |
| Total assets  | \$ 529,815,967        | \$ 448,924,302           |
| <b>LIABILITIES</b>  |                       |                          |
| SBIC debentures (par: \$210,000,000 and \$180,000,000 as of March 31, 2011 and December 31, 2010, respectively; of which \$70,519,343 and \$70,557,975 are recorded at fair value as of March 31, 2011 and December 31, 2010, respectively) | \$ 185,519,343        | \$ 155,557,975           |
| Credit facility   | 15,000,000            | 39,000,000               |
| Interest payable  | 862,547               | 3,194,870                |
| Dividend payable  | 2,183,176             |                          |
| Payable to affiliated Investment Manager  | 1,168,697             | 15,124                   |
| Accounts payable and other liabilities  | 1,731,819             | 1,173,295                |

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|   |                |                |
|---|----------------|----------------|
| Total liabilities   | 206,465,582    | 198,941,264    |
| Commitments and contingencies   |                |                |
| <b>NET ASSETS</b>   |                |                |
| Common stock, \$0.01 par value per share (150,000,000 shares authorized; 22,947,566 and 18,797,444 issued and outstanding as of March 31, 2011 and December 31, 2010, respectively) | 229,476        | 187,975        |
| Additional paid-in capital  | 297,646,519    | 224,485,165    |
| Accumulated net investment income   | 6,605,872      | 9,261,405      |
| Accumulated net realized loss from investments  | (20,541,897)   | (20,541,897)   |
| Net unrealized appreciation, net of income taxes  | 35,072,245     | 32,141,997     |
| Total Net Asset Value   | 319,012,215    | 245,534,645    |
| Noncontrolling interest   | 4,338,170      | 4,448,393      |
| Total net assets including noncontrolling interests   | 323,350,385    | 249,983,038    |
| Total liabilities and net assets  | \$ 529,815,967 | \$ 448,924,302 |
| <b>NET ASSET VALUE PER SHARE</b>  | \$ 13.90       | \$ 13.06       |

The accompanying notes are an integral part of these financial statements

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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Operations

(Unaudited)

|  | Three Months Ended March 31, |                     |
|--|------------------------------|---------------------|
|  | 2011                         | 2010                |
| <b>INVESTMENT INCOME:</b>  |                              |                     |
| Interest, fee and dividend income:   |                              |                     |
| Control investments  | \$ 5,649,762                 | \$ 3,595,308        |
| Affiliate investments  | 2,146,419                    | 1,808,613           |
| Non-Control/Non-Affiliate investments  | 3,331,109                    | 863,396             |
| Total interest, fee and dividend income  | 11,127,290                   | 6,267,317           |
| Interest from marketable securities, idle funds and other  | 2,247,282                    | 825,522             |
| Total investment income  | 13,374,572                   | 7,092,839           |
| <b>EXPENSES:</b>   |                              |                     |
| Interest   | (2,902,205)                  | (1,993,237)         |
| General and administrative   | (507,182)                    | (425,704)           |
| Expenses reimbursed to affiliated Investment Manager   | (2,129,806)                  | (1,152,187)         |
| Share-based compensation   | (442,897)                    | (301,458)           |
| Total expenses   | (5,982,090)                  | (3,872,586)         |
| <b>NET INVESTMENT INCOME</b>   | <b>7,392,482</b>             | <b>3,220,253</b>    |
| <b>NET REALIZED GAIN (LOSS) FROM INVESTMENTS:</b>  |                              |                     |
| Control investments  |                              | (4,020,918)         |
| Marketable securities and idle funds investments   |                              | (39,539)            |
| Total net realized gain (loss) from investments  |                              | (4,060,457)         |
| <b>NET REALIZED INCOME (LOSS)</b>  | <b>7,392,482</b>             | <b>(840,204)</b>    |
| <b>NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):</b>   |                              |                     |
| Portfolio investments  | 4,018,584                    | 5,114,659           |
| Marketable securities and idle funds investments   | 114,743                      | 253,304             |
| SBIC debentures  | 38,632                       | 281,193             |
| Investment in affiliated Investment Manager  | (41,306)                     | (145,079)           |
| Total net change in unrealized appreciation  | 4,130,653                    | 5,504,077           |
| Income tax provision   | (1,200,405)                  | (384,574)           |
| Bargain purchase gain  |                              | 4,890,582           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>  | <b>10,322,730</b>            | <b>9,169,881</b>    |
| Noncontrolling interest  |                              | (113,336)           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK</b>                               | <b>\$ 10,322,730</b>         | <b>\$ 9,056,545</b> |
| <b>NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED</b>   | <b>\$ 0.38</b>               | <b>\$ 0.22</b>      |
| <b>NET REALIZED INCOME (LOSS) PER SHARE - BASIC AND DILUTED</b>  | <b>\$ 0.38</b>               | <b>\$ (0.06)</b>    |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK PER SHARE - BASIC AND DILUTED</b> | <b>\$ 0.54</b>               | <b>\$ 0.63</b>      |
| <b>DIVIDENDS PAID PER SHARE</b>  | <b>\$ 0.38</b>               | <b>\$ 0.38</b>      |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED</b>   | <b>19,217,690</b>            | <b>14,356,785</b>   |

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The accompanying notes are an integral part of these financial statements



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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Changes in Net Assets

(Unaudited)

|  | Common Stock<br>Number<br>of Shares | Par<br>Value | Additional<br>Paid-In<br>Capital | Accumulated<br>Net Investment<br>Income | Accumulated<br>Net Realized<br>Loss<br>From Investments | Net Unrealized<br>Appreciation from<br>Investments,<br>Net of Income<br>Taxes | Total Net<br>Asset Value | Noncontrolling<br>Interest | Noncontrolling<br>Interest | Total Net<br>Assets<br>Including<br>Interest |
|--|-------------------------------------|--------------|----------------------------------|---|---|---|--------------------------|----------------------------|----------------------------|--|
| <b>Balances at<br/>December 31, 2009</b>   | 10,842,447                          | \$ 108,425   | \$ 123,534,156                   | \$ 7,269,866                            | \$ (15,922,020)   | \$ 14,669,704   | \$ 129,660,131           | \$                         | \$                         | \$ 129,660,131                               |
| MSC II exchange<br>offer and related<br>transactions   | 1,239,695                           | 12,397       | 19,921,899                       | 4,890,582                               |   |   | 24,824,878               | 3,396,005                  |                            | 28,220,883                                   |
| Public offering of<br>common stock, net<br>of offering costs                                       | 2,875,000                           | 28,750       | 40,127,248                       |   |   |   | 40,155,998               |                            |                            | 40,155,998                                   |
| Share-based<br>compensation  |                                     |              | 301,458                          |   |   |   | 301,458                  |                            |                            | 301,458                                      |
| Dividend<br>reinvestment   | 125,600                             | 1,255        | 1,848,073                        |   |   |   | 1,849,328                |                            |                            | 1,849,328                                    |
| Adjustment to<br>investment in<br>Investment<br>Manager related to<br>the MSC II<br>Exchange Offer |                                     |              | (13,715,958)                     |   |   |   | (13,715,958)             |                            |                            | (13,715,958)                                 |
| Dividends to<br>stockholders   |                                     |              |                                  | (6,993,777)                             |   |   | (6,993,777)              |                            |                            | (6,993,777)                                  |
| Net increase<br>resulting from<br>operations   |                                     |              |                                  | 3,220,253                               | (4,060,457)   | 5,119,503   | 4,279,299                |                            |                            | 4,279,299                                    |
| Noncontrolling<br>interest   |                                     |              |                                  |   |   | (113,336)   | (113,336)                | 113,336                    |                            |  |
| <b>Balances at<br/>March 31, 2010</b>  | 15,082,742                          | \$ 150,827   | \$ 172,016,876                   | \$ 8,386,924                            | \$ (19,982,477)   | \$ 19,675,871   | \$ 180,248,021           | \$ 3,509,341               | \$                         | \$ 183,757,362                               |
| <b>Balances at<br/>December 31, 2010</b>   | 18,797,444                          | \$ 187,975   | \$ 224,485,165                   | \$ 9,261,405                            | \$ (20,541,897)   | \$ 32,141,997   | \$ 245,534,645           | \$ 4,448,393               | \$                         | \$ 249,983,038                               |
| Public offering of<br>common stock, net<br>of offering costs                                       | 4,025,000                           | 40,250       | 70,309,656                       |   |   |   | 70,349,906               |                            |                            | 70,349,906                                   |
| Share-based<br>compensation  |                                     |              | 442,897                          |   |   |   | 442,897                  |                            |                            | 442,897                                      |
| Dividend<br>reinvestment   | 125,122                             | 1,251        | 2,408,801                        |   |   |   | 2,410,052                |                            |                            | 2,410,052                                    |
| Distributions to<br>noncontrolling<br>interest   |                                     |              |                                  |   |   |   |                          | (110,223)                  |                            | (110,223)                                    |
| Dividends to<br>stockholders   |                                     |              |                                  | (10,048,015)                            |   |   | (10,048,015)             |                            |                            | (10,048,015)                                 |
| Net increase<br>resulting from<br>operations   |                                     |              |                                  | 7,392,482                               |   | 2,930,248   | 10,322,730               |                            |                            | 10,322,730                                   |

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|                       |            |    |         |    |             |    |           |    |              |    |            |    |             |    |           |    |             |
|-----------------------|------------|----|---------|----|-------------|----|-----------|----|--------------|----|------------|----|-------------|----|-----------|----|-------------|
| <b>Balances at</b>    |            |    |         |    |             |    |           |    |              |    |            |    |             |    |           |    |             |
| <b>March 31, 2011</b> | 22,947,566 | \$ | 229,476 | \$ | 297,646,519 | \$ | 6,605,872 | \$ | (20,541,897) | \$ | 35,072,245 | \$ | 319,012,215 | \$ | 4,338,170 | \$ | 323,350,385 |

The accompanying notes are an integral part of these financial statements

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## MAIN STREET CAPITAL CORPORATION

## Consolidated Statements of Cash Flows

(Unaudited)

|   | Three Months Ended March 31, |                      |
|---|------------------------------|----------------------|
|   | 2011                         | 2010                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                              |                      |
| Net increase in net assets resulting from operations  | \$ 10,322,730                | \$ 9,169,881         |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: |                              |                      |
| Net change in unrealized appreciation   | (4,130,653)                  | (5,504,077)          |
| Net realized loss from investments  |                              | 4,060,457            |
| Bargain purchase gain   |                              | (4,890,582)          |
| Accretion of unearned income  | (1,556,366)                  | (596,182)            |
| Net payment-in-kind interest accrual  | (946,888)                    | (201,775)            |
| Share-based compensation expense  | 442,897                      | 301,458              |
| Amortization of deferred financing costs  | 145,645                      | 97,688               |
| Deferred taxes  | 1,150,407                    | 301,992              |
| Changes in other assets and liabilities:  |                              |                      |
| Interest receivable and other assets  | (1,206,211)                  | (835,521)            |
| Interest payable  | (2,332,323)                  | (1,776,121)          |
| Payable to affiliated Investment Manager  | 1,153,573                    | 12,060               |
| Accounts payable and other liabilities  | 558,524                      | (38,199)             |
| Deferred fees and other   | 524,000                      | 73,140               |
| Net cash provided by operating activities   | 4,125,335                    | 174,219              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                              |                      |
| Investments in portfolio companies  | (43,949,652)                 | (18,528,902)         |
| Cash acquired in MSC II exchange offer  |                              | 2,489,920            |
| Investments in marketable securities and idle funds investments   | (39,349,266)                 | (25,939,696)         |
| Proceeds from marketable securities and idle funds investments  | 10,103,821                   | 3,596,689            |
| Principal payments received on loans and debt securities  | 6,102,777                    | 1,266,386            |
| Net cash used in investing activities   | (67,092,320)                 | (37,115,603)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                              |                      |
| Proceeds from public offering of common stock, net of offering costs  | 70,349,906                   | 40,155,998           |
| Distributions to noncontrolling interest  | (110,223)                    |                      |
| Dividends paid to stockholders  | (4,654,787)                  | (3,259,120)          |
| Net change in DRIP deposit  | (800,000)                    |                      |
| Proceeds from issuance of SBIC debentures   | 30,000,000                   |                      |
| Proceeds from credit facility   | 41,000,000                   | 18,150,000           |
| Repayments on credit facility   | (65,000,000)                 | (16,050,000)         |
| Payment of deferred loan costs and SBIC debenture fees  | (1,087,980)                  | (10,310)             |
| Net cash provided by financing activities   | 69,696,916                   | 38,986,568           |
| Net increase in cash and cash equivalents   | 6,729,931                    | 2,045,184            |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>   | <b>22,334,340</b>            | <b>30,619,998</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>\$ 29,064,271</b>         | <b>\$ 32,665,182</b> |

The accompanying notes are an integral part of these financial statements



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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)  | Industry  | Principal (6) | Cost (6)  | Fair Value |
|---|---|---------------|-----------|------------|
| <b><u>Control Investments (3)</u></b>   |   |               |           |            |
| <b>Café Brazil, LLC</b>   | Casual Restaurant Group                             |               |           |            |
| 12% Secured Debt (Maturity - April 20, 2013)  |   | 1,900,000     | 1,897,680 | 1,900,000  |
| Member Units (7) (Fully diluted 41.0%)  |   |               | 41,837    | 2,470,000  |
|   |   |               | 1,939,517 | 4,370,000  |
| <b>California Healthcare Medical Billing, Inc.</b>                                    | Healthcare Billing and Records Management           |               |           |            |
| 12% Secured Debt (Maturity - October 17, 2015)  |   | 7,303,000     | 6,908,889 | 7,222,715  |
| Warrants (Fully diluted 20.4%)  |   |               | 1,193,333 | 3,380,333  |
| Common Stock (Fully diluted 9.7%)   |   |               | 1,176,667 | 1,390,000  |
|   |   |               | 9,278,889 | 11,993,048 |
| <b>CBT Nuggets, LLC</b>   | Produces and Sells IT Certification Training Videos |               |           |            |
| 10% Secured Debt (Maturity - March 31, 2012)  |   | 375,000       | 375,000   | 375,000    |
| 14% Secured Debt (Maturity - December 31, 2013)                                       |   | 2,800,000     | 2,794,927 | 2,794,927  |
| Member Units (7) (Fully diluted 40.8%)  |   |               | 1,299,520 | 3,870,000  |
|   |   |               | 4,469,447 | 7,039,927  |
| <b>Ceres Management, LLC (Lambs)</b>  | Aftermarket Automotive Services Chain               |               |           |            |
| 14% Secured Debt (Maturity - May 31, 2013)  |   | 4,000,000     | 3,967,689 | 3,967,689  |
| 9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity - August 31, 2014) |   | 1,225,000     | 1,225,000 | 1,225,000  |
| Class B Member Units (7) (15% cumulative) (Non-voting)                                |   |               | 2,173,204 | 2,173,204  |
| Member Units (Fully diluted 70%)  |   |               | 1,813,333 | 860,000    |
| Member Units (7) (Lamb's Real Estate Investment I, LLC) (Fully diluted 100%)          |   |               | 625,000   | 625,000    |
|   |   |               | 9,804,226 | 8,850,893  |
| <b>Condit Exhibits, LLC</b>   | Tradeshaw Exhibits / Custom Displays                |               |           |            |
| 9% Current / 9% PIK Secured Debt (Maturity - July 1, 2013)                            |   | 4,660,948     | 4,622,987 | 4,622,987  |
| Warrants (Fully diluted 47.9%)  |   |               | 320,000   | 100,000    |
|   |   |               | 4,942,987 | 4,722,987  |
| <b>Currie Acquisitions, LLC</b>   | Consumer Products                                   |               |           |            |
| 12% Secured Debt (Maturity - March 1, 2015)   |   | 4,750,000     | 4,004,722 | 4,004,722  |
| Warrants (Fully diluted 47.3%)  |   |               | 2,566,204 | 2,050,204  |
|   |   |               | 6,570,926 | 6,054,926  |
| <b>Gulf Manufacturing, LLC</b>  | Industrial Metal Fabrication                        |               |           |            |
| 8% Secured Debt (Maturity - August 31, 2014)  |   | 3,620,000     | 3,620,000 | 3,620,000  |
| 13% Secured Debt (Maturity - August 31, 2014)   |   | 1,680,000     | 1,619,597 | 1,641,017  |
| 9% PIK Secured Debt (Maturity - June 30, 2017)  |   | 1,420,784     | 1,420,784 | 1,420,784  |
| Member Units (7) (Fully diluted 34.2%)  |   |               | 2,979,813 | 6,890,000  |
|   |   |               | 9,640,194 | 13,571,801 |

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|   |           |                                      |            |  |
|---|-----------|--------------------------------------|------------|--|
| <b>Harrison Hydra-Gen, Ltd.</b>                                       |           | Manufacturer of Hydraulic Generators |            |  |
| 12% Secured Debt (Maturity - June 4, 2015)                            | 6,000,000 | 5,284,650                            | 5,284,650  |  |
| Preferred stock (7) (8% cumulative)                                   |           | 1,020,000                            | 1,020,000  |  |
| Warrants (Fully diluted 35.2%)  |           | 717,640                              | 717,640    |  |
|   |           | 7,022,290                            | 7,022,290  |  |
| <b>Hawthorne Customs &amp; Dispatch Services, LLC</b>                 |           | Transportation/ Logistics            |            |  |
| Member Units (7) (Fully diluted 59.1%)                                |           | 692,500                              | 1,250,000  |  |
| Member Units (Wallisville Real Estate, LLC) (7) (Fully diluted 59.1%) |           | 1,214,784                            | 1,214,784  |  |
|   |           | 1,907,284                            | 2,464,784  |  |
| <b>Hydratec, Inc.</b>   |           | Agricultural Services                |            |  |
| Common Stock (Fully diluted 92.5%)                                    |           | 7,088,911                            | 10,163,911 |  |
| <b>Indianapolis Aviation Partners, LLC</b>                            |           | FBO / Aviation Support Services      |            |  |
| 12% Secured Debt (Maturity - September 15, 2014)                      | 4,500,000 | 4,158,875                            | 4,350,000  |  |
| Warrants (Fully diluted 30.1%)  |           | 1,129,286                            | 1,270,286  |  |
|   |           | 5,288,161                            | 5,620,286  |  |

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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                                  | Industry                                   | Principal (6) | Cost (6)   | Fair Value |
|---|--|---------------|------------|------------|
| <b><u>Control Investments (3)</u></b>   |  |               |            |            |
| <b>Jensen Jewelers of Idaho, LLC</b>  | Retail Jewelry                             |               |            |            |
| Prime Plus 2% Secured Debt (Maturity - November 14, 2011)                     |  | 2,260,000     | 2,257,523  | 2,260,000  |
| 13% Current / 6% PIK Secured Debt (Maturity - November 14, 2011)              |  | 2,344,897     | 2,341,580  | 2,344,897  |
| Member Units (7) (Fully diluted 60.8%)  |  |               | 811,000    | 1,410,000  |
|   |  |               | 5,410,103  | 6,014,897  |
| <b>Mid-Columbia Lumber Products, LLC</b>                                      | Specialized Lumber Products                |               |            |            |
| 10% Secured Debt (Maturity - April 1, 2012)                                   |  | 1,250,000     | 1,250,000  | 1,250,000  |
| 12% Secured Debt (Maturity - December 18, 2011)                               |  | 3,900,000     | 3,855,995  | 3,900,000  |
| 9.5% Secured Debt (Mid - Columbia Real Estate, LLC) (Maturity - May 13, 2025) |  | 1,096,100     | 1,096,100  | 1,096,100  |
| Warrants (Fully diluted 25.5%)  |  |               | 250,000    | 670,000    |
| Member Units (Fully diluted 26.7%)  |  |               | 500,000    | 700,000    |
| Member Units (Mid - Columbia Real Estate, LLC) (Fully diluted 50.0%)          |  |               | 250,000    | 250,000    |
|   |  |               | 7,202,095  | 7,866,100  |
| <b>NAPCO Precast, LLC</b>   | Precast Concrete Manufacturing             |               |            |            |
| 18% Secured Debt (Maturity - February 1, 2013)                                |  | 5,923,077     | 5,866,633  | 5,923,077  |
| Prime Plus 2% Secured Debt (Maturity - February 1, 2013) (8)                  |  | 3,384,615     | 3,370,363  | 3,384,615  |
| Member Units (7) (Fully diluted 35.3%)  |  |               | 2,020,000  | 4,230,000  |
|   |  |               | 11,256,996 | 13,537,692 |
| <b>NTS Holdings, Inc.</b>   | Trench & Traffic Safety Equipment          |               |            |            |
| 12% Secured Debt (Maturity - April 30, 2015)                                  |  | 6,000,000     | 5,965,537  | 5,965,537  |
| Preferred stock (7) (12% cumulative)  |  |               | 10,936,831 | 10,936,831 |
| Common Stock (7) (Fully diluted 72.3%)  |  |               | 1,621,255  | 776,000    |
|   |  |               | 18,523,623 | 17,678,368 |
| <b>OMi Holdings, Inc.</b>   | Manufacturer of Overhead Cranes            |               |            |            |
| 12% Secured Debt (Maturity - April 1, 2013)                                   |  | 9,970,000     | 9,923,076  | 9,923,076  |
| Common Stock (Fully diluted 48.0%)  |  |               | 1,080,000  | 560,000    |
|   |  |               | 11,003,076 | 10,483,076 |
| <b>Pegasus Research Group, LLC (Televerde)</b>                                | Telemarketing and Data Services            |               |            |            |
| 13% Current / 3% PIK Secured Debt (Maturity - January 6, 2016)                |  | 6,294,271     | 6,210,552  | 6,210,552  |
| Member Units (7) (Fully diluted 43.7%)  |  |               | 1,250,000  | 1,250,000  |
|   |  |               | 7,460,552  | 7,460,552  |
| <b>PPL RVs, Inc.</b>  | Recreational Vehicle Parts and Consignment |               |            |            |
| 18% Secured Debt (Maturity - June 10, 2015)                                   |  | 6,250,000     | 6,168,168  | 6,168,168  |
| Member Units (Fully diluted 50.1%)  |  |               | 2,150,000  | 2,280,000  |

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|  |  |           |           |
|--|--|-----------|-----------|
|  |  | 8,318,168 | 8,448,168 |
| <b>Principle Environmental, LLC</b>                                | Noise Abatement Products/Services                                    |           |           |
| 12% Secured Debt (Maturity - February 1, 2016)                     |  | 5,500,000 | 4,228,966 |
| Warrants (Fully diluted 15%)                                       |  |           | 1,200,000 |
| Member Units (7) (Fully diluted 25%)                               |  |           | 2,000,000 |
|  |  | 7,428,966 | 7,428,966 |
| <b>River Aggregates, LLC</b>                                       | Construction Aggregates  |           |           |
| 12% Secured Debt (Maturity - March 30, 2016)                       |  | 3,500,000 | 3,307,500 |
| Warrants (Fully diluted 10%)                                       |  |           | 122,500   |
| Member Units (7) (Fully diluted 45%)                               |  |           | 550,000   |
|  |  | 3,980,000 | 3,980,000 |
| <b>The MPI Group, LLC</b>  | Manufacturer of Custom Hollow Metal<br>Doors, Frames and Accessories |           |           |
| 4.5% Current / 4.5% PIK Secured Debt (Maturity<br>October 2, 2013) |  | 513,250   | 507,320   |
| 6% Current / 6% PIK Secured Debt (Maturity<br>October 2, 2013)     |  | 5,176,667 | 5,023,558 |
| Warrants (Fully diluted 47.1%)                                     |  |           | 895,943   |
|  |  | 6,426,821 | 5,720,878 |



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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                      | Industry   | Principal (6) | Cost (6)    | Fair Value  |
|---|--|---------------|-------------|-------------|
| <b>Control Investments (3)</b>                                    |  |               |             |             |
| <b>Thermal &amp; Mechanical Equipment, LLC</b>                    | Heat Exchange / Filtration Products and Services |               |             |             |
| Prime Plus 2% Secured Debt (Maturity - September 25, 2014) (8)    |  | 1,415,540     | 1,407,261   | 1,407,261   |
| 13% Current / 5% PIK Secured Debt (Maturity - September 25, 2014) |  | 4,509,680     | 4,452,583   | 4,509,680   |
| Member Units (Fully diluted 50.0%)                                |  |               | 1,000,000   | 2,680,000   |
|   |  |               | 6,859,844   | 8,596,941   |
| <b>Uvalco Supply, LLC</b>   | Farm and Ranch Supply                            |               |             |             |
| Member Units (Fully diluted 42.8%) (7)                            |  |               | 1,113,243   | 1,940,000   |
| <b>Van Gilder Insurance Corporation</b>                           | Manufacturer/Installer of Commercial Signage     |               |             |             |
| 8% Secured Debt (Maturity - January 31, 2016)                     |  | 1,972,336     | 1,943,632   | 1,943,632   |
| 13% Secured Debt (Maturity - January 31, 2016)                    |  | 6,150,000     | 4,864,029   | 4,864,029   |
| Warrants (Fully diluted 10%)                                      |  |               | 1,208,643   | 1,208,643   |
| Common Stock (Fully diluted 15.51%)                               |  |               | 2,499,876   | 2,499,876   |
|   |  |               | 10,516,180  | 10,516,180  |
| <b>Vision Interests, Inc.</b>                                     | Manufacturer/Installer of Commercial Signage     |               |             |             |
| 6.5% Current /6.5% PIK Secured Debt (Maturity - June 5, 2012)     |  | 9,400,000     | 8,424,811   | 6,322,651   |
| 6.5% Current /6.5% PIK Secured Debt (Maturity - June 5, 2016)     |  | 760,000       | 740,587     | 740,587     |
| Warrants (Fully diluted 38.2%)                                    |  |               | 160,010     |             |
| Common Stock (Fully diluted 22.3%)                                |  |               | 372,000     |             |
|   |  |               | 9,697,408   | 7,063,238   |
| <b>Ziegler s NYPD, LLC</b>  | Casual Restaurant Group                          |               |             |             |
| Prime Plus 2% Secured Debt (Maturity - October 1, 2013) (8)       |  | 1,000,000     | 994,427     | 994,427     |
| 13% Current / 5% PIK Secured Debt (Maturity - October 1, 2013)    |  | 4,862,083     | 4,815,915   | 4,815,915   |
| Warrants (Fully diluted 46.6%)                                    |  |               | 600,000     | 470,000     |
|   |  |               | 6,410,342   | 6,280,342   |
| <b>Subtotal Control Investments</b>                               |  |               | 189,560,249 | 204,890,251 |

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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                    | Industry   | Principal (6) | Cost (6)  | Fair Value |
|---|--|---------------|-----------|------------|
| <b><u>Affiliate Investments (4)</u></b>                         |  |               |           |            |
| <b>American Sensor Technologies, Inc.</b>                       | Manufacturer of Commercial/Industrial Sensors              |               |           |            |
| 9% Secured Debt (Maturity - May 31, 2012)                       |  | 3,547,783     | 3,529,283 | 3,529,283  |
| Warrants (Fully diluted 19.6%)                                  |  |               | 49,990    | 2,080,000  |
|   |  |               | 3,579,273 | 5,609,283  |
| <b>Audio Messaging Solutions, LLC</b>                           | Audio Messaging Services                                   |               |           |            |
| 12% Secured Debt (Maturity - May 8, 2014)                       |  | 7,644,000     | 7,322,388 | 7,371,597  |
| Warrants (Fully diluted 8.4%)                                   |  |               | 468,373   | 1,280,000  |
|   |  |               | 7,790,761 | 8,651,597  |
| <b>Compact Power Equipment Centers LLC</b>                      | Light to Medium Duty Equipment Rental                      |               |           |            |
| 6% Current / 6% PIK Secured Debt (Maturity - December 30, 2014) |  | 2,727,564     | 2,700,572 | 2,700,572  |
| Series A Member Units (7) (8% cumulative) (Non-voting)          |  |               | 793,651   | 793,651    |
| Member Units (Fully diluted 11.5%)                              |  |               | 1,147     | 1,147      |
|   |  |               | 3,495,370 | 3,495,370  |
| <b>DrillingInfo, Inc.</b>                                       | Information Services for the Oil and Gas Industry          |               |           |            |
| 12% Secured Debt (Maturity - November 20, 2014)                 |  | 8,000,000     | 6,887,024 | 7,770,000  |
| Warrants (Fully diluted 5.0%)                                   |  |               | 1,250,000 | 4,510,000  |
| Common Stock (Fully diluted 2.1%)                               |  |               | 1,085,325 | 2,070,325  |
|   |  |               | 9,222,349 | 14,350,325 |
| <b>East Teak Fine Hardwoods, Inc.</b>                           | Hardwood Products  |               |           |            |
| Common Stock (Fully diluted 5.0%)                               |  |               | 480,318   | 330,000    |
| <b>Houston Plating &amp; Coatings, LLC</b>                      | Plating & Industrial Coating Services                      |               |           |            |
| Prime Plus 2% Debt (Maturity - July 18, 2013)                   |  | 300,000       | 300,000   | 300,000    |
| Member Units (7) (Fully diluted 11.1%)                          |  |               | 335,000   | 3,205,000  |
|   |  |               | 635,000   | 3,505,000  |
| <b>IRTH Holdings, LLC</b>                                       | Utility Technology Services                                |               |           |            |
| 12% Secured Debt (Maturity - December 29, 2015)                 |  | 6,000,000     | 5,895,114 | 5,895,114  |
| Member Units (Fully diluted 22.3%)                              |  |               | 850,000   | 850,000    |
|   |  |               | 6,745,114 | 6,745,114  |
| <b>KBK Industries, LLC</b>                                      | Specialty Manufacturer of Oilfield and Industrial Products |               |           |            |
| 14% Secured Debt (Maturity - January 23, 2014)                  |  | 5,250,000     | 5,250,000 | 5,250,000  |
| 10% Secured Debt (Maturity - March 31, 2012)                    |  | 389,940       | 389,940   | 389,940    |
| Member Units (7) (Fully diluted 18.8%)                          |  |               | 340,833   | 2,010,333  |
|   |  |               | 5,980,773 | 7,650,273  |
| <b>Laurus Healthcare, LP</b>                                    | Healthcare Facilities / Services                           |               |           |            |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| 10% Secured Debt (Maturity - December 31, 2011) | 750,000   | 750,000   | 750,000   |
| 13% Secured Debt (Maturity - December 31, 2011) | 350,000   | 350,000   | 350,000   |
| 13% Secured Debt (Maturity - May 7, 2012)       | 2,275,000 | 2,275,000 | 2,275,000 |
| Class A and C Units (7) (Fully diluted 13.1%)   |           | 79,505    | 5,070,000 |
|   |           | 3,454,505 | 8,445,000 |

### Lighting Unlimited, LLC

Commercial and Residential Lighting  
Products and Design Services

|  |           |           |           |
|--|-----------|-----------|-----------|
| Prime Plus 1% Secured Debt (Maturity - August 22, 2012)<br>(8) | 849,996   | 847,314   | 847,314   |
| 14% Secured Debt (Maturity - August 22, 2012)                  | 1,760,101 | 1,728,285 | 1,478,285 |
| Warrants (Fully diluted 17.0%)                                 |           | 54,000    |           |
|  |           | 2,629,599 | 2,325,599 |

### Merrick Systems, Inc.

Software and Information Technology

|   |           |           |           |
|---|-----------|-----------|-----------|
| 13% Secured Debt (Maturity - May 5, 2015) | 3,000,000 | 2,558,765 | 2,558,765 |
| Warrants (Fully diluted 6.5%)             |           | 450,000   | 650,000   |
|   |           | 3,008,765 | 3,208,765 |

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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                  | Industry                               | Principal (6) | Cost (6)   | Fair Value |
|---|--|---------------|------------|------------|
| <b><u>Affiliate Investments (4)</u></b>                       |  |               |            |            |
| <b>Olympus Building Services, Inc.</b>                        | Custodial/Facilities Services          |               |            |            |
| 12% Secured Debt (Maturity - March 27, 2014)                  |  | 3,150,000     | 2,938,384  | 3,050,000  |
| 12% Current / 3% PIK Secured Debt (Maturity - March 27, 2014) |  | 991,380       | 991,381    | 991,381    |
| Warrants (Fully diluted 22.5%)                                |  |               | 470,000    | 930,000    |
|   |  |               | 4,399,765  | 4,971,381  |
| <b>OPI International Ltd.</b>                                 |  |               |            |            |
|   | Oil and Gas Construction Services      |               |            |            |
| 12% Secured Debt (Maturity - November 30, 2015)               |  | 11,000,000    | 10,804,330 | 10,804,330 |
| 12% Secured Debt (Maturity - November 30, 2015)               |  | 750,000       | 252,288    | 252,288    |
| Common Stock (Fully diluted 8.0%)                             |  |               | 500,000    | 500,000    |
|   |  |               | 11,556,618 | 11,556,618 |
| <b>Schneider Sales Management, LLC</b>                        |  |               |            |            |
|   | Sales Consulting and Training          |               |            |            |
| 13% Secured Debt (Maturity - October 15, 2013)                |  | 3,367,542     | 3,289,127  | 500,000    |
| Warrants (Fully diluted 20.0%)                                |  |               | 45,000     |            |
|   |  |               | 3,334,127  | 500,000    |
| <b>Walden Smokey Point, Inc.</b>                              |  |               |            |            |
|   | Specialty Transportation               |               |            |            |
| Common Stock (Fully diluted 12.6%)                            |  |               | 1,426,667  | 2,820,000  |
| <b>WorldCall, Inc.</b>  |  |               |            |            |
|   | Telecommunication/Information Services |               |            |            |
| 13% Secured Debt (Maturity - April 22, 2011)                  |  | 646,225       | 646,225    | 646,225    |
| Common Stock (Fully diluted 10%)                              |  |               | 296,631    |            |
|   |  |               | 942,856    | 646,225    |
| <b>Subtotal Affiliate Investments</b>                         |  |               | 68,681,860 | 84,810,550 |

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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                     | Industry                                    | Principal (6) | Cost (6)  | Fair Value |
|--|---|---------------|-----------|------------|
| <b><u>Non-Control/Non-Affiliate Investments (5)</u></b>          |   |               |           |            |
| <b>Affinity Videonet, Inc.</b>                                   | Videoconferencing Services                  |               |           |            |
| 13% Secured Debt (Maturity - December 31, 2015)                  |   | 2,000,000     | 1,892,383 | 1,892,383  |
| 13% Current / 1% PIK Secured Debt (Maturity - December 31, 2015) |   | 1,700,000     | 1,695,809 | 1,695,809  |
| Warrants (Fully diluted 2.5%)                                    |   |               | 62,500    | 62,500     |
|  |   |               | 3,650,692 | 3,650,692  |
| <b>Alon Refining Krotz Springs, Inc. (9)</b>                     | Petroleum Products/Refining                 |               |           |            |
| 13.5% Secured Debt (Maturity - October 15, 2014)                 |   | 4,000,000     | 3,840,870 | 4,140,000  |
| <b>Arrowhead General Insurance Agency, Inc. (9)</b>              | Insurance                                   |               |           |            |
| LIBOR Plus 5.75% Secured Debt (Maturity - March 10, 2017) (8)    |   | 4,000,000     | 3,920,857 | 3,950,000  |
| LIBOR Plus 9.5% Secured Debt (Maturity - March 23, 2018) (8)     |   | 2,000,000     | 1,940,000 | 1,965,000  |
|  |   |               | 5,860,857 | 5,915,000  |
| <b>Bourland &amp; Leverich Supply Co., LLC (9)</b>               | Distributor of Oil & Gas Tubular Goods      |               |           |            |
| LIBOR Plus 9.0% Secured Debt (Maturity - August 24, 2015) (8)    |   | 4,387,501     | 4,191,191 | 4,563,001  |
| <b>Brand Connections, LLC</b>                                    | Venue-Based Marketing and Media             |               |           |            |
| 14% Secured Debt (Maturity - April 30, 2015)                     |   | 7,218,750     | 7,066,203 | 7,066,203  |
| <b>Chef s Warehouse (9)</b>                                      | Specialty Food Distributor                  |               |           |            |
| LIBOR Plus 9.0% Secured Debt (Maturity - April 24, 2014) (8)     |   | 7,999,167     | 7,787,535 | 8,279,137  |
| <b>Fairway Group Acquisition (9)</b>                             | Retail Grocery                              |               |           |            |
| LIBOR Plus 6.0% Secured Debt (Maturity - March 8, 2017) (8)      |   | 7,500,000     | 7,426,517 | 7,490,625  |
| <b>Global Tel*Link Corporation (9)</b>                           | Communications                              |               |           |            |
| LIBOR Plus 11.25% Secured Debt (Maturity - May 10, 2017) (8)     |   | 3,000,000     | 2,943,186 | 2,987,505  |
| <b>Hayden Acquisition, LLC</b>                                   | Manufacturer of Utility Structures          |               |           |            |
| 8% Secured Debt (Maturity - April 1, 2011)                       |   | 1,800,000     | 1,781,303 | 250,000    |
| <b>Hoffmaster Group, Inc. (9)</b>                                | Manufacturer of Specialty Tabletop Products |               |           |            |
| 13.5% Secured Debt (Maturity - June 3, 2017)                     |   | 5,000,000     | 4,884,129 | 5,062,500  |
| LIBOR Plus 5.0% Secured Debt (Maturity - June 13, 2016) (8)      |   | 1,500,000     | 1,446,636 | 1,483,521  |
|  |   |               | 6,330,765 | 6,546,021  |
| <b>Managed Health Care Associates, Inc. (9)</b>                  | Healthcare Products                         |               |           |            |

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|   |   |           |           |           |
|---|---|-----------|-----------|-----------|
| LIBOR Plus 3.25% Secured Debt (Maturity - August 31, 2014) (8)  |   | 1,987,606 | 1,573,204 | 1,931,287 |
| <b>Megapath Inc. (9)</b>  | Communications                          |           |           |           |
| LIBOR Plus 10% Secured Debt (Maturity - November 4, 2015) (8)   |   | 3,900,000 | 3,827,425 | 3,968,250 |
| <b>Miramax Film NY, LLC (9)</b>                                 | Motion Picture Producer and Distributor |           |           |           |
| LIBOR Plus 6% Secured Debt (Maturity - June 30, 2016) (8)       |   | 2,838,462 | 2,783,757 | 2,888,135 |
| LIBOR Plus 11% Secured Debt (Maturity - December 30, 2016) (8)  |   | 4,000,000 | 3,922,207 | 4,100,000 |
| Class B Units (Fully diluted 0.2%)                              |   |           | 500,000   | 500,000   |
|   |   |           | 7,205,964 | 7,488,135 |
| <b>Northland Cable Television, Inc. (9)</b>                     | Cable Broadcasting                      |           |           |           |
| LIBOR Plus 6.0% Secured Debt (Maturity - December 31, 2016) (8) |   | 5,000,000 | 4,857,230 | 4,900,000 |
| <b>Physician Oncology Services, LP (9)</b>                      | Healthcare Services                     |           |           |           |
| 7% Secured Debt (Maturity - January 30, 2017)                   |   | 895,714   | 885,852   | 893,475   |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                       | Industry  | Principal (6) | Cost (6)    | Fair Value  |
|--|---|---------------|-------------|-------------|
| <b><u>Non-Control/Non-Affiliate Investments (5)</u></b>            |   |               |             |             |
| <b>Pierre Foods, Inc. (9)</b>                                      | Foodservice Supplier                                |               |             |             |
| LIBOR Plus 5.25% Secured Debt (Maturity - September 30, 2016) (8)  |   | 4,975,000     | 4,882,606   | 5,005,323   |
| LIBOR Plus 9.5% Secured Debt (Maturity - September 29, 2017) (8)   |   | 2,000,000     | 1,933,737   | 2,052,500   |
|  |   |               | 6,816,343   | 7,057,823   |
| <b>Rentech Energy Midwest Corporation (9)</b>                      | Manufacturer of Fertilizer                          |               |             |             |
| LIBOR Plus 10% Secured Debt (Maturity - July 29, 2014) (8)         |   | 2,145,972     | 2,096,116   | 2,156,702   |
| <b>Shearer s Foods, Inc. (9)</b>                                   | Manufacturer of Food / Snacks                       |               |             |             |
| 12% Current / 3.5% PIK Secured Debt (Maturity - March 31, 2016)    |   | 4,144,244     | 4,052,985   | 4,206,408   |
| <b>Standard Steel, LLC (9)</b>                                     | Manufacturer of Steel Wheels and Axles              |               |             |             |
| 12.0% Secured Debt (Maturity - April 30, 2015)                     |   | 3,000,000     | 2,906,997   | 2,921,398   |
| <b>Support Systems Homes, Inc.</b>                                 | Manages Substance Abuse Treatment Centers           |               |             |             |
| 15% Secured Debt (Maturity - August 21, 2018)                      |   | 576,600       | 576,600     | 576,600     |
| <b>Technical Innovations, LLC</b>                                  | Manufacturer of Specialty Cutting Tools and Punches |               |             |             |
| 13.5% Secured Debt (Maturity - January 16, 2015)                   |   | 2,950,000     | 2,920,552   | 2,950,000   |
| <b>The Tennis Channel, Inc.</b>                                    | Sports Broadcasting/Media                           |               |             |             |
| LIBOR Plus 6% / 4% PIK Secured Debt (Maturity-January 1, 2013) (8) |   | 10,291,249    | 10,484,076  | 10,484,076  |
| Warrants (Fully diluted 0.11%)                                     |   |               | 235,467     | 235,467     |
|  |   |               | 10,719,543  | 10,719,543  |
| <b>Other Non-Control/Non-Affiliate Investments (10)</b>            |   |               | 157,500     | 157,500     |
| <b>Subtotal Non-Control/Non-Affiliate Investments</b>              |   |               | 99,475,430  | 100,815,305 |
| <b>Main Street Capital Partners, LLC (Investment Manager)</b>      | Asset Management                                    |               |             |             |
| 100% of Membership Interests                                       |   |               | 4,284,042   | 2,010,349   |
| <b>Total Portfolio Investments, March 31, 2011</b>                 |   |               | 362,001,581 | 392,526,455 |

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

**March 31, 2011**

**(Unaudited)**

| Portfolio Company/Type of Investment (1) (2)                     | Industry   | Principal (6) | Cost (6)  | Fair Value |
|--|--|---------------|-----------|------------|
| <b><u>Marketable Securities and Idle Funds Investments</u></b>   |  |               |           |            |
|  | Investments in Secured and Rated Debt Investments, Certificates of Deposit, and Diversified Bond Funds |               |           |            |
| <b>AL Gulf Coast Terminals, LLC</b>                              |  |               |           |            |
| LIBOR Plus 5.0% Secured Debt (Maturity - September 21, 2016) (8) |  | 6,740,858     | 6,567,206 | 6,707,154  |
| <b>Aspen Dental Management, Inc.</b>                             |  |               |           |            |
| LIBOR Plus 4.5% Secured Debt (Maturity - October 13, 2016) (8)   |  | 9,962,867     | 9,962,867 | 10,012,681 |
| <b>ATI Acquisition I Corp.</b>                                   |  |               |           |            |
| LIBOR Plus 5.5% Secured Debt (Maturity - September 14, 2016) (8) |  | 2,878,408     | 2,835,881 | 2,908,991  |
| <b>Centerplate, Inc.</b>   |  |               |           |            |
| LIBOR Plus 7.5% Secured Debt (Maturity - September 16, 2016) (8) |  | 2,985,000     | 2,902,277 | 3,008,328  |
| <b>CHG Companies, Inc.</b>                                       |  |               |           |            |
| LIBOR Plus 5.5% Secured Debt (Maturity - October 14, 2016) (8)   |  | 1,888,043     | 1,853,479 | 1,914,004  |
| <b>Excelitas Technologies Corp.</b>                              |  |               |           |            |
| LIBOR Plus 5.5% Secured Debt (Maturity - December 2, 2016) (8)   |  | 2,985,000     | 2,985,000 | 3,001,791  |
| <b>Flexera Software, Inc.</b>                                    |  |               |           |            |
| LIBOR Plus 5.75% Secured Debt (Maturity - January 20, 2017) (8)  |  | 4,443,750     | 4,359,048 | 4,482,633  |
| <b>Henniges Automotive Holdings, Inc.</b>                        |  |               |           |            |
| LIBOR Plus 10.0% Secured Debt (Maturity - December 7, 2016) (8)  |  | 2,958,333     | 2,902,108 | 2,958,333  |
| <b>MLM Holdings, Inc.</b>  |  |               |           |            |
| LIBOR Plus 5.25% Secured Debt (Maturity - December 1, 2016) (8)  |  | 6,982,500     | 6,883,193 | 6,999,956  |
| <b>MultiPlan, Inc.</b>   |  |               |           |            |
| LIBOR Plus 3.25% Secured Debt (Maturity - August 26, 2017) (8)   |  | 3,846,154     | 3,846,154 | 3,858,654  |
| <b>NAI Entertainment Holdings LLC</b>                            |  |               |           |            |
| 8.25% Bond (Maturity - December 15, 2017)                        |  | 1,500,000     | 1,500,000 | 1,605,000  |
| <b>Pretium Packaging Bond</b>                                    |  |               |           |            |
| 11.5% Bond (Maturity - April 1, 2016)                            |  | 1,500,000     | 1,500,000 | 1,515,000  |
| <b>Race Point Power, LLC</b>                                     |  |               |           |            |
| LIBOR Plus 6.0% Secured Debt (Maturity - February 1, 2018) (8)   |  | 5,000,000     | 4,903,895 | 5,012,500  |
| <b>Rite Aid Corporation</b>                                      |  |               |           |            |
| 7.5% Bond (Maturity - March 1, 2017)                             |  | 2,000,000     | 1,892,708 | 2,000,000  |
| <b>SonicWALL, Inc.</b>   |  |               |           |            |
| LIBOR Plus 6.25% Secured Debt (Maturity - August 1, 2016) (8)    |  | 1,613,710     | 1,616,317 | 1,627,830  |
| <b>United Refining Bond</b>                                      |  |               |           |            |
| 10.5% Bond (Maturity - February 28, 2017)                        |  | 3,000,000     | 3,000,000 | 2,981,400  |



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**Visant Corporation**

|   |           |           |           |
|---|-----------|-----------|-----------|
| LIBOR Plus 4.0% Secured Debt (Maturity - December 28, 2016) (8) | 4,987,500 | 4,987,500 | 4,984,333 |
|---|-----------|-----------|-----------|

**Vision Solutions, Inc.**

|   |           |           |           |
|---|-----------|-----------|-----------|
| LIBOR Plus 6.0% Secured Debt (Maturity - July 23, 2016) (8) | 1,858,966 | 1,563,411 | 1,596,956 |
|---|-----------|-----------|-----------|

**Wyle Services Corporation**

|  |           |           |           |
|--|-----------|-----------|-----------|
| LIBOR Plus 4.0% Secured Debt (Maturity - September 10, 2016) (8) | 3,979,984 | 3,955,554 | 4,006,112 |
|--|-----------|-----------|-----------|

**Yankee Cable Acquisition, LLC**

|   |           |           |           |
|---|-----------|-----------|-----------|
| LIBOR Plus 4.5% Secured Debt (Maturity - August 26, 2016) (8) | 3,980,000 | 3,925,422 | 3,974,110 |
|---|-----------|-----------|-----------|

**Other Marketable Securities and Idle Funds**

|                         |            |            |            |
|-------------------------|------------|------------|------------|
| <b>Investments (10)</b> | 24,555,000 | 23,912,357 | 23,595,306 |
|-------------------------|------------|------------|------------|

**Subtotal Marketable Securities and Idle Funds**

|                    |  |            |            |
|--------------------|--|------------|------------|
| <b>Investments</b> |  | 97,854,377 | 98,751,072 |
|--------------------|--|------------|------------|

|  |  |                |                |
|--|--|----------------|----------------|
| <b>Total Investments, March 31, 2011</b> |  | \$ 459,855,958 | \$ 491,277,527 |
|--|--|----------------|----------------|

- 
- (1) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
  - (2) See Note C for summary geographic location of portfolio companies.
  - (3) Controlled investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
  - (4) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned.
  - (5) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.
  - (6) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
  - (7) Income producing through dividends or distributions.
  - (8) Subject to contractual minimum interest rates.
  - (9) Private placement portfolio investment.
  - (10) Other Marketable Securities and Idle Funds Investments consist of investments in secured and rated debt investments and diversified bond funds. Other Non-Control/Non-Affiliate investments consist of equity investments in lower middle market companies.

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

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2)  | Industry  | Principal (6) | Cost (6)  | Fair Value |
|---|---|---------------|-----------|------------|
| <b><u>Control Investments (3)</u></b>   |   |               |           |            |
| <b>Café Brazil, LLC</b>   | Casual Restaurant Group                             |               |           |            |
| 12% Secured Debt (Maturity - April 20, 2013)  |   | 2,000,000     | 1,997,439 | 2,000,000  |
| Member Units (7) (Fully diluted 41.0%)  |   |               | 41,837    | 2,240,000  |
|   |   |               | 2,039,276 | 4,240,000  |
| <b>California Healthcare Medical Billing, Inc.</b>                                    | Healthcare Billing and Records Management           |               |           |            |
| 12% Secured Debt (Maturity - October 17, 2013)  |   | 7,303,000     | 6,937,251 | 6,985,748  |
| Warrants (Fully diluted 20.4%)  |   |               | 1,193,333 | 3,380,333  |
| Common Stock (Fully diluted 9.7%)   |   |               | 1,176,667 | 1,390,000  |
|   |   |               | 9,307,251 | 11,756,081 |
| <b>CBT Nuggets, LLC</b>   | Produces and Sells IT Certification Training Videos |               |           |            |
| 10% Secured Debt (Maturity - March 31, 2012)  |   | 775,000       | 775,000   | 775,000    |
| 14% Secured Debt (Maturity - December 31, 2013)                                       |   | 2,800,000     | 2,787,551 | 2,792,180  |
| Member Units (7) (Fully diluted 40.8%)  |   |               | 1,299,520 | 3,450,000  |
|   |   |               | 4,862,071 | 7,017,180  |
| <b>Ceres Management, LLC (Lambs)</b>  | Aftermarket Automotive Services Chain               |               |           |            |
| 14% Secured Debt (Maturity - May 31, 2013)  |   | 4,000,000     | 3,964,568 | 3,964,568  |
| 9.5% Secured Debt (Lamb s Real Estate Investment I, LLC) (Maturity - August 31, 2014) |   | 1,225,000     | 1,225,000 | 1,225,000  |
| Class B Member Units (15% cumulative compounding quarterly) (Non-voting)              |   |               | 1,508,611 | 1,508,611  |
| Member Units (Fully diluted 70%)  |   |               | 1,813,333 | 1,100,000  |
| Member Units (7) (Lamb s Real Estate Investment I, LLC) (Fully diluted 100%)          |   |               | 625,000   | 625,000    |
|   |   |               | 9,136,512 | 8,423,179  |
| <b>Condit Exhibits, LLC</b>   | Tradeshaw Exhibits/Custom Displays                  |               |           |            |
| 9% current / 9% PIK Secured Debt (Maturity - July 1, 2013)                            |   | 4,660,948     | 4,619,659 | 4,619,659  |
| Warrants (Fully diluted 47.9%)  |   |               | 320,000   | 50,000     |
|   |   |               | 4,939,659 | 4,669,659  |
| <b>Currie Acquisitions, LLC</b>   | Manufacturer of Electric Bicycles/Scooters          |               |           |            |
| 12% Secured Debt (Maturity - March 1, 2015)   |   | 4,750,000     | 3,971,699 | 3,971,699  |
| Warrants (Fully diluted 47.3%)  |   |               | 2,566,204 | 2,340,204  |
|   |   |               | 6,537,903 | 6,311,903  |
| <b>Gulf Manufacturing, LLC</b>  | Industrial Metal Fabrication                        |               |           |            |
| 8% Secured Debt (Maturity - August 31, 2014)  |   | 3,620,000     | 3,620,000 | 3,620,000  |
| 13% Secured Debt (Maturity - August 31, 2012)   |   | 1,680,000     | 1,649,959 | 1,675,165  |
| 9% PIK Secured Debt (Maturity - June 30, 2017)  |   | 1,420,784     | 1,420,784 | 1,420,784  |
| Member Units (7) (Fully diluted 34.2%)  |   |               | 2,979,813 | 5,870,000  |
|   |   |               | 9,670,556 | 12,585,949 |
| <b>Harrison Hydra-Gen, Ltd.</b>   | Manufacturer of Hydraulic Generators                |               |           |            |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| 12% Secured Debt (Maturity - June 4, 2015)                                      | 6,000,000 | 5,255,101 | 5,255,101 |
| Warrants (Fully diluted 35.2%)  |           | 717,640   | 717,640   |
| Mandatorily Redeemable Preferred Stock  |           | 1,000,000 | 1,000,000 |
|   |           | 6,972,741 | 6,972,741 |
| <b>Hawthorne Customs &amp; Dispatch Services, LLC</b> Transportation/ Logistics |           |           |           |
| Member Units (7) (Fully diluted 59.1%)  |           | 692,500   | 1,250,000 |
| Member Units (Wallisville Real Estate, LLC) (7) (Fully diluted 59.1%)           |           | 1,214,784 | 1,214,784 |
|   |           | 1,907,284 | 2,464,784 |
| <b>Hydratec, Inc.</b> Agricultural Services                                     |           |           |           |
| Common Stock (Fully diluted 92.5%) (7)  |           | 7,087,911 | 9,177,911 |
| <b>Indianapolis Aviation Partners, LLC</b> FBO / Aviation Support Services      |           |           |           |
| 12% Secured Debt (Maturity - September 15, 2014)                                | 4,500,000 | 4,140,255 | 4,350,000 |
| Warrants (Fully diluted 30.1%)  |           | 1,129,286 | 1,570,286 |
|   |           | 5,269,541 | 5,920,286 |

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

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2)                                  | Industry  | Principal (6) | Cost (6)   | Fair Value |
|---|---|---------------|------------|------------|
| <b>Control Investments (3)</b>  |   |               |            |            |
| <b>Jensen Jewelers of Idaho, LLC</b>  | Retail Jewelry  |               |            |            |
| Prime Plus 2% Secured Debt (Maturity - November 14, 2011)                     |   | 2,260,000     | 2,256,486  | 2,260,000  |
| 13% current / 6% PIK Secured Debt (Maturity - November 14, 2011)              |   | 2,344,897     | 2,340,040  | 2,344,896  |
| Member Units (7) (Fully diluted 60.8%)  |   |               | 811,000    | 1,060,000  |
|   |   |               | 5,407,526  | 5,664,896  |
| <b>Mid-Columbia Lumber Products, LLC</b>                                      | Specialized Lumber Products                                       |               |            |            |
| 10% Secured Debt (Maturity - April 1, 2012)                                   |   | 1,250,000     | 1,250,000  | 1,250,000  |
| 12% Secured Debt (Maturity - December 18, 2011)                               |   | 3,900,000     | 3,803,664  | 3,900,000  |
| 9.5% Secured Debt (Mid - Columbia Real Estate, LLC) (Maturity - May 13, 2025) |   | 1,107,400     | 1,107,400  | 1,107,400  |
| Warrants (Fully diluted 25.5%)  |   |               | 250,000    | 740,000    |
| Member Units (Fully diluted 26.7%)  |   |               | 500,000    | 770,000    |
| Member Units (Mid - Columbia Real Estate, LLC) (Fully diluted 50.0%)          |   |               | 250,000    | 250,000    |
|   |   |               | 7,161,064  | 8,017,400  |
| <b>NAPCO Precast, LLC</b>   | Precast Concrete Manufacturing                                    |               |            |            |
| 18% Secured Debt (Maturity - February 1, 2013)                                |   | 5,923,077     | 5,860,313  | 5,923,077  |
| Prime Plus 2% Secured Debt (Maturity - February 1, 2013) (8)                  |   | 3,384,615     | 3,368,600  | 3,384,615  |
| Member Units (7) (Fully diluted 35.3%)  |   |               | 2,020,000  | 4,340,000  |
|   |   |               | 11,248,913 | 13,647,692 |
| <b>NTS Holdings, Inc.</b>   | Trench & Traffic Safety Equipment                                 |               |            |            |
| 12% Secured Debt (Maturity - April 30, 2015)                                  |   | 6,000,000     | 5,963,931  | 5,963,931  |
| Preferred stock (12% cumulative, compounded quarterly)                        |   |               | 10,635,273 | 10,635,273 |
| Common Stock (Fully diluted 72.3%)  |   |               | 1,621,255  | 776,000    |
|   |   |               | 18,220,459 | 17,375,204 |
| <b>OMi Holdings, Inc.</b>   | Manufacturer of Overhead Cranes                                   |               |            |            |
| 12% Secured Debt (Maturity - April 1, 2013)                                   |   | 10,170,000    | 10,116,824 | 10,116,824 |
| Common Stock (Fully diluted 48.0%)  |   |               | 1,080,000  | 500,000    |
|   |   |               | 11,196,824 | 10,616,824 |
| <b>PPL RVs, Inc.</b>  | RV Aftermarket Consignment/Parts                                  |               |            |            |
| 18% Secured Debt (Maturity - June 10, 2015)                                   |   | 6,250,000     | 6,165,058  | 6,165,058  |
| Common Stock (Fully diluted 50.1%)  |   |               | 2,150,000  | 2,150,000  |
|   |   |               | 8,315,058  | 8,315,058  |
| <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)               |   | 507,625       | 501,176    | 501,176    |
| 6% current / 6% PIK Secured Debt (Maturity October 2, 2013)                   |   | 5,101,667     | 4,935,760  | 4,935,760  |
| Warrants (Fully diluted 47.1%)  |   |               | 895,943    | 190,000    |
|   |   |               | 6,332,879  | 5,626,936  |

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|   |  |           |           |
|---|--|-----------|-----------|
| <b>Thermal &amp; Mechanical Equipment, LLC</b>                    | Heat Exchange / Filtration Products and Services |           |           |
| Prime plus 2% Secured Debt (Maturity - September 25, 2014) (8)    | 1,750,000  | 1,739,152 | 1,739,152 |
| 13% current / 5% PIK Secured Debt (Maturity - September 25, 2014) | 5,575,220  | 5,501,111 | 5,575,220 |
| Warrants (Fully diluted 50.0%)                                    |  | 1,000,000 | 1,940,000 |
|   |  | 8,240,263 | 9,254,372 |
| <b>Uvalco Supply, LLC</b>   | Farm and Ranch Supply                            |           |           |
| Member Units (Fully diluted 42.8%) (7)                            |  | 1,113,243 | 1,560,000 |
| <b>Vision Interests, Inc.</b>                                     | Manufacturer/Installer of Commercial Signage     |           |           |
| 2.6% current /10.4% PIK Secured Debt (Maturity - June 5, 2012)    | 9,400,000  | 8,424,811 | 8,022,651 |
| 2.6% current /10.4% PIK Secured Debt (Maturity - June 5, 2016)    | 760,000  | 739,663   | 739,663   |
| Warrants (Fully diluted 38.2%)                                    |  | 160,010   |           |
| Common Stock (Fully diluted 22.3%)                                |  | 372,000   |           |
|   |  | 9,696,484 | 8,762,314 |

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

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2)                      | Industry                | Principal (6) | Cost (6)    | Fair Value  |
|---|-------------------------|---------------|-------------|-------------|
| <b><u>Control Investments (3)</u></b>                             |                         |               |             |             |
| <b>Ziegler s NYPD, LLC</b>  | Casual Restaurant Group |               |             |             |
| Prime plus 2% Secured Debt (Maturity - October 1, 2013)<br>(8)    |                         | 1,000,000     | 993,937     | 993,937     |
| 13% current / 5% PIK Secured Debt (Maturity -<br>October 1, 2013) |                         | 4,801,810     | 4,752,088   | 4,752,088   |
| Warrants (Fully diluted 46.6%)                                    |                         |               | 600,000     | 470,000     |
|   |                         |               | 6,346,025   | 6,216,025   |
| <b>Subtotal Control Investments</b>                               |                         |               | 161,009,443 | 174,596,394 |

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

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2)                     | Industry   | Principal (6) | Cost (6)  | Fair Value |
|--|--|---------------|-----------|------------|
| <b><u>Affiliate Investments (4)</u></b>                          |  |               |           |            |
| <b>American Sensor Technologies, Inc.</b>                        | Manufacturer of Commercial/ Industrial Sensors             |               |           |            |
| 9% current / 2% PIK Secured Debt (Maturity - May 31, 2012)       |  | 3,536,182     | 3,514,113 | 3,514,113  |
| Warrants (Fully diluted 19.6%)                                   |  |               | 49,990    | 1,830,000  |
|  |  |               | 3,564,103 | 5,344,113  |
| <b>Audio Messaging Solutions, LLC</b>                            | Audio Messaging Services                                   |               |           |            |
| 12% Secured Debt (Maturity - May 8, 2014)                        |  | 7,700,000     | 7,356,395 | 7,426,299  |
| Warrants (Fully diluted 8.4%)                                    |  |               | 468,373   | 1,280,000  |
|  |  |               | 7,824,768 | 8,706,299  |
| <b>Compact Power Equipment Centers, LLC</b>                      | Light to Medium Duty Equipment Rental                      |               |           |            |
| 6% Current / 6% PIK Secured Debt (Maturity - September 23, 2014) |  | 3,153,971     | 3,120,950 | 3,120,950  |
| Member Units (Fully diluted 11.5%)                               |  |               | 1,147     | 1,147      |
|  |  |               | 3,122,097 | 3,122,097  |
| <b>DrillingInfo, Inc.</b>  | Information Services for the Oil and Gas Industry          |               |           |            |
| 12% Secured Debt (Maturity - November 20, 2014)                  |  | 8,000,000     | 6,832,370 | 7,770,000  |
| Warrants (Fully diluted 5.0%)                                    |  |               | 1,250,000 | 4,010,000  |
| Common Stock (Fully diluted 2.1%)                                |  |               | 1,085,325 | 1,710,325  |
|  |  |               | 9,167,695 | 13,490,325 |
| <b>East Teak Fine Hardwoods, Inc.</b>                            | Hardwood Products  |               |           |            |
| Common Stock (Fully diluted 5.0%)                                |  |               | 480,318   | 330,000    |
| <b>Houston Plating &amp; Coatings, LLC</b>                       | Plating & Industrial Coating Services                      |               |           |            |
| Prime plus 2% Debt (Maturity - July 18, 2013)                    |  | 300,000       | 300,000   | 300,000    |
| Member Units (7) (Fully diluted 11.1%)                           |  |               | 335,000   | 3,025,000  |
|  |  |               | 635,000   | 3,325,000  |
| <b>IRTH Holdings, LLC</b>  | Utility Technology Services                                |               |           |            |
| 12% Secured Debt (Maturity - December 29, 2015)                  |  | 6,000,000     | 5,891,126 | 5,891,126  |
| Member Units (Fully diluted 22.3%)                               |  |               | 850,000   | 850,000    |
|  |  |               | 6,741,126 | 6,741,126  |
| <b>KBK Industries, LLC</b>                                       | Specialty Manufacturer of Oilfield and Industrial Products |               |           |            |
| 10% Secured Debt (Maturity - March 31, 2011)                     |  | 514,940       | 514,940   | 514,940    |
| 14% Secured Debt (Maturity - January 23, 2011)                   |  | 5,250,000     | 5,241,999 | 5,241,999  |
| Member Units (7) (Fully diluted 18.8%)                           |  |               | 340,833   | 1,790,333  |
|  |  |               | 6,097,772 | 7,547,272  |
| <b>Laurus Healthcare, LP</b>                                     | Healthcare Facilities / Services                           |               |           |            |
| 13% Secured Debt (Maturity - May 7, 2012)                        |  | 2,275,000     | 2,275,000 | 2,275,000  |
| 13% Secured Debt (Maturity - December 31, 2011)                  |  | 525,000       | 525,000   | 525,000    |
| Warrants (Fully diluted 13.1%)                                   |  |               | 79,505    | 4,620,000  |

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|  |   |           |           |
|--|---|-----------|-----------|
|  |   | 2,879,505 | 7,420,000 |
| <b>Lighting Unlimited, LLC</b>                                 | Commercial and Residential Lighting<br>Products and Design Services |           |           |
| Prime Plus 1% Secured Debt (Maturity - August 22, 2012)<br>(8) |   | 949,996   | 946,598   |
| 14% Secured Debt (Maturity - August 22, 2012)                  |   | 1,760,101 | 1,723,326 |
| Warrants (Fully diluted 17.0%)                                 |   |           | 54,000    |
|  |   | 2,723,924 | 2,669,924 |
| <b>Merrick Systems, Inc.</b>                                   | Software and Information Technology                                 |           |           |
| 13% Secured Debt (Maturity - May 5, 2015)                      |   | 3,000,000 | 2,540,849 |
| Warrants (Fully diluted 6.5%)                                  |   |           | 450,000   |
|  |   | 2,990,849 | 2,990,849 |



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

**December 31, 2010**

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

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

**December 31, 2010**

| Portfolio Company/Type of Investment (1) (2)                     | Industry                                    | Principal (6) | Cost (6)  | Fair Value |
|--|---|---------------|-----------|------------|
| <b><u>Non-Control/Non-Affiliate Investments (5)</u></b>          |   |               |           |            |
| <b>Affinity Videonet, Inc.</b>                                   | Videoconferencing Services                  |               |           |            |
| 9% Secured Debt (Maturity - December 31, 2012)                   |   | 500,000       | 490,000   | 490,000    |
| 13% Secured Debt (Maturity - December 31, 2015)                  |   | 2,000,000     | 1,897,500 | 1,897,500  |
| 13% current / 1% PIK Secured Debt (Maturity - December 31, 2015) |   | 2,000,000     | 1,995,652 | 1,995,652  |
| Warrants (Fully diluted 2.5%)                                    |   |               | 62,500    | 62,500     |
|  |   |               | 4,445,652 | 4,445,652  |
| <b>Alon Refining Krotz Springs, Inc. (9)</b>                     | Petroleum Products/Refining                 |               |           |            |
| 13.5% Secured Debt (Maturity - October 15, 2014)                 |   | 4,000,000     | 3,832,366 | 3,900,000  |
| <b>Bourland &amp; Leverich Supply Co., LLC (9)</b>               | Distributor of Oil & Gas Tubular Goods      |               |           |            |
| LIBOR Plus 8.0% Secured Debt (Maturity - August 24, 2015) (8)    |   | 4,443,750     | 4,236,574 | 4,554,847  |
| <b>Brand Connections, LLC</b>                                    | Venue-Based Marketing and Media             |               |           |            |
| 14% Secured Debt (Maturity - April 30, 2015)                     |   | 7,312,500     | 7,151,303 | 7,151,303  |
| <b>Chef s Warehouse (9)</b>                                      | Specialty Food Distributor                  |               |           |            |
| LIBOR Plus 9.0% Secured Debt (Maturity - April 24, 2014) (8)     |   | 8,137,083     | 7,907,586 | 8,219,225  |
| <b>Fairway Group Acquisition (9)</b>                             | Retail Grocery                              |               |           |            |
| LIBOR plus 9.5% Secured Debt (Maturity - October 1, 2014) (8)    |   | 4,950,008     | 4,827,316 | 4,968,818  |
| <b>Full Spectrum Holdings LLC (9)</b>                            | Professional Services                       |               |           |            |
| LIBOR Plus 13.0% Secured Debt (Maturity - December 12, 2012) (8) |   | 1,523,341     | 1,301,663 | 1,301,663  |
| Warrants (Fully diluted 0.28%)                                   |   |               | 412,523   | 412,523    |
|  |   |               | 1,714,186 | 1,714,186  |
| <b>Global Tel*Link Corporation (9)</b>                           | Communications Technology                   |               |           |            |
| LIBOR Plus 11.25% Secured Debt (Maturity - May 10, 2017) (8)     |   | 3,000,000     | 2,941,728 | 2,948,271  |
| <b>Hayden Acquisition, LLC</b>                                   | Manufacturer of Utility Structures          |               |           |            |
| 8% Secured Debt (Maturity - January 1, 2011)                     |   | 1,800,000     | 1,781,303 | 250,000    |
| <b>Hoffmaster Group, Inc. (9)</b>                                | Manufacturer of Specialty Tabletop Products |               |           |            |
| 13.5% Secured Debt (Maturity - June 3, 2017)                     |   | 5,000,000     | 4,881,278 | 4,787,500  |
| LIBOR Plus 5.0% Secured Debt (Maturity - June 13, 2016) (8)      |   | 1,509,615     | 1,453,860 | 1,490,745  |
|  |   |               | 6,335,138 | 6,278,245  |
| <b>Managed Healthcare (9)</b>                                    | Healthcare Products                         |               |           |            |
|  |   | 1,987,606     | 1,548,214 | 1,659,650  |

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LIBOR plus 3.25% Secured Debt (Maturity - August 31, 2014) (8)

|   |                           |           |           |           |
|---|---------------------------|-----------|-----------|-----------|
| <b>Megapath Inc. (9)</b>                                      | Communications Technology |           |           |           |
| LIBOR plus 10% Secured Debt (Maturity - November 4, 2015) (8) |                           | 4,000,000 | 3,922,670 | 4,040,770 |

|  |   |           |           |           |
|--|---|-----------|-----------|-----------|
| <b>Miramax Film NY, LLC (9)</b>                                | Motion Picture Producer and Distributor |           |           |           |
| LIBOR plus 6% Secured Debt (Maturity - June 30, 2016) (8)      |   | 3,000,000 | 2,940,000 | 2,940,000 |
| LIBOR plus 11% Secured Debt (Maturity - December 30, 2016) (8) |   | 4,000,000 | 3,920,000 | 3,920,000 |
| Class B Units (Fully diluted 0.2%)                             |   |           | 500,000   | 500,000   |
|  |   |           | 7,360,000 | 7,360,000 |

|   |                    |           |           |           |
|---|--------------------|-----------|-----------|-----------|
| <b>Northland Cable Television, Inc. (9)</b>                 | Cable Broadcasting |           |           |           |
| LIBOR Plus 8.0% Secured Debt (Maturity - June 22, 2013) (8) |                    | 5,000,000 | 4,851,285 | 4,988,785 |

|  |                      |           |           |           |
|--|----------------------|-----------|-----------|-----------|
| <b>Pierre Foods, Inc. (9)</b>                                    | Foodservice Supplier |           |           |           |
| Base plus 4.25% Secured Debt (Maturity - September 30, 2016) (8) |                      | 5,000,000 | 4,903,804 | 4,992,702 |
| Base plus 8.5% Secured Debt (Maturity - September 29, 2017) (8)  |                      | 2,000,000 | 1,932,106 | 1,992,181 |
|  |                      |           | 6,835,910 | 6,984,883 |

|  |                            |           |           |           |
|--|----------------------------|-----------|-----------|-----------|
| <b>Rentech Energy Midwest Corporation (9)</b>              | Manufacturer of Fertilizer |           |           |           |
| LIBOR plus 10% Secured Debt (Maturity - July 29, 2014) (8) |                            | 2,331,606 | 2,274,262 | 2,274,262 |

|   |                             |           |           |           |
|---|-----------------------------|-----------|-----------|-----------|
| <b>Shearer s Foods, Inc. (9)</b>                                  | Manufacturer of Food/Snacks |           |           |           |
| 12% Current / 3% PIK Secured Debt (Maturity - March 21, 2016) (8) |                             | 4,092,707 | 3,999,396 | 4,154,098 |

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

**December 31, 2010**

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

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2010

| Portfolio Company/Type of Investment (1) (2)                     | Industry   | Principal (6) | Cost (6)  | Fair Value |
|--|--|---------------|-----------|------------|
| <b>Marketable Securities and Idle Funds Investments</b>          | Investments in Secured and Rated Debt Investments, Certificates of Deposit, and Diversified Bond Funds |               |           |            |
| <b>AL Gulf Coast Terminals, LLC</b>                              |  |               |           |            |
| LIBOR plus 5.0% Secured Debt (Maturity - September 21, 2016) (8) |  | 6,919,997     | 6,735,294 | 6,746,997  |
| <b>Aspen Dental Management, Inc.</b>                             |  |               |           |            |
| LIBOR plus 5.0% Secured Debt (Maturity - October 13, 2016) (8)   |  | 4,987,500     | 4,691,670 | 4,806,974  |
| <b>ATI Acquisition I Corp.</b>                                   |  |               |           |            |
| LIBOR plus 5.5% Secured Debt (Maturity - September 14, 2016) (8) |  | 2,885,675     | 2,841,517 | 2,857,332  |
| <b>Booz Allen Hamilton Inc.</b>                                  |  |               |           |            |
| 13% Debt (Maturity - July 5, 2016) (8)                           |  | 1,716,044     | 1,781,625 | 1,765,380  |
| <b>Centerplate, Inc.</b>   |  |               |           |            |
| LIBOR plus 7.5% Secured Debt (Maturity - September 16, 2016) (8) |  | 3,000,000     | 2,914,206 | 2,988,750  |
| <b>CHG Companies, Inc.</b>                                       |  |               |           |            |
| LIBOR plus 5.5% Secured Debt (Maturity - October 14, 2016) (8)   |  | 1,975,000     | 1,937,558 | 1,996,754  |
| <b>Excelitas Technologies Corp.</b>                              |  |               |           |            |
| LIBOR plus 5.75% Secured Debt (Maturity - December 2, 2016) (8)  |  | 3,000,000     | 2,971,096 | 3,020,771  |
| <b>Gentiva Health Services, Inc.</b>                             |  |               |           |            |
| LIBOR plus 5.0% Secured Debt (Maturity - September 20, 2016) (8) |  | 2,981,250     | 2,975,289 | 3,014,789  |
| <b>Henniges Automotive Holdings, Inc.</b>                        |  |               |           |            |
| LIBOR plus 10.0% Secured Debt (Maturity - December 7, 2016) (8)  |  | 3,000,000     | 2,941,308 | 2,941,308  |
| <b>MLM Holdings, Inc.</b>  |  |               |           |            |
| LIBOR plus 5.25% Secured Debt (Maturity - December 1, 2016) (8)  |  | 6,982,500     | 6,879,686 | 6,897,406  |
| <b>MultiPlan, Inc.</b>   |  |               |           |            |
| LIBOR plus 4.75% Secured Debt (Maturity - August 26, 2017) (8)   |  | 3,876,923     | 3,863,709 | 3,913,269  |
| <b>Rite Aid Corporation</b>                                      |  |               |           |            |
| 7.5% Bond (Maturity - March 1, 2017)                             |  | 2,000,000     | 1,889,335 | 1,845,874  |
| <b>SonicWALL, Inc.</b>   |  |               |           |            |
| LIBOR plus 6.25% Secured Debt (Maturity - August 1, 2016) (8)    |  | 1,794,355     | 1,797,374 | 1,807,813  |
| <b>Terex Corporation</b>   |  |               |           |            |
| 7.4% Bond (Maturity - January 15, 2014)                          |  | 2,000,000     | 2,023,301 | 2,023,301  |
| <b>Visant Corporation</b>  |  |               |           |            |
| LIBOR plus 5.25% Secured Debt (Maturity - December 28, 2016) (8) |  | 4,987,500     | 4,891,963 | 5,057,003  |
| <b>Vision Solutions, Inc.</b>                                    |  |               |           |            |
| LIBOR plus 6.0% Secured Debt (Maturity - July 23, 2016) (8)      |  | 1,925,000     | 1,612,010 | 1,631,338  |
| <b>Western Refining Inc.</b>                                     |  |               |           |            |
|  |  | 1,708,883     | 1,672,628 | 1,736,654  |

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|  |           |                |                |
|--|-----------|----------------|----------------|
| LIBOR plus 7.5% Secured Debt (Maturity - August 1, 2014) (8)       |           |                |                |
| <b>Wyle Services Corporation</b>                                   |           |                |                |
| LIBOR plus 4.0% Secured Debt (Maturity - September 10, 2016) (8)   | 3,989,992 | 3,964,645      | 4,003,290      |
| <b>Yankee Cable Acquisition, LLC</b>                               |           |                |                |
| LIBOR plus 4.5% Secured Debt (Maturity - August 26, 2016) (8)      | 3,990,000 | 3,933,213      | 3,990,000      |
| <b>Other Marketable Securities and Idle Funds Investments (10)</b> |           |                |                |
|  | 5,529,450 | 5,653,480      | 5,707,855      |
| <b>Subtotal Marketable Securities and Idle Funds Investments</b>   |           |                |                |
|  |           | 67,970,907     | 68,752,858     |
| <b>Total Investments, December 31, 2010</b>                        |           |                |                |
|  |           | \$ 390,826,485 | \$ 417,563,932 |

- 
- (1) Debt investments are generally income producing. Equity and warrants are non-income producing, unless otherwise noted.
- (2) See Note C for summary geographic location of portfolio companies.
- (3) Controlled investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ) as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
- (4) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned.
- (5) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control Investments nor Affiliate Investments.
- (6) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
- (7) Income producing through dividends or distributions.
- (8) Subject to contractual minimum interest rates.
- (9) Private placement portfolio investment.
- (10) Other Marketable Securities and Idle Funds Investments consist of investments in secured and rated debt investments and diversified bond funds. Other Non-Control/Non-Affiliate investments consist of equity investments in lower middle market companies.

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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 net operating costs associated with employing investment and portfolio management professionals through the **Investment Manager**. The **IPO** and related transactions discussed above were consummated in October 2007 and are collectively termed the **Formation Transactions**.

On January 7, 2010, **MSCC** consummated transactions (the **Exchange Offer** ) to exchange 1,239,695 shares of its common stock for approximately 88% of the total dollar value of the limited partner interests in Main Street Capital II, LP ( **MSC II** ) and, together with **MSMF**, the **Funds** ). Pursuant to the terms of the **Exchange Offer**, 100% of the membership interests in the general partner of **MSC II**, Main Street Capital II GP, LLC ( **MSC II GP** ), were also transferred to **MSCC** for no consideration. **MSC II** commenced operations in January 2006, is an investment fund that operates as an **SBIC** and is also managed by the **Investment Manager**. The **Exchange Offer** and related transactions, including the transfer of the **MSC II GP** interests, are collectively termed the **Exchange Offer Transactions** (see Note I).

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

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

Unless otherwise noted or the context otherwise indicates, the terms we, us, our and Main Street refer to MSCC and its subsidiaries, including MSMF, MSC II, and the Taxable Subsidiaries.

**2. Basis of Presentation**

Main Street's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ). For the three months ended March 31, 2011 and 2010, Main Street's consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries, including the Funds. Portfolio investments, as used herein, refers to all of Main Street's investments in lower middle market ( LMM ) portfolio companies, private placement portfolio investments, and the investment in the Investment Manager and excludes all Marketable securities and idle funds investments. Private placement portfolio investments include investments made through direct or secondary purchases of interest-bearing securities in companies that are generally larger in size than the LMM companies included as part of Main Street's portfolio investments. The Investment Manager is accounted for as a portfolio investment (see Note D). Marketable securities and idle funds investments are classified as financial instruments and are reported separately on Main Street's Consolidated Balance Sheets and Consolidated Schedule of Investments due to the nature of such investments (see Note B.9). Main Street's results of operations and cash flows for the three months ended March 31, 2011 and 2010, and financial position as of March 31, 2011 and December 31, 2010, are presented on a consolidated basis. The effects of all intercompany transactions between Main Street and its consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current financial statement presentation.



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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 months ended March 31, 2011 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2010. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

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

***Portfolio Investment Classification***

Main Street classifies its portfolio investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, (a) Control Investments are defined as investments in which Main Street owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation, (b) Affiliate Investments are defined as investments in which Main Street owns between 5% and 25% of the voting securities, and (c) Non-Control/Non-Affiliate Investments are defined as investments that are neither Control investments nor Affiliate investments. The Investment in affiliated Investment Manager represents Main Street's investment in a wholly owned investment manager subsidiary that is accounted for as a portfolio investment.

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Valuation of Portfolio Investments**

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

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the fair value of its LMM portfolio debt investments principally using a yield-to-maturity model.

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

For valuation purposes, control investments are composed of equity and debt securities for which Main Street has a controlling interest in the portfolio company or has the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for Main Street's control investments. As a result, Main Street determines the fair value of control investments using a combination of market and income approaches. Under the market approach, Main Street will

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typically use the enterprise value methodology to determine the fair value of these investments. The enterprise value is the fair value at which an enterprise could be sold in a transaction between two willing parties, other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of earnings before interest, taxes, depreciation and amortization ( EBITDA ), cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for estimating enterprise value. For any one portfolio company, enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In estimating the enterprise value of a portfolio company, Main Street analyzes various factors, including the portfolio company's historical and projected financial results. Main Street allocates the enterprise value to investments in order of the legal priority of the investments. Main Street will also use the income approach to determine the fair value of these securities, based on projections of the discounted future free cash flows that the portfolio company or the debt security will likely generate. The valuation approaches for Main Street's control investments estimate the value of the investment if Main Street were to sell, or exit, the investment, assuming the highest and best use of the investment by market participants. In addition, these valuation approaches consider the value associated with Main Street's ability to control the capital structure of the portfolio company, as well as the timing of a potential exit.

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

Pursuant to its internal valuation process and the requirements under the 1940 Act, Main Street performs valuation procedures on each LMM portfolio company once a quarter. In addition to its internal valuation process, in arriving at estimates of fair value for portfolio companies, Main Street, among other things, consults with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to each LMM portfolio investment at least once in every calendar year, and for new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, Main Street may determine that it is not cost-effective, and as a result is not in its stockholders' best interest, to consult with the nationally recognized independent advisor on one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of Main Street's investment in an LMM portfolio company is determined to be insignificant relative to the total investment portfolio. Main Street consulted with its independent advisor in arriving at Main Street's determination of fair value on a total of 11 LMM portfolio companies for the three months ended March 31, 2011, representing approximately 22% of the total LMM portfolio and investment in the affiliated Investment Manager at fair value as of March 31, 2011.

Main Street's private placement portfolio investments primarily consist of direct or secondary purchases of interest-bearing securities in companies that are generally larger in size than the LMM companies included in Main Street's LMM portfolio. For valuation purposes, all of Main Street's private placement portfolio investments are non-control investments and are composed of debt securities for which Main Street does not have a controlling interest in the portfolio company, or the ability to nominate a majority of the portfolio company's board of directors. Main Street primarily uses observable inputs to determine the fair value of these investments through obtaining third party quotes or other independent pricing. As of March 31, 2011, Main Street had privately placed portfolio investments in 16 companies collectively totaling approximately \$75.6 million in fair value with a total cost basis of approximately \$72.8 million. The weighted average revenues for the 16 privately placed portfolio company investments was approximately \$463 million. All of Main Street's privately placed portfolio investments

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were in the form of debt investments and 65% of such debt investments at cost were secured by first priority liens on portfolio company assets as of March 31, 2011. The weighted average effective yield on Main Street's privately placed portfolio debt investments was approximately 11.3% as of March 31, 2011.

Due to the inherent uncertainty in the valuation process, Main Street's estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment,

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portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. Main Street estimates the fair value of each individual investment and records changes in fair value as unrealized appreciation or depreciation.

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

The Board of Directors of Main Street has the final responsibility for reviewing and approving, in good faith, Main Street's estimate of the fair value for its portfolio investments consistent with the 1940 Act requirements. Main Street believes its portfolio investments as of March 31, 2011 and December 31, 2010 approximate fair value as of those dates based on the market in which Main Street operates and other conditions in existence at those reporting periods.

**2. Interest and Dividend Income**

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

While not significant to its total portfolio, Main Street holds debt and preferred equity instruments in its investment portfolio that contain payment-in-kind (PIK) interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of dividends in arrears may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed below), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even though Main Street may not have collected the PIK interest and cumulative dividends in cash.

As of March 31, 2011, Main Street had three investments on non-accrual status, which comprised approximately 2.0% of the total portfolio investments at fair value and 4.1% of the total portfolio investments at cost (or 1.6% and 3.3%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager. As of December 31, 2010, Main Street had two investments on non-accrual status, which comprised approximately 2.6% of the total portfolio investments at fair value and 3.6% of the total portfolio investments at cost (or 2.2% and 3.0%, respectively with the inclusion of marketable securities and idle funds investments) in each case excluding the investment in the affiliated Investment Manager.

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

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

**4. Unearned Income Debt Origination Fees and Original Issue Discount**

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

In connection with its portfolio debt investments, Main Street sometimes receives nominal cost warrants ( nominal cost equity ) that are valued as part of the negotiation process with the particular portfolio company. When Main Street receives nominal cost equity, Main Street allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of

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origination. Any discount recorded on a debt investment resulting from this allocation is reflected as unearned income, which is netted against the debt investment, and accreted into interest income based on the effective interest method over the life of the debt.

**5. Share-Based Compensation**

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

**6. Income Taxes**

MSCC has elected and intends to continue to qualify for the tax treatment applicable to a RIC under the Code, and, among other things, intends to make the required distributions to its stockholders as specified therein. In order to qualify as a RIC, MSCC is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, each year. Depending on the level of taxable income earned in a tax year, MSCC may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.

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

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

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

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

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

**8. Concentration of Credit Risks**

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

**9. Fair Value of Financial Instruments**

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



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

**10. Earnings per Share**

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

As a result of the Exchange Offer Transactions, the net earnings attributable to the remaining externally owned noncontrolling interest in MSC II is excluded from all per share amounts presented, and the per share amounts only reflect the net earnings attributable to Main Street's ownership interest in MSC II.

**11. Recently Issued Accounting Standards**

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

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

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

**Fair Value Hierarchy**

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

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

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

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

- Quoted prices for similar assets in active markets (for example, investments in restricted stock);

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

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

As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such investments categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Main 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 March 31, 2011 and December 31, 2010, all of Main Street's private placement portfolio investments and marketable securities and idle funds investments consisted primarily of investments in debt investments, independently rated debt investments, certificates of deposit, and diversified bond funds. The fair value determination for these investments primarily consisted of observable inputs in non-active markets. As a result, all of Main Street's private placement portfolio investments and marketable securities and idle funds investments were categorized as Level 2 as of March 31, 2011 and December 31, 2010.

As of March 31, 2011 and December 31, 2010, all of Main Street's LMM portfolio investments consisted of illiquid securities issued by private companies. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of Main Street's LMM portfolio investments were categorized as Level 3. The fair value determination of each portfolio investment required one or more of the following unobservable inputs:

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

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- 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;

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- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant.

The following table provides a summary of changes in fair value of Main Street's Level 3 portfolio investments for the three months ended March 31, 2011:

| Type of Investment    | December 31, 2010<br>Fair Value | Accretion of<br>Unearned<br>Income | Redemptions/<br>Repayments/<br>Exits (1) | New<br>Investments (1) | Net<br>Unrealized<br>Appreciation<br>(Depreciation) | March 31, 2011<br>Fair Value |
|-----------------------|---------------------------------|------------------------------------|--|------------------------|---|------------------------------|
| Debt                  | \$ 183,894,069                  | \$ 321,701                         | \$ (3,627,171)                           | \$ 23,397,900          | \$ (2,330,709)                                      | \$ 201,655,790               |
| Equity                | 61,201,721                      |                                    |  | 8,079,678              | 5,305,000   | 74,586,399                   |
| Equity warrants       | 25,080,963                      |                                    |  | 2,531,143              | 340,000   | 27,952,106                   |
| Investment<br>Manager | 2,051,655                       |                                    |  |                        | (41,306)  | 2,010,349                    |
|                       | \$ 272,228,408                  | \$ 321,701                         | \$ (3,627,171)                           | \$ 34,008,721          | \$ 3,272,985  | \$ 306,204,644               |

(1) Includes the impact of non-cash conversions

The following table provides a summary of changes in fair value of the Level 3 SBIC Debentures recorded at fair value for the three months ended March 31, 2011:

| Type of Investment            | December 31, 2010<br>Fair Value | Repayments | New SBIC<br>Debentures | Net<br>Unrealized<br>(Appreciation)<br>Depreciation | March 31, 2011<br>Fair Value |
|-------------------------------|---------------------------------|------------|------------------------|---|------------------------------|
| SBIC Debentures at fair value | \$ 70,557,975                   | \$         | \$                     | \$ (38,632)   | \$ 70,519,343                |

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

| At March 31, 2011                                | Fair Value            | Fair Value Measurements  |   |   |
|--|-----------------------|--|---|---|
|  |                       | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| LMM portfolio investments                        | \$ 314,913,838        | \$   | \$ 10,719,543                                 | \$ 304,194,295                            |
| Private placement portfolio investments          | 75,602,268            |  | 75,602,268                                    |   |
| Investment in affiliated Investment Manager      | 2,010,349             |  |   | 2,010,349                                 |
| <b>Total portfolio investments</b>               | <b>392,526,455</b>    |  | <b>86,321,811</b>                             | <b>306,204,644</b>                        |
| Marketable securities and idle funds investments | 98,751,072            |  | 98,751,072                                    |   |
| <b>Total investments</b>                         | <b>\$ 491,277,527</b> | <b>\$</b>  | <b>\$ 185,072,883</b>                         | <b>\$ 306,204,644</b>                     |
| SBIC Debentures at fair value                    | \$ 70,519,343         | \$   | \$  | \$ 70,519,343                             |

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

For the three months ended March 31, 2011, there were no transfers within the three fair value hierarchy levels.

**LMM Portfolio Investments**

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

Investment income, consisting of interest, dividends and fees, can fluctuate dramatically due to various factors, including repayment of a debt investment or sale of an equity interest. Revenue recognition in any given year could be highly concentrated among several portfolio companies. For the three months ended March 31, 2011 and 2010, Main Street did not record investment income from any portfolio company in excess of 10% of total investment income.

As of March 31, 2011, Main Street had debt and equity investments in 48 LMM portfolio companies with an aggregate fair value of \$314.9 million and a weighted average effective yield on its LMM debt investments of approximately 14.6%. Approximately 76% of Main Street's total LMM portfolio investments at cost were in the form of debt investments and 92% of such debt investments at cost were secured by first priority liens on the assets of Main Street's LMM portfolio companies as of March 31, 2011. At March 31, 2011, Main Street had equity ownership in approximately 92% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 34%. As of December 31, 2010, Main Street had debt and equity investments in 44 LMM portfolio companies with an aggregate fair value of \$279.6 million and a weighted average effective yield on

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its LMM debt investments of approximately 14.5%. The weighted average yields were computed using the effective interest rates for all debt investments at March 31, 2011 and December 31, 2010, including amortization of deferred debt origination fees and accretion of original issue discount but excluding liquidation fees payable upon repayment and any debt investments on non-accrual status.

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

| <b>Cost:</b>     | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|------------------|-----------------------|--------------------------|
| First lien debt  | 70.2%                 | 70.6%                    |
| Equity           | 18.9%                 | 17.7%                    |
| Second lien debt | 6.0%                  | 6.7%                     |
| Equity warrants  | 4.9%                  | 5.0%                     |
|                  | 100.0%                | 100.0%                   |

| <b>Fair Value:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------|-----------------------|--------------------------|
| First lien debt    | 61.6%                 | 62.6%                    |
| Equity             | 24.2%                 | 21.9%                    |
| Second lien debt   | 5.7%                  | 6.5%                     |
| Equity warrants    | 8.5%                  | 9.0%                     |
|                    | 100.0%                | 100.0%                   |

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

| <b>Cost:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------|-----------------------|--------------------------|
| Southwest    | 52.2%                 | 50.5%                    |
| West         | 29.8%                 | 29.3%                    |
| Southeast    | 6.4%                  | 7.0%                     |
| Midwest      | 6.3%                  | 7.2%                     |
| Northeast    | 5.3%                  | 6.0%                     |
|              | 100.0%                | 100.0%                   |

| <b>Fair Value:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------|-----------------------|--------------------------|
| Southwest          | 53.7%                 | 51.8%                    |
| West               | 28.5%                 | 28.4%                    |
| Southeast          | 5.8%                  | 6.4%                     |
| Midwest            | 6.4%                  | 7.2%                     |
| Northeast          | 5.6%                  | 6.2%                     |
|                    | 100.0%                | 100.0%                   |



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

| <b>Cost:</b>                   | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------------------|-----------------------|--------------------------|
| Professional services          | 13.5%                 | 15.4%                    |
| Media/Marketing                | 8.9%                  | 6.6%                     |
| Information services           | 8.6%                  | 7.8%                     |
| Equipment rental               | 7.7%                  | 8.4%                     |
| Retail                         | 6.7%                  | 7.4%                     |
| Industrial equipment           | 6.3%                  | 7.2%                     |
| Metal fabrication              | 5.6%                  | 6.3%                     |
| Industrial services            | 5.2%                  | 7.2%                     |
| Electronics manufacturing      | 4.7%                  | 5.2%                     |
| Health care services           | 4.7%                  | 5.0%                     |
| Energy Services                | 4.1%                  | 0.0%                     |
| Precast concrete manufacturing | 4.0%                  | 4.4%                     |
| Transportation/Logistics       | 3.0%                  | 1.3%                     |
| Restaurant                     | 2.9%                  | 3.3%                     |
| Custom wood products           | 2.7%                  | 3.0%                     |
| Agricultural services          | 2.5%                  | 2.8%                     |
| Consumer Products              | 2.3%                  | 2.6%                     |
| Manufacturing                  | 2.1%                  | 2.4%                     |
| Infrastructure products        | 2.0%                  | 0.7%                     |
| Governmental services          | 1.5%                  | 1.8%                     |
| Health care products           | 1.0%                  | 1.2%                     |
|                                | 100.0%                | 100.0%                   |

| <b>Fair Value:</b>             | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------------------|-----------------------|--------------------------|
| Professional services          | 11.6%                 | 14.3%                    |
| Information services           | 10.2%                 | 8.5%                     |
| Media/Marketing                | 8.0%                  | 5.9%                     |
| Equipment rental               | 6.7%                  | 7.3%                     |
| Health care services           | 6.7%                  | 7.1%                     |
| Industrial services            | 6.2%                  | 7.8%                     |
| Retail                         | 6.1%                  | 6.6%                     |
| Metal fabrication              | 6.1%                  | 6.5%                     |
| Industrial equipment           | 5.6%                  | 6.3%                     |
| Precast concrete manufacturing | 4.3%                  | 4.9%                     |
| Electronics manufacturing      | 4.0%                  | 5.0%                     |
| Energy Services                | 3.7%                  | 0.0%                     |
| Transportation/Logistics       | 3.5%                  | 1.8%                     |
| Restaurant                     | 3.4%                  | 3.7%                     |
| Agricultural services          | 3.2%                  | 3.3%                     |
| Custom wood products           | 2.6%                  | 3.0%                     |
| Manufacturing                  | 2.4%                  | 2.7%                     |
| Consumer Products              | 1.9%                  | 2.3%                     |
| Governmental services          | 1.6%                  | 1.8%                     |
| Infrastructure products        | 1.3%                  | 0.1%                     |
| Health care products           | 0.9%                  | 1.1%                     |
|                                | 100.0%                | 100.0%                   |



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

**NOTE D WHOLLY OWNED INVESTMENT MANAGER**

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

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

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

Pursuant to the support services agreement with MSCC, the Investment Manager is reimbursed by MSCC for its excess operating expenses associated with providing investment management and other services to MSCC and its subsidiaries, as well as third parties. Each quarter, as part

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of the support services agreement, MSCC makes payments to cover all operating expenses incurred by the Investment Manager, less fees that the Investment Manager receives pursuant to long-term investment advisory agreements and consulting agreements. Subsequent to the consolidation of MSC II in connection with the Exchange Offer, the management fees paid by MSC II to the Investment Manager are now included in Expenses reimbursed to affiliated Investment Manager on the statements of operations along with any additional net costs reimbursed by MSCC to the Investment Manager pursuant to the support services agreement. For the three months ended March 31, 2011 and 2010, the expenses reimbursed by MSCC and management fees paid by MSC II to the Investment Manager totaled \$2.1 million and \$1.2 million, respectively.

In its separate stand-alone financial statements as summarized below, the Investment Manager recognized an \$18 million intangible asset related to the investment advisory agreement with MSC II consistent with Staff Accounting Bulletin No. 54, Application of Pushdown Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase ( SAB 54 ). Under SAB 54, push-down accounting is required in purchase transactions that result in an entity becoming substantially wholly owned. In

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this case, MSCC acquired 100% of the equity interests in the Investment Manager. Because the \$18 million value attributed to MSCC's investment in the Investment Manager was derived from the long-term, recurring management fees under the investment advisory agreement with MSC II, the same methodology used to determine the \$18 million valuation of the Investment Manager in connection with the Formation Transaction was utilized to establish the push-down accounting basis for the intangible asset. The intangible asset is being amortized over the estimated economic life of the investment advisory agreement with MSC II. For the three months ended March 31, 2011 and 2010, the Investment Manager recognized \$0.3 million of amortization expense in each respective period associated with the intangible asset. Amortization expense is not included in the expenses reimbursed by MSCC to the Investment Manager based upon the support services agreement since it is non-cash and non-operating in nature.

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

|  | As of March 31,<br>2011 | As of December 31,<br>2010 |
|--|-------------------------|----------------------------|
|  | (Unaudited)             |                            |
| Cash   | \$                      | \$ 191,645                 |
| Accounts receivable  | 55,899                  | 75,501                     |
| Accounts receivable - MSCC   | 1,168,697               | 15,124                     |
| Intangible asset (net of accumulated amortization of \$3,495,903 and \$3,209,740 as of March 31, 2011 and December 31, 2010, respectively) | 14,504,097              | 14,790,260                 |
| Deposits and other   | 161,970                 | 139,244                    |
| <b>Total assets</b>  | <b>\$ 15,890,663</b>    | <b>\$ 15,211,774</b>       |
| Accounts payable and accrued liabilities   | \$ 1,531,138            | \$ 566,087                 |
| Equity   | 14,359,525              | 14,645,687                 |
| <b>Total liabilities and equity</b>  | <b>\$ 15,890,663</b>    | <b>\$ 15,211,774</b>       |

|   | Three Months Ended March 31,<br>2011 | Three Months Ended March 31,<br>2010 |
|---|--------------------------------------|--------------------------------------|
|   | (Unaudited)                          |                                      |
| Management fee income from Main Street Capital II | \$ 509,679                           | \$ 831,300                           |
| Other management advisory fees                    | 45,000                               | 97,595                               |
| <b>Total income</b>                               | <b>554,679</b>                       | <b>928,895</b>                       |
| Salaries, benefits and other personnel costs      | (1,801,777)                          | (953,290)                            |
| Occupancy expense                                 | (80,615)                             | (80,897)                             |
| Professional expenses                             | (66,183)                             | (12,727)                             |
| Amortization expense - intangible asset           | (286,163)                            | (262,534)                            |
| Other expenses                                    | (226,231)                            | (202,868)                            |
| Expense reimbursement from MSCC                   | 1,620,127                            | 320,887                              |
| <b>Total net expenses</b>                         | <b>(840,842)</b>                     | <b>(1,191,429)</b>                   |
| <b>Net income</b>                                 | <b>\$ (286,163)</b>                  | <b>\$ (262,534)</b>                  |

### **NOTE E SBIC DEBENTURES**

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SBIC debentures payable at March 31, 2011 and December 31, 2010 were \$210 million and \$180 million, respectively. SBIC debentures provide for interest to be paid semi-annually, with principal due at the applicable 10-year maturity date. The weighted average interest rate as of March 31, 2011 and December 31, 2010 was 5.1% and 5.2%, respectively. The first principal maturity due under the existing SBIC debentures is in 2013, and the weighted average duration is approximately 7.3 years. For the three months ended March 31, 2011, Main Street recognized \$2.5 million in interest expense attributable to the SBIC debentures. In accordance with SBA regulations, the Funds are precluded from incurring additional non-SBIC debt without the prior approval of the

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SBA. The Funds are subject to annual compliance examinations by the SBA. There have been no historical findings resulting from these examinations.

As of March 31, 2011, the recorded value of the SBIC debentures was \$185.5 million which consisted of (i) \$70.5 million recorded at fair value, or \$24.5 million less than the face value of these SBIC debentures held in MSC II, and (ii) \$115 million reported at face value and held in MSMF, the SBIC that was owned by Main Street prior to the Exchange Offer. As of March 31, 2011, had Main Street 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 \$158.3 million, or \$51.7 million less than the face value of the SBIC debentures.

### **NOTE F CREDIT FACILITY**

In September 2010, Main Street entered into an \$85 million, three-year credit facility (the Credit Facility) with a group of bank lenders, and in January 2011, Main Street expanded the Credit Facility from \$85 million to \$100 million. The purpose of the Credit Facility is to provide additional liquidity in support of future investment and operational activities. The Credit Facility will mature on September 20, 2013. The accordion feature of the Credit Facility allows Main Street to seek up to \$150 million of total commitments from new or 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 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 average unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the assets of the Funds. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining an interest coverage ratio of at least 2.0 to 1.0, (ii) maintaining an asset coverage ratio of at least 2.5 to 1.0, and (iii) maintaining a minimum tangible net worth. At March 31, 2011, Main Street had \$15.0 million in borrowings outstanding under the Credit Facility and recognized \$0.4 million in interest expense for the three months ended March 31, 2011 related to the Credit Facility. As of March 31, 2011, Main Street was in compliance with all financial covenants of the Credit Facility.

### **NOTE G FINANCIAL HIGHLIGHTS**

| <b>Per Share Data:</b>  | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2011</b>                         | <b>2010</b> |
| Net asset value at beginning of period  | \$ 13.06                            | \$ 11.96    |
| Net investment income (1) (3)   | 0.38                                | 0.22        |
| Net realized loss from investments (1) (2) (3)  |                                     | (0.28)      |
| Net change in unrealized appreciation (1) (2) (3)   | 0.22                                | 0.37        |
| Income tax (provision) benefit (1) (2) (3)  | (0.06)                              | (0.02)      |
| Bargain purchase gain (1)   |                                     | 0.34        |
| Net increase in net assets resulting from operations (1)  | 0.54                                | 0.63        |
| Net decrease in net assets from dividends paid to stockholders  | (0.38)                              | (0.38)      |
| Impact of monthly dividend declared as of March 31, 2011 and 2010 but paid on April 15, 2011 and 2010 | (0.13)                              | (0.13)      |
| Accretive effect of public stock offerings (issuing shares above NAV per share)                       | 0.76                                | 0.47        |
| Accretive effect of Exchange Offer  |                                     | 0.37        |
| Adjustment to investment in Investment Manager in connection with Exchange Offer Transactions         |                                     | (0.91)      |
| Accretive effect of DRIP issuance (issuing shares above NAV per share)                                | 0.03                                | 0.02        |

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|   |    |            |    |            |
|---|----|------------|----|------------|
| Other (4)                                     |    | 0.02       |    | (0.08)     |
| Net asset value at March 31, 2011 and 2010    | \$ | 13.90      | \$ | 11.95      |
| Market value at March 31, 2011 and 2010       | \$ | 18.45      | \$ | 15.61      |
| Shares outstanding at March 31, 2011 and 2010 |    | 22,947,566 |    | 15,082,742 |

- 
- (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>Three Months<br/>Ended March 31,</b> |                |
|---|---|----------------|
|   | <b>2011</b>                             | <b>2010</b>    |
| Net asset value at end of period  | \$ 319,012,215                          | \$ 180,248,021 |
| Average net asset value   | \$ 282,273,430                          | \$ 154,954,076 |
| Average outstanding debt  | \$ 241,488,889                          | \$ 100,023,333 |
| Ratio of total expenses, excluding interest expense, to average net asset value (1) | 1.07%                                   | 1.14%          |
| Ratio of total expenses to average net asset value (1)                              | 2.05%                                   | 2.35%          |
| Ratio of net investment income to average net asset value (1)                       | 2.56%                                   | 2.03%          |
| Total return based on change in net asset value (2)                                 | 4.20%                                   | 3.21%          |

(1) Not annualized.

(2) Total return based on change in net asset value was calculated using the sum of ending net asset value plus dividends to stockholders and other non-operating changes during the period, as divided by the beginning net asset value.

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

Main Street paid monthly dividends of \$0.125 per share for each month of January 2011 through March 2011, totaling \$7.1 million, or \$0.375 per share, for the three month period. During March 2011, Main Street declared and accrued a \$0.13 per share monthly dividend to be paid in April 2011. For the three months ended March 31, 2010, Main Street paid total monthly dividends of approximately \$5.1 million, or \$0.375 per share, for the 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 dividends from domestic corporations and qualified foreign corporations. The tax attributes for dividends will generally include both ordinary income and capital gains but may also include qualified dividends or return of capital.

MSCC has elected to be treated for federal income tax purposes as a RIC. As a RIC, MSCC generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that MSCC distributes to its stockholders as dividends. MSCC must generally distribute at least 90% of its investment company taxable income to qualify for pass-through tax treatment and maintain its RIC status. As part of maintaining RIC status, undistributed taxable income (subject to a 4% excise tax) pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared prior to the filing of the federal income tax return for the prior year.

The Taxable Subsidiaries hold certain portfolio investments for Main Street. The Taxable Subsidiaries are consolidated with Main Street for financial reporting purposes, and the portfolio investments held by the Taxable Subsidiaries are included in Main Street's consolidated financial statements. The principal purpose of the Taxable Subsidiaries is to permit Main Street to hold equity investments in portfolio companies which are pass-through entities for tax purposes in order to comply with the source income requirements contained in the RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with Main Street for income tax purposes and may generate income tax expense or income

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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 March 31, 2011, Main Street recognized an income tax provision of \$1.2 million primarily consisting of deferred tax expense related to net unrealized appreciation on certain portfolio investments held by the Taxable Subsidiaries.

Listed below is a reconciliation of Net increase in net assets resulting from operations to taxable income and to total distributions declared to common stockholders for the three months ended March 31, 2011 and 2010.

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|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2011                         | 2010         |
|   | (estimated)                  |              |
| Net increase in net assets resulting from operations  | \$ 10,322,730                | \$ 9,169,881 |
| Share-based compensation expense  | 442,897                      | 301,458      |
| Net change in unrealized appreciation on investments  | (4,130,653)                  | (5,504,077)  |
| Bargain purchase gain   |                              | (4,890,582)  |
| Income tax provision  | 1,200,405                    | 384,574      |
| Pre-tax book loss of Taxable Subsidiaries not consolidated for tax purposes   | 135,007                      | 3,761,575    |
| Book income and tax income differences, including debt origination, structuring fees, dividends, and realized gains | 3,774,199                    | (130,477)    |
| Estimated taxable income  | 11,744,585                   | 3,092,352    |
| Taxable income earned in prior year and carried forward for distribution in current year                            |                              | 848,452      |
| Estimated distribution in excess of taxable income  |                              | 1,167,630    |
| Ordinary taxable income earned in current period and carried forward for distribution                               | (4,679,754)                  |              |
| Dividend accrued as of March 31, 2011 and 2010 and paid on April 15, 2011 and 2010                                  | 2,983,184                    | 1,885,343    |
| Total distributions to common stockholders  | \$ 10,048,015                | \$ 6,993,777 |

The net deferred tax asset at March 31, 2011 and December 31, 2010 was \$0.8 million and \$2.0 million, respectively, and primarily related to timing differences from recognition of unrealized and realized depreciation, partially offset by unrealized appreciation, from debt and equity investments in portfolio investments as well as timing differences from taxable income from equity investments in portfolio companies which are pass through entities for tax purposes. Management believes that the realization of the deferred tax asset is more likely than not based on expectations as to future taxable income and scheduled reversals of temporary differences. Accordingly, Main Street did not record a valuation allowance related to its deferred tax asset at March 31, 2011.

### **NOTE I EXCHANGE OFFER**

On January 7, 2010, MSCC consummated the Exchange Offer to exchange 1,239,695 shares (the Exchange Shares) of its common stock for approximately 88% of the total dollar value of the limited partner interests in MSC II. Pursuant to the terms of the Exchange Offer, 100% of the membership interests in MSC II GP were also transferred to MSCC for no consideration. MSC II commenced operations in January 2006, is an investment fund that operates as an SBIC and is managed by the Investment Manager. The Exchange Offer was applicable to all MSC II limited partner interests except for any limited partner interests owned by affiliates of MSCC, including any limited partner interests owned by officers or directors of MSCC. The Exchange Offer was formally approved by the SBA prior to closing. An approximately 12% minority ownership in the total dollar value of the MSC II limited partnership interests remains outstanding, including approximately 5% owned by affiliates of MSCC.

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

|  |                  |
|--|------------------|
| Value of the stock consideration issued for limited partner interests acquired | \$ 19,934,296(1) |
| Fair value of noncontrolling limited partner interests                         | 3,396,005(2)     |

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

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

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

Consummation of the Exchange Offer Transactions provided Main Street with access to additional long-term, low-cost leverage capacity through the SBIC program. The American Recovery and Reinvestment Act of 2009 enacted in February 2009 (the Stimulus Bill) increased the maximum amount of combined SBIC leverage (or SBIC leverage cap) to \$225 million for affiliated SBIC funds from the previous SBIC leverage cap of approximately \$137 million. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, Main Street is required to allocate such increased borrowing capacity between MSMF and MSC II. Main Street currently has access to an incremental \$15 million in SBIC leverage capacity, subject to the required capitalization of each of the Funds, in addition to the \$210 million of existing SBIC leverage at the Funds.

**NOTE J COMMON STOCK**

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

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

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

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

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

provide a similar dividend reinvestment plan.

For the three months ended March 31, 2011, \$2.4 million of the total \$7.1 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 125,122 newly issued shares. For the three months ended March 31, 2010, \$1.8 million of the total \$5.1 million in dividends paid to stockholders represented DRIP participation. During this period, Main Street satisfied the DRIP participation requirements with the issuance of 125,600 newly issued shares. The shares disclosed above relate only to Main Street's DRIP and exclude any activity related to broker-managed dividend reinvestment plans.

#### **NOTE L SHARE-BASED COMPENSATION**

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

On July 1, 2010, Main Street's Board of Directors approved the issuance of 149,357 shares of restricted stock to Main Street employees pursuant to the Main Street Capital Corporation 2008 Equity Incentive Plan. These shares will vest over a four-year period

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from the grant date and will be expensed over the four-year service period starting on the grant date. On July 1, 2009, Main Street's Board of Directors approved the issuance of 99,312 shares of restricted stock to Main Street employees pursuant to the Main Street Capital Corporation 2008 Equity Incentive Plan. These shares are vesting over a four-year period from the grant date and are being expensed over the four-year service period starting on the grant date. As of March 31, 2011, there were 1,506,005 shares of restricted stock available for issuance to employees under the Main Street Capital Corporation 2008 Equity Incentive Plan.

On July 1, 2010, a total of 7,920 shares of restricted stock were issued to Main Street's independent directors pursuant to the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan. These shares will vest on the day immediately preceding Main Street's 2011 annual meeting of stockholders and are being expensed over a one-year service period starting on the grant date. On July 1, 2009, a total of 8,512 shares of restricted stock were issued to Main Street's independent directors pursuant to the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan. These shares vested on the day immediately preceding Main Street's June 2010 annual meeting of stockholders and were expensed over a one-year service period starting on the grant date. As of March 31, 2011, there were 163,568 shares of restricted stock available for issuance to non-employee directors under the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan.

For the three months ended March 31, 2011 and 2010, Main Street recognized total share-based compensation expense of \$0.4 million and \$0.3 million, respectively, related to the restricted stock issued to Main Street employees and independent directors.

As of March 31, 2011, there was \$3.6 million of total unrecognized compensation expense related to Main Street's non-vested restricted shares. This compensation expense is expected to be recognized over a weighted-average period of approximately 2.5 years.

### **NOTE M COMMITMENTS**

At March 31, 2011, Main Street had seven outstanding commitments to fund unused revolving loans for up to \$20.0 million in total.

### **NOTE N SUPPLEMENTAL CASH FLOW DISCLOSURES**

Listed below are the supplemental cash flow disclosures for the three months ended March 31, 2011 and 2010:

|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2011                         | 2010          |
| Interest paid  | \$ 5,088,882                 | \$ 3,671,670  |
| Taxes paid   | \$ 79,322                    | \$ 78,499     |
| Non-cash financing activities:                             |                              |               |
| Shares issued in connection with the MSC II Exchange Offer | \$                           | \$ 19,934,296 |
| Shares issued pursuant to the DRIP                         | \$ 2,410,052                 | \$ 1,849,328  |

**NOTE O 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 March 31, 2011, the Investment Manager had a receivable of \$1.2 million due from MSCC related to net operating expenses incurred by the Investment Manager required to support Main Street's business.

**NOTE P SUBSEQUENT EVENTS**

During April 2011, Main Street completed an LMM portfolio investment in OnAsset Intelligence, Inc. ( OnAsset ). Main Street's initial \$3.0 million investment in OnAsset, coupled with a co-investor's \$3.0 million investment, is part of a \$10.0 million total investment facility. Main Street's investment represents a combination of debt and equity capital invested in the company in order to support the refinancing of existing debt, as well as to provide additional financing for future growth. OnAsset is an end-to-end service provider for complex, sensor-based machine-to-machine supply chain applications and GPS tracking solutions. Its enterprise-grade monitoring and tracking platform helps companies create transparent supply chains to drive business value and mitigate risks. The company is headquartered in Irving, Texas.



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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, 2010, filed with the SEC on March 11, 2011, for a discussion of the uncertainties, risks and assumptions associated with these statements. You should read the following discussion in conjunction with the consolidated financial statements and related notes and other financial information included in the Annual Report on Form 10-K for the year ended December 31, 2010.*

**ORGANIZATION**

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

On January 7, 2010, MSCC consummated transactions (the "Exchange Offer" ) to exchange 1,239,695 shares of its common stock for approximately 88% of the total dollar value of the limited partner interests in Main Street Capital II, LP ( "MSC II" and, together with MSMF, the "Funds" ). Pursuant to the terms of the Exchange Offer, 100% of the membership interests in the general partner of MSC II, Main Street Capital II GP, LLC ( "MSC II GP" ), were also transferred to MSCC for no consideration. MSC II commenced operations in January 2006, is an investment fund that operates as an SBIC, and is also managed by the Investment Manager. The Exchange Offer and related transactions, including the transfer of the MSC II GP interests, are collectively termed the "Exchange Offer Transactions" (see Note I to the consolidated financial statements). As of March 31, 2011, an approximately 12% minority ownership in the total dollar value of the MSC II limited partnership interests remained outstanding, including approximately 5% owned by affiliates of MSCC. We have submitted an exemptive relief application to the SEC to permit us to acquire the approximately 5% ownership in the total dollar value of the MSC II limited partnership interests held by affiliates of MSCC using the same valuation formula utilized in the Exchange Offer. There can be no assurance that we will obtain the exemptive relief or that if we do obtain such relief it will be obtained on the terms we have outlined in our request.

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

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

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

### OVERVIEW

We are a principal investment firm primarily focused on providing customized debt and equity financing to lower middle market ( LMM ) companies, which we generally define as companies with annual revenues between \$10 million and \$100 million that operate in diverse industries. We invest primarily in secured debt instruments, equity investments, warrants and other securities of LMM companies based in the United States. Our principal investment objective is to maximize our portfolio s total return by generating current income from our debt investments and capital appreciation from our equity and equity related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. Our LMM portfolio investments generally range in size from \$3 million to \$20 million.

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

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us to meet the financing needs of LMM companies while also negotiating favorable transaction terms and equity participations. Our ability to invest across a company's capital structure, from senior secured loans to equity securities, allows us to offer portfolio companies a comprehensive suite of financing solutions, or one stop financing. Providing customized, one stop financing solutions has become even more relevant to our LMM portfolio companies in the current investing environment. We generally seek to partner directly with entrepreneurs, management teams and business owners in making our investments. We believe that our LMM investment strategy has a lower correlation to the broader debt and equity markets.

In addition to our primary investment strategy of investing in LMM companies, we opportunistically pursue investments in privately placed debt securities. Our private placement investment portfolio primarily consists of direct or secondary private placements of interest bearing debt securities in companies that are generally larger in size than the LMM companies included in our investment portfolio. As of March 31, 2011, we had privately placed portfolio investments in 16 companies collectively totaling approximately \$75.6 million in fair value with a total cost basis of approximately \$72.8 million. The weighted average revenues for the 16 privately placed portfolio company investments was approximately \$463 million. All of our privately placed portfolio investments were in the form of debt investments and 65% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average effective yield on our privately placed portfolio debt investments was approximately 11.3% as of March 31, 2011.

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

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

For the three months ended March 31, 2011, we paid dividends on a monthly basis totaling \$0.375 per share, or \$7.1 million. In March 2011, we declared monthly dividends for the second quarter of 2011 totaling \$0.39 per share, representing a 4% increase from the dividends paid in the first quarter of 2011. During 2010, we paid monthly dividends of \$0.125 per share, or \$1.50 per share for the entire year. Including the dividends declared for the second quarter of 2011, we will have paid approximately \$5.52 per share in cumulative dividends since our October 2007 initial public offering.

At March 31, 2011, we had \$127.8 million in cash and cash equivalents, marketable securities, and idle funds investments. In March 2011, we completed a follow-on public stock offering in which we sold 4,025,000 shares of common stock, including the underwriters' full exercise of the over-allotment option, at a price to the public of \$18.35 per share (or approximately 141% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately \$70.3 million, after deducting underwriters' commissions and offering costs.

**CRITICAL ACCOUNTING POLICIES**

***Basis of Presentation***

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ). For the three months ended March 31, 2011 and 2010, our consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries, including the Funds. Portfolio investments, as used herein, refers to all of our portfolio investments in LMM companies, private placement portfolio investments, and our investment in the Investment Manager and excludes all of our Marketable securities and idle funds investments. Private placement portfolio investments include investments made through direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included as part of our portfolio investments. Marketable securities and idle funds investments are classified as financial instruments and are reported separately on our Consolidated Balance Sheets and Consolidated Schedule of Investments due to the nature of such investments. Our results of operations and cash flows for the three months ended March 31, 2011 and 2010, and

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financial position as of March 31, 2011 and December 31, 2010, are presented on a consolidated basis. The effects of all intercompany transactions between Main Street and its consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current financial statement presentation, including the reclassification of private placement portfolio investments which were formerly classified as Marketable securities and idle funds investments and are now classified as portfolio investments in the Non-Control/Non-Affiliate investments category due to our current intent to hold such investments until their maturity and the fact that their terms adhere more to our portfolio investment strategy.

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 months ended March 31, 2011 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2010. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

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

***Portfolio Investment Valuation***

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of our portfolio investments and the related amounts of unrealized appreciation and depreciation. As of March 31, 2011 and December 31, 2010, approximately 74% and 78%, respectively, of our total assets represented investments in portfolio companies valued at fair value (including our investment in the Investment Manager). We are required to report our investments at fair value. We follow the provisions of the Accounting Standards Codification (Codification or ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

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

determining the fair value of the portfolio.

For valuation purposes, control investments are composed of equity and debt securities for which we have a controlling interest in the portfolio company or have the ability to nominate a majority of the portfolio company's board of directors. Market quotations are generally not readily available for our control investments. As a result, we determine the fair value of control investments using a combination of market and income approaches. Under the market approach, we will typically use the enterprise value methodology to determine the fair value of these investments. The enterprise value is the fair value at which an enterprise could be sold in a transaction between two willing parties, other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for estimating enterprise value. For any one portfolio company, enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In estimating the enterprise value of a portfolio company, we analyze various factors, including the portfolio company's historical and projected financial results. We allocate the enterprise value to investments in order of the legal priority of the investments. We will also use the income approach to determine the fair value of these securities, based on projections of the

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discounted future free cash flows that the portfolio company or the debt security will likely generate. The valuation approaches for our control investments estimate the value of the investment if we were to sell, or exit, the investment, assuming the highest and best use of the investment by market participants. In addition, these valuation approaches consider the value associated with our ability to control the capital structure of the portfolio company, as well as the timing of a potential exit.

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

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

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

***Revenue Recognition***

***Interest and Dividend Income***

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

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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*

While not significant to the total portfolio, 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,



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the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of dividends in arrears may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed below), these non-cash sources of income may need to be paid out to stockholders in the form of distributions, even though we may not have collected the PIK interest and cumulative dividends in cash. We will stop accruing PIK interest and cumulative dividends and will write off any accrued and uncollected interest and dividends in arrears when it is determined that such PIK interest and dividends in arrears are no longer collectible.

***Share-Based Compensation***

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

***Income Taxes***

MSCC has elected and intends to continue to qualify for the tax treatment applicable to a RIC under the Code, and, among other things, intends to make the required distributions to its stockholders as specified therein. In order to qualify as a RIC, MSCC is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, each year. Depending on the level of taxable income earned in a tax year, MSCC may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.

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

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

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

**LMM PORTFOLIO COMPOSITION**

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

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

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| <b>Cost:</b>     | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|------------------|-----------------------|--------------------------|
| First lien debt  | 70.2%                 | 70.6%                    |
| Equity           | 18.9%                 | 17.7%                    |
| Second lien debt | 6.0%                  | 6.7%                     |
| Equity warrants  | 4.9%                  | 5.0%                     |
|                  | 100.0%                | 100.0%                   |

| <b>Fair Value:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------|-----------------------|--------------------------|
| First lien debt    | 61.6%                 | 62.6%                    |
| Equity             | 24.2%                 | 21.9%                    |
| Second lien debt   | 5.7%                  | 6.5%                     |
| Equity warrants    | 8.5%                  | 9.0%                     |
|                    | 100.0%                | 100.0%                   |

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

| <b>Cost:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------|-----------------------|--------------------------|
| Southwest    | 52.2%                 | 50.5%                    |
| West         | 29.8%                 | 29.3%                    |
| Southeast    | 6.4%                  | 7.0%                     |
| Midwest      | 6.3%                  | 7.2%                     |
| Northeast    | 5.3%                  | 6.0%                     |
|              | 100.0%                | 100.0%                   |

| <b>Fair Value:</b> | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------|-----------------------|--------------------------|
| Southwest          | 53.7%                 | 51.8%                    |
| West               | 28.5%                 | 28.4%                    |
| Southeast          | 5.8%                  | 6.4%                     |
| Midwest            | 6.4%                  | 7.2%                     |
| Northeast          | 5.6%                  | 6.2%                     |
|                    | 100.0%                | 100.0%                   |

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

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| <b>Cost:</b>                   | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------------------|-----------------------|--------------------------|
| Professional services          | 13.5%                 | 15.4%                    |
| Media/Marketing                | 8.9%                  | 6.6%                     |
| Information services           | 8.6%                  | 7.8%                     |
| Equipment rental               | 7.7%                  | 8.4%                     |
| Retail                         | 6.7%                  | 7.4%                     |
| Industrial equipment           | 6.3%                  | 7.2%                     |
| Metal fabrication              | 5.6%                  | 6.3%                     |
| Industrial services            | 5.2%                  | 7.2%                     |
| Electronics manufacturing      | 4.7%                  | 5.2%                     |
| Health care services           | 4.7%                  | 5.0%                     |
| Energy Services                | 4.1%                  | 0.0%                     |
| Precast concrete manufacturing | 4.0%                  | 4.4%                     |
| Transportation/Logistics       | 3.0%                  | 1.3%                     |
| Restaurant                     | 2.9%                  | 3.3%                     |
| Custom wood products           | 2.7%                  | 3.0%                     |
| Agricultural services          | 2.5%                  | 2.8%                     |
| Consumer Products              | 2.3%                  | 2.6%                     |
| Manufacturing                  | 2.1%                  | 2.4%                     |
| Infrastructure products        | 2.0%                  | 0.7%                     |
| Governmental services          | 1.5%                  | 1.8%                     |
| Health care products           | 1.0%                  | 1.2%                     |
|                                | 100.0%                | 100.0%                   |

| <b>Fair Value:</b>             | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------------------|-----------------------|--------------------------|
| Professional services          | 11.6%                 | 14.3%                    |
| Information services           | 10.2%                 | 8.5%                     |
| Media/Marketing                | 8.0%                  | 5.9%                     |
| Equipment rental               | 6.7%                  | 7.3%                     |
| Health care services           | 6.7%                  | 7.1%                     |
| Industrial services            | 6.2%                  | 7.8%                     |
| Retail                         | 6.1%                  | 6.6%                     |
| Metal fabrication              | 6.1%                  | 6.5%                     |
| Industrial equipment           | 5.6%                  | 6.3%                     |
| Precast concrete manufacturing | 4.3%                  | 4.9%                     |
| Electronics manufacturing      | 4.0%                  | 5.0%                     |
| Energy Services                | 3.7%                  | 0.0%                     |
| Transportation/Logistics       | 3.5%                  | 1.8%                     |
| Restaurant                     | 3.4%                  | 3.7%                     |
| Agricultural services          | 3.2%                  | 3.3%                     |
| Custom wood products           | 2.6%                  | 3.0%                     |
| Manufacturing                  | 2.4%                  | 2.7%                     |
| Consumer Products              | 1.9%                  | 2.3%                     |
| Governmental services          | 1.6%                  | 1.8%                     |
| Infrastructure products        | 1.3%                  | 0.1%                     |
| Health care products           | 0.9%                  | 1.1%                     |
|                                | 100.0%                | 100.0%                   |

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



Table of Contents**PORTFOLIO ASSET QUALITY**

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

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

| Investment Rating | March 31, 2011            |                               | December 31, 2010         |                               |
|-------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                   | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
|                   | (Unaudited)               |                               |                           |                               |
|                   | (dollars in thousands)    |                               |                           |                               |
| 1                 | \$ 62,700                 | 16.1%                         | \$ 52,147                 | 15.0%                         |
| 2                 | 170,147                   | 43.6%                         | 153,408                   | 44.2%                         |
| 3                 | 141,163                   | 36.1%                         | 122,249                   | 35.3%                         |
| 4                 | 15,756                    | 4.0%                          | 17,705                    | 5.1%                          |
| 5                 | 750                       | 0.2%                          | 1,250                     | 0.4%                          |
| Totals            | \$ 390,516                | 100.0%                        | \$ 346,759                | 100.0%                        |

Based upon our investment rating system, the weighted average rating of our portfolio as of March 31, 2011 and December 31, 2010 was approximately 2.3. As of March 31, 2011, we had three investments on non-accrual status, which comprised approximately 2.0% of the total portfolio investments at fair value and 4.1% of the total portfolio investments at cost (or 1.6% and 3.3%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager. As of December 31, 2010, we had two investments on non-accrual status, which comprised approximately 2.6% of the total portfolio investments at fair value and 3.6% of the total portfolio investments at cost (or 2.2% and 3.0%, respectively with the inclusion of marketable securities and idle funds investments), in each case excluding the investment in the affiliated Investment Manager.

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

Table of Contents**DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS***Comparison of the three months ended March 31, 2011 and March 31, 2010*

|   | Three Months Ended March 31, |        | Net Change |       |
|---|------------------------------|--------|------------|-------|
|   | 2011                         | 2010   | Amount     | %     |
|   | (dollars in millions)        |        |            |       |
| Total investment income   | \$ 13.4                      | \$ 7.1 | \$ 6.3     | 89%   |
| Total expenses  | (6.0)                        | (3.9)  | (2.1)      | 54%   |
| Net investment income   | 7.4                          | 3.2    | 4.2        | 130%  |
| Net realized gain (loss) from investments   |                              | (4.0)  | 4.0        | NM    |
| Net realized income   | 7.4                          | (0.8)  | 8.2        | -980% |
| Net change in unrealized appreciation   | 4.1                          | 5.5    | (1.4)      | -25%  |
| Income tax benefit (provision)  | (1.2)                        | (0.4)  | (0.8)      | 212%  |
| Bargain purchase gain   |                              | 4.9    | (4.9)      | NM    |
| Noncontrolling interest   |                              | (0.1)  | 0.1        | NM    |
| Net increase in net assets resulting from operations attributable to common stock | \$ 10.3                      | \$ 9.1 | \$ 1.2     | 14%   |

|   | Three Months Ended March 31, |           | Net Change |      |
|---|------------------------------|-----------|------------|------|
|   | 2011                         | 2010      | Amount     | %    |
|   | (dollars in millions)        |           |            |      |
| Net investment income   | \$ 7.4                       | \$ 3.2    | \$ 4.2     | 130% |
| Share-based compensation expense                                      | 0.4                          | 0.3       | 0.1        | 47%  |
| Distributable net investment income (a)                               | 7.8                          | 3.5       | 4.3        | 122% |
| Net realized gain (loss) from investments                             |                              | (4.0)     | 4.0        | NM   |
| Distributable net realized income (loss) (a)                          | \$ 7.8                       | \$ (0.5)  | \$ 8.3     | NM   |
| Distributable net investment income per share - Basic and diluted (a) | \$ 0.40                      | \$ 0.24   | \$ 0.16    | 67%  |
| Distributable net realized income per share - Basic and diluted (a)   | \$ 0.40                      | \$ (0.04) | \$ 0.44    | NM   |

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

*Investment Income*

For the three months ended March 31, 2011, total investment income was \$13.4 million, an 89% increase over the \$7.1 million in the corresponding period of 2010. This comparable period increase was principally attributable to (i) a \$5.2 million increase in interest income from higher average levels of both portfolio debt investments and interest-bearing marketable securities and idle funds investments, (ii) a \$0.6 million increase in fee income due to higher levels of transaction activity, and (iii) a \$0.5 million increase in dividend income from portfolio equity investments. The \$5.2 million increase in interest income included \$0.6 million of non-recurring interest income due to higher levels of prepayment and repricing activity of debt investments.

*Expenses*

For the three months ended March 31, 2011, total expenses increased by approximately \$2.1 million to \$6.0 million from \$3.9 million in the corresponding period of 2010. This comparable period increase in expenses was principally attributable to (i) higher interest expense of \$0.9 million as a result of the issuance of an additional \$75 million in SBIC debentures subsequent to the first quarter of 2010 and increased borrowing activity under our credit facility, (ii) higher share-based compensation expense of \$0.1 million related to non-cash amortization for restricted share grants, and (iii) higher compensation and other operating expenses of \$0.9 million as a result of the significant increase in investment income and portfolio investments compared to the corresponding period of 2010.



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*Distributable Net Investment Income*

Distributable net investment income for the three months ended March 31, 2011 increased 122% to \$7.8 million, or \$0.40 per share, compared with \$3.5 million, or \$0.24 per share, in the corresponding period of 2010. The increase in distributable net investment income was primarily due to higher levels 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 quarter of 2011 reflects (i) approximately \$0.03 per share of non-recurring investment income due to prepayment and repricing activity as discussed above and (ii) a greater number of average shares outstanding compared to the corresponding period in 2010 due to the March 2011 and August 2010 follow-on stock offerings.

*Net Investment Income*

Net investment income for the three months ended March 31, 2011 was \$7.4 million, or a 130% increase, compared to net investment income of \$3.2 million during the corresponding period of 2010. The increase in net investment income was principally attributable to the increase in total investment income partially offset by higher interest and other operating expenses as discussed above.

*Distributable Net Realized Income*

Distributable net realized income increased to \$7.8 million, or \$0.40 per share, in the first quarter of 2011 compared with distributable net realized loss of \$0.5 million, or \$0.04 per share, in the corresponding period of 2010. The increase was primarily attributable to the higher levels of distributable net investment income as well as the change in net realized loss from investments. The \$4.0 million net realized loss during the first quarter of 2010 was primarily attributable to the realized loss recognized on the exit of one portfolio company debt and equity investment.

*Net Realized Income*

The higher levels of net investment income and the change in net realized loss from investments during the three months ended March 31, 2011 resulted in an \$8.2 million increase in net realized income compared with the corresponding period of 2010.

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

For the three months ended March 31, 2011, the \$4.1 million net change in unrealized appreciation was principally attributable to unrealized appreciation on 31 portfolio investments totaling \$8.4 million, partially offset by unrealized depreciation on 12 portfolio investments totaling \$4.3 million. For the first quarter of 2011, we also recognized a net income tax provision of \$1.2 million principally related to deferred taxes on net unrealized appreciation of certain portfolio investments held in our Taxable Subsidiaries.

As a result of these events, our net increase in net assets resulting from operations attributable to common stock during the three months ended March 31, 2011 was \$10.3 million, or \$0.54 per share, compared with a net increase in net assets resulting from operations attributable to common stock of \$9.1 million, or \$0.63 per share, in the corresponding period of 2010.

### *Liquidity and Capital Resources*

#### *Cash Flows*

For the three months ended March 31, 2011, we experienced a net increase in cash and cash equivalents in the amount of \$6.7 million. During that period, we generated \$4.1 million of cash from our operating activities, primarily from distributable net investment income partially offset by accretion of unearned income, increases in interest receivable, and semi-annual interest payments made on our SBIC debentures. We used \$67.1 million in net cash from investing activities for the three months ended March 31, 2011, principally including the funding of \$43.9 million for LMM and private placement portfolio investments and the funding of \$39.3 million for marketable securities and idle funds investments, partially offset by (i) \$10.1 million of cash proceeds from the sale of marketable securities and idle funds investments and (ii) \$6.1 million in cash proceeds from the repayment of LMM and private placement portfolio debt investments. For the first three months of 2011, \$69.7 million in cash was provided by financing activities, which principally consisted of (i) \$70.3 million in net cash proceeds from a public stock offering in March 2011 and (ii) \$30.0 million in cash proceeds from the issuance of SBIC debentures, partially offset by (i) \$24.0 million in net repayments under our investment credit facility, (ii) \$4.7 million in cash dividends paid to stockholders, and (iii) \$1.1 million in deferred loan costs paid in connection with the credit facility and the issuance of additional SBIC debentures.

For the three months ended March 31, 2010, we experienced a net increase in cash and cash equivalents in the amount of \$2.0 million. During that period, we generated \$0.2 million of cash from our operating activities, primarily from distributable net

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investment income partially offset by (i) semi-annual interest payments made on our SBIC debentures and (ii) increases in other assets. We used \$37.1 million in net cash from investing activities, principally including the funding of \$25.9 million for marketable securities and idle funds investments and the funding of \$18.5 million for new LMM and private placement portfolio investments, partially offset by (i) \$3.6 million of cash proceeds from the sale of marketable securities and idle funds investments, (ii) \$2.5 million in cash acquired as part of the Exchange Offer, and (iii) \$1.3 million in cash proceeds from the repayment of LMM and private placement portfolio debt investments. For the first three months of 2010, \$39.0 million in cash was provided by financing activities, which principally consisted of \$40.2 million in net cash proceeds from a January 2010 public stock offering and \$2.1 million in net borrowings under our credit facility, partially offset by \$3.3 million in cash dividends paid to stockholders.

### *Capital Resources*

As of March 31, 2011, we had \$127.8 million in cash and cash equivalents, marketable securities, and idle funds investments, and our net asset value totaled \$319.0 million, or \$13.90 per share. In March 2011, we completed a follow-on public stock offering in which we sold 4,025,000 shares of common stock, including the underwriters' full exercise of the over-allotment option, at a price to the public of \$18.35 per share (or approximately 141% of the then latest reported Net Asset Value per share), resulting in total net proceeds of approximately \$70.3 million, after deducting underwriters' commissions and offering costs.

In September 2010, we entered into an \$85 million, three-year credit facility (the "Credit Facility") with a group of bank lenders, and in January 2011, we expanded the Credit Facility from \$85 million to \$100 million. The purpose of the Credit Facility is to provide additional liquidity in support of future investment and operational activities. The revisions to the Credit Facility provide several benefits to Main Street, including (i) an expansion of the total committed facility size to \$100 million compared with Main Street's prior \$30 million credit facility, (ii) increased advance rates applicable to Main Street's eligible investments, (iii) the addition of new lenders which further diversifies the Main Street lending group to a total of six participants, and (iv) an extension of the maturity date to September 20, 2013. The accordion feature of the Credit Facility allows us to seek up to \$150 million of total commitments from new or 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 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 average unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the assets of the Funds. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining an interest coverage ratio of at least 2.0 to 1.0, (ii) maintaining an asset coverage ratio of at least 2.5 to 1.0, and (iii) maintaining a minimum tangible net worth. At March 31, 2011, Main Street had \$15.0 million in borrowings outstanding under the Credit Facility. As of March 31, 2011, Main Street was 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. Debentures issued prior to September 2006 were subject to pre-payment penalties during their first five years. Those pre-payment penalties no longer apply to debentures issued after September 1, 2006. On March 31, 2011, we, through the Funds, had \$210 million of outstanding indebtedness guaranteed by the SBA, which carried a weighted average fixed interest rate of approximately 5.1%. The first maturity related to the SBIC debentures does not occur until 2013, and the weighted average duration is 7.3 years as of March 31, 2011.

The American Recovery and Reinvestment Act of 2009 enacted in February 2009 (the "Stimulus Bill") contains several provisions applicable to SBIC funds, including the Funds. One of the key SBIC-related provisions included in the Stimulus Bill increased the maximum amount of

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combined SBIC leverage (or SBIC leverage cap) to \$225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately \$137 million. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, Main Street is required to allocate such increased borrowing capacity between the Funds.

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

We periodically invest excess cash balances into marketable securities and idle funds investments. The investment objective of marketable securities and idle funds investments is to generate incremental cash returns on excess cash balances prior to utilizing those funds for investment in our LMM and private placement portfolio investment strategy. Marketable securities and idle funds investments generally consist of debt investments, independently rated debt investments, certificates of deposit with financial

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institutions, and diversified bond funds. The composition of marketable securities and idle funds investments will vary in a given period based upon, among other things, changes in market conditions, the underlying fundamentals in our marketable securities and idle funds investments, our outlook regarding future LMM and private placement portfolio investment needs, and any regulatory requirements applicable to Main Street.

If our common stock trades below our net asset value per share, we will generally not be able to issue additional common stock at the market price unless our stockholders approve such a sale and our Board of Directors makes certain determinations. A proposal, approved by our stockholders at our June 2010 annual meeting of stockholders, authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year ending on June 9, 2011. 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. We are seeking approval of a similar proposal from our stockholders at our 2011 annual stockholders meeting to be held on June 15, 2011.

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

Although we have been able to secure access to additional liquidity, including our expanded \$100 million Credit Facility, recent public stock offerings, and the increase in available leverage through the SBIC program as part of the Stimulus Bill, there is no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

### ***Recently Issued Accounting Standards***

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

### ***Inflation***

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

in their costs for raw materials and required energy consumption.

***Off-Balance Sheet Arrangements***

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At March 31, 2011, we had seven outstanding commitments to fund unused revolving loans for up to \$20.0 million in total.

***Contractual Obligations***

As of March 31, 2011, our future fixed commitments for cash payments on contractual obligations for each of the next five years and thereafter are as follows:

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

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

MSCC is obligated to make payments under a support services agreement with the Investment Manager. The Investment Manager is reimbursed for its excess operating expenses associated with providing investment management and other services to MSCC and its subsidiaries, as well as MSC II and third parties. Each quarter, as part of the support services agreement, MSCC makes payments to cover all operating expenses incurred by the Investment Manager, less the recurring management fees that the Investment Manager receives from MSC II pursuant to a long-term investment advisory services agreement and any other fees received from third parties for providing external services. For the three months ended March 31, 2011 and 2010, the expenses reimbursed by MSCC to the Investment Manager and management fees paid by MSC II were \$2.1 million and \$1.2 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 March 31, 2011, the Investment Manager had a receivable of \$1.2 million due from MSCC related to net operating expenses incurred by the Investment Manager required to support Main Street's business.

***Recent Developments***

During April 2011, Main Street completed an LMM portfolio investment in OnAsset Intelligence, Inc. (OnAsset). Main Street's initial \$3.0 million investment in OnAsset, coupled with a co-investor's \$3.0 million investment, is part of a \$10.0 million total investment facility. Main Street's investment represents a combination of debt and equity capital invested in the company in order to support the refinancing of existing debt, as well as to provide additional financing for future growth. OnAsset is an end-to-end service provider for complex, sensor-based machine-to-machine supply chain applications and GPS tracking solutions. Its enterprise-grade monitoring and tracking platform helps companies create transparent supply chains to drive business value and mitigate risks. The company is headquartered in Irving, Texas.

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

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We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, marketable securities, and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. The majority of our debt investments are made with fixed interest rates for the term of the investment. However, as of March 31, 2011, approximately 26% of our debt investment portfolio (at cost) bore interest at floating rates with 97% of those floating-rate debt investments (at cost) subject to contractual minimum interest rates. Our interest expense will be affected by changes in the 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 March 31, 2011, we had not entered into any interest rate hedging arrangements. At March 31, 2011, based on our applicable levels of floating-rate debt investments, a 1% change in interest rates would not have a material effect on our level of interest income from debt investments.

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, our President and Chief Financial Officer, our Chief Compliance Officer and our Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chairman and Chief



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Executive Officer, our President and 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 March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. *Legal Proceedings***

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

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**Item 1A. Risk Factors**

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

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

During the three months ended March 31, 2011, we issued 125,122 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 March 31, 2011, under the dividend reinvestment plan was approximately \$2.4 million.

**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 January 7, 2011 (previously filed as Exhibit 10.1 to Main Street Capital Corporation's Current Report on Form 8-K filed January 10, 2011 (File No. 1-33723)). |
| 31.1                  | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 31.2                  | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 32.1                  | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).   |
| 32.2                  | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).   |

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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: May 6, 2011

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

Date: May 6, 2011

/s/ Todd A. Reppert  
Todd A. Reppert  
President and Chief Financial Officer (principal financial officer)

Date: May 6, 2011

/s/ Michael S. Galvan  
Michael S. Galvan  
Vice President and Chief Accounting Officer (principal accounting officer)

Date: May 6, 2011

/s/ Rodger A. Stout  
Rodger A. Stout  
Senior Vice President-Finance & Administration,  
Chief Compliance Officer and Treasurer

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**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>  |
|-----------------------|--|
| 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). |