

Main Street Capital CORP  
Form 10-Q  
November 07, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2014

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer's common stock as of November 6, 2014 was 44,944,926.

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Table of Contents**MAIN STREET CAPITAL CORPORATION****Consolidated Balance Sheets****(in thousands, except shares and per share amounts)**

|  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|-------------------------------|------------------------------|
|  | <b>(Unaudited)</b>            |                              |
| <b>ASSETS</b>  |                               |                              |
| Portfolio investments at fair value:   |                               |                              |
| Control investments (cost: \$299,621 and \$277,411 as of September 30, 2014 and December 31, 2013, respectively)   | \$ 413,587                    | \$ 356,973                   |
| Affiliate investments (cost: \$244,223 and \$242,592 as of September 30, 2014 and December 31, 2013, respectively)   | 259,795                       | 268,113                      |
| Non-Control/Non-Affiliate investments (cost: \$804,031 and \$643,068 as of September 30, 2014 and December 31, 2013, respectively)   | 814,652                       | 661,102                      |
| <br>   |                               |                              |
| Total portfolio investments (cost: \$1,347,875 and \$1,163,071 as of September 30, 2014 and December 31, 2013, respectively)   | 1,488,034                     | 1,286,188                    |
| Marketable securities and idle funds investments (cost: \$9,871 and \$14,885 as of September 30, 2014 and December 31, 2013, respectively)   | 9,207                         | 13,301                       |
| <br>   |                               |                              |
| Total investments (cost: \$1,357,746 and \$1,177,956 as of September 30, 2014 and December 31, 2013, respectively)   | 1,497,241                     | 1,299,489                    |
| Cash and cash equivalents  | 24,324                        | 34,701                       |
| Interest receivable and other assets   | 21,076                        | 16,054                       |
| Receivable for securities sold   | 26,075                        |                              |
| Deferred financing costs (net of accumulated amortization of \$5,906 and \$4,722 as of September 30, 2014 and December 31, 2013, respectively)   | 10,627                        | 9,931                        |
| <br>   |                               |                              |
| Total assets   | \$ 1,579,343                  | \$ 1,360,175                 |
| <br>   |                               |                              |
| <b>LIABILITIES</b>   |                               |                              |
| Credit facility  | \$ 287,000                    | \$ 237,000                   |
| SBIC debentures (par: \$225,000 as of September 30, 2014 and \$200,200 as of December 31, 2013, par of \$75,200 is recorded at a fair value of \$72,829 and \$62,050 as of September 30, 2014 and December 31, 2013, respectively) | 222,629                       | 187,050                      |
| 6.125% Notes   | 90,882                        | 90,882                       |
| Payable for securities purchased   | 498                           | 27,088                       |
| Deferred tax liability, net  | 12,583                        | 5,940                        |
| Dividend payable   | 7,640                         | 6,577                        |
| Accounts payable and other liabilities   | 8,220                         | 10,549                       |
| Interest payable   | 2,385                         | 2,556                        |
| <br>   |                               |                              |
| Total liabilities  | 631,837                       | 567,642                      |
| <br>   |                               |                              |
| Commitments and contingencies (Note M)   |                               |                              |
| <b>NET ASSETS</b>  |                               |                              |
| Common stock, \$0.01 par value per share (150,000,000 shares authorized; 44,945,194 and 39,852,604 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively)                                     | 449                           | 398                          |

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|   |                 |                 |
|---|-----------------|-----------------|
| Additional paid-in capital  | 847,796         | 694,981         |
| Accumulated net investment income, net of cumulative dividends of \$262,238 and \$199,140 as of September 30, 2014 and December 31, 2013, respectively  | 28,886          | 22,778          |
| Accumulated net realized gain from investments (accumulated net realized gain from investments of \$27,904 before cumulative dividends of \$56,998 as of September 30, 2014 and accumulated net realized gain from investments of \$17,115 before cumulative dividends of \$43,449 as of December 31, 2013) | (29,094)        | (26,334)        |
| Net unrealized appreciation, net of income taxes  | 99,469          | 100,710         |
| <br>  |                 |                 |
| Total net assets  | 947,506         | 792,533         |
| <br>  |                 |                 |
| Total liabilities and net assets  | \$ 1,579,343    | \$ 1,360,175    |
| <br>  |                 |                 |
| <b>NET ASSET VALUE PER SHARE</b>  | <b>\$ 21.08</b> | <b>\$ 19.89</b> |

The accompanying notes are an integral part of these financial statements

Table of Contents**MAIN STREET CAPITAL CORPORATION****Consolidated Statements of Operations****(in thousands, except per share amounts)****(Unaudited)**

|   | <b>Three Months Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |               |
|---|---|---------------|--|---------------|
|   | <b>2014</b>                                 | <b>2013</b>   | <b>2014</b>                                | <b>2013</b>   |
| <b>INVESTMENT INCOME:</b>   |   |               |  |               |
| Interest, fee and dividend income:  |   |               |  |               |
| Control investments   | \$ 9,705                                    | \$ 8,840      | \$ 29,547                                  | \$ 23,543     |
| Affiliate investments   | 6,687                                       | 6,453         | 18,412                                     | 17,514        |
| Non-Control/Non-Affiliate investments                                       | 19,839                                      | 13,974        | 53,488                                     | 40,974        |
| Interest, fee and dividend income   | 36,231                                      | 29,267        | 101,447                                    | 82,031        |
| Interest, fee and dividend income from marketable securities and idle funds | 120   | 392           | 557  | 1,073         |
| Total investment income   | 36,351                                      | 29,659        | 102,004                                    | 83,104        |
| <b>EXPENSES:</b>  |   |               |  |               |
| Interest  | (5,954)                                     | (5,922)       | (16,713)                                   | (15,346)      |
| Compensation  | (3,047)                                     | (2,575)       | (9,115)                                    | (5,148)       |
| General and administrative  | (1,871)                                     | (1,533)       | (5,279)                                    | (3,471)       |
| Share-based compensation  | (1,208)                                     | (2,152)       | (3,034)                                    | (3,357)       |
| Expenses charged to the External Investment Manager                         | 616   |               | 1,343                                      |               |
| Expenses reimbursed to affiliated Internal Investment Manager               |   |               |  | (3,189)       |
| Total expenses  | (11,464)                                    | (12,182)      | (32,798)                                   | (30,511)      |
| <b>NET INVESTMENT INCOME</b>  | <b>24,887</b>                               | <b>17,477</b> | <b>69,206</b>                              | <b>52,593</b> |
| <b>NET REALIZED GAIN (LOSS):</b>  |   |               |  |               |
| Control investments   |   | (2,635)       |  | (2,635)       |
| Affiliate investments   | 14,737                                      | 780           | 8,159                                      | 780           |
| Non-Control/Non-Affiliate investments                                       | 962   | (1,164)       | 2,634                                      | (1,024)       |
| Marketable securities and idle funds investments                            | 11  | 22            | (4)  | 285           |
| SBIC debentures   |   | (4,775)       |  | (4,775)       |
| Total net realized gain (loss)  | 15,710                                      | (7,772)       | 10,789                                     | (7,369)       |
| <b>NET REALIZED INCOME</b>  | <b>40,597</b>                               | <b>9,705</b>  | <b>79,995</b>                              | <b>45,224</b> |
| <b>NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):</b>                |   |               |  |               |
| Portfolio investments   | (6,891)                                     | 14,475        | 17,018                                     | 30,889        |
| Marketable securities and idle funds investments                            | (426)                                       | (490)         | 920  | (1,300)       |
| SBIC debentures   | (8,749)                                     | 4,839         | (10,778)                                   | 4,183         |
| Total net change in unrealized appreciation (depreciation)                  | (16,066)                                    | 18,824        | 7,160                                      | 33,772        |

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|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>INCOME TAXES:</b>  |                   |                   |                   |                   |
| Federal and state income, excise, and other taxes                                       | (960)             | (371)             | (1,758)           | (1,793)           |
| Deferred taxes  | (2,002)           | (104)             | (6,643)           | (1,515)           |
| Income tax provision  | (2,962)           | (475)             | (8,401)           | (3,308)           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>                             | <b>\$ 21,569</b>  | <b>\$ 28,054</b>  | <b>\$ 78,754</b>  | <b>\$ 75,688</b>  |
| <b>NET INVESTMENT INCOME PER SHARE BASIC AND DILUTED</b>                                | <b>\$ 0.55</b>    | <b>\$ 0.47</b>    | <b>\$ 1.61</b>    | <b>\$ 1.48</b>    |
| <b>NET REALIZED INCOME PER SHARE BASIC AND DILUTED</b>                                  | <b>\$ 0.90</b>    | <b>\$ 0.26</b>    | <b>\$ 1.86</b>    | <b>\$ 1.27</b>    |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE BASIC AND DILUTED</b> | <b>\$ 0.48</b>    | <b>\$ 0.76</b>    | <b>\$ 1.83</b>    | <b>\$ 2.13</b>    |
| <b>DIVIDENDS PAID PER SHARE:</b>  |                   |                   |                   |                   |
| Regular monthly dividends   | \$ 0.495          | \$ 0.465          | \$ 1.485          | \$ 1.380          |
| Supplemental dividends  |                   | 0.200             | 0.275             | 0.550             |
| Total dividends   | \$ 0.495          | \$ 0.665          | \$ 1.760          | \$ 1.930          |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED</b>                            | <b>44,910,756</b> | <b>37,144,693</b> | <b>43,027,105</b> | <b>35,558,266</b> |

The accompanying notes are an integral part of these financial statements

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

(in thousands, except shares)

(Unaudited)

|  | Common Stock        |              |                                  | Accumulated<br>Net<br>Investment<br>Income, Net<br>of Dividends | Accumulated<br>Net Realized<br>Gain From<br>Investments,<br>Net of<br>Dividends | Net Unrealized<br>Appreciation<br>from<br>Investments,<br>Net of Income<br>Taxes | Total Net<br>Asset Value |
|--|---------------------|--------------|----------------------------------|---|---|--|--------------------------|
|  | Number of<br>Shares | Par<br>Value | Additional<br>Paid-In<br>Capital |   |   |  |                          |
| <b>Balances at December 31, 2012</b>                             | 34,589,484          | \$ 346       | \$ 544,136                       | \$ 35,869   | \$ (19,155)   | \$ 81,780  | \$ 642,976               |
| Public offering of common stock, net<br>of offering costs        | 4,600,000           | 46           | 131,407                          |   |   |  | 131,453                  |
| Share-based compensation   |                     |              | 3,357                            |   |   |  | 3,357                    |
| Purchase of vested stock for employee<br>payroll tax withholding | (62,025)            | (1)          | (1,764)                          |   |   |  | (1,765)                  |
| Dividend reinvestment  | 278,166             | 3            | 8,727                            |   |   |  | 8,730                    |
| Issuance of restricted stock                                     | 274,895             | 3            | (3)                              |   |   |  |                          |
| Consolidation of Internal Investment<br>Manager                  |                     |              | 2,037                            |   |   |  | 2,037                    |
| Issuances of common stock  | 18,125              |              | 578                              |   |   |  | 578                      |
| Other  |                     |              | 69                               |   |   |  | 69                       |
| Dividends to stockholders  |                     |              |                                  | (65,748)  | (3,199)   |  | (68,947)                 |
| Net increase resulting from operations                           |                     |              |                                  | 43,043  | 2,181   | 30,464   | 75,688                   |
| <b>Balances at September 30, 2013</b>                            | 39,698,645          | \$ 397       | \$ 688,544                       | \$ 13,164   | \$ (20,173)   | \$ 112,244   | \$ 794,176               |
| <b>Balances at December 31, 2013</b>                             | 39,852,604          | \$ 398       | \$ 694,981                       | \$ 22,778   | \$ (26,334)   | \$ 100,710   | \$ 792,533               |
| Public offering of common stock, net<br>of offering costs        | 4,600,000           | 46           | 139,651                          |   |   |  | 139,697                  |
| Share-based compensation   |                     |              | 3,034                            |   |   |  | 3,034                    |
| Purchase of vested stock for employee<br>payroll tax withholding | (46,507)            |              | (1,481)                          |   |   |  | (1,481)                  |
| Dividend reinvestment  | 333,657             | 3            | 10,842                           |   |   |  | 10,845                   |
| Amortization of directors' deferred<br>compensation              |                     |              | 229                              |   |   |  | 229                      |
| Issuance of restricted stock                                     | 241,578             | 2            | (2)                              |   |   |  |                          |
| Tax benefit related to vesting of<br>restricted shares           |                     |              | 542                              |   |   |  | 542                      |
| Forfeited shares of terminated<br>employees                      | (36,138)            |              |                                  |   |   |  |                          |
| Dividends to stockholders  |                     |              |                                  | (63,098)  | (13,549)  |  | (76,647)                 |
| Net increase (loss) resulting from<br>operations                 |                     |              |                                  | 69,206  | 10,789  | (1,241)  | 78,754                   |
| <b>Balances at September 30, 2014</b>                            | 44,945,194          | \$ 449       | \$ 847,796                       | \$ 28,886   | \$ (29,094)   | \$ 99,469  | \$ 947,506               |



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Table of Contents**MAIN STREET CAPITAL CORPORATION****Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2014</b>                                | <b>2013</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |             |
| Net increase in net assets resulting from operations  | \$ 78,754                                  | \$ 75,688   |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |  |             |
| Investments in portfolio companies  | (637,843)                                  | (533,435)   |
| Proceeds from sales and repayments of debt investments in portfolio companies   | 396,557                                    | 325,150     |
| Proceeds from sales of equity investments in portfolio companies  | 26,117                                     | 1,336       |
| Investments in marketable securities and idle funds investments   | (17,704)                                   | (53,102)    |
| Proceeds from sales and repayments of marketable securities and idle funds investments                                  | 22,747                                     | 44,395      |
| Net change in unrealized appreciation   | (7,160)                                    | (33,772)    |
| Net realized (gain) loss  | (10,789)                                   | 7,369       |
| Accretion of unearned income  | (8,167)                                    | (7,721)     |
| Payment-in-kind interest  | (3,947)                                    | (3,517)     |
| Cumulative dividends  | (1,422)                                    | (1,000)     |
| Share-based compensation expense  | 3,034                                      | 3,357       |
| Amortization of deferred financing costs  | 1,184                                      | 1,167       |
| Deferred taxes  | 6,643                                      | 1,515       |
| Changes in other assets and liabilities:  |  |             |
| Interest receivable and other assets  | (4,480)                                    | 1,009       |
| Interest payable  | (171)                                      | (1,345)     |
| Payable to affiliated Internal Investment Manager   |  | (3,960)     |
| Accounts payable and other liabilities  | (1,584)                                    | 1,376       |
| Deferred fees and other   | 1,457                                      | 2,558       |
| <br>  |  |             |
| Net cash used in operating activities   | (156,774)                                  | (172,932)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |  |             |
| Proceeds from public offering of common stock, net of offering costs  | 139,697                                    | 131,453     |
| Proceeds from public offering of 6.125% Notes   |  | 92,000      |
| Repurchases of 6.125% Notes   |  | (1,108)     |
| Dividends paid to stockholders  | (64,739)                                   | (59,052)    |
| Proceeds from issuance of SBIC debentures   | 24,800                                     |             |
| Repayments of SBIC debentures   |  | (63,800)    |
| Proceeds from credit facility   | 353,000                                    | 360,000     |
| Repayments on credit facility   | (303,000)                                  | (326,000)   |
| Payment of deferred loan costs and SBIC debenture fees  | (1,880)                                    | (5,317)     |
| Purchase of vested stock for employee payroll tax withholding   | (1,481)                                    | (1,765)     |
| Other   |  | 578         |
| <br>  |  |             |
| Net cash provided by financing activities   | 146,397                                    | 126,989     |
| <br>  |  |             |
| Net decrease in cash and cash equivalents   | (10,377)                                   | (45,943)    |

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|   |                  |                  |
|---|------------------|------------------|
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD  | 34,701           | 63,517           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b> | <b>\$ 24,324</b> | <b>\$ 17,574</b> |

**Supplemental cash flow disclosures:**

|               |           |           |
|---------------|-----------|-----------|
| Interest paid | \$ 15,701 | \$ 15,558 |
| Taxes paid    | \$ 3,656  | \$ 4,803  |

**Non-cash financing activities:**

|                                    |           |          |
|------------------------------------|-----------|----------|
| Shares issued pursuant to the DRIP | \$ 10,845 | \$ 8,730 |
|------------------------------------|-----------|----------|

The accompanying notes are an integral part of these financial statements

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

**September 30, 2014**

(in thousands)

(Unaudited)

| Portfolio Company(1)  | Business Description                                | Type of Investment(2)(3)  | Principal(4) | Cost(4)                 | Fair Value              |
|---|---|---|--------------|-------------------------|-------------------------|
| <b>Control Investments(5)</b>                               |   |   |              |                         |                         |
| <b>ASC Interests, LLC</b>                                   | Recreational and Educational Shooting Facility      | 11% Secured Debt (Maturity July 31, 2018)<br>Member Units (1,500 units)   | 3,225        | 3,172<br>1,500          | 3,225<br>1,660          |
|   |   |   |              | 4,672                   | 4,885                   |
| <b>Bond-Coat, Inc.</b>                                      | Casing and Tubing Coating Services                  | 12% Secured Debt (Maturity December 28, 2017)<br>Common Stock (57,508 shares)   | 13,570       | 13,438<br>6,350         | 13,570<br>11,210        |
|   |   |   |              | 19,788                  | 24,780                  |
| <b>Café Brazil, LLC</b>                                     | Casual Restaurant Group                             | Member Units (1,233 units)(8)   |              | 1,742                   | 6,980                   |
| <b>California Healthcare Medical Billing, Inc.</b>          | Outsourced Billing and Revenue Cycle Management     | 9% Secured Debt (Maturity October 17, 2016)<br>Warrants (466,947 equivalent shares)<br>Common Stock (207,789 shares)  | 8,703        | 8,551<br>1,193<br>1,177 | 8,703<br>3,480<br>1,460 |
|   |   |   |              | 10,921                  | 13,643                  |
| <b>CBT Nuggets, LLC</b>                                     | Produces and Sells IT Training Certification Videos | Member Units (416 units)(8)   |              | 1,300                   | 25,150                  |
| <b>Ceres Management, LLC (Lamb's Tire &amp; Automotive)</b> | Aftermarket Automotive Services Chain               | 14% Secured Debt (Maturity May 31, 2018)<br>Class B Member Units (12% cumulative)(8)<br>Member Units (5,460 units)<br>9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity October 1, 2025)<br>Member Units (Lamb's Real Estate Investment I, LLC) (1,000 units)(8) | 4,000        | 4,000<br>3,926<br>5,273 | 4,000<br>3,926<br>1,520 |
|   |   |   | 980          | 980                     | 980                     |
|   |   |   |              | 625                     | 1,240                   |

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|                     |  |        |        |        |
|---------------------|--|--------|--------|--------|
|                     |  |        | 14,804 | 11,666 |
| <b>Datacom, LLC</b> | Technology and Telecommunications Provider |        |        |        |
|                     | 8% Secured Debt (Maturity May 31, 2015)    | 450    | 447    | 447    |
|                     | 10.5% Secured Debt (Maturity May 31, 2019) | 11,205 | 11,099 | 11,099 |
|                     | Member Units (6,453 units)                 |        | 6,030  | 6,030  |
|                     |  |        | 17,576 | 17,576 |
|                     | 5  |        |        |        |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                         | Business Description   | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|--|--|--|--------------|---------|------------|
| Garreco, LLC                                 | Manufacturer and Supplier of Dental Products                     | 14% Secured Debt (Maturity January 12, 2018)                           | 5,400        | 5,315   | 5,315      |
|  |  | Member Units (1,200 units)   |              | 1,200   | 1,200      |
|  |  |  |              | 6,515   | 6,515      |
| Gulf Manufacturing, LLC                      | Manufacturer of Specialty Fabricated Industrial Piping Products  | 9% PIK Secured Debt (Ashland Capital IX, LLC) (Maturity June 30, 2017) | 744          | 744     | 744        |
|  |  | Member Units (438 units)(8)  |              | 2,980   | 16,540     |
|  |  |  |              | 3,724   | 17,284     |
| Harrison Hydra-Gen, Ltd.                     | Manufacturer of Hydraulic Generators                             | 12% Secured Debt (Maturity June 4, 2015)                               | 5,487        | 5,372   | 5,487      |
|  |  | Preferred Stock (8% cumulative)(8)                                     |              | 1,237   | 1,237      |
|  |  | Common Stock (107,456 shares)(8)                                       |              | 718     | 1,620      |
|  |  |  |              | 7,327   | 8,344      |
| Hawthorne Customs and Dispatch Services, LLC | Facilitator of Import Logistics, Brokerage, and Warehousing      | Member Units (500 units)(8)  |              | 589     | 290        |
|  |  | Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.2%)(8)   |              | 1,215   | 2,050      |
|  |  |  |              | 1,804   | 2,340      |
| Hydratec, Inc.                               | Designer and Installer of Micro-Irrigation Systems               | Common Stock (7,095 shares)(8)   |              | 7,095   | 13,720     |
| IDX Broker, LLC                              | Provider of Marketing and CRM Tools for the Real Estate Industry | 12.5% Secured Debt (Maturity November 18, 2018)                        | 10,571       | 10,479  | 10,479     |
|  |  | Member Units (5,029 units)   |              | 5,029   | 5,450      |

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|                             |                                      |   |        |        |
|-----------------------------|--------------------------------------|---|--------|--------|
|                             |                                      |   | 15,508 | 15,929 |
| <b>Impact Telecom, Inc.</b> | Telecommunications Services Provider |   |        |        |
|                             |                                      | LIBOR Plus 6.50% (Floor 2.00%), Current Coupon 8.50%, Secured Debt (Maturity May 31, 2018)(9) | 1,575  | 1,569  |
|                             |                                      | 13% Secured Debt (Maturity May 31, 2018)  | 22,500 | 15,342 |
|                             |                                      | Warrants (5,516,667 equivalent shares)  |        | 8,000  |
|                             |                                      |   | 24,911 | 21,071 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                                     | Business Description   | Type of Investment(2)(3)  | Principal(4)          | Cost(4)                               | Fair Value                             |
|--|--|---|-----------------------|---------------------------------------|--|
| Indianapolis Aviation Partners, LLC                      | Fixed Base Operator  | 15% Secured Debt (Maturity January 15, 2015)  | 3,100                 | 3,100                                 | 3,100                                  |
|  |  | Warrants (1,046 equivalent units)   |                       | 1,129                                 | 2,541                                  |
|  |  |   |                       | 4,229                                 | 5,641                                  |
| Jensen Jewelers of Idaho, LLC                            | Retail Jewelry Store   | Prime Plus 6.75% (Floor 3.25%), Current Coupon 10.00%, Secured Debt (Maturity November 14, 2016)(9)<br>Member Units (627 units)(8)  | 3,805                 | 3,762<br>811                          | 3,805<br>3,300                         |
|  |  |   |                       | 4,573                                 | 7,105                                  |
| Lighting Unlimited, LLC                                  | Commercial and Residential Lighting Products and Design Services | 8% Secured Debt (Maturity August 22, 2015)<br>Preferred Equity (non-voting)<br>Warrants (71 equivalent units)<br>Member Units (700 units)(8)  | 1,568                 | 1,568<br>442<br>54<br>100             | 1,568<br>442<br>40<br>360              |
|  |  |   |                       | 2,164                                 | 2,410                                  |
| Marine Shelters Holdings, LLC (LoneStar Marine Shelters) | Fabricator of Marine and Industrial Shelters                     | 12% Secured Debt (Maturity December 28, 2017)<br>Preferred Member Units (2,669 units)   | 10,250                | 10,103<br>3,750                       | 10,103<br>3,750                        |
|  |  |   |                       | 13,853                                | 13,853                                 |
| Mid-Columbia Lumber Products, LLC                        | Manufacturer of Finger-Jointed Lumber Products                   | 10% Secured Debt (Maturity December 18, 2017)<br>12% Secured Debt (Maturity December 18, 2017)<br>Member Units (2,829 units)(8)<br>9.5% Secured Debt (Mid-Columbia Real Estate, LLC) (Maturity May 13, 2025)<br>Member Units (Mid-Columbia Real Estate, LLC) (250 units)(8) | 1,750<br>3,900<br>938 | 1,750<br>3,900<br>1,244<br>938<br>250 | 1,750<br>3,900<br>11,750<br>938<br>550 |



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|                              |  |  |        |        |
|------------------------------|--|--|--------|--------|
|                              |  |  | 8,082  | 18,888 |
| <b>MSC Adviser I, LLC</b>    | Third Party Investment<br>Advisory Services                                    |  |        |        |
|                              |  | Member Units (Fully diluted 100.0%)(8)                         |        | 8,549  |
| <b>Mystic Logistics, Inc</b> | Logistics and<br>Distribution Services<br>Provider for Large<br>Volume Mailers |  |        |        |
|                              |  | 12% First Lien Secured Term Loan<br>(Maturity August 15, 2019) | 10,000 | 9,782  |
|                              |  | Common Stock (5,873 shares)                                    |        | 2,720  |
|                              |  |  | 12,502 | 12,502 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                    | Business Description                           | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|--|--|--------------|---------|------------|
| NAPCO Precast, LLC                      | Precast Concrete Manufacturing                 | Prime Plus 2% (Floor 7.00%), Current Coupon 9%, Secured Debt (Maturity September 1, 2015)(9) | 625          | 612     | 625        |
|   |  | Prime Plus 2% (Floor 7.00%), Current Coupon 9%, Secured Debt (Maturity February 1, 2016)(9)  | 2,923        | 2,913   | 2,923      |
|   |  | 18% Secured Debt (Maturity February 1, 2016)   | 4,468        | 4,434   | 4,468      |
|   |  | Member Units (2,955 units)(8)  |              | 2,975   | 6,740      |
|   |  |  |              | 10,934  | 14,756     |
| NRI Clinical Research, LLC              | Clinical Research Service Provider             | 14% Secured Debt (Maturity September 8, 2016)  | 4,991        | 4,862   | 4,862      |
|   |  | Warrants (251,723 equivalent units)  |              | 252     | 160        |
|   |  | Member Units (671,233 units)   |              | 671     | 722        |
|   |  |  |              | 5,785   | 5,744      |
| NRP Jones, LLC                          | Manufacturer of Hoses, Fittings and Assemblies | 12% Secured Debt (Maturity December 22, 2016)  | 12,100       | 11,535  | 11,535     |
|   |  | Warrants (14,331 equivalent units)   |              | 817     | 1,020      |
|   |  | Member Units (50,877 units)(8)   |              | 2,900   | 3,390      |
|   |  |  |              | 15,252  | 15,945     |
| OMi Holdings, Inc.                      | Manufacturer of Overhead Cranes                | Common Stock (1,500 shares)(8)   |              | 1,080   | 13,420     |
| Pegasus Research Group, LLC (Televerde) | Provider of Telemarketing and Data Services    | Member Units (460 units)(8)  |              | 1,290   | 5,650      |
|   |  |  |              |         |            |
| PPL RVs, Inc.                           | Recreational Vehicle Dealer                    | 11.1% Secured Debt (Maturity June 10, 2015)  | 7,860        | 7,843   | 7,860      |
|   |  | Common Stock (1,961 shares)  |              | 2,150   | 8,160      |
|   |  |  |              | 9,993   | 16,020     |
| Principle Environmental, LLC            |  |  |              |         |            |

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Noise Abatement Service  
Provider

|   |       |       |        |
|---|-------|-------|--------|
| 12% Secured Debt (Maturity April 30, 2017)                    | 4,060 | 3,762 | 4,060  |
| 12% Current / 2% PIK Secured Debt (Maturity - April 30, 2017) | 3,228 | 3,207 | 3,228  |
| Preferred Member Units (19,631 units)                         |       | 4,663 | 11,830 |
| Warrants (1,036 equivalent units)                             |       | 1,200 | 720    |

12,832      19,838

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)   | Business Description  | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|------------------------|---|--|--------------|---------|------------|
| River Aggregates, LLC  | Processor of<br>Construction Aggregates                                 | Zero Coupon Secured Debt<br>(Maturity June 30, 2018)                         | 750          | 448     | 448        |
|                        |   | 12% Secured Debt (Maturity June 30,<br>2018)                                 | 500          | 500     | 500        |
|                        |   | Member Units (1,150 units)   |              | 1,150   | 1,690      |
|                        |   | Member Units (RA Properties, LLC)<br>(1,500 units)                           |              | 369     | 369        |
|                        |   |  |              |         | 2,467      |
| Southern RV, LLC       | Recreational Vehicle<br>Dealer  | 13% Secured Debt (Maturity August 8,<br>2018)                                | 11,400       | 11,259  | 11,259     |
|                        |   | Member Units (1,680 units)(8)  |              | 1,680   | 4,450      |
|                        |   | 13% Secured Debt (Southern RV Real<br>Estate, LLC) (Maturity August 8, 2018) | 3,250        | 3,210   | 3,210      |
|                        |   | Member Units (Southern RV Real<br>Estate, LLC) (480 units)                   |              | 480     | 470        |
|                        |   |  |              |         | 16,629     |
| The MPI Group, LLC     | Manufacturer of Custom<br>Hollow Metal Doors,<br>Frames and Accessories | 4.5% Current / 4.5% PIK Secured Debt<br>(Maturity - July 1, 2019)            | 1,079        | 1,079   | 880        |
|                        |   | 6% Current / 6% PIK Secured Debt<br>(Maturity July 1, 2019)                  | 5,845        | 5,845   | 4,806      |
|                        |   | Warrants (1,068 equivalent units)  |              | 1,096   |            |
|                        |   |  |              |         | 8,020      |
| Travis Acquisition LLC | Manufacturer of<br>Aluminum Trailers                                    | 12% Secured Debt (Maturity August 30,<br>2018)                               | 4,808        | 4,728   | 4,808      |
|                        |   | Member Units (7,282 units)   |              | 7,100   | 12,350     |
|                        |   |  |              |         | 11,828     |
| Uvalco Supply, LLC     | Farm and Ranch Supply<br>Store  | 9% Secured Debt (Maturity January 1,<br>2019)                                | 1,896        | 1,896   | 1,896      |
|                        |   | Member Units (1,006 units)(8)  |              | 1,113   | 3,420      |
|                        |   |  |              |         |            |

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|                               |   |  |       |       |
|-------------------------------|---|--|-------|-------|
|                               |   |  | 3,009 | 5,316 |
| <b>Vision Interests, Inc.</b> | <b>Manufacturer / Installer<br/>of Commercial Signage</b> |  |       |       |
|                               |   | 13% Secured Debt<br>(Maturity December 23, 2016) | 3,204 | 3,167 |
|                               |   | Series A Preferred Stock (3,000,000<br>shares)   |       | 3,000 |
|                               |   | Common Stock (1,126,242 shares)                  |       | 3,250 |
|                               |   |  | 3,706 | 100   |
|                               |   |  | 9,873 | 6,517 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)   | Business Description    | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|--|-------------------------|--|--------------|---------|------------|
| Ziegler's NYPD, LLC  | Casual Restaurant Group | Prime Plus 2% (Floor 7.00%), Current<br>Coupon 9%, Secured Debt<br>(Maturity October 1, 2018)(9) | 1,500        | 1,490   | 1,490      |
|  |                         | 9% Current / 9% PIK Secured Debt<br>(Maturity October 1, 2018)                                   | 5,449        | 5,449   | 4,820      |
|  |                         | Warrants (587 equivalent units)  |              | 600     |            |
|  |                         |  |              | 7,539   | 6,310      |
| <b>Subtotal Control Investments (27.6% of total investments at fair value)</b> |                         |  |              | 299,621 | 413,587    |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                                | Business Description   | Type of Investment(2)(3)  | Principal(4) | Cost(4)         | Fair Value       |
|---|--|---|--------------|-----------------|------------------|
| <b>Affiliate Investments(6)</b>                     |  |   |              |                 |                  |
| <b>Boss Industries, LLC</b>                         | Manufacturer and distributor of air compressors, auxiliary power units, gas booster systems and vapor recovery systems | Preferred Member Units (2,242 units)  |              | 2,000           | 2,000            |
| <b>Bridge Capital Solutions Corporation</b>         | Financial Services and Cash Flow Solutions Provider  | 13% Secured Debt (Maturity April 17, 2017)<br>Warrants (19 equivalent shares)   | 6,000        | 5,823<br>200    | 5,823<br>630     |
|   |  |   |              | 6,023           | 6,453            |
| <b>Brightwood Capital Fund III, LP(12)(13)</b>      | Investment Partnerships  | LP Interests (Brightwood Capital Fund III, LP) (Fully diluted 9.14%)(8)   |              | 8,718           | 8,718            |
| <b>Condit Exhibits, LLC</b>                         | Tradeshaw Exhibits / Custom Displays Provider  | Member Units (3,936 units)(8)   |              | 100             | 500              |
| <b>Congruent Credit Opportunities Funds(12)(13)</b> | Investment Partnerships  | LP Interests (Congruent Credit Opportunities Fund II, LP) (Fully diluted 19.8%)(8)<br>LP Interests (Congruent Credit Opportunities Fund III, LP) (Fully diluted 17.4%)(8) |              | 22,106<br>5,382 | 22,048<br>5,382  |
|   |  |   |              | 27,488          | 27,430           |
| <b>Daseke, Inc.</b>                                 | Specialty Transportation Provider  | 12% Current / 2.5% PIK Secured Debt (Maturity July 31, 2018)<br>Common Stock (19,467 shares)  | 20,592       | 20,256<br>5,213 | 20,592<br>12,610 |
|   |  |   |              | 25,469          | 33,202           |
| <b>Dos Rios Partners(12)(13)</b>                    | Investment Partnerships  | LP Interests (Dos Rios Partners, LP) (Fully diluted 20.24%)   |              | 1,269           | 1,247            |

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|  |   |       |       |
|--|---|-------|-------|
|  | LP Interests (Dos Rios Partners A, LP)<br>(Fully diluted 6.43%) | 403   | 424   |
|  |   | 1,672 | 1,671 |
| <b>East Teak Fine Hardwoods, Inc.</b>              | Distributor of Hardwood<br>Products                             |       |       |
|  | Common Stock (5,000 shares)(8)                                  | 480   | 860   |
| <b>Freeport Financial SBIC<br/>Fund LP(12)(13)</b> | Investment Partnership  |       |       |
|  | LP Interests (Fully diluted 9.9%)(8)                            | 4,213 | 4,213 |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                    | Business Description  | Type of Investment(2)(3)                                      | Principal(4) | Cost(4) | Fair Value |
|---|---|---|--------------|---------|------------|
| Gault Financial, LLC (RMB Capital, LLC) | Purchases and Manages Liquidation of Distressed Assets        | 8% Current / 9% PIK Secured Debt (Maturity November 21, 2016) | 13,046       | 12,717  | 10,750     |
|   |   | Warrants (29,025 equivalent units)                            |              | 400     |            |
|   |   |   |              | 13,117  | 10,750     |
| Glowpoint, Inc.                         | Provider of Cloud Managed Video Collaboration Services        | 8% Secured Debt (Maturity October 18, 2018)                   | 400          | 397     | 397        |
|   |   | 12% Secured Debt (Maturity October 18, 2018)                  | 9,000        | 8,904   | 8,904      |
|   |   | Common Stock (GP Investment Holdings, LLC) (7,711,517 shares) |              | 3,958   | 10,020     |
|   |   |   |              | 13,259  | 19,321     |
| Guerdon Modular Holdings, Inc.          | Multi-Family and Commercial Modular Construction Company      | 11% Senior Secured Term Loan (Maturity August 13, 2019)       | 11,200       | 11,038  | 11,038     |
|   |   | Common Stock (213,221 shares)                                 |              | 2,400   | 2,400      |
|   |   |   |              | 13,438  | 13,438     |
| Houston Plating and Coatings, LLC       | Provider of Plating and Industrial Coating Services           | Member Units (248,082 units)(8)                               |              | 996     | 10,570     |
| Indianhead Pipeline Services, LLC       | Provider of Pipeline Support Services                         | 12% Secured Debt (Maturity February 6, 2017)                  | 7,125        | 6,817   | 6,817      |
|   |   | Preferred Member Units (28,905 units; 8% cumulative)(8)       |              | 1,952   | 1,952      |
|   |   | Warrants (38,193 equivalent units)                            |              | 459     |            |
|   |   | Member Units (14,732 units)                                   |              | 1       |            |
|   |   |   |              | 9,229   | 8,769      |
| irth Solutions, LLC                     | Provider of Damage Prevention Information Technology Services |   |              |         |            |

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|   |  |  |       |       |        |
|---|--|--|-------|-------|--------|
|   |  | Member Units (128 units)(8)                      |       | 624   | 3,870  |
| <b>KBK Industries, LLC</b>                  | Specialty Manufacturer of Oilfield and Industrial Products |  |       |       |        |
|   |  | 12.5% Secured Debt (Maturity September 28, 2017) | 8,250 | 8,194 | 8,250  |
|   |  | Member Units (250 units)(8)                      |       | 341   | 5,920  |
|   |  |  |       | 8,535 | 14,170 |
| <b>L.F. Manufacturing Holdings, LLC(10)</b> | Manufacturer of Fiberglass Products                        |  |       |       |        |
|   |  | Member Units (2,000,000 units)(8)                |       | 2,019 | 2,374  |
| <b>MPS Denver, LLC</b>                      | Specialty Card Printing                                    |  |       |       |        |
|   |  | Member Units (13,800 units)                      |       | 1,130 | 1,130  |

Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2014****(in thousands)****(Unaudited)**

| <b>Portfolio Company(1)</b>                   | <b>Business Description</b>  | <b>Type of Investment(2)(3)</b>                       | <b>Principal(4)</b> | <b>Cost(4)</b> | <b>Fair Value</b> |
|---|--|---|---------------------|----------------|-------------------|
| <b>OnAsset Intelligence, Inc.</b>             | Provider of Transportation Monitoring / Tracking Products and Services | 12% PIK Secured Debt (Maturity November 30, 2014)     | 1,795               | 1,795          | 1,795             |
|   |  | 12% PIK Secured Debt (Maturity November 30, 2014)     | 1,652               | 1,652          | 1,652             |
|   |  | Preferred Stock (912 shares; 7% cumulative)(8)        |                     | 1,913          | 2,663             |
|   |  | Warrants (5,333 equivalent shares)                    |                     | 1,919          | 502               |
|   |  |   |                     | 7,279          | 6,612             |
| <b>OPI International Ltd.(13)</b>             | Provider of Man Camp and Industrial Storage Services                   | Common Stock (20,766,317 shares)                      |                     | 1,371          | 4,971             |
| <b>PCI Holding Company, Inc.</b>              | Manufacturer of Industrial Gas Generating Systems                      | Preferred Stock (1,500,000 shares; 20% cumulative)(8) |                     | 2,147          | 3,970             |
| <b>Quality Lease and Rental Holdings, LLC</b> | Provider of Rigsite Accommodation Unit Rentals and Related Services    | 8% Secured Revolver (Maturity October 1, 2014)(14)    | 330                 | 330            | 330               |
|   |  | 12% Secured Debt (Maturity January 8, 2018)(14)       | 36,577              | 36,073         | 12,500            |
|   |  | Preferred Member Units (Rocacnea, LLC) (250 units)    |                     | 2,500          |                   |
|   |  |   |                     | 38,903         | 12,830            |
| <b>Radial Drilling Services Inc.</b>          | Oil and Gas Technology Provider  | 12% Secured Debt (Maturity November 22, 2016)         | 4,200               | 3,748          | 3,748             |
|   |  | Warrants (316 equivalent shares)                      |                     | 758            |                   |
|   |  |   |                     | 4,506          | 3,748             |
| <b>Samba Holdings, Inc.</b>                   | Provider of Intelligent Driver Record Monitoring Software and Services |   |                     |                |                   |

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|  |        |        |        |
|--|--------|--------|--------|
| 12.5% Secured Debt<br>(Maturity November 17, 2016) | 10,418 | 10,327 | 10,418 |
| Common Stock (158,066 shares)                      |        | 1,707  | 4,990  |

12,034 15,408

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)   | Business Description   | Type of Investment(2)(3)   | Principal(4) | Cost(4)        | Fair Value     |
|--|--|--|--------------|----------------|----------------|
| Spectrio LLC   | Provider of Audio and Digital Messaging Services                         | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity November 19, 2018)(9) | 15,302       | 14,975         | 15,302         |
|  |  | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity November 19, 2018)(9) | 2,296        | 2,296          | 2,296          |
|  |  | Warrants (191 equivalent units)  |              | 887            | 4,200          |
|  |  |  |              | 18,158         | 21,798         |
| SYNEO, LLC   | Manufacturer of Automation Machines, Specialty Cutting Tools and Punches | 12% Secured Debt (Maturity July 13, 2016)  | 2,800        | 2,770          | 2,770          |
|  |  | Member Units (1,177 units)(8)  |              | 1,097          | 801            |
|  |  | 10% Secured Debt (Leadrock Properties, LLC) (Maturity May 4, 2026)                                 | 1,440        | 1,414          | 1,414          |
|  |  |  |              |                | 5,281          |
| Tin Roof Acquisition Company   | Casual Restaurant Group  | 12% Secured Debt (Maturity November 30, 2018)  | 14,100       | 13,849         | 13,849         |
|  |  | Class C Preferred Equity (Fully diluted 10%; 10% cumulative)(8)                                    |              | 2,185          | 2,185          |
|  |  |  |              | 16,034         | 16,034         |
| <b>Subtotal Affiliate Investments (17.4% of total investments at fair value)</b> |  |  |              | <b>244,223</b> | <b>259,795</b> |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                            | Business Description   | Type of Investment(2)(3)   | Principal(4) | Cost(4)         | Fair Value      |
|---|--|--|--------------|-----------------|-----------------|
| <b>Non-Control/Non-Affiliate Investments(7)</b> |  |  |              |                 |                 |
| Academi Holdings, LLC(11)                       | Provider of Training, Security, and Support Services   | LIBOR Plus 5.25% (Floor 1%), Current Coupon 6.25%, Secured Debt (Maturity July 25, 2019)(9)  | 6,000        | 5,943           | 5,970           |
| Accuvant Finance, LLC(11)                       | Cyber Security Value Added Reseller  | LIBOR Plus 4.75% (Floor 1%), Current Coupon 5.75%, Secured Debt (Maturity October 22, 2020)(9)   | 5,603        | 5,551           | 5,575           |
| Allflex Holdings III Inc.(11)                   | Manufacturer of Livestock Identification Products  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity July 19, 2021)(9)   | 8,000        | 7,956           | 7,972           |
| AM3 Pinnacle Corporation(10)                    | Provider of Comprehensive Internet, TV and Voice Services for Multi-Dwelling Unit Properties | 10% Secured Debt (Maturity October 22, 2018)<br>Common Stock (60,240 shares)   | 22,036       | 21,882<br>2,000 | 21,882<br>2,000 |
|   |  |  |              | 23,882          | 23,882          |
| AM General LLC(11)                              | Specialty Vehicle Manufacturer   | LIBOR Plus 9.00% (Floor 1.25%), Current Coupon 10.25%, Secured Debt (Maturity March 22, 2018)(9)   | 2,625        | 2,566           | 2,441           |
| AmeriTech College, LLC                          | For-Profit Nursing and Healthcare College  | 18% Secured Debt (Maturity March 9, 2017)  | 6,050        | 5,977           | 5,977           |
| AMF Bowling Centers, Inc.(11)                   | Bowling Alley Operator   | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity September 18, 2021)(9)                                      | 5,000        | 4,926           | 4,997           |
| Anchor Hocking, LLC(11)                         | Household Products Manufacturer  | LIBOR Plus 6.50% (Floor 1.25%), Current Coupon 7.75% / 1.75% PIK, Current Coupon Plus PIK 9.50%, Secured Debt (Maturity May 21, 2020)(9) | 10,890       | 10,813          | 8,481           |
| Ancile Solutions, Inc.(11)                      |  |  |              |                 |                 |

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Provider of eLearning  
Solutions

LIBOR Plus 5.00% (Floor 1.25%),  
Current Coupon 6.25%, Secured Debt  
(Maturity July 15, 2018)(9)

8,450

8,408

8,450

15

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)       | Business Description                                     | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|----------------------------|--|---|--------------|---------|------------|
| Answers Corporation(11)    | Consumer Internet Search Services Provider               | LIBOR Plus 5.50% (Floor 1.00%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity December 20, 2018)(9)  | 6,256        | 6,202   | 6,334      |
| AP Gaming I, LLC(10)       | Developer, Manufacturer, and Operator of Gaming Machines | LIBOR Plus 8.25% (Floor 1.00%),<br>Current Coupon 9.25%, Secured Debt<br>(Maturity December 20, 2020)(9)  | 6,948        | 6,755   | 7,017      |
| Applied Products, Inc.(10) | Adhesives Distributor                                    | LIBOR Plus 6.50% (Floor 1.00%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity September 30, 2019)(9) | 236          | 225     | 225        |
|                            |  | LIBOR Plus 6.50% (Floor 1.00%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity September 30, 2019)(9) | 6,000        | 5,948   | 5,948      |
|                            |  |   |              | 6,173   | 6,173      |
| Aptean, Inc.(11)           | Enterprise Application Software Provider                 | LIBOR Plus 4.25% (Floor 1.00%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity February 26, 2020)(9)  | 12,686       | 12,643  | 12,623     |
| Artel, LLC(11)             | Land-Based and Commercial Satellite Provider             | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity November 27, 2017)(9)  | 4,711        | 4,662   | 4,641      |
| Ascend Learning, LLC(11)   | Technology-based Healthcare Learning Solutions           | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity July 31, 2019)(9)      | 4,479        | 4,460   | 4,503      |
| ATS Workholding, Inc.(10)  | Manufacturer of Machine Cutting Tools and Accessories    | LIBOR Plus 7.00% (Floor 1.00%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity March 10, 2019)(9)     | 838          | 821     | 821        |
|                            |  | LIBOR Plus 7.00% (Floor 1.00%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity March 10, 2019)(9)     | 5,796        | 5,750   | 5,750      |



6,571 6,571

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                     | Business Description  | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|--|---|--|--------------|---------|------------|
| Beers Enterprises, Inc.(10)              | Provider of Broadcast Video Transport Services                      | Prime Plus 7.50% (Floor 1.00%), Current Coupon 8.5%, Secured Debt (Maturity March 19, 2019)(9)     | 1,842        | 1,822   | 1,822      |
|  |   | Prime Plus 7.50% (Floor 1.00%), Current Coupon 8.5%, Secured Debt (Maturity March 19, 2019)(9)     | 4,421        | 4,385   | 4,385      |
|  |   |  |              | 6,207   | 6,207      |
| B. J. Alan Company                       | Retailer and Distributor of Consumer Fireworks                      | 12.75% Current / 2.75% PIK Secured Debt (Maturity June 22, 2017)                                   | 10,634       | 10,576  | 10,576     |
| Blackbrush Oil and Gas LP(11)            | Oil & Gas Exploration   | LIBOR Plus 6.50%, Secured Debt (Maturity July 30, 2021)  | 4,000        | 3,970   | 3,950      |
| Blackhawk Specialty Tools LLC(11)        | Oilfield Equipment & Services                                       | LIBOR Plus 5.25% (Floor 1.25%), Current Coupon 6.50%, Secured Debt (Maturity August 1, 2019)(9)    | 6,307        | 6,270   | 6,307      |
| Blue Bird Body Company(11)               | School Bus Manufacturer   | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity June 26, 2020)(9)     | 11,500       | 11,335  | 11,356     |
| Bluestem Brands, Inc.(11)                | Multi-Channel Retailer of General Merchandise                       | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity December 6, 2018)(9)  | 3,289        | 3,232   | 3,299      |
| Brainworks Software, LLC(10)             | Advertising Sales and Production and Newspaper Circulation Software | LIBOR Plus 8.25% (Floor 1.00%), Current Coupon 9.25%, Secured Debt (Maturity July 22, 2019)(9)     | 6,263        | 6,178   | 6,178      |
| Brasa Holdings Inc.(11)                  | Upscale Full Service Restaurants                                    | LIBOR Plus 9.50% (Floor 1.50%), Current Coupon 11.00%, Secured Debt (Maturity January 20, 2020)(9) | 2,143        | 2,126   | 2,166      |
| Brundage-Bone Concrete Pumping, Inc.(11) | Construction Services Provider                                      | 10.375% Secured Debt (Maturity September 1, 2021)  | 2,500        | 2,500   | 2,575      |

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|                                 |                                   |                                      |       |       |       |
|---------------------------------|-----------------------------------|--------------------------------------|-------|-------|-------|
| Calloway Laboratories, Inc.(10) | Health Care Testing<br>Facilities | 12% PIK Secured Debt                 |       |       |       |
|                                 |                                   | (Maturity September 30, 2015)(14)    | 7,131 | 7,082 | 2,968 |
|                                 |                                   | Warrants (125,000 equivalent shares) |       | 17    |       |
|                                 |                                   |                                      |       | 7,099 | 2,968 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                    | Business Description                  | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|---------------------------------------|--|--------------|---------|------------|
| Cedar Bay Generation Company LP(11)     | Coal-Fired Cogeneration Plant         | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity April 23, 2020)(9)                              | 7,087        | 7,029   | 7,118      |
| Charlotte Russe, Inc(11)                | Fast-Fashion Retailer to Young Women  | LIBOR Plus 5.50% (Floor 1.25%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity May 22, 2019)(9)                                | 4,950        | 4,910   | 4,876      |
| CHI Overhead Doors, Inc.(11)            | Manufacturer of Overhead Garage Doors | LIBOR Plus 9.50%, (Floor 1.50%),<br>Current Coupon 11.00%, Secured Debt<br>(Maturity September 18, 2019)(9)                        | 2,500        | 2,466   | 2,494      |
| Clarius ASIG, LLC(10)                   | Prints & Advertising Film Financing   | 12% PIK Secured Debt<br>(Maturity September 14, 2014)  | 3,813        | 3,707   | 3,680      |
| Clarius BIGS, LLC(10)                   | Prints & Advertising Film Financing   | 12% PIK Secured Debt<br>(Maturity January 5, 2015)   | 3,307        | 3,200   | 3,200      |
| CGSC of Delaware Holdings Corp.(11)(13) | Insurance Brokerage Firm              | LIBOR Plus 7.00% (Floor 1.25%),<br>Current Coupon 8.25%, Secured Debt<br>(Maturity October 16, 2020)(9)                            | 2,000        | 1,974   | 1,760      |
| Compact Power Equipment, Inc.           | Equipment / Tool Rental               | 6% Current / 6% PIK Secured Debt<br>(Maturity October 1, 2017)<br>Series A Preferred Stock (4,298,435<br>shares; 8% cumulative)(8) | 4,100        | 4,084   | 4,100      |
|   |                                       |  |              | 1,058   | 2,381      |
|   |                                       |  |              | 5,142   | 6,481      |
| Covenant Surgical Partners, Inc.(11)    | Ambulatory Surgical Centers           | 8.75% Secured Debt (Maturity August 1,<br>2019)  | 2,000        | 2,000   | 1,990      |
| CST Industries Inc.(11)                 | Storage Tank Manufacturer             | LIBOR Plus 6.25% (Floor 1.50%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity May 22, 2017)(9)                                | 7,418        | 7,351   | 7,418      |
| Darr Equipment LP(10)                   | Heavy Equipment Dealer                | 11.75% Current / 2% PIK Secured Debt<br>(Maturity April 15, 2020)<br>Warrants (915,734 equivalent units)                           | 20,188       | 19,553  | 19,553     |
|   |                                       |  |              | 474     | 474        |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                                   | Business Description                                 | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|--|--|--|--------------|---------|------------|
| Digity Media LLC(11)                                   | Radio Station Operator                               | LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity February 10, 2019)(9) | 7,500        | 7,424   | 7,481      |
| Drilling Info, Inc.                                    | Information Services for<br>the Oil and Gas Industry | Common Stock (3,788,865 shares)  |              | 1,335   | 9,920      |
| Energy and Exploration<br>Partners, LLC(11)            | Oil & Gas Exploration &<br>Production                | LIBOR Plus 6.75% (Floor 1.00%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity January 22, 2019)(9)  | 5,985        | 5,899   | 5,877      |
| e-Rewards, Inc.(11)                                    | Provider of Digital Data<br>Collection               | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity October 29, 2018)(9)  | 12,769       | 12,588  | 12,641     |
| EnCap Energy Fund<br>Investments(12)(13)               | Investment Partnerships                              | LP Interests (EnCap Energy Capital Fund<br>VIII, L.P.) (Fully diluted 0.1%)(8)                           |              | 3,314   | 4,180      |
|  |  | LP Interests (EnCap Energy Capital Fund<br>VIII Co-Investors, L.P.) (Fully diluted<br>0.3%)(8)           |              | 1,541   | 3,063      |
|  |  | LP Interests (EnCap Energy Capital Fund<br>IX, L.P.) (Fully diluted 0.1%)(8)                             |              | 1,272   | 1,513      |
|  |  | LP Interests (EnCap Flatrock Midstream<br>Fund II, L.P.) (Fully diluted 0.8%)                            |              | 4,055   | 4,439      |
|  |  | LP Interests (EnCap Flatrock Midstream<br>Fund III, L.P.) (Fully diluted 0.2%)                           |              | 128     | 128        |
|  |  |  |              | 10,310  | 13,323     |
| Evergreen Skills Lux S.á r.l. (d/b/a<br>Skillsoft)(11) | Technology-based<br>Performance Support<br>Solutions | LIBOR Plus 6.75% (Floor 1.00%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity August 2, 2022)(9)    | 3,000        | 2,978   | 2,899      |
| Excelitas Technologies Corp.(11)                       | Lighting and Sensor<br>Components                    | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity November 2, 2020)(9)  | 3,928        | 3,893   | 3,931      |

Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2014****(in thousands)****(Unaudited)**

| <b>Portfolio Company(1)</b>           | <b>Business Description</b>                       | <b>Type of Investment(2)(3)</b>  | <b>Principal(4)</b> | <b>Cost(4)</b> | <b>Fair Value</b> |
|---------------------------------------|---|--|---------------------|----------------|-------------------|
| <b>FC Operating, LLC(10)</b>          | Christian Specialty Retail Stores                 | LIBOR Plus 10.75%, (Floor 1.25%)<br>Current Coupon 12.00%, Secured Debt<br>(Maturity November 14, 2017)(9)   | 5,400               | 5,325          | 4,366             |
| <b>FishNet Security, Inc.(11)</b>     | Information Technology Value-Added Reseller       | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity November 30, 2017)(9)   | 7,860               | 7,807          | 7,844             |
| <b>Fram Group Holdings, Inc.(11)</b>  | Manufacturer of Automotive Maintenance Products   | LIBOR Plus 5.00% (Floor 1.50%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity July 31, 2017)(9)<br>LIBOR Plus 9.00% (Floor 1.50%),<br>Current Coupon 10.50%, Secured Debt<br>(Maturity January 29, 2018)(9) | 5,945<br>833        | 5,937<br>830   | 5,957<br>808      |
| <b>Grace Hill, LLC(10)</b>            | Online Training for Multi-Family Housing Industry | LIBOR Plus 6.25%, (Floor 1.00%)<br>Current Coupon 7.25%, Secured Debt<br>(Maturity August 15, 2019)(9)   | 6,137               | 6,061          | 6,061             |
| <b>Grupo Hima San Pablo, Inc.(11)</b> | Tertiary Care Hospitals                           | LIBOR Plus 7.00% (Floor 1.50%),<br>Current Coupon 8.50%, Secured Debt<br>(Maturity January 31, 2018)(9)<br>13.75% Secured Debt (Maturity July 31,<br>2018)   | 4,925<br>2,000      | 4,854<br>1,921 | 4,787<br>1,920    |
| <b>GST Autoleather, Inc.(11)</b>      | Automotive Leather Manufacturer                   | LIBOR Plus 5.50% (Floor 1.00%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity July 10, 2020)(9)   | 10,000              | 9,903          | 9,925             |
| <b>Guitar Center, Inc.(11)</b>        | Musical Instruments Retailer                      | 6.50% Secured Debt (Maturity April 15,<br>2019)  | 7,000               | 6,808          | 6,300             |
| <b>Hostway Corporation(11)</b>        | Managed Services and Hosting Provider             |  | 9,813               | 9,728          | 9,776             |

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|   |       |       |       |
|---|-------|-------|-------|
| LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity December 13, 2019)(9)  |       |       |       |
| LIBOR Plus 8.75% (Floor 1.25%),<br>Current Coupon 10.00%, Secured Debt<br>(Maturity December 11, 2020)(9) | 5,000 | 4,913 | 4,975 |

14,641 14,751



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                                  | Business Description                                     | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|--|--|--------------|---------|------------|
| <b>Hunter Defense Technologies, Inc.(11)</b>          | Provider of Military and Commercial Shelters and Systems | LIBOR Plus 5.50% (Floor 1.00%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity August 5, 2019)(9)    | 10,000       | 9,903   | 9,913      |
| <b>ICON Health &amp; Fitness, Inc.(11)</b>            | Producer of Fitness Products                             | 11.875% Secured Debt<br>(Maturity October 15, 2016)  | 2,500        | 2,463   | 2,469      |
| <b>iEnergizer Limited(11)(13)</b>                     | Provider of Business Outsourcing Solutions               | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity May 1, 2019)(9)       | 10,323       | 10,189  | 9,910      |
| <b>Infinity Acquisition Finance Corp.(11)</b>         | Application Software for Capital Markets                 | 7.25% Unsecured Debt<br>(Maturity August 1, 2022)  | 4,000        | 4,000   | 3,860      |
| <b>Inn of the Mountain Gods Resort and Casino(11)</b> | Hotel & Casino Owner & Operator                          | 9.25% Secured Debt<br>(Maturity November 30, 2020)   | 3,851        | 3,682   | 3,736      |
| <b>iQor US Inc.(11)</b>                               | Business Process Outsourcing Services Provider           | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity April 1, 2021)(9)     | 10,012       | 9,807   | 9,161      |
| <b>Jackson Hewitt Tax Service Inc.(11)</b>            | Tax Preparation Service Provider                         | LIBOR Plus 8.50% (Floor 1.50%),<br>Current Coupon 10.00%, Secured Debt<br>(Maturity October 16, 2017)(9) | 4,509        | 4,388   | 4,509      |
| <b>Joerns Healthcare, LLC(11)</b>                     | Health Care Equipment & Supplies                         | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity May 9, 2020)(9)       | 9,975        | 9,877   | 9,963      |
| <b>John Deere Landscapes LLC(10)</b>                  | Distributor of Landscaping Supplies                      | LIBOR Plus 4.00%, (Floor 1.00%)<br>Current Coupon 5.00%, Secured Debt<br>(Maturity December 23, 2019)(9) | 8,595        | 8,197   | 8,197      |
| <b>Keypoint Government Solutions, Inc.(11)</b>        | Pre-Employment Screening Services                        | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity November 13, 2017)(9) | 4,358        | 4,300   | 4,380      |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                          | Business Description                           | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|--|--|--------------|---------|------------|
| Larchmont Resources, LLC(11)                  | Oil & Gas Exploration and Production           | LIBOR Plus 7.25% (Floor 1.00%),<br>Current Coupon 8.25%, Secured Debt<br>(Maturity August 7, 2019)(9)    | 6,913        | 6,857   | 7,033      |
| Lansing Trade Group LLC(11)                   | Commodity<br>Merchandiser                      | 9.25% Unsecured Debt<br>(Maturity February 15, 2019)   | 6,000        | 6,000   | 5,955      |
| LKCM Distribution Holdings, L.P.              | Distributor of Industrial<br>Process Equipment | 12% Current / 2.5% PIK Secured Debt<br>(Maturity December 23, 2018)                                      | 16,417       | 16,272  | 16,272     |
| LKCM Headwater Investments<br>I, L.P.(12)(13) | Investment Partnership                         | LP Interests (Fully diluted 2.27%)(8)  |              | 2,251   | 5,869      |
| MAH Merger Corporation(11)                    | Sports-Themed Casual<br>Dining Chain           | LIBOR Plus 4.50% (Floor 1.25%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity July 19, 2019)(9)     | 7,277        | 7,213   | 7,295      |
| MediMedia USA, Inc.(11)                       | Provider of Healthcare<br>Media and Marketing  | LIBOR Plus 6.75% (Floor 1.25%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity November 20, 2018)(9) | 5,411        | 5,285   | 5,289      |
| MedSolutions Holdings, Inc.(11)               | Specialty Benefit<br>Management                | LIBOR Plus 5.25% (Floor 1.25%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity July 8, 2019)(9)      | 3,750        | 3,719   | 3,769      |
| Metal Services LLC(11)                        | Steel Mill Services                            | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity June 30, 2017)(9)     | 5,273        | 5,273   | 5,289      |
| Milk Specialties Company(11)                  | Processor of Nutrition<br>Products             | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity November 9, 2018)(9)  | 7,867        | 7,824   | 7,837      |
| Minute Key, Inc.                              | Automated Key<br>Duplication Kiosks            | 10% Current / 2% PIK Senior Secured<br>Term Loan   | 4,000        | 3,961   | 3,961      |
| Miramax Film NY, LLC(11)                      | Motion Picture Producer<br>and Distributor     | Class B Units (12% cumulative)(8)  |              | 770     | 770        |

Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2014****(in thousands)****(Unaudited)**

| <b>Portfolio Company(1)</b>                       | <b>Business Description</b>                           | <b>Type of Investment(2)(3)</b>   | <b>Principal(4)</b> | <b>Cost(4)</b> | <b>Fair Value</b> |
|---|---|---|---------------------|----------------|-------------------|
| <b>Modern VideoFilm, Inc.(10)</b>                 | Post-Production Film Studio                           | LIBOR Plus 3.50% (Floor 1.50%),<br>Current Coupon 5.00% / 8.50% PIK,<br>Current Coupon Plus PIK 13.50%,<br>Secured Debt (Maturity September 25,<br>2017)(9)(14)<br>Warrants (1,375 equivalent shares) | 6,302               | 6,119<br>151   | 1,702<br>1        |
|   |   |   |                     | 6,270          | 1,703             |
| <b>Mood Media Corporation(11)(13)</b>             | Electronic Equipment & Instruments                    | LIBOR Plus 6.00% (Floor 1.00%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity May 1, 2019)(9)  | 7,221               | 7,174          | 7,113             |
| <b>MP Assets Corporation(11)</b>                  | Manufacturer of Battery Components                    | LIBOR Plus 4.50% (Floor 1.00%),<br>Current Coupon 5.50%, Secured Debt<br>(Maturity December 19, 2019)(9)  | 4,462               | 4,422          | 4,462             |
| <b>NCP Investment Holdings, Inc.</b>              | Management of Outpatient Cardiac Cath Labs            | Class A and C Units (2,474,075 units)   |                     | 20             | 6,290             |
| <b>New Media Holdings II LLC(11)(13)</b>          | Local Newspaper Operator                              | LIBOR Plus 6.00% (Floor 1.00%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity June 30, 2020)(9)  | 14,963              | 14,676         | 14,775            |
| <b>Nice-Pak Products, Inc.(11)</b>                | Pre-Moistened Wipes Manufacturer                      | LIBOR Plus 5.25% (Floor 1.50%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity June 18, 2015)(9)  | 12,701              | 12,668         | 12,574            |
| <b>North Atlantic Trading Company, Inc.(11)</b>   | Marketer/Distributor of Tobacco Products              | LIBOR Plus 6.50% (Floor 1.25%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity January 13, 2020)(9)   | 7,444               | 7,376          | 7,491             |
| <b>Ospemifene Royalty Sub LLC (QuatRx)(10)</b>    | Estrogen-Deficiency Drug Manufacturer and Distributor | 11.50% Secured Debt<br>(Maturity November 15, 2026)   | 5,205               | 5,205          | 5,205             |
| <b>Panolam Industries International, Inc.(11)</b> | Decorative Laminate Manufacturer                      | LIBOR Plus 6.50% (Floor 1.25%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity August 23, 2017)(9)  | 7,093               | 7,043          | 7,093             |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)   | Business Description   | Type of Investment(2)(3)   | Principal(4)  | Cost(4)       | Fair Value    |
|--|--|--|---------------|---------------|---------------|
| Permian Holdings, Inc.(11)                                   | Storage Tank Manufacturer  | 10.50% Secured Debt<br>(Maturity January 15, 2018)   | 3,150         | 3,121         | 3,213         |
| Pernix Therapeutics Holdings, Inc.(10)(13)                   | Pharmaceutical Royalty Anti-Migraine                                 | 12.00% Secured Debt (Maturity August 1, 2020)  | 4,000         | 4,000         | 4,000         |
| PeroxyChem LLC(11)   | Chemical Manufacturer  | LIBOR Plus 6.50% (Floor 1.00%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity February 28, 2020)(9)   | 8,955         | 8,790         | 9,089         |
| Philadelphia Energy Solutions Refining and Marketing LLC(11) | Oil & Gas Refiner  | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity April 4, 2018)(9)   | 2,963         | 2,930         | 2,809         |
| Pitney Bowes Management Services Inc.(11)                    | Provider of Document Management Services                             | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity July 7, 2020)(9)  | 6,000         | 5,942         | 5,910         |
| Polyconcept Financial B.V.(11)                               | Promotional Products to Corporations and Consumers                   | LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity June 28, 2019)(9)   | 8,336         | 8,309         | 8,326         |
| Primesight Limited(10)(13)                                   | Outdoor Advertising Operator   | 10.00% Secured Debt<br>(Maturity October 22, 2016)   | 8,869         | 8,798         | 8,661         |
| Printpack Holdings, Inc.(11)                                 | Manufacturer of Flexible and Rigid Packaging                         | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity May 29, 2020)(9)  | 7,481         | 7,410         | 7,509         |
| PT Network, LLC(10)  | Provider of Outpatient Physical Therapy and Sports Medicine Services | LIBOR Plus 7.00% (Floor 1.50%),<br>Current Coupon 8.50%, Secured Debt<br>(Maturity November 1, 2018)(9)<br>LIBOR Plus 7.00% (Floor 1.50%),<br>Current Coupon 8.50%, Secured Debt<br>(Maturity November 1, 2018)(9) | 327<br>12,919 | 327<br>12,784 | 327<br>12,784 |
|  |  |  |               | 13,111        | 13,111        |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                             | Business Description                                       | Type of Investment(2)(3)  | Principal(4)   | Cost(4)               | Fair Value              |
|--|--|---|----------------|-----------------------|-------------------------|
| QBS Parent, Inc.(11)                             | Provider of Software and Services to Oil and Gas Industry  | LIBOR Plus 4.75% (Floor 1.00%), Current Coupon 5.75%, Secured Debt (Maturity August 7, 2021)(9)                                 | 10,000         | 9,902                 | 10,025                  |
| RCHP, Inc.(11)                                   | Regional Non-Urban Hospital Owner/Operator                 | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity October 23, 2019)(9)                              | 4,000          | 3,943                 | 4,040                   |
| Recorded Books Inc.(11)                          | Audiobook and Digital Content Publisher                    | LIBOR Plus 4.25% (Floor 1.00%), Current Coupon 5.25%, Secured Debt (Maturity March 3, 2020)(9)                                  | 12,188         | 12,076                | 12,096                  |
| Relativity Media, LLC(10)                        | Full-Scale Film and Television Production and Distribution | 10.00% Secured Debt (Maturity May 30, 2015)<br>15.00% PIK Secured Debt (Maturity May 30, 2015)<br>Class A Units (260,194 units) | 5,787<br>7,133 | 5,763<br>7,037<br>292 | 5,801<br>7,275<br>1,588 |
| Renaissance Learning, Inc.(11)                   | Technology-based K-12 Learning Solutions                   | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity April 11, 2022)(9)                                 | 3,000          | 2,971                 | 2,944                   |
| RGL Reservoir Operations Inc.(11)(13)            | Oil and Gas Equipment and Services                         | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity August 13, 2021)(9)                                | 4,000          | 3,882                 | 3,968                   |
| RLJ Entertainment, Inc.(10)                      | Movie and TV Programming Licensee and Distributor          | LIBOR Plus 8.75% (Floor 0.25%), Current Coupon 9.00%, Secured Debt (Maturity September 11, 2019)(9)                             | 11,500         | 11,385                | 11,385                  |
| SAExploration, Inc.(10)(13)                      | Geophysical Services Provider                              | Common Stock (6,472 shares)(8)  |                | 65                    | 54                      |
| Sagittarius Restaurants LLC (d/b/a Del Taco)(11) | Mexican/American QSR Restaurant Chain                      | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt  | 4,773          | 4,751                 | 4,761                   |



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(Maturity October 1, 2018)(9)

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)                       | Business Description                      | Type of Investment(2)(3)   | Principal(4)   | Cost(4)        | Fair Value     |
|--|---|--|----------------|----------------|----------------|
| SCE Partners, LLC(10)                      | Hotel & Casino Operator                   | LIBOR Plus 7.25% (Floor 1.00%),<br>Current Coupon 8.25%, Secured Debt<br>(Maturity August 14, 2019)(9)   | 7,500          | 7,437          | 7,537          |
| Sotera Defense Solutions, Inc.(11)         | Defense Industry<br>Intelligence Services | LIBOR Plus 6.00% (Floor 1.50%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity April 21, 2017)(9)  | 11,058         | 10,596         | 10,229         |
| Sutherland Global Services, Inc.(11)       | Business Process<br>Outsourcing Provider  | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity March 6, 2019)(9)   | 6,475          | 6,375          | 6,491          |
| Symphony Teleca Services, Inc.(11)         | Outsourced Product<br>Development         | LIBOR Plus 4.75% (Floor 1.00%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity August 7, 2019)(9)  | 14,000         | 13,864         | 13,930         |
| Synagro Infrastructure Company,<br>Inc(11) | Waste Management<br>Services              | LIBOR Plus 5.25% (Floor 1.00%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity August 22, 2020)(9)   | 6,930          | 6,811          | 6,817          |
| Targus Group International(11)             | Protective Cases for<br>Mobile Devices    | LIBOR Plus 9.50% (Floor 1.50%),<br>Current Coupon 11.00% / 1.00% PIK,<br>Current Coupon Plus PIK 12.00%,<br>Secured Debt (Maturity May 24, 2016)(9)  | 4,289          | 4,302          | 3,570          |
| TeleGuam Holdings, LLC(11)                 | Cable and Telecom<br>Services Provider    | LIBOR Plus 4.00% (Floor 1.25%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity December 10, 2018)(9)<br>LIBOR Plus 7.50% (Floor 1.25%),<br>Current Coupon 8.75%, Secured Debt<br>(Maturity June 10, 2019)(9) | 6,848<br>2,500 | 6,829<br>2,479 | 6,822<br>2,516 |
| Templar Energy LLC(11)                     | Oil & Gas Exploration<br>and Production   | LIBOR Plus 7.00% (Floor 1.00%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity November 25, 2020)(9)   | 5,000          | 4,943          | 4,856          |
| The Tennis Channel, Inc.(10)               | Television-Based Sports<br>Broadcasting   | Warrants (144,316 equivalent shares)   |                | 235            | 301            |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)             | Business Description   | Type of Investment(2)(3)   | Principal(4)  | Cost(4)             | Fair Value         |
|----------------------------------|--|--|---------------|---------------------|--------------------|
| Therakos, Inc.(11)               | Immune System Disease Treatment  | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity December 27, 2017)(9)   | 6,278         | 6,170               | 6,333              |
| The Topps Company, Inc.(11)      | Trading Cards &<br>Confectionary   | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity October 2, 2018)(9)   | 1,985         | 1,969               | 1,960              |
| Travel Leaders Group, LLC(11)    | Travel Agency Network<br>Provider  | LIBOR Plus 6.00% (Floor 1.00%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity December 5, 2018)(9)  | 12,773        | 12,621              | 12,717             |
| UniTek Global Services, Inc.(11) | Provider of Outsourced<br>Infrastructure Services                                      | LIBOR Plus 9.50% (Floor 1.50%),<br>Current Coupon 11.00% / 4.00% PIK,<br>Current Coupon Plus PIK 15.00%,<br>Secured Debt (Maturity April 15, 2018)(9)<br>5.00% Secured Debt Plus PIK 2.25%<br>(Maturity August 13, 2019)<br>Warrants (267,302 equivalent shares) | 10,189<br>640 | 9,591<br>640<br>449 | 8,457<br>640<br>32 |
| Universal Fiber Systems, LLC(10) | Manufacturer of<br>Synthetic Fibers  | LIBOR Plus 4.25% (Floor 1.00%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity January 31, 2019)(9)  | 5,159         | 5,148               | 5,169              |
| US Joiner Holding Company(11)    | Marine Interior Design<br>and Installation   | LIBOR Plus 6.00% (Floor 1.00%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity April 16, 2020)(9)  | 7,463         | 7,428               | 7,444              |
| Vantage Oncology, LLC(11)        | Outpatient Radiation<br>Oncology Treatment<br>Centers                                  | 9.50% Secured Bond (Maturity June 5,<br>2017)  | 7,000         | 7,000               | 6,790              |
| Virtex Enterprises, LP(10)       | Specialty, Full-Service<br>Provider of Complex<br>Electronic Manufacturing<br>Services | 12.00% Secured Debt<br>(Maturity December 27, 2018)<br>Preferred Class A Units (14 units; 5%<br>cumulative)(8)   | 1,667         | 1,471<br>340        | 1,471<br>340       |

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|                                |       |       |
|--------------------------------|-------|-------|
| Warrants (11 equivalent units) | 186   | 186   |
|                                | 1,997 | 1,997 |
| 27                             |       |       |

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Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2014****(in thousands)****(Unaudited)**

| <b>Portfolio Company(1)</b>  | <b>Business Description</b>                        | <b>Type of Investment(2)(3)</b>   | <b>Principal(4)</b> | <b>Cost(4)</b>   | <b>Fair Value</b> |
|--|--|---|---------------------|------------------|-------------------|
| <b>Vision Solutions, Inc.(11)</b>  | Provider of Information Availability Software      | LIBOR Plus 8.00% (Floor 1.50%), Current Coupon 9.50%, Secured Debt (Maturity July 23, 2017)(9)    | 5,000               | 4,923            | 4,985             |
| <b>Western Dental Services, Inc.(11)</b>   | Dental Care Services                               | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity November 1, 2018)(9) | 5,409               | 5,405            | 5,382             |
| <b>Wilton Brands LLC(11)</b>   | Specialty Housewares Retailer                      | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.50%, Secured Debt (Maturity August 30, 2018)(9)  | 1,775               | 1,750            | 1,682             |
| <b>YP Holdings LLC(11)</b>   | Online and Offline Advertising Operator            | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity June 4, 2018)(9)     | 3,176               | 3,134            | 3,192             |
| <b>Zilliant Incorporated</b>   | Price Optimization and Margin Management Solutions | Warrants (952,500 equivalent shares)  |                     | 1,071            | 1,071             |
| <b>Subtotal Non-Control/Non-Affiliate Investments (54.4% of total investments at fair value)</b> |  |   |                     | <b>804,031</b>   | <b>814,652</b>    |
| <b>Total Portfolio Investments, September 30, 2014</b>   |  |   |                     | <b>1,347,875</b> | <b>1,488,034</b>  |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2014

(in thousands)

(Unaudited)

| Portfolio Company(1)   | Business Description  | Type of Investment(2)(3) | Principal(4) | Cost(4)      | Fair Value   |
|--|---|--------------------------|--------------|--------------|--------------|
| <b>Marketable Securities and Idle Funds Investments</b>  |   |                          |              |              |              |
|  | Investments in Marketable Securities and Diversified, Registered Bond Funds |                          |              |              |              |
| <b>Other Marketable Securities and Idle Funds Investments(13)</b>  |   |                          |              | 9,871        | 9,207        |
| <b>Subtotal Marketable Securities and Idle Funds Investments (0.6% of total investments at fair value)</b> |   |                          |              | 9,871        | 9,207        |
| <b>Total Investments, September 30, 2014</b>   |   |                          |              | \$ 1,357,746 | \$ 1,497,241 |

- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted. All of the Company's assets are encumbered either as security for the Company's credit agreement or in support of the SBA-guaranteed debentures issued by the Funds.
- (2) Debt investments are income producing, unless otherwise noted. Equity and warrants are non-income producing, unless otherwise noted.
- (3) See Note C for summary geographic location of portfolio companies.
- (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
- (5) Control investments are defined by the Investment Company Act of 1940, as amended ("1940 Act") as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
- (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
- (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.
- (8) Income producing through dividends or distributions.
- (9)

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Index based floating interest rate is subject to contractual minimum interest rate.

- (10) Private Loans portfolio investment. See Note B for summary of Private Loan.
- (11) Middle Market portfolio investment. See Note B for summary of Middle Market.
- (12) Other Portfolio investment. See Note B for summary of Other Portfolio.
- (13) Investment is not a qualifying asset as defined under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.
- (14) Non-accrual and non-income producing investment.



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

**December 31, 2013**

(in thousands)

| Portfolio Company(1)                             | Business Description                                | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|--|---|---|--------------|---------|------------|
| <b><u>Control Investments(5)</u></b>             |   |   |              |         |            |
| ASC Interests, LLC                               | Recreational and Educational Shooting Facility      | 11% Secured Debt (Maturity July 31, 2018)   | 3,500        | 3,434   | 3,434      |
|  |   | Member Units (1,500 units)  |              | 1,500   | 1,500      |
|  |   |   |              | 4,934   | 4,934      |
| Bond-Coat, Inc.                                  | Casing and Tubing Coating Services                  | 12% Secured Debt (Maturity December 28, 2017)                                       | 14,750       | 14,581  | 14,750     |
|  |   | Common Stock (56,330 shares)  |              | 6,220   | 8,850      |
|  |   |   |              | 20,801  | 23,600     |
| Café Brazil, LLC                                 | Casual Restaurant Group                             | Member Units (1,233 units)(8)   |              | 1,742   | 6,770      |
| California Healthcare Medical Billing, Inc.      | Outsourced Billing and Revenue Cycle Management     | 12% Secured Debt (Maturity October 17, 2015)  | 8,103        | 7,973   | 8,103      |
|  |   | Warrants (466,947 equivalent shares)  |              | 1,193   | 3,380      |
|  |   | Common Stock (207,789 shares)   |              | 1,177   | 1,560      |
|  |   |   |              | 10,343  | 13,043     |
| CBT Nuggets, LLC                                 | Produces and Sells IT Training Certification Videos | Member Units (416 units)(8)   |              | 1,300   | 16,700     |
| Ceres Management, LLC (Lamb's Tire & Automotive) | Aftermarket Automotive Services Chain               | 14% Secured Debt (Maturity May 31, 2018)  | 4,000        | 4,000   | 4,000      |
|  |   | Class B Member Units (12% cumulative)(8)  |              | 3,586   | 3,586      |
|  |   | Member Units (5,460 units)  |              | 5,273   | 1,190      |
|  |   | 9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity October 1, 2025) | 1,017        | 1,017   | 1,017      |

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|                     |  |  |       |        |        |
|---------------------|--|--|-------|--------|--------|
|                     |  | Member Units (Lamb's Real Estate Investment I, LLC) (1,000 units)(8) |       | 625    | 1,060  |
|                     |  |  |       | 14,501 | 10,853 |
| <b>Garreco, LLC</b> | Manufacturer and Supplier of Dental Products | 14% Secured Debt (Maturity January 12, 2018)                         | 5,800 | 5,693  | 5,693  |
|                     |  | Member Units (1,200 units)   |       | 1,200  | 1,200  |
|                     |  |  |       | 6,893  | 6,893  |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                         | Business Description  | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|--|---|---|--------------|---------|------------|
| Gulf Manufacturing, LLC                      | Manufacturer of Specialty Fabricated Industrial Piping Products | 9% PIK Secured Debt (Ashland Capital IX, LLC) (Maturity June 30, 2017)                        | 919          | 919     | 919        |
|  |   | Member Units (438 units)(8)   |              | 2,980   | 13,220     |
|  |   |   |              | 3,899   | 14,139     |
| Harrison Hydra-Gen, Ltd.                     | Manufacturer of Hydraulic Generators                            | 12% Secured Debt (Maturity June 4, 2015)  | 4,896        | 4,659   | 4,896      |
|  |   | Preferred Stock (8% cumulative)(8)  |              | 1,167   | 1,167      |
|  |   | Common Stock (107,456 shares)   |              | 718     | 1,340      |
|  |   |   |              | 6,544   | 7,403      |
| Hawthorne Customs and Dispatch Services, LLC | Facilitator of Import Logistics, Brokerage, and Warehousing     | Member Units (500 units)(8)   |              | 589     | 440        |
|  |   | Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%)(8)                          |              | 1,215   | 2,050      |
|  |   |   |              | 1,804   | 2,490      |
| Hydratec, Inc.                               | Designer and Installer of Micro-Irrigation Systems              | Common Stock (7,095 shares)(8)  |              | 7,095   | 13,720     |
| IDX Broker, LLC                              | Provider of Marketing and CRM Tools for Real Estate             | 12.5% Secured Debt (Maturity November 18, 2018)   | 10,571       | 10,467  | 10,467     |
|  |   | Member Units (5,029 units)  |              | 5,029   | 5,029      |
|  |   |   |              | 15,496  | 15,496     |
| Impact Telecom, Inc.                         | Telecommunications Services                                     | LIBOR Plus 4.50% (Floor 2.00%), Current Coupon 6.50%, Secured Debt (Maturity May 31, 2018)(9) | 1,575        | 1,568   | 1,568      |

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|  |        |        |        |
|--|--------|--------|--------|
| 13% Secured Debt (Maturity May 31, 2018) | 22,500 | 14,690 | 14,690 |
| Warrants (5,516,667 equivalent shares)   |        | 8,000  | 8,760  |
|  |        | 24,258 | 25,018 |

|  |  |       |       |       |
|--|--|-------|-------|-------|
| <b>Indianapolis Aviation Partners, LLC</b> | Fixed Base Operator                            |       |       |       |
|  | 15% Secured Debt (Maturity September 15, 2014) | 3,550 | 3,483 | 3,550 |
|  | Warrants (1,046 equivalent units)              |       | 1,129 | 2,200 |
|  |  |       | 4,612 | 5,750 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)  | Business Description   | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|---|--|---|--------------|---------|------------|
| Jensen Jewelers of Idaho, LLC                               | Retail Jewelry Store   | Prime Plus 6.75% (Floor 3.25%), Current Coupon 10.00%, Secured Debt (Maturity November 14, 2016)(9) | 4,255        | 4,193   | 4,255      |
|   |  | Member Units (627 units)(8)   |              | 811     | 3,310      |
|   |  |   |              | 5,004   | 7,565      |
| Lighting Unlimited, LLC                                     | Commercial and Residential Lighting Products and Design Services | 8% Secured Debt (Maturity August 22, 2014)  | 1,676        | 1,676   | 1,676      |
|   |  | Preferred Stock (non-voting)  |              | 459     | 470        |
|   |  | Warrants (71 equivalent units)  |              | 54      | 30         |
|   |  | Member Units (700 units)  |              | 100     | 250        |
|   |  |   |              | 2,289   | 2,426      |
| Marine Shelters Holdings, LLC<br>(LoneStar Marine Shelters) | Fabricator of Marine and Industrial Shelters                     | 12% Secured Debt (Maturity December 28, 2017)   | 10,250       | 10,076  | 10,076     |
|   |  | Preferred Member Units (2,669 units)  |              | 3,750   | 3,750      |
|   |  |   |              | 13,826  | 13,826     |
| Mid-Columbia Lumber Products, LLC                           | Manufacturer of Finger-Jointed Lumber Products                   | 10% Secured Debt (Maturity December 18, 2017)   | 1,750        | 1,750   | 1,750      |
|   |  | 12% Secured Debt (Maturity December 18, 2017)   | 3,900        | 3,900   | 3,900      |
|   |  | Member Units (2,774 units)(8)   |              | 1,132   | 8,280      |
|   |  | 9.5% Secured Debt (Mid-Columbia Real Estate, LLC) (Maturity May 13, 2025)                           | 972          | 972     | 972        |
|   |  | Member Units (Mid-Columbia Real Estate, LLC) (250 units)(8)   |              | 250     | 440        |
|   |  |   |              | 8,004   | 15,342     |
| MSC Adviser I, LLC  | Investment Partnership   | Member Units (Fully diluted 100.0%)   |              |         | 1,064      |

NAPCO Precast, LLC

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|                                |  |       |        |        |
|--------------------------------|--|-------|--------|--------|
| Precast Concrete Manufacturing | Prime Plus 2% (Floor 7.00%), Current Coupon 9%, Secured Debt (Maturity September 1, 2015)(9) | 2,750 | 2,703  | 2,750  |
|                                | Prime Plus 2% (Floor 7.00%), Current Coupon 9%, Secured Debt (Maturity February 1, 2016)(9)  | 2,923 | 2,893  | 2,923  |
|                                | 18% Secured Debt (Maturity February 1, 2016)   | 4,468 | 4,418  | 4,468  |
|                                | Member Units (2,955 units)(8)  |       | 2,975  | 5,920  |
|                                |  |       | 12,989 | 16,061 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                    | Business Description                           | Type of Investment(2)(3)                                      | Principal(4) | Cost(4) | Fair Value |
|---|--|---|--------------|---------|------------|
| NRI Clinical Research, LLC              | Clinical Research Center                       | 14% Secured Debt  |              |         |            |
|   |  | (Maturity September 8, 2016)                                  | 4,394        | 4,226   | 4,226      |
|   |  | Warrants (251,723 equivalent units)                           |              | 252     | 440        |
|   |  | Member Units (500,000 units)                                  |              | 500     | 870        |
|   |  |   |              | 4,978   | 5,536      |
| NRP Jones, LLC                          | Manufacturer of Hoses, Fittings and Assemblies | 12% Secured Debt  |              |         |            |
|   |  | (Maturity December 22, 2016)                                  | 12,100       | 11,382  | 12,100     |
|   |  | Warrants (14,331 equivalent units)                            |              | 817     | 1,420      |
|   |  | Member Units (50,877 units)(8)                                |              | 2,900   | 5,050      |
|   |  |   |              | 15,099  | 18,570     |
| OMi Holdings, Inc.                      | Manufacturer of Overhead Cranes                | Common Stock (1,500 shares)(8)                                |              | 1,080   | 13,420     |
| Pegasus Research Group, LLC (Televerde) | Telemarketing and Data Services                | 15% Secured Debt (Maturity January 6, 2016)                   | 4,791        | 4,760   | 4,791      |
|   |  | Member Units (450 units)(8)                                   |              | 1,250   | 4,860      |
|   |  |   |              | 6,010   | 9,651      |
| PPL RVs, Inc.                           | Recreational Vehicle Dealer                    | 11.1% Secured Debt (Maturity June 10, 2015)                   | 7,860        | 7,827   | 7,860      |
|   |  | Common Stock (2,000 shares)                                   |              | 2,150   | 7,990      |
|   |  |   |              | 9,977   | 15,850     |
| Principle Environmental, LLC            | Noise Abatement Services                       | 12% Secured Debt (Maturity February 1, 2016)                  | 3,506        | 3,070   | 3,506      |
|   |  | 12% Current / 2% PIK Secured Debt (Maturity February 1, 2016) | 4,674        | 4,617   | 4,656      |
|   |  | Warrants (1,036 equivalent units)                             |              | 1,200   | 2,620      |
|   |  | Member Units (1,553 units)(8)                                 |              | 1,863   | 4,180      |
|   |  |   |              |         |            |

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|                              |   |  | 10,750 | 14,962 |
|------------------------------|---|--|--------|--------|
| <b>River Aggregates, LLC</b> | Processor of<br>Construction Aggregates |  |        |        |
|                              |   | Zero Coupon Secured Debt<br>(Maturity June 30, 2018) | 750    | 421    |
|                              |   | 12% Secured Debt (Maturity June 30,<br>2018)         | 500    | 500    |
|                              |   | Member Units (1,150 units)                           |        | 1,150  |
|                              |   | Member Units (RA Properties, LLC)<br>(1,500 units)   |        | 369    |
|                              |   |  | 2,440  | 1,290  |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)   | Business Description  | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|------------------------|---|---|--------------|---------|------------|
| Southern RV, LLC       | Recreational Vehicle Dealer                                       | 13% Secured Debt (Maturity August 8, 2018)                                | 11,400       | 11,239  | 11,239     |
|                        |   | Member Units (1,680 units)(8)   |              | 1,680   | 1,680      |
|                        |   | 13% Secured Debt (Southern RV Real Estate, LLC) (Maturity August 8, 2018) | 3,250        | 3,204   | 3,204      |
|                        |   | Member Units (Southern RV Real Estate, LLC) (480 units)                   |              | 480     | 480        |
|                        |   |   |              | 16,603  | 16,603     |
| The MPI Group, LLC     | Manufacturer of Custom Hollow Metal Doors, Frames and Accessories | 4.5% Current / 4.5% PIK Secured Debt (Maturity July 1, 2014)              | 1,079        | 1,079   | 880        |
|                        |   | 6% Current / 6% PIK Secured Debt (Maturity July 1, 2014)                  | 5,639        | 5,639   | 4,600      |
|                        |   | Warrants (1,068 equivalent units)   |              | 1,096   |            |
|                        |   |   |              | 7,814   | 5,480      |
| Travis Acquisition LLC | Manufacturer of Aluminum Trailers                                 | 12% Secured Debt (Maturity August 30, 2018)                               | 9,200        | 9,025   | 9,025      |
|                        |   | Member Units (7,282 units)  |              | 7,100   | 7,100      |
|                        |   |   |              | 16,125  | 16,125     |
| Uvalco Supply, LLC     | Farm and Ranch Supply Store                                       | 9% Secured Debt (Maturity January 1, 2019)                                | 2,175        | 2,175   | 2,175      |
|                        |   | Member Units (1,006 units)(8)   |              | 1,113   | 3,730      |
|                        |   |   |              | 3,288   | 5,905      |
| Vision Interests, Inc. | Manufacturer / Installer of Commercial Signage                    | 13% Secured Debt (Maturity December 23, 2016)                             | 3,204        | 3,158   | 3,158      |
|                        |   | Series A Preferred Stock (3,000,000 shares)                               |              | 3,000   | 1,510      |
|                        |   | Common Stock (1,126,242 shares)   |              | 3,706   |            |

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|  |                         |  |                |                |
|--|-------------------------|--|----------------|----------------|
|  |                         |  | 9,864          | 4,668          |
| <b>Ziegler's NYPD, LLC</b>   | Casual Restaurant Group | Prime Plus 2% (Floor 7.00%), Current<br>Coupon 9%, Secured Debt<br>(Maturity October 1, 2018)(9) | 1,000          | 1,000          |
|  |                         | 9% Current / 9% PIK Secured Debt<br>(Maturity October 1, 2018)                                   | 5,449          | 5,449          |
|  |                         | Warrants (587 equivalent units)  |                | 600            |
|  |                         |  | 7,049          | 5,820          |
| <b>Subtotal Control Investments (27.5% of total investments at fair value)</b> |                         |  | <b>277,411</b> | <b>356,973</b> |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                                 | Business Description                            | Type of Investment(2)(3)   | Principal(4) | Cost(4)         | Fair Value       |
|--|---|--|--------------|-----------------|------------------|
| <b><u>Affiliate Investments(6)</u></b>               |   |  |              |                 |                  |
| <b>American Sensor Technologies, Inc.</b>            | Manufacturer of Commercial / Industrial Sensors | Warrants (674,677 equivalent shares)   |              | 50              | 10,100           |
| <b>Bridge Capital Solutions Corporation</b>          | Financial Services and Cash Flow Solutions      | 13% Secured Debt (Maturity April 17, 2017)<br>Warrants (19 equivalent shares)  | 5,000        | 4,799<br>200    | 4,799<br>530     |
|  |   |  |              | 4,999           | 5,329            |
| <b>Buffalo Composite Materials Holdings, LLC(10)</b> | Manufacturer of Fiberglass Products             | Member Units (2,000,000 units)   |              | 2,035           | 2,035            |
| <b>Condit Exhibits, LLC</b>                          | Tradeshow Exhibits / Custom Displays            | 12% Secured Debt (Maturity July 31, 2018)<br>Warrants (2,755 equivalent units)   | 3,750        | 3,750<br>100    | 3,750<br>540     |
|  |   |  |              | 3,850           | 4,290            |
| <b>Congruent Credit Opportunities Funds(12)(13)</b>  | Investment Partnership                          | LP Interests (Congruent Credit Opportunities Fund II, LP) (Fully diluted 19.8%)(8)<br>LP Interests (Congruent Credit Opportunities Fund III, LP) (Fully diluted 17.4%) |              | 22,060<br>4,128 | 22,692<br>4,128  |
|  |   |  |              | 26,188          | 26,820           |
| <b>Daseke, Inc.</b>                                  | Specialty Transportation Provider               | 12% Current / 2.5% PIK Secured Debt (Maturity July 31, 2018)<br>Common Stock (18,038 shares)   | 20,206       | 19,828<br>4,642 | 19,828<br>11,689 |
|  |   |  |              | 24,470          | 31,517           |

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|  |                        |   |       |       |
|--|------------------------|---|-------|-------|
| <b>Dos Rios Partners(12)(13)</b>                   | Investment Partnership | LP Interests (Dos Rios Partners, LP)<br>(Fully diluted 27.69%)  | 1,269 | 1,269 |
|  |                        | LP Interests (Dos Rios Partners A, LP)<br>(Fully diluted 9.14%) | 403   | 403   |
|  |                        |   | 1,672 | 1,672 |
| <b>East Teak Fine Hardwoods, Inc.</b>              | Hardwood Products      | Common Stock (5,000 shares)                                     | 480   | 450   |
| <b>Freeport Financial SBIC<br/>Fund LP(12)(13)</b> | Investment Partnership | LP Interests (Fully diluted 9.9%)                               | 1,618 | 1,618 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                           | Business Description                                   | Type of Investment(2)(3)                                      | Principal(4) | Cost(4) | Fair Value |
|--|--|---|--------------|---------|------------|
| <b>Gault Financial, LLC (RMB Capital, LLC)</b> | Purchases and Manages Liquidation of Distressed Assets | 14% Secured Debt (Maturity November 21, 2016)                 | 12,165       | 11,747  | 10,550     |
|  |  | Warrants (29,025 equivalent units)                            |              | 400     |            |
|  |  |   |              | 12,147  | 10,550     |
| <b>Glowpoint, Inc.</b>                         | Cloud Managed Video Collaboration Services             | 8% Secured Debt (Maturity October 18, 2018)                   | 300          | 294     | 294        |
|  |  | 12% Secured Debt (Maturity October 18, 2018)                  | 9,000        | 8,892   | 8,892      |
|  |  | Common Stock (GP Investment Holdings, LLC) (7,711,517 shares) |              | 3,800   | 10,235     |
|  |  |   |              | 12,986  | 19,421     |
| <b>Houston Plating and Coatings, LLC</b>       | Plating and Industrial Coating Services                | Member Units (238,333 units)(8)                               |              | 635     | 9,160      |
| <b>Indianhead Pipeline Services, LLC</b>       | Pipeline Support Services                              | 12% Secured Debt (Maturity February 6, 2017)                  | 7,800        | 7,394   | 7,800      |
|  |  | Preferred Member Units (28,905 units; 8% cumulative)(8)       |              | 1,832   | 1,832      |
|  |  | Warrants (38,193 equivalent units)                            |              | 459     | 470        |
|  |  | Member Units (14,732 units)(8)                                |              | 1       | 530        |
|  |  |   |              | 9,686   | 10,632     |
| <b>Integrated Printing Solutions, LLC</b>      | Specialty Card Printing                                | 8% PIK Secured Debt (Maturity January 31, 2014)(14)           | 750          | 750     | 750        |
|  |  | 13% PIK Secured Debt (Maturity September 23, 2016)(14)        | 12,500       | 11,918  | 8,365      |
|  |  | Preferred Member Units (13.6 units)                           |              | 2,000   |            |
|  |  | Warrants (9.9 equivalent units)                               |              | 600     |            |
|  |  |   |              | 15,268  | 9,115      |
| <b>irth Solutions, LLC</b>                     | Damage Prevention Technology Information Services      |   |              |         |            |

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|                            |  | Member Units (128 units)(8) | 624   | 3,300  |
|----------------------------|--|-----------------------------|-------|--------|
| <b>KBK Industries, LLC</b> | Specialty Manufacturer of Oilfield and Industrial Products |                             |       |        |
|                            | 12.5% Secured Debt (Maturity September 28, 2017)           |                             | 9,000 | 8,927  |
|                            | Member Units (250 units)(8)                                |                             |       | 341    |
|                            |  |                             |       | 9,000  |
|                            |  |                             |       | 5,740  |
|                            |  |                             |       | 9,268  |
|                            |  |                             |       | 14,740 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                          | Business Description                                       | Type of Investment(2)(3)                                       | Principal(4) | Cost(4) | Fair Value |
|---|--|--|--------------|---------|------------|
| <b>OnAsset Intelligence, Inc.</b>             | Transportation Monitoring / Tracking Services              | 12% PIK Secured Debt (Maturity June 30, 2014)                  | 2,330        | 1,788   | 1,788      |
|   |  | Preferred Stock (908 shares; 7% cumulative)(8)                 |              | 1,815   | 2,602      |
|   |  | Warrants (3,629 shares)  |              | 1,787   | 370        |
|   |  |  |              | 5,390   | 4,760      |
| <b>OPI International Ltd.(13)</b>             | Oil and Gas Construction Services                          | Common Stock (20,766,317 shares)                               |              | 1,371   | 4,971      |
| <b>PCI Holding Company, Inc.</b>              | Manufacturer of Industrial Gas Generating Systems          | 12% Current / 4% PIK Secured Debt (Maturity December 18, 2017) | 4,449        | 4,376   | 4,449      |
|   |  | Preferred Stock (1,500,000 shares; 20% cumulative)(8)          |              | 1,847   | 3,311      |
|   |  |  |              | 6,223   | 7,760      |
| <b>Quality Lease and Rental Holdings, LLC</b> | Rigsite Accommodation Unit Rental and Related Services     | 12% Secured Debt (Maturity January 8, 2018)(14)                | 37,350       | 36,843  | 20,000     |
|   |  | Preferred Member Units (Rocacia, LLC) (250 units)              |              | 2,500   |            |
|   |  |  |              | 39,343  | 20,000     |
| <b>Radial Drilling Services Inc.</b>          | Oil and Gas Technology                                     | 12% Secured Debt (Maturity November 22, 2016)                  | 4,200        | 3,626   | 3,626      |
|   |  | Warrants (316 equivalent shares)                               |              | 758     |            |
|   |  |  |              | 4,384   | 3,626      |
| <b>Samba Holdings, Inc.</b>                   | Intelligent Driver Record Monitoring Software and Services |  | 11,453       | 11,325  | 11,453     |

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|  |  |        |        |
|--|--|--------|--------|
| 12.5% Secured Debt<br>(Maturity November 17, 2016) |  |        |        |
| Common Stock (158,066 shares)                      |  | 1,707  | 4,510  |
|  |  | 13,032 | 15,963 |

|                     |                             |   |        |        |        |
|---------------------|-----------------------------|---|--------|--------|--------|
| <b>Spectrio LLC</b> | Audio Messaging<br>Services | LIBOR Plus 7.50%, (Floor 1.00%)                                       |        |        |        |
|                     |                             | Current Coupon 8.50%, Secured Debt<br>(Maturity November 19, 2018)(9) | 17,878 | 17,504 | 17,878 |
|                     |                             | Warrants (191 equivalent units)                                       |        | 887    | 3,850  |
|                     |                             |   |        | 18,391 | 21,728 |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)   | Business Description                                | Type of Investment(2)(3)  | Principal(4) | Cost(4)        | Fair Value     |
|--|---|---|--------------|----------------|----------------|
| SYNEO, LLC   | Manufacturer of Specialty Cutting Tools and Punches | 12% Secured Debt (Maturity July 13, 2016)                             | 4,300        | 4,238          | 4,238          |
|  |   | Member Units (1,111 units)  |              | 1,036          | 740            |
|  |   | 10% Secured Debt (Leadrock Properties, LLC) (Maturity May 4, 2026)    | 1,440        | 1,414          | 1,414          |
|  |   |   |              | 6,688          | 6,392          |
| Texas Reexcavation LC  | Hydro Excavation Services                           | 12% Current / 3% PIK Secured Debt (Maturity December 31, 2017)        | 6,185        | 6,082          | 6,082          |
|  |   | Class A Member Units (290 units)                                      |              | 2,900          | 3,270          |
|  |   |   |              | 8,982          | 9,352          |
| Tin Roof Acquisition Company   | Casual Restaurant Group                             | 12% Secured Debt (Maturity November 30, 2018)                         | 11,000       | 10,785         | 10,785         |
|  |   | Class C Preferred Member Units (Fully diluted 10%; 10% cumulative)(8) |              | 2,027          | 2,027          |
|  |   |   |              | 12,812         | 12,812         |
| <b>Subtotal Affiliate Investments (20.6% of total investments at fair value)</b> |   |   |              | <b>242,592</b> | <b>268,113</b> |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                                   | Business Description   | Type of Investment(2)(3)   | Principal(4) | Cost(4)         | Fair Value      |
|--|--|--|--------------|-----------------|-----------------|
| <b><u>Non-Control/Non-Affiliate Investments(7)</u></b> |  |  |              |                 |                 |
| <b>ABG Intermediate Holdings 2, LLC(11)</b>            | Trademark Licensing of Clothing  | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity June 28, 2019)(9)     | 7,500        | 7,463           | 7,463           |
| <b>Allflex Holdings III Inc.(11)</b>                   | Manufacturer of Livestock Identification Products  | LIBOR Plus 7.00% (Floor 1.00%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity July 19, 2021)(9)     | 5,000        | 4,952           | 5,076           |
| <b>Alvogen Pharma US, Inc.(11)</b>                     | Pharmaceutical Company Focused on Generics   | LIBOR Plus 5.75% (Floor 1.25%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity May 23, 2018)(9)      | 1,966        | 1,938           | 1,996           |
| <b>AM General LLC(11)</b>                              | Specialty Vehicle Manufacturer   | LIBOR Plus 9.00% (Floor 1.25%),<br>Current Coupon 10.25%, Secured Debt<br>(Maturity March 22, 2018)(9)   | 2,850        | 2,775           | 2,501           |
| <b>AM3 Pinnacle Corporation(10)</b>                    | Provider of Comprehensive Internet, TV and Voice Services for Multi-Dwelling Unit Properties | 10% Secured Debt (Maturity October 22, 2018)<br>Common Stock (60,240 shares)                             | 22,500       | 22,320<br>2,000 | 22,320<br>2,000 |
|  |  |  |              | 24,320          | 24,320          |
| <b>American Beacon Advisors Inc.(11)</b>               | Provider of Sub-Advised Investment Products  | LIBOR Plus 3.75% (Floor 1.00%),<br>Current Coupon 4.75%, Secured Debt<br>(Maturity November 22, 2019)(9) | 6,500        | 6,436           | 6,534           |
| <b>AmeriTech College, LLC</b>                          | For-Profit Nursing and Healthcare College  | 18% Secured Debt (Maturity March 9, 2017)  | 6,050        | 5,960           | 6,050           |
| <b>AMF Bowling Centers, Inc.(11)</b>                   | Bowling Alley Operator   |  |              |                 |                 |

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LIBOR Plus 7.50% (Floor 1.25%),  
 Current Coupon 8.75%, Secured Debt  
 (Maturity June 29, 2018)(9) 4,938 4,799 4,975

|                                |                                    |   |       |       |       |
|--------------------------------|------------------------------------|---|-------|-------|-------|
| <b>Anchor Hocking, LLC(11)</b> | Household Products<br>Manufacturer | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity May 21, 2020)(9) | 6,965 | 6,900 | 7,078 |
|--------------------------------|------------------------------------|---|-------|-------|-------|

Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2013****(in thousands)**

| <b>Portfolio Company(1)</b>                      | <b>Business Description</b>                              | <b>Type of Investment(2)(3)</b>  | <b>Principal(4)</b> | <b>Cost(4)</b> | <b>Fair Value</b> |
|--|--|--|---------------------|----------------|-------------------|
| <b>Ancile Solutions, Inc.(11)</b>                | Provider of eLearning Solutions                          | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity July 15, 2018)(9)     | 9,628               | 9,571          | 9,652             |
| <b>Answers Corporation(11)</b>                   | Consumer Internet Search Services Provider               | LIBOR Plus 5.50% (Floor 1.00%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity December 20, 2018)(9) | 8,500               | 8,415          | 8,436             |
| <b>AP Gaming I, LLC(10)</b>                      | Developer, Manufacturer, and Operator of Gaming Machines | LIBOR Plus 8.25% (Floor 1.00%),<br>Current Coupon 9.25%, Secured Debt<br>(Maturity December 20, 2020)(9) | 7,000               | 6,790          | 6,913             |
| <b>Apria Healthcare Group, Inc.(11)</b>          | Provider of Home Healthcare Equipment                    | LIBOR Plus 5.50% (Floor 1.25%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity April 6, 2020)(9)     | 5,473               | 5,441          | 5,500             |
| <b>Artel, LLC(11)</b>                            | Land-Based and Commercial Satellite Provider             | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity November 27, 2017)(9) | 5,953               | 5,878          | 5,864             |
| <b>Atkins Nutritionals Holdings II, Inc.(11)</b> | Weight Management Food Products                          | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity January 2, 2019)(9)   | 1,985               | 1,985          | 2,010             |
| <b>B. J. Alan Company</b>                        | Retailer and Distributor of Consumer Fireworks           | 12.5% Current / 2.5% PIK Secured Debt<br>(Maturity June 22, 2017)  | 11,235              | 11,158         | 11,158            |
| <b>BBTS Borrower LP(11)</b>                      | Oil & Gas Exploration and Midstream Services             | LIBOR Plus 6.50% (Floor 1.25%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity June 4, 2019)(9)      | 6,948               | 6,883          | 7,013             |
| <b>Blackhawk Specialty Tools LLC(11)</b>         | Oilfield Equipment & Services                            |  | 5,413               | 5,375          | 5,399             |

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LIBOR Plus 5.25% (Floor 1.25%),  
Current Coupon 6.50%, Secured Debt  
(Maturity August 1, 2019)(9)

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                       | Business Description                          | Type of Investment(2)(3)   | Principal(4) | Cost(4)     | Fair Value |
|--|---|--|--------------|-------------|------------|
| <b>Bluestem Brands, Inc.(11)</b>           | Multi-Channel Retailer of General Merchandise | LIBOR Plus 6.50% (Floor 1.00%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity December 6, 2018)(9)  | 4,000        | 3,921       | 3,960      |
| <b>Brand Connections, LLC</b>              | Venue-Based Marketing and Media               | 12% Secured Debt (Maturity April 30, 2015)   | 7,063        | 6,983       | 7,063      |
| <b>Brasa Holdings Inc.(11)</b>             | Upscale Full Service Restaurants              | LIBOR Plus 4.75% (Floor 1.00%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity July 19, 2019)(9)     | 3,456        | 3,379       | 3,498      |
|  |   | LIBOR Plus 9.50% (Floor 1.50%),<br>Current Coupon 11.00%, Secured Debt<br>(Maturity January 20, 2020)(9) | 3,857        | 3,820       | 3,896      |
|  |   |  |              | 7,199       | 7,394      |
| <b>Calloway Laboratories, Inc.(10)</b>     | Health Care Testing Facilities                | 12.00% PIK Secured Debt<br>(Maturity September 30, 2014)<br>Warrants (125,000 equivalent shares)         | 6,336        | 6,276<br>17 | 4,738      |
|  |   |  |              | 6,293       | 4,738      |
| <b>CDC Software Corporation(11)</b>        | Enterprise Application Software               | LIBOR Plus 6.00% (Floor 1.50%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity August 6, 2018)(9)    | 4,197        | 4,163       | 4,244      |
| <b>Cedar Bay Generation Company LP(11)</b> | Coal-Fired Cogeneration Plant                 | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity April 23, 2020)(9)    | 7,964        | 7,891       | 8,028      |
| <b>Charlotte Russe, Inc(11)</b>            | Fast-Fashion Retailer to Young Women          | LIBOR Plus 5.50% (Floor 1.25%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity May 22, 2019)(9)      | 4,988        | 4,942       | 4,919      |
| <b>CHI Overhead Doors, Inc.(11)</b>        | Manufacturer of Overhead Garage Doors         |  |              |             |            |

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|  |       |       |       |
|--|-------|-------|-------|
| LIBOR Plus 9.50% (Floor 1.50%),<br>Current Coupon 11.00%, Secured Debt<br>(Maturity September 18, 2019)(9) | 2,500 | 2,462 | 2,513 |
|--|-------|-------|-------|

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                           | Business Description                              | Type of Investment(2)(3)   | Principal(4)   | Cost(4)        | Fair Value     |
|--|---|--|----------------|----------------|----------------|
| <b>Collective Brands Finance, Inc.(11)</b>     | Specialty Footwear Retailer                       | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity October 9, 2019)(9)   | 2,481          | 2,481          | 2,494          |
| <b>Compact Power Equipment, Inc.</b>           | Equipment / Tool Rental                           | 6% Current / 6% PIK Secured Debt<br>(Maturity October 1, 2017)<br>Series A Preferred Stock (4,298,435<br>shares; 8% cumulative)(8)   | 3,918          | 3,901<br>998   | 3,918<br>2,230 |
|  |   |  |                | 4,899          | 6,148          |
| <b>CGSC of Delaware Holdings Corp.(11)(13)</b> | Insurance Brokerage Firm                          | LIBOR Plus 7.00% (Floor 1.25%),<br>Current Coupon 8.25%, Secured Debt<br>(Maturity October 16, 2020)(9)  | 2,000          | 1,972          | 1,940          |
| <b>Connolly Holdings Inc.(11)</b>              | Audit Recovery Software                           | LIBOR Plus 5.25% (Floor 1.25%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity July 13, 2018)(9)<br>LIBOR Plus 9.25% (Floor 1.25%),<br>Current Coupon 10.50%, Secured Debt<br>(Maturity January 15, 2019)(9) | 2,395<br>2,000 | 2,376<br>1,967 | 2,405<br>2,045 |
|  |   |  |                | 4,343          | 4,450          |
| <b>CST Industries Inc.(11)</b>                 | Storage Tank Manufacturer                         | LIBOR Plus 6.25% (Floor 1.50%),<br>Current Coupon 7.75%, Secured Debt<br>(Maturity May 22, 2017)(9)  | 11,563         | 11,436         | 11,389         |
| <b>Drilling Info, Inc.</b>                     | Information Services for the Oil and Gas Industry | Common Stock (3,788,865 shares)  |                | 1,335          | 9,470          |
| <b>Emerald Performance Materials, Inc.(11)</b> | Specialty Chemicals Manufacturer                  | LIBOR Plus 5.50% (Floor 1.25%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity May 18, 2018)(9)  | 4,434          | 4,401          | 4,467          |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                              | Business Description                            | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|---|--|--------------|---------|------------|
| <b>EnCap Energy Fund Investments(12)(13)</b>      | Investment Partnership                          | LP Interests (EnCap Energy Capital Fund VIII, L.P.) (Fully diluted 0.1%)(8)                          |              | 2,868   | 2,985      |
|   |   | LP Interests (EnCap Energy Capital Fund VIII Co- Investors, L.P.) (Fully diluted 0.3%)               |              | 1,192   | 1,301      |
|   |   | LP Interests (EnCap Energy Capital Fund IX, L.P.) (Fully diluted 0.1%)                               |              | 646     | 646        |
|   |   | LP Interests (EnCap Flatrock Midstream Fund II, L.P.) (Fully diluted 0.8%)                           |              | 2,723   | 2,723      |
|   |   |  |              | 7,429   | 7,655      |
| <b>e-Rewards, Inc.(11)</b>                        | Provider of Digital Data Collection             | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity October 29, 2018)(9)    | 11,000       | 10,786  | 10,931     |
| <b>Excelitas Technologies Corp.(11)</b>           | Lighting and Sensor Components                  | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity November 2, 2020)(9)    | 3,958        | 3,919   | 3,987      |
| <b>Fender Musical Instruments Corporation(11)</b> | Manufacturer of Musical Instruments             | LIBOR Plus 4.50% (Floor 1.25%), Current Coupon 5.75%, Secured Debt (Maturity April 3, 2019)(9)       | 448          | 443     | 455        |
| <b>FC Operating, LLC(10)</b>                      | Christian Specialty Retail Stores               | LIBOR Plus 10.75% (Floor 1.25%), Current Coupon 12.00%, Secured Debt (Maturity November 14, 2017)(9) | 5,550        | 5,459   | 5,437      |
| <b>FishNet Security, Inc.(11)</b>                 | Information Technology Value-Added Reseller     | LIBOR Plus 5.00% (Floor 1.25%), Current Coupon 6.25%, Secured Debt (Maturity November 30, 2017)(9)   | 7,920        | 7,856   | 7,965      |
| <b>Fram Group Holdings, Inc.(11)</b>              | Manufacturer of Automotive Maintenance Products | LIBOR Plus 5.00% (Floor 1.50%), Current Coupon 6.50%, Secured Debt (Maturity July 31, 2017)(9)       | 964          | 961     | 958        |
|   |   | LIBOR Plus 9.00% (Floor 1.50%), Current Coupon 10.50%, Secured Debt                                  | 1,000        | 996     | 953        |

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(Maturity January 29, 2018)(9)

1,957

1,911

43

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)  | Business Description                              | Type of Investment(2)(3)  | Principal(4)   | Cost(4)        | Fair Value     |
|---|---|---|----------------|----------------|----------------|
| <b>Gastar Exploration USA, Inc.(11)</b>                     | Oil & Gas Exploration & Production                | 8.63% Secured Bond (Maturity May 15, 2018)  | 1,000          | 1,000          | 983            |
| <b>Getty Images, Inc.(11)</b>                               | Digital Photography and Video Content Marketplace | LIBOR Plus 3.50% (Floor 1.25%), Current Coupon 4.75%, Secured Debt (Maturity October 18, 2019)(9)   | 4,987          | 4,501          | 4,665          |
| <b>Golden Nugget, Inc.(11)</b>                              | Owner & Operator of Hotels & Casinos              | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity November 21, 2019)(9)  | 1,400          | 1,380          | 1,424          |
| <b>Grupo Hima San Pablo, Inc.(11)</b>                       | Tertiary Care Hospitals                           | LIBOR Plus 7.00% (Floor 1.50%), Current Coupon 8.50%, Secured Debt (Maturity January 31, 2018)(9)<br>13.75% Secured Debt (Maturity July 31, 2018) | 4,963<br>2,000 | 4,877<br>1,911 | 4,714<br>1,900 |
|   |   |   |                | 6,788          | 6,614          |
| <b>Healogics, Inc.(11)</b>                                  | Wound Care Management                             | Common Stock (43,478 shares)(8)   |                | 50             | 50             |
| <b>iEnergizer Limited(11)(13)</b>                           | Provider of Business Outsourcing Solutions        | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity May 1, 2019)(9)  | 8,150          | 8,020          | 8,028          |
| <b>Inn of the Mountain Gods Resort and Casino(11)</b>       | Hotel & Casino                                    | 9.25% Secured Debt (Maturity November 30, 2020)   | 4,096          | 3,901          | 3,953          |
| <b>Ipreo Holdings LLC(11)</b>                               | Application Software for Capital Markets          | LIBOR Plus 4.00% (Floor 1.00%), Current Coupon 5.00%, Secured Debt (Maturity August 5, 2017)(9)   | 5,637          | 5,630          | 5,721          |
| <b>Ivy Hill Middle Market Credit Fund III, Ltd.(12)(13)</b> | Investment Partnership                            | LIBOR Plus 6.50% (Floor 0.28%), Current Coupon 6.78%, Secured Debt  | 2,000          | 1,704          | 2,000          |

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(Maturity January 15, 2022)(9)

|  |                          |  |       |       |       |
|--|--------------------------|--|-------|-------|-------|
| <b>Jackson Hewitt Tax Service Inc.(11)</b> | Tax Preparation Services | LIBOR Plus 8.50% (Floor 1.50%),<br>Current Coupon 10.00%, Secured Debt<br>(Maturity October 16, 2017)(9) | 4,844 | 4,688 | 4,820 |
|--|--------------------------|--|-------|-------|-------|

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                       | Business Description                        | Type of Investment(2)(3)  | Principal(4)    | Cost(4)        | Fair Value     |
|--|---|---|-----------------|----------------|----------------|
| Joerns Healthcare, LLC(11)                 | Health Care Equipment & Supplies            | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity March 28, 2018)(9)   | 6,451           | 6,395          | 6,322          |
| Keypoint Government Solutions, Inc.(11)    | Pre-Employment Screening Services           | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity November 13, 2017)(9)  | 4,483           | 4,411          | 4,439          |
| Larchmont Resources, LLC(11)               | Oil & Gas Exploration & Production          | LIBOR Plus 7.25% (Floor 1.25%),<br>Current Coupon 8.50%, Secured Debt<br>(Maturity August 7, 2019)(9)   | 6,965           | 6,899          | 7,096          |
| Learning Care Group (US) No. 2 Inc.(11)    | Provider of Early Childhood Education       | LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity May 8, 2019)(9)  | 5,486           | 5,436          | 5,521          |
| LJ Host Merger Sub, Inc.(11)               | Managed Services and Hosting Provider       | LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity December 23, 2019)(9)<br>LIBOR Plus 8.75% (Floor 1.25%),<br>Current Coupon 10.00%, Secured Debt<br>(Maturity December 23, 2020)(9) | 10,000<br>5,000 | 9,901<br>4,901 | 9,950<br>4,975 |
| LKCM Distribution Holdings, L.P.           | Distributor of Industrial Process Equipment | 12% Current / 2.5% PIK Secured Debt<br>(Maturity December 23, 2018)   | 16,506          | 16,342         | 16,342         |
| LKCM Headwater Investments I, L.P.(12)(13) | Investment Partnership                      | LP Interests (Fully diluted 2.27%)(8)   |                 | 1,500          | 3,033          |
| MAH Merger Corporation(11)                 | Sports-Themed Casual Dining Chain           | LIBOR Plus 4.50% (Floor 1.25%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity July 19, 2019)(9)  | 7,350           | 7,277          | 7,313          |
| Media Holdings, LLC(11)(13)                | Internet Traffic Generator                  |   |                 |                |                |

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|  |       |       |       |
|--|-------|-------|-------|
| 14% Secured Debt (Maturity October 18, 2018) | 5,894 | 5,781 | 5,952 |
|--|-------|-------|-------|

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)             | Business Description                       | Type of Investment(2)(3)   | Principal(4) | Cost(4)      | Fair Value |
|----------------------------------|--|--|--------------|--------------|------------|
| MediMedia USA, Inc.(11)          | Provider of Healthcare Media and Marketing | LIBOR Plus 6.75% (Floor 1.25%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity November 20, 2018)(9)   | 5,473        | 5,339        | 5,351      |
| Medpace Intermediateco, Inc.(11) | Clinical Trial Development and Execution   | LIBOR Plus 4.00% (Floor 1.25%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity June 19, 2017)(9)   | 2,924        | 2,896        | 2,924      |
| MedSolutions Holdings, Inc.(11)  | Specialty Benefit Management               | LIBOR Plus 5.25% (Floor 1.25%),<br>Current Coupon 6.50%, Secured Debt<br>(Maturity July 8, 2019)(9)  | 3,900        | 3,864        | 3,912      |
| Metal Services LLC(11)           | Steel Mill Services                        | LIBOR Plus 5.00% (Floor 1.00%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity June 30, 2017)(9)   | 5,313        | 5,313        | 5,365      |
| Milk Specialties Company(11)     | Processor of Nutrition Products            | LIBOR Plus 5.75% (Floor 1.25%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity November 9, 2018)(9)  | 4,905        | 4,863        | 4,911      |
| Miramax Film NY, LLC(11)         | Motion Picture Producer and Distributor    | Class B Units (Fully diluted 0.2%)   |              | 500          | 871        |
| Modern VideoFilm, Inc.(10)       | Post-Production Film Studio                | LIBOR Plus 3.50% (Floor 1.50%),<br>Current Coupon 5.00% / 8.50% PIK,<br>Current Coupon Plus PIK 13.50%,<br>Secured Debt (Maturity December 19,<br>2017)(9)<br>Warrants (1,375 equivalent shares) | 5,397        | 5,198<br>151 | 4,749<br>1 |
|                                  |  |  |              | 5,349        | 4,750      |
| MP Assets Corporation(11)        | Manufacturer of Battery Components         | LIBOR Plus 4.50% (Floor 1.25%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity December 19, 2019)(9)   | 4,600        | 4,554        | 4,589      |

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|                                      |  |   |       |       |       |
|--------------------------------------|--|---|-------|-------|-------|
| <b>National Vision, Inc.(11)</b>     | Discount Optical Retailer                        | LIBOR Plus 5.75% (Floor 1.25%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity August 2, 2018)(9) | 3,163 | 3,125 | 3,173 |
| <b>NCP Investment Holdings, Inc.</b> | Management of<br>Outpatient Cardiac Cath<br>Labs | Class A and C Units (2,474,075 units)   |       | 20    | 3,170 |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)   | Business Description                                  | Type of Investment(2)(3)  | Principal(4) | Cost(4) | Fair Value |
|--|---|---|--------------|---------|------------|
| NGPL PipeCo, LLC(11)   | Natural Gas Pipelines and Storage Facilities          | LIBOR Plus 5.50% (Floor 1.25%),<br>Current Coupon 6.75%, Secured Debt<br>(Maturity September 15, 2017)(9) | 9,805        | 9,660   | 9,163      |
| Nice-Pak Products, Inc.(11)                                  | Pre-Moistened Wipes Manufacturer                      | LIBOR Plus 6.50% (Floor 1.50%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity June 18, 2014)(9)      | 5,701        | 5,650   | 5,530      |
| North American Breweries Holdings, LLC(11)                   | Operator of Specialty Breweries                       | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity December 11, 2018)(9)  | 3,960        | 3,892   | 3,881      |
| NRC US Holding Company LLC(11)                               | Environmental Services Provider                       | LIBOR Plus 4.50% (Floor 1.00%),<br>Current Coupon 5.50%, Secured Debt<br>(Maturity July 30, 2019)(9)      | 3,413        | 3,396   | 3,421      |
| Nuverra Environmental Solutions, Inc.(11)(13)                | Water Treatment and Disposal Services                 | 9.88% Unsecured Bond<br>(Maturity April 15, 2018)   | 3,500        | 3,500   | 3,413      |
| Ospemifene Royalty Sub LLC (QuatRx)(10)                      | Estrogen-Deficiency Drug Manufacturer and Distributor | 11.50% Secured Debt<br>(Maturity November 15, 2026)   | 5,000        | 5,000   | 5,000      |
| Panolam Industries International, Inc.(11)                   | Decorative Laminate Manufacturer                      | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity August 23, 2017)(9)    | 7,499        | 7,435   | 7,255      |
| Permian Holdings, Inc.(11)                                   | Storage Tank Manufacturer                             | 10.50% Secured Bond<br>(Maturity January 15, 2018)  | 3,150        | 3,116   | 3,103      |
| Philadelphia Energy Solutions Refining and Marketing LLC(11) | Oil & Gas Refiner                                     | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity April 4, 2018)(9)      | 2,978        | 2,939   | 2,625      |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                             | Business Description   | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|--|--|--|--------------|---------|------------|
| <b>Pitney Bowes Management Services Inc.(11)</b> | Provider of Document Management Services                             | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity October 1, 2019)(9)   | 5,985        | 5,927   | 6,030      |
| <b>Polyconcept Financial B.V.(11)</b>            | Promotional Products to Corporations and Consumers                   | LIBOR Plus 4.75% (Floor 1.25%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity June 28, 2019)(9)     | 3,413        | 3,381   | 3,425      |
| <b>Primesight Limited(10)(13)</b>                | Outdoor Advertising Operator   | 11.25% Secured Debt<br>(Maturity October 17, 2015)   | 7,378        | 7,378   | 8,163      |
| <b>PT Network, LLC(10)</b>                       | Provider of Outpatient Physical Therapy and Sports Medicine Services | LIBOR Plus 7.00% (Floor 1.50%),<br>Current Coupon 8.50%, Secured Debt<br>(Maturity November 1, 2018)(9)  | 8,597        | 8,499   | 8,499      |
| <b>Radio One, Inc.(11)</b>                       | Radio Broadcasting   | LIBOR Plus 6.00% (Floor 1.50%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity March 31, 2016)(9)    | 2,902        | 2,873   | 2,977      |
| <b>Ravago Holdings America, Inc.(11)</b>         | Polymers Distributor   | LIBOR Plus 4.50% (Floor 1.00%),<br>Current Coupon 5.50%, Secured Debt<br>(Maturity December 20, 2020)(9) | 6,250        | 6,188   | 6,266      |
| <b>Relativity Media, LLC(10)</b>                 | Full-scale Film and Television Production and Distribution           | 10.00% Secured Debt (Maturity May 24,<br>2015)   | 5,787        | 5,739   | 6,026      |
|  |  | 15.00% PIK Secured Debt<br>(Maturity May 24, 2015)   | 6,370        | 6,189   | 6,449      |
|  |  | Class A Units (260,194 units)  |              | 292     | 1,521      |
|  |  |  |              | 12,220  | 13,996     |
| <b>Sabre Industries, Inc.(11)</b>                | Manufacturer of Telecom Structures and Equipment                     | LIBOR Plus 4.75% (Floor 1.00%),<br>Current Coupon 5.75%, Secured Debt<br>(Maturity August 24, 2018)(9)   | 2,975        | 2,948   | 2,975      |



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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)                    | Business Description                   | Type of Investment(2)(3)   | Principal(4) | Cost(4) | Fair Value |
|---|--|--|--------------|---------|------------|
| SAExploration, Inc.(10)(13)             | Geophysical Services Provider          | 11.00% Current / 2.50% PIK Secured Debt (Maturity November 28, 2016)   | 8,075        | 8,173   | 8,075      |
|   |  | Common Stock (6,186 shares)(8)   |              | 65      | 55         |
|   |  |  |              | 8,238   | 8,130      |
| SCE Partners, LLC(10)                   | Hotel & Casino Operator                | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity August 8, 2019)(9)  | 7,500        | 7,429   | 6,975      |
| Sotera Defense Solutions, Inc.(11)      | Defense Industry Intelligence Services | LIBOR Plus 6.00% (Floor 1.50%), Current Coupon 7.50%, Secured Debt (Maturity April 21, 2017)(9)  | 11,651       | 11,086  | 10,486     |
| Sourcehov LLC(11)                       | Business Process Services              | LIBOR Plus 7.50% (Floor 1.25%), Current Coupon 8.75%, Secured Debt (Maturity April 30, 2019)(9)  | 1,500        | 1,486   | 1,523      |
| Sutherland Global Services, Inc.(11)    | Business Process Outsourcing Provider  | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity March 6, 2019)(9)   | 6,738        | 6,619   | 6,754      |
| Synagro Infrastructure Company, Inc(11) | Waste Management Services              | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.25%, Secured Debt (Maturity August 22, 2020)(9)   | 6,983        | 6,849   | 6,924      |
| Targus Group International(11)          | Protective Cases for Mobile Devices    | LIBOR Plus 9.50% (Floor 1.50%), Current Coupon 11.00% / 1.00% PIK, Current Coupon Plus PIK 12.00%, Secured Debt (Maturity May 24, 2016)(9) | 4,426        | 4,445   | 3,696      |
| Technimark LLC(11)                      | Injection Molding                      | LIBOR Plus 4.25% (Floor 1.25%), Current Coupon 5.50%, Secured Debt (Maturity April 17, 2019)(9)  | 3,734        | 3,701   | 3,753      |
| TeleGuam Holdings, LLC(11)              | Cable and Telecom Services Provider    |  |              |         |            |

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|  |       |       |       |
|--|-------|-------|-------|
| LIBOR Plus 4.00% (Floor 1.25%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity December 10, 2018)(9) | 6,965 | 6,933 | 6,948 |
| LIBOR Plus 7.50% (Floor 1.25%),<br>Current Coupon 8.75%, Secured Debt<br>(Maturity June 10, 2019)(9)     | 2,500 | 2,477 | 2,513 |
|  |       | 9,410 | 9,461 |

Table of Contents**MAIN STREET CAPITAL CORPORATION****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2013****(in thousands)**

| <b>Portfolio Company(1)</b>             | <b>Business Description</b>                       | <b>Type of Investment(2)(3)</b>  | <b>Principal(4)</b> | <b>Cost(4)</b> | <b>Fair Value</b> |
|---|---|--|---------------------|----------------|-------------------|
| <b>Templar Energy LLC(11)</b>           | Oil & Gas Exploration & Production                | LIBOR Plus 7.00% (Floor 1.00%),<br>Current Coupon 8.00%, Secured Debt<br>(Maturity November 25, 2020)(9)   | 3,000               | 2,941          | 3,017             |
| <b>Tervita Corporation(11)(13)</b>      | Oil and Gas<br>Environmental Services             | LIBOR Plus 5.00% (Floor 1.25%),<br>Current Coupon 6.25%, Secured Debt<br>(Maturity May 15, 2018)(9)  | 5,474               | 5,427          | 5,507             |
| <b>The Tennis Channel, Inc.(10)</b>     | Television-Based Sports<br>Broadcasting           | Warrants (144,316 equivalent shares)   |                     | 235            | 301               |
| <b>The Topps Company, Inc.(11)</b>      | Trading Cards &<br>Confectionary                  | LIBOR Plus 6.00% (Floor 1.25%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity October 2, 2018)(9)   | 2,000               | 1,981          | 2,005             |
| <b>ThermaSys Corporation(11)</b>        | Manufacturer of<br>Industrial Heat<br>Exchanges   | LIBOR Plus 4.00% (Floor 1.25%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity May 3, 2019)(9)   | 6,395               | 6,336          | 6,326             |
| <b>Therakos, Inc.(11)</b>               | Immune System Disease<br>Treatment                | LIBOR Plus 6.25% (Floor 1.25%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity December 27, 2017)(9)   | 6,446               | 6,314          | 6,470             |
| <b>Totes Isotoner Corporation(11)</b>   | Weather Accessory<br>Retail                       | LIBOR Plus 5.75% (Floor 1.50%),<br>Current Coupon 7.25%, Secured Debt<br>(Maturity July 7, 2017)(9)  | 4,275               | 4,228          | 4,299             |
| <b>Travel Leaders Group, LLC(11)</b>    | Travel Agency Network<br>Provider                 | LIBOR Plus 6.00% (Floor 1.00%),<br>Current Coupon 7.00%, Secured Debt<br>(Maturity December 5, 2018)(9)  | 7,500               | 7,352          | 7,406             |
| <b>UniTek Global Services, Inc.(11)</b> | Provider of Outsourced<br>Infrastructure Services | LIBOR Plus 9.50% (Floor 1.50%),<br>Current Coupon 11.00% / 4.00% PIK,<br>Current Coupon Plus PIK 15.00%,<br>Secured Debt (Maturity April 15,<br>2018)(9) | 10,034              | 9,328          | 10,016            |

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Warrants (267,302 equivalent shares)

466

450

9,794

10,466

50

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)             | Business Description  | Type of Investment(2)(3)   | Principal(4)   | Cost(4)            | Fair Value         |
|----------------------------------|---|--|----------------|--------------------|--------------------|
| Universal Fiber Systems, LLC(10) | Manufacturer of Synthetic Fibers  | LIBOR Plus 5.75% (Floor 1.75%),<br>Current Coupon 7.50%, Secured Debt<br>(Maturity June 26, 2015)(9)   | 10,192         | 10,141             | 10,243             |
| US Xpress Enterprises, Inc.(11)  | Truckload Carrier   | LIBOR Plus 7.88% (Floor 1.50%),<br>Current Coupon 9.38%, Secured Debt<br>(Maturity November 13, 2016)(9)   | 6,078          | 5,985              | 6,048              |
| Vantage Oncology, LLC(11)        | Outpatient Radiation Oncology Treatment Centers                               | 9.50% Secured Bond (Maturity August 7, 2017)   | 7,000          | 7,000              | 7,175              |
| Virtex Enterprises, LP(10)       | Specialty, Full-Service Provider of Complex Electronic Manufacturing Services | 12.00% Secured Debt<br>(Maturity December 27, 2018)<br>Preferred Class A Units (14 shares; 5%<br>cumulative)(8)<br>Warrants (11 equivalent units)  | 1,667          | 1,612<br>327<br>22 | 1,612<br>327<br>22 |
|                                  |   |  |                | 1,961              | 1,961              |
| Visant Corporation(11)           | School Affinity Stores  | LIBOR Plus 4.00% (Floor 1.25%),<br>Current Coupon 5.25%, Secured Debt<br>(Maturity December 22, 2016)(9)   | 3,882          | 3,882              | 3,837              |
| Vision Solutions, Inc.(11)       | Provider of Information Availability Software                                 | LIBOR Plus 4.50% (Floor 1.50%),<br>Current Coupon 6.00%, Secured Debt<br>(Maturity July 23, 2016)(9)<br>LIBOR Plus 8.00% (Floor 1.50%),<br>Current Coupon 9.50%, Secured Debt<br>(Maturity July 23, 2017)(9) | 2,348<br>5,000 | 2,235<br>4,969     | 2,347<br>5,050     |
|                                  |   |  |                | 7,204              | 7,397              |
| Walker & Dunlop Inc.(11)(13)     | Real Estate Financial Services  | LIBOR Plus 4.50% (Floor 1.00%),<br>Current Coupon 5.50%, Secured Debt<br>(Maturity December 20, 2020)(9)   | 4,250          | 4,208              | 4,229              |

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|  |                      |   |       |       |       |
|--|----------------------|---|-------|-------|-------|
| <b>Western Dental Services, Inc.(11)</b> | Dental Care Services | LIBOR Plus 7.00% (Floor 1.25%),<br>Current Coupon 8.25%, Secured Debt<br>(Maturity November 1, 2018)(9) | 4,950 | 4,825 | 4,996 |
|--|----------------------|---|-------|-------|-------|

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)   | Business Description                               | Type of Investment(2)(3)   | Principal(4) | Cost(4)        | Fair Value     |
|--|--|--|--------------|----------------|----------------|
| <b>Willbros Group, Inc.(11)(13)</b>  | Engineering and Construction Contractor            | LIBOR Plus 9.75% (Floor 1.25%), Current Coupon 11.00%, Secured Debt (Maturity August 5, 2019)(9)   | 2,993        | 2,893          | 3,037          |
| <b>Wilton Brands LLC(11)</b>   | Specialty Housewares Retailer                      | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.50%, Secured Debt (Maturity August 30, 2018)(9)   | 1,875        | 1,844          | 1,792          |
| <b>Wireco Worldgroup Inc.(11)</b>  | Manufacturer of Synthetic Lifting Products         | LIBOR Plus 4.75% (Floor 1.25%), Current Coupon 6.00%, Secured Debt (Maturity February 15, 2017)(9) | 2,469        | 2,451          | 2,492          |
| <b>YP Holdings LLC(11)</b>   | Online and Offline Advertising Operator            | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity June 4, 2018)(9)      | 2,800        | 2,737          | 2,834          |
| <b>Zilliant Incorporated</b>   | Price Optimization and Margin Management Solutions | 12% Secured Debt (Maturity June 15, 2017)<br>Warrants (952,500 equivalent shares)                  | 8,000        | 7,056<br>1,071 | 7,056<br>1,071 |
|  |  |  |              | 8,127          | 8,127          |
| <b>Subtotal Non-Control/Non-Affiliate Investments (50.9% of total investments at fair value)</b> |  |  |              | 643,068        | 661,102        |
| <b>Total Portfolio Investments, December 31, 2013</b>  |  |  |              | 1,163,071      | 1,286,188      |

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## MAIN STREET CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2013

(in thousands)

| Portfolio Company(1)   | Business Description   | Type of Investment(2)(3) | Principal(4) | Cost(4)      | Fair Value   |
|--|--|--------------------------|--------------|--------------|--------------|
| <b>Marketable Securities and Idle Funds Investments</b>  |  |                          |              |              |              |
|  | Investments in<br>Marketable Securities<br>and Diversified,<br>Registered Bond Funds |                          |              |              |              |
| <b>Other Marketable Securities and Idle Funds Investments(13)</b>  |  |                          |              | 14,885       | 13,301       |
| <b>Subtotal Marketable Securities and Idle Funds Investments (1.0% of total investments at fair value)</b> |  |                          |              | 14,885       | 13,301       |
| <b>Total Investments, December 31, 2013</b>  |  |                          |              | \$ 1,177,956 | \$ 1,299,489 |

- 
- (1) All investments are Lower Middle Market portfolio investments, unless otherwise noted. All of the Company's assets are encumbered either as security for the Company's credit agreement or in support of the SBA-guaranteed debentures issued by the Funds.
- (2) Debt investments are income producing, unless otherwise noted. Equity and warrants are non-income producing, unless otherwise noted.
- (3) See Note C for summary geographic location of portfolio companies.
- (4) Principal is net of prepayments. Cost is net of prepayments and accumulated unearned income.
- (5) Control investments are defined by the Investment Company Act of 1940, as amended ("1940 Act") as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
- (6) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as Control investments.
- (7) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.
- (8) Income producing through dividends or distributions.
- (9) Index based floating interest rate is subject to contractual minimum interest rate.
- (10)

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Private Loans portfolio investment. See Note B for summary of Private Loan.

(11) Middle Market portfolio investment. See Note B for summary of Middle Market.

(12) Other Portfolio investment. See Note B for summary of Other Portfolio.

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

(14) Non-accrual and non-income producing investment.

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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 in March 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, (ii) acquiring 100% of the equity interests of Main Street Capital Partners, LLC (the "Internal 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 Internal Investment Manager acts as MSMF's manager and investment adviser. Because the Internal Investment Manager, which employs all of the executive officers and other employees of MSCC, is wholly owned by MSCC, MSCC does not pay any external investment advisory fees but instead incurs the operating costs associated with employing investment and portfolio management professionals through the Internal Investment Manager. The IPO and related transactions discussed above were consummated in October 2007 and are collectively termed the "Formation Transactions."

During January 2010, MSCC acquired (the "Exchange Offer") 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") and 100% of the membership interests in the general partner of MSC II, Main Street Capital II GP, LLC ("MSC II GP"). MSC II is an investment fund that operates as an SBIC and commenced operations in January 2006. During the first quarter of 2012, MSCC acquired all of the remaining minority ownership in the total dollar value of the MSC II limited partnership interests (the "Final MSC II Exchange"). The Exchange Offer and related transactions, including the acquisition of MSC II GP interests and the Final MSC II Exchange, are collectively termed the "Exchange Offer Transactions."

MSC Adviser I, LLC (the "External Investment Manager" and, together with the Internal Investment Manager, the "Investment Managers") was formed in November 2013 as a wholly owned subsidiary of MSCC to provide investment management and other services to parties other than MSCC and its subsidiaries ("External Parties") and receive fee income for such services. MSCC has been granted no-action relief by the Securities and Exchange Commission ("SEC") to allow the External Investment Manager to register as a registered investment adviser ("RIA") under Investment Advisers Act of 1940, as amended (the "Advisers Act"). The External Investment Manager is accounted for as a portfolio investment of MSCC, since the External Investment Manager conducts all of its investment management activities for parties outside of MSCC and its consolidated subsidiaries.

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.

MSCC has direct and indirect wholly owned subsidiaries that have elected to be taxable entities (the "Taxable Subsidiaries"). The primary purpose of these entities is to hold certain investments that generate "pass through" income for tax purposes. Each of the Investment Managers is also a direct

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE A ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

wholly owned subsidiary that has elected to be a taxable entity. The Taxable Subsidiaries and the Investment Managers are each taxed at their normal corporate tax rates based on their taxable income.

Unless otherwise noted or the context otherwise indicates, the terms "we," "us," "our" and "Main Street" refer to MSCC and its consolidated subsidiaries, which include the Funds, the Taxable Subsidiaries and, beginning April 1, 2013, the Internal Investment Manager (see Note A.2. for further discussion).

**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 each of the periods presented herein, Main Street's consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries (which, as noted above and discussed in detail below, include the Funds and the Taxable Subsidiaries and, beginning April 1, 2013, include the Internal Investment Manager which was previously treated as a portfolio investment). The Investment Portfolio, as used herein, refers to all of Main Street's investments in LMM portfolio companies, investments in Middle Market portfolio companies, Private Loan portfolio investments, Other Portfolio investments, the investment in the External Investment Manager and, for all periods up to and including March 31, 2013, the investment in the Internal Investment Manager, but excludes all "Marketable securities and idle funds investments", and, for all periods after March 31, 2013, the Investment Portfolio also excludes the investment in the Internal Investment Manager (see Note C Fair Value Hierarchy for Investments and Debentures Portfolio Composition Portfolio Investment Composition for additional discussion of Main Street's Investment Portfolio and definitions for the terms LMM, Middle Market, Private Loan and Other Portfolio). For all periods up to and including the period ending March 31, 2013, the Internal Investment Manager was accounted for as a portfolio investment (see Note D) and was not consolidated with MSCC and its consolidated subsidiaries. For all periods after March 31, 2013, the Internal Investment Manager is consolidated with MSCC and its other consolidated subsidiaries. "Marketable securities and idle funds investments" are classified as financial instruments and are reported separately on Main Street's Consolidated Balance Sheets and Consolidated Schedules of Investments due to the nature of such investments (see Note B.11.). Main Street's results of operations for the three and nine months ended September 30, 2014 and 2013, cash flows for the nine months ended September 30, 2014 and 2013, and financial position as of September 30, 2014 and December 31, 2013, 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 presentation, including reclassifying the expenses charged to the External Investment Manager.

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

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE A ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

for the three and nine months ended September 30, 2014 and 2013 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, 2013. 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 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and Accounting Standards Codification ("Codification" or "ASC") 946, *Financial Services Investment Companies* ("ASC 946"), 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 ASC 946 occurs if Main Street holds a controlling interest in an operating company that provides all or substantially all of its services directly to Main Street or to its portfolio companies. None of the portfolio investments made by Main Street qualify for this exception, including the investment in the External Investment Manager, except as discussed below with respect to the Internal Investment Manager. Therefore, Main Street's Investment Portfolio is 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 Consolidated Statements of Operations until the investment is realized, usually upon exit, resulting in any gain or loss being recognized as a "Net Realized Gain (Loss)." For all periods prior to and including March 31, 2013, the Internal Investment Manager was accounted for as a portfolio investment and included as part of the Investment Portfolio in the consolidated financial statements of Main Street (see Note D for further discussion of the Internal Investment Manager). The Internal Investment Manager was consolidated with MSCC and its other consolidated subsidiaries prospectively beginning April 1, 2013 as the controlled operating subsidiary is providing substantially all of its services directly or indirectly to Main Street or its portfolio companies.

***Portfolio Investment Classification***

Main Street classifies its Investment Portfolio in accordance with the requirements of the 1940 Act. Under the 1940 Act, (a) "Control Investments" are defined as investments in which Main Street owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation, (b) "Affiliate Investments" are defined as investments in which Main Street owns between 5% and 25% of the voting securities and does not have rights to maintain greater than 50% of the board representation, and (c) "Non-Control/Non-Affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Valuation of the Investment Portfolio**

Main Street accounts for its Investment Portfolio at fair value. As a result, Main Street follows the provisions of the Financial Accounting Standards Board ("FASB") 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



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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

enhances disclosure requirements for fair value measurements. ASC 820 requires Main Street to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable and willing and able to transact.

Main Street's portfolio strategy calls for it to invest primarily in illiquid debt and equity securities issued by private, LMM companies and debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. Main Street categorizes some of its investments in LMM companies and Middle Market companies as Private Loan portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either the LMM companies or Middle Market companies, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in its LMM portfolio or Middle Market portfolio. Main Street's portfolio also includes Other Portfolio investments which primarily consist of investments that are not consistent with the typical profiles for its LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments, including investments which may be managed by third parties. Main Street's portfolio investments may be subject to restrictions on resale.

LMM investments and Other Portfolio investments generally have no established trading market while Middle Market securities generally have established markets that are not active. Private Loan investments may include investments which have no established trading market or have established markets that are not active. Main Street determines in good faith the fair value of its Investment Portfolio 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's valuation policies and processes are intended to provide a consistent basis for determining the fair value of the portfolio.

For LMM portfolio investments, Main Street generally reviews external events, including private mergers, sales and acquisitions involving comparable companies, and includes these events in the valuation process by using an enterprise value waterfall ("Waterfall") for its LMM equity investments and an income approach using a yield-to-maturity model ("Yield-to-Maturity") for its LMM debt investments. For Middle Market portfolio investments, Main Street primarily uses observable inputs such as quoted prices in the valuation process. Main Street determines the appropriateness of the use of third-party broker quotes, if any, in determining fair value based on its understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices. For Middle Market and Private Loan portfolio investments in debt securities for which it has determined that third-party quotes or other independent pricing are not available or appropriate, Main Street generally estimates the fair value based on the assumptions that it believes hypothetical market participants would use to value the investment in a current hypothetical sale using the Yield-to-Maturity valuation method. For its Other Portfolio equity investments, Main Street generally calculates the fair value of the investment primarily based on the net asset value ("NAV") of the fund. All of the valuation approaches for Main Street's portfolio investments estimate the value of the investment as if Main Street were to sell, or exit, the investment as of the measurement date.

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the Waterfall valuation method, Main Street estimates the enterprise value of a portfolio company using a combination of market and income approaches or other appropriate valuation methods, such as considering recent transactions in the equity securities of the portfolio company or third-party valuations of the portfolio company, and then performs a waterfall calculation by using the enterprise value over the portfolio company's securities in order of their preference relative to one another. 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. The operating results of a portfolio company may include unaudited, projected, budgeted or pro forma financial information and may require adjustments for non-recurring items or to normalize the operating results that may require significant judgment in its determination. In addition, projecting future financial results requires significant judgment regarding future growth assumptions. In evaluating the operating results, Main Street also analyzes the impact of exposure to litigation, loss of customers or other contingencies. After determining the appropriate enterprise value, Main Street allocates the enterprise value to investments in order of the legal priority of the various components of the portfolio company's capital structure. In applying the Waterfall valuation method, Main Street assumes the loans are paid off at the principal amount in a change in control transaction and are not assumed by the buyer, which Main Street believes is consistent with its past transaction history and standard industry practices.

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, "control" portfolio investments are composed of debt and equity securities in companies for which Main Street has a controlling interest in the equity ownership of the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. For valuation purposes, "non-control" portfolio investments are generally composed of debt and equity securities in companies for which Main Street does not have a controlling interest in the equity ownership of the portfolio company or the ability to nominate a majority of the portfolio company's board of directors.

Under the Yield-to-Maturity valuation method, Main Street also uses the income approach to determine the fair value of debt securities based on projections of the discounted future free cash flows that the debt security will likely generate, including analyzing the discounted cash flows of interest and principal amounts for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of the portfolio investments. Main Street's estimate of the expected repayment date of its debt securities is generally the legal maturity date of the instrument, as Main Street generally intends to hold its loans and debt securities to maturity. The Yield-to-Maturity analysis also considers changes in leverage levels, credit quality, portfolio company performance and other factors. Main Street will generally use the value determined by the Yield-to-Maturity 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 principal amount of the debt security valued using the Yield-to-Maturity valuation method. A change in the assumptions that Main Street uses to estimate the

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

fair value of its debt securities using the Yield-to-Maturity valuation method could have a material impact on the determination of fair value. If there is deterioration in credit quality or if a debt security is in workout status, Main Street may consider other factors in determining the fair value of the debt security, including the value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would most likely be received in a liquidation analysis.

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, Main Street measures the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, Main Street may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of Main Street's investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, and expected future cash flows available to equity holders, including the rate of return on those cash flows compared to an implied market return on equity required by market participants, or other uncertainties surrounding Main Street's ability to realize the full NAV of its interests in the investment fund.

Pursuant to its internal valuation process and the requirements under the 1940 Act, Main Street performs valuation procedures on its investments in each LMM portfolio company quarterly. In addition to its internal valuation process, in arriving at estimates of fair value for its investments in its LMM portfolio companies, Main Street, among other things, consults with a nationally recognized independent financial advisory services firm. The nationally recognized independent advisor is generally consulted relative to Main Street's investments in each LMM portfolio company at least once every calendar year, and for Main Street's investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, Main Street may determine that it is not cost-effective, and as a result is not in its stockholders' best interest, to consult with the nationally recognized independent advisor on its investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of Main Street's investment in a LMM portfolio company is determined to be insignificant relative to the total Investment Portfolio. Main Street consulted with its independent advisor in arriving at Main Street's determination of fair value on its investments in a total of 42 LMM portfolio companies for the nine months ended September 30, 2014, representing approximately 74% of the total LMM portfolio at fair value as of September 30, 2014, and on a total of 44 LMM portfolio companies for the nine months ended September 30, 2013, representing approximately 66% of the total LMM portfolio at fair value as of September 30, 2013. Excluding Main Street's investments in LMM portfolio companies that were not reviewed because their equity is publicly traded or they had not been in the Investment Portfolio for at least twelve months subsequent to the initial investment as of September 30, 2014 and 2013, as applicable, the percentage of the LMM portfolio reviewed for the nine months ended September 30, 2014 and 2013 was 83% and 82% of total LMM portfolio at fair value as of September 30, 2014 and 2013, respectively.

For valuation purposes, all of Main Street's Middle Market portfolio investments are non-control investments. To the extent sufficient observable inputs are available to determine fair value, Main Street uses observable inputs to determine the fair value of these investments through obtaining third-party quotes or other independent pricing. For Middle Market portfolio investments for which it has

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

determined that third-party quotes or other independent pricing are not available or appropriate, Main Street generally estimates the fair value based on the assumptions that it believes hypothetical market participants would use to value its Middle Market debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method and its Middle Market equity investments in a current hypothetical sale using the Waterfall valuation method.

For valuation purposes, all of Main Street's Private Loan portfolio investments are non-control investments. For Private Loan portfolio investments for which it has determined that third-party quotes or other independent pricing are not available or appropriate, Main Street generally estimates the fair value based on the assumptions that it believes hypothetical market participants would use to value its Private Loan debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method and its Private Loan equity investments in a current hypothetical sale using the Waterfall valuation method.

For valuation purposes, all of Main Street's Other Portfolio investments are non-control investments. Main Street's Other Portfolio investments comprised 4.1% and 3.3%, respectively, of Main Street's Investment Portfolio at fair value as of September 30, 2014 and December 31, 2013. Similar to the LMM investment portfolio, market quotations for Other Portfolio equity investments are generally not readily available. For its Other Portfolio equity investments, Main Street generally determines the fair value of its investments using the NAV valuation method. For Other Portfolio debt investments, Main Street determines the fair value of these investments through obtaining third-party quotes or other independent pricing to the extent the use of these inputs are available and appropriate to determine fair value. For Other Portfolio debt investments for which it has determined that third-party quotes or other independent pricing are not available or appropriate, Main Street generally estimates the fair value based on the assumptions that it believes hypothetical market participants would use to value its Other Portfolio debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method.

For valuation purposes, Main Street's investment in the External Investment Manager is a control investment. Market quotations are not readily available for this investment, and as a result, Main Street determines the fair value of the External Investment Manager using the Waterfall methodology under the market approach. In estimating the enterprise value, Main Street analyzes various factors, including the entity's historical and projected financial results, as well as its size, marketability and performance relative to the population of market multiples. This valuation approach estimates the value of the investment as if Main Street were to sell, or exit, the investment. In addition, Main Street considers the value associated with Main Street's ability to control the capital structure of the company, as well as the timing of a potential exit.

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

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The Board of Directors of Main Street has the final responsibility for reviewing and approving, in good faith, Main Street's determination of the fair value for its Investment Portfolio, as well as its valuation procedures, consistent with the 1940 Act requirements. Main Street believes its Investment Portfolio as of September 30, 2014 and December 31, 2013 approximates fair value as of those dates based on the markets in which Main Street operates and other conditions in existence on those reporting dates.

**2. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates under different conditions or assumptions. Additionally, as explained in Note B.1., the financial statements include investments in the Investment Portfolio whose values have been estimated by Main Street with the oversight, review and approval by Main Street's Board of Directors in the absence of readily ascertainable market values. Because of the inherent uncertainty of the Investment Portfolio valuations, those estimated values may differ significantly from the values that would have been used had a readily available market for the investments existed, and it is reasonably possible that the differences could be material.

**3. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase. Cash and cash equivalents are carried at cost, which approximates fair value.

At September 30, 2014, cash balances totaling \$20.8 million exceeded FDIC insurance protection levels, subjecting the Company to risk related to the uninsured balance. All of the Company's cash deposits are held at large, established, high credit quality financial institutions and management believes that the risk of loss associated with any uninsured balances is remote.

**4. Marketable Securities and Idle Funds Investments**

Marketable securities and idle funds investments include intermediate-term secured debt investments, independently rated debt investments and publicly traded debt and equity investments.

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5. Interest, Dividend and Fee Income (Structuring and Advisory Services)**

Main Street records 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 by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. In accordance with Main Street's valuation policy, Main Street evaluates accrued interest and dividend income 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, Main Street removes it from non-accrual status.

Main Street holds debt and preferred equity instruments in its Investment Portfolio that contain payment-in-kind ("PIK") interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of these dividends in arrears may be deferred until such time as the preferred equity is redeemed. To maintain RIC tax treatment (as discussed in Note B.9. 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. We stop accruing PIK interest and cumulative dividends and 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. For the three months ended September 30, 2014 and 2013, (i) approximately 2.5% and 3.9%, respectively, of Main Street's total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 1.8% and 1.8%, respectively, of Main Street's total investment income was attributable to cumulative dividend income not paid currently in cash. For the nine months ended September 30, 2014 and 2013, (i) approximately 3.9% and 4.2%, respectively, of Main Street's total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 1.4% and 1.2%, respectively, of Main Street's total investment income was attributable to cumulative dividend income not paid currently in cash.

As of September 30, 2014, Main Street had three investments on non-accrual status, which comprised approximately 1.2% of the total Investment Portfolio at fair value and 3.9% of the total Investment Portfolio at cost, and no fully impaired investments. As of December 31, 2013, Main Street had two investments on non-accrual status, which comprised approximately 2.3% of the total Investment Portfolio at fair value and 4.7% of the total Investment Portfolio at cost, and no fully impaired investments.

Main Street may periodically provide services, including structuring and advisory services, to its portfolio companies or other third parties. 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

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

services that do not meet these criteria are treated as debt origination fees and are deferred and accreted into interest income over the life of the financing.

A presentation of the investment income Main Street received from its Investment Portfolio in each of the periods presented is as follows:

|  | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2014                                | 2013             | 2014                               | 2013             |
|  | (in thousands)                      |                  | (in thousands)                     |                  |
| Interest, fee and dividend income:             |                                     |                  |                                    |                  |
| Interest income                                | \$ 27,669                           | \$ 24,736        | \$ 81,332                          | \$ 69,081        |
| Dividend income                                | 5,935                               | 3,333            | 15,411                             | 8,948            |
| Fee income                                     | 2,627                               | 1,198            | 4,704                              | 4,002            |
| <b>Total interest, fee and dividend income</b> | <b>\$ 36,231</b>                    | <b>\$ 29,267</b> | <b>\$ 101,447</b>                  | <b>\$ 82,031</b> |

**6. Deferred Financing Costs**

Deferred financing costs include SBIC debenture commitment fees and SBIC debenture leverage fees on the SBIC debentures which are not accounted for under the fair value option under ASC 825 (as discussed further in Note B.11.). These fees are approximately 3.4% of the total commitment and draw amounts, as applicable. These deferred financing costs have been capitalized and are being amortized into interest expense over the term of the debenture agreement (ten years).

Deferred financing costs also include commitment fees and other costs related to Main Street's multi-year investment credit facility (the "Credit Facility", as discussed further in Note F). These costs have been capitalized and are amortized into interest expense over the term of the Credit Facility.

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

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

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





**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Main Street may also purchase debt securities at a discount or at a premium to the par value of the debt security. In the case of a purchase at a discount, Main Street records the investment at the par value of the debt security net of the discount, and the discount is accreted into interest income based on the effective interest method over the life of the debt investment. In the case of a purchase at a premium, Main Street records the investment at the par value of the debt security plus the premium, and the premium is amortized as a reduction to interest income based on the effective interest method over the life of the debt investment.

To maintain RIC tax treatment (as discussed below in Note B.9.), 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 them. For the three months ended September 30, 2014 and 2013, approximately 2.3% and 3.7%, respectively, of Main Street's total investment income was attributable to interest income from the accretion of discounts, net of any premium reduction, associated with debt investments. For the nine months ended September 30, 2014 and 2013, approximately 3.4% and 3.3%, respectively, of Main Street's total investment income was attributable to interest income from the accretion of discounts, net of any premium reduction, associated with debt investments.

**8. 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 the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term.

**9. Income Taxes**

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

The Taxable Subsidiaries hold certain portfolio investments for 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 as portfolio investments and recorded at fair value. The Taxable Subsidiaries permit Main Street to hold equity investments in portfolio companies which are "pass through" entities for tax purposes and continue 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 benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

investments. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in Main Street's consolidated financial statements.

The Internal Investment Manager has elected, for tax purposes, to be treated as a taxable entity, is not consolidated with Main Street for income tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The Internal Investment Manager elected to be treated as a taxable entity to enable it to receive fee income and to allow MSCC to continue to comply with the "source income" requirements contained in the RIC tax provisions of the Code. The taxable income, or loss, of the Internal Investment Manager may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. Through March 31, 2013, the Internal Investment Manager provided for any income tax expense, or benefit, and any related tax assets or liabilities, in its separate financial statements. Beginning April 1, 2013, the Internal Investment Manager is included in Main Street's consolidated financial statements and reflected as a consolidated subsidiary and any income tax expense, or benefit, and any related tax assets and liabilities, are reflected in Main Street's consolidated financial statements.

The Taxable Subsidiaries and the Internal Investment Manager 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.

**10. Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation**

Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment or a financial instrument and the cost basis of the investment or financial instrument, 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 reflects the net change in the fair value of the Investment Portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments and financial instruments to realized gains or losses.

**11. Fair Value of Financial Instruments**

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Main Street believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, payables and other liabilities

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

approximate the fair values of such items due to the short term nature of these instruments. Marketable securities and idle funds investments may include investments in certificates of deposit, U.S. government agency securities, independently rated debt investments, diversified bond funds and publicly traded debt and equity investments and the fair value determination for these investments under the provisions of ASC 820 generally consists of Level 1 and 2 observable inputs, similar in nature to those discussed further in Note C.

As part of the Exchange Offer, Main Street elected the fair value option under ASC 825, *Financial Instruments* ("ASC 825") relating to accounting for debt obligations at their fair value, for the MSC II SBIC debentures acquired (the "Acquired Debentures") as part of the acquisition accounting related to the Exchange Offer and values those obligations as discussed further in Note C. In order to provide for a more consistent basis of presentation, Main Street has continued to elect the fair value option for SBIC debentures issued by MSC II subsequent to the Exchange Offer. When the fair value option is elected for a given SBIC debenture, the deferred loan costs associated with the debenture are fully expensed in the current period to "Net Change in Unrealized Appreciation (Depreciation) SBIC debentures" as part of the fair value adjustment. Interest incurred in connection with SBIC debentures which are valued at fair value is included in interest expense.

**12. 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, the unvested shares of restricted stock awarded pursuant to Main Street's equity compensation plans are participating securities and are 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.

**13. Recently Issued or Adopted Accounting Standards**

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* ("ASU 2013-04"). ASU 2013-04 provides additional guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Public companies are required to apply ASU 2013-04 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material effect on Main Street's consolidated financial statements.

In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"). ASU 2013-08 amends the criteria that define an investment company, clarifies the measurement guidance and requires certain additional disclosures. Public companies are required to apply ASU 2013-08 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material effect on Main Street's consolidated financial statements.

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The adoption of this standard did not have a material effect on Main Street's consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-9 supersedes the revenue recognition requirements under ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. The new Guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact the adoption of this new accounting standard will have on our Consolidated Financial Statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by Main Street as of the specified effective date. Main Street believes that the impact of recently issued standards that have been issued and any that are not yet effective will not have a material impact on its financial statements upon adoption.

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

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).

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

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

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

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

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

Quoted prices for identical or similar assets in non-active markets (for example, investments in thinly traded public companies);

Pricing models whose inputs are observable for substantially the full term of the investment (for example, market interest rate indices); and

Pricing models whose inputs are derived principally from, or corroborated by, observable market data through correlation or other means for substantially the full term of the investment.

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

As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, unrealized appreciation and depreciation related to such investments categorized within the Level 3 tables 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. During the classification process, Main Street may determine that it is appropriate to transfer investments between fair value hierarchy Levels. These transfers occur when the company has concluded that it is appropriate for the classification of an individual asset to be changed due to a change in the factors used to determine the selection of the Level. Any such changes are deemed to be effective during the quarter in which the transfer occurs.

As of September 30, 2014 and December 31, 2013, all except for one of Main Street's LMM portfolio investments consisted of illiquid securities issued by private companies. The remaining investment was a publicly traded equity security. As a result, the fair value determination for the LMM

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

portfolio investments primarily consisted of unobservable inputs. The fair value determination for the publicly traded equity security consisted of observable inputs in non-active markets for which sufficient observable inputs were available to determine the fair value. As a result, all of Main Street's LMM portfolio investments were categorized as Level 3 as of September 30, 2014 and December 31, 2013, except for the one publicly traded equity security which was categorized as Level 2.

As of September 30, 2014, Main Street's Middle Market portfolio investments consisted primarily of investments in secured and unsecured debt investments and independently rated debt investments. The fair value determination for these investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, all of Main Street's Middle Market portfolio investments were categorized as Level 3 as of September 30, 2014. As of December 31, 2013, Main Street's Middle Market portfolio investments consisted primarily of investments in secured and unsecured debt investments and independently rated debt investments. The fair value determination for these investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were available to determine the fair value of these investments, observable inputs in the non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, a portion of Main Street's Middle Market portfolio investments were categorized as Level 2 as of December 31, 2013. For those Middle Market portfolio investments for which sufficient observable inputs were not available to determine fair value of the investments, Main Street categorized such investments as Level 3 as of December 31, 2013.

As of September 30, 2014 and December 31, 2013, Main Street's Private Loan portfolio investments primarily consisted of investments in interest-bearing secured debt investments. The fair value determination for these investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, all of Main Street's Private Loan portfolio investments were categorized as Level 3 as of September 30, 2014 and December 31, 2013.

As of December 31, 2013, Main Street's Other Portfolio debt investments consisted of investments in secured debt investments. The fair value determination for Other Portfolio debt investments consisted of observable inputs in non-active markets and, as such, were categorized as Level 2 as of December 31, 2013. There were no Other Portfolio debt investments as of September 30, 2014.

As of September 30, 2014 and December 31, 2013, Main Street's Other Portfolio equity investments consisted of illiquid securities issued by private companies. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of Main Street's Other Portfolio equity investments were categorized as Level 3 as of September 30, 2014 and December 31, 2013.

As of September 30, 2014 and December 31, 2013, Main Street's Marketable securities and idle funds investments consisted primarily of investments in publicly traded debt and equity investments. The fair value determination for these investments consisted of a combination of observable inputs in active markets for which sufficient observable inputs were available to determine the fair value of these

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

investments. As a result, all of Main Street's Marketable securities and idle funds investments were categorized as Level 1 as of September 30, 2014 and December 31, 2013.

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

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

Current and projected financial condition of the portfolio company;

Current and projected ability of the portfolio company to service its debt obligations;

Type and amount of collateral, if any, underlying the investment;

Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio and net debt/EBITDA ratio) applicable to the investment;

Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);

Pending debt or capital restructuring of the portfolio company;

Projected operating results of the portfolio company;

Current information regarding any offers to purchase the investment;

Current ability of the portfolio company to raise any additional financing as needed;

Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;

Qualitative assessment of key management;

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Contractual rights, obligations or restrictions associated with the investment; and

Other factors deemed relevant.

The significant unobservable inputs used in the fair value measurement of Main Street's LMM equity securities, which are generally valued through an average of the discounted cash flow technique and the market comparable/enterprise value technique (unless one of these approaches is determined to not be appropriate), are (i) EBITDA multiples and (ii) the weighted average cost of capital ("WACC"). Significant increases (decreases) in EBITDA multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. On the contrary, significant increases (decreases) in WACC inputs in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of Main Street's LMM, Middle Market, Private Loan and Other Portfolio debt securities are (i) risk adjusted discount rates used in the



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Yield-to-Maturity valuation technique (described in Note B.1. Valuation of the Investment Portfolio) and (ii) the percentage of expected principal recovery. Significant increases (decreases) in any of these discount rates in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in any of these expected principal recovery percentages in isolation would result in a significantly higher (lower) fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third-party appraisals of collateral and fair values as determined by independent third parties, which are not presented in the tables below.

The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 portfolio investments as of September 30, 2014:

| Type of Investment        | Fair Value<br>as of<br>September 30,<br>2014<br>(in thousands) | Valuation<br>Technique  | Significant<br>Unobservable Inputs        | Range(3)           | Weighted<br>Average(3) |
|---------------------------|--|---|---|--------------------|------------------------|
| Equity investments        | \$ 376,569   | Discounted cash<br>flow<br>Market<br>comparable /<br>Enterprise Value | Weighted average cost<br>of capital       | 10.4% - 22.3%      | 13.8%                  |
|                           |  |   | EBITDA multiple(1)                        | 4.0x - 7.8x(2)     | 6.2x                   |
| Debt investments          | 504,309  | Discounted cash<br>flow   | Risk adjusted discount<br>factor          | 7.7% -<br>15.9%(2) | 12.9%                  |
|                           |  |   | Expected principal<br>recovery percentage | 62.1% -<br>100.0%  | 99.5%                  |
| Debt investments          | 597,136  | Market approach   | Third party quote                         | 76.4 - 103.0       |                        |
| Total Level 3 investments | \$ 1,478,014   |   |   |                    |                        |

(1) EBITDA may include proforma adjustments and/or other addbacks based on specific circumstances related to each investment.

(2) Range excludes outliers that are greater than one standard deviation from the mean. Including these outliers, the range for EBITDA multiple is 4.0x - 17.5x and the range for risk adjusted discount factor is 6.0% - 28.3%.

(3) Does not include investments for which the valuation technique does not include the use of the applicable fair value input.

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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)

The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 portfolio investments as of December 31, 2013:

| Type of Investment        | Fair Value<br>as of<br>December 31,<br>2013<br>(in thousands) | Valuation<br>Technique   | Significant<br>Unobservable Inputs  | Range(3)                                | Weighted<br>Average(3) |
|---------------------------|---|--|---|---|------------------------|
| Equity investments        | \$ 307,322  | Discounted cash flow<br>Market<br>comparable /<br>Enterprise Value | Weighted average cost<br>of capital<br>EBITDA multiple(1)                     | 11.1% -<br>19.0%<br>4.0x - 7.2x(2)      | 14.3%<br><br>6.0x      |
| Debt investments          | 467,396   | Discounted cash flow   | Risk adjusted discount<br>factor<br>Expected principal<br>recovery percentage | 6.5% -<br>26.4%(2)<br>66.9% -<br>100.0% | 14.3%<br><br>97.8%     |
| Debt investments          | 430,172   | Market approach  | Third party quote   | 82.3 - 102.9                            |                        |
| Total Level 3 investments | \$ 1,204,890  |  |   |   |                        |

- (1) EBITDA may include proforma adjustments and/or other addbacks based on specific circumstances related to each investment.
- (2) Range excludes outliers that are greater than one standard deviation from the mean. Including these outliers, the range for EBITDA multiple is 4.0x - 11.5x and the range for risk adjusted discount factor is 6.5% - 96.0%.
- (3) Does not include investments for which the valuation technique does not include the use of the applicable fair value input.

The following table provides a summary of changes in fair value of Main Street's Level 3 portfolio investments for the nine months ended September 30, 2014 (amounts in thousands). All transfers that occurred between fair value hierarchy levels during the nine months ended September 30, 2014 were transfers out of Level 2 into Level 3. Net unrealized appreciation (depreciation) is included in the Net change in unrealized appreciation (depreciation) portfolio investments on the Consolidated Statements of Operations.

| Type of Investment | Fair Value<br>as of<br>December 31,<br>2013 | Transfers<br>Into<br>Level 3<br>Hierarchy | Redemptions/<br>Repayments | New<br>Investments | Net<br>Changes<br>from<br>Unrealized<br>to<br>Realized | Net<br>Unrealized<br>Appreciation<br>(Depreciation)<br>Other | Fair Value<br>as of<br>September 30,<br>2014 |
|--------------------|---|---|----------------------------|--------------------|--|--|--|
| Debt               | \$ 897,568                                  | \$ 55,102                                 | \$ (411,801)               | \$ 575,644         | \$ 6,811   | \$ (19,144)  | \$ 1,101,442                                 |
| Equity             | 270,764                                     |   | (12,305)                   | 41,338             | 1,050  | 53,616   | 356,541                                      |
| Equity Warrant     | 36,558                                      |   | (650)                      | 771                | (9,800)  | (6,931)  | 20,031                                       |
|                    | \$ 1,204,890                                | \$ 55,102                                 | \$ (424,756)               | \$ 617,753         | \$ (1,939)   | \$ 27,541  | \$ 1,478,014                                 |

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

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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)

The following table provides a summary of changes in fair value of Main Street's Level 3 portfolio investments for the nine months ended September 30, 2013 (amounts in thousands). All transfers that occurred between fair value hierarchy levels during the nine months ended September 30, 2013 were transfers out of Level 2 into Level 3. Net unrealized appreciation (depreciation) is included in the Net change in unrealized appreciation (depreciation) portfolio investments on the Consolidated Statements of Operations.

| Type of Investment | Fair Value as of December 31, 2012 | Transfers Into Level 3 Hierarchy | Redemptions/ Repayments(1) | New Investments(1) | Net Changes from Unrealized to Realized | Net Unrealized Appreciation (Depreciation) | Other(1) | Fair Value as of September 30, 2013 |
|--------------------|------------------------------------|----------------------------------|----------------------------|--------------------|---|--|----------|-------------------------------------|
| Debt               | \$ 477,272                         | \$ 4,992                         | \$ (162,560)               | \$ 415,068         | \$ 841                                  | \$ (2,007)                                 | \$ 2,463 | \$ 736,069                          |
| Equity             | 191,764                            |                                  | 16                         | 33,713             | 4                                       | 24,521                                     | 1,839    | 251,857                             |
| Equity Warrant     | 28,595                             |                                  | (1,051)                    | 8,946              | (470)                                   | 4,694                                      | (1,633)  | 39,081                              |
|                    | \$ 697,631                         | \$ 4,992                         | \$ (163,595)               | \$ 457,727         | \$ 375                                  | \$ 27,208                                  | \$ 2,669 | \$ 1,027,007                        |

(1)

Includes the impact of non-cash conversions.

As of September 30, 2014 and December 31, 2013, the fair value determination for the SBIC debentures recorded at fair value primarily consisted of unobservable inputs. As a result, the SBIC debentures which are recorded at fair value were categorized as Level 3. Main Street determines the fair value of these instruments primarily using a Yield-to-Maturity approach that analyzes the discounted cash flows of interest and principal for each SBIC debenture recorded at fair value based on estimated market interest rates for debt instruments of similar structure, terms, and maturity. Main Street's estimate of the expected repayment date of principal for each SBIC debenture recorded at fair value is the legal maturity date of the instrument.

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

During September 2014, Main Street received an investment grade credit rating of BBB with a stable outlook. This rating was included in our analysis of the estimated market rates which are used as inputs in the valuation of the SBIC debentures and affected the range of these inputs in comparison to previous periods. The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 SBIC debentures as of September 30, 2014 (amounts in thousands):

| Type of Instrument | Fair Value as of September 30, 2014 (in thousands) | Valuation Technique  | Significant Unobservable Inputs | Range       | Weighted Average |
|--------------------|--|----------------------|---------------------------------|-------------|------------------|
| SBIC debentures    | \$ 72,829  | Discounted cash flow | Estimated market interest rates | 4.5% - 6.1% | 5.3%             |



Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

The following table provides a summary of the significant unobservable inputs used to fair value Main Street's Level 3 SBIC debentures as of December 31, 2013 (amounts in thousands):

| Type of Instrument | Fair Value as of<br>December 31,<br>2013<br>(in thousands) | Valuation<br>Technique  | Significant Unobservable<br>Inputs | Range          | Weighted<br>Average |
|--------------------|--|-------------------------|------------------------------------|----------------|---------------------|
| SBIC debentures    | \$ 62,050  | Discounted cash<br>flow | Estimated market<br>interest rates | 8.5% -<br>9.1% | 8.9%                |

The following table provides a summary of changes for the Level 3 SBIC debentures recorded at fair value for the nine months ended September 30, 2014 (amounts in thousands):

| Type of Instrument               | Fair Value as of<br>December 31,<br>2013 | Repayments | New<br>SBIC<br>Debentures | Net<br>Unrealized<br>(Appreciation)<br>Depreciation | Fair Value as<br>of<br>September 30,<br>2014 |
|----------------------------------|--|------------|---------------------------|---|--|
| SBIC debentures at fair<br>value | \$ 62,050                                | \$         | \$                        | \$ 10,779   | \$ 72,829                                    |

The following table provides a summary of changes for the Level 3 SBIC debentures recorded at fair value for the nine months ended September 30, 2013 (amounts in thousands):

| Type of Instrument               | Fair Value as<br>of<br>December 31,<br>2012 | Repayments  | Net<br>Realized<br>Loss | New<br>SBIC<br>Debentures | Net<br>Unrealized<br>(Appreciation)<br>Depreciation | Fair Value as<br>of<br>September 30,<br>2013 |
|----------------------------------|---|-------------|-------------------------|---------------------------|---|--|
| SBIC debentures at fair<br>value | \$ 86,467                                   | \$ (24,800) | \$ 4,775                | \$                        | \$ (4,183)  | \$ 62,259                                    |

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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)

At September 30, 2014 and December 31, 2013, Main Street's investments and SBIC debentures at fair value were categorized as follows in the fair value hierarchy for ASC 820 purposes:

|   | Fair Value   | Fair Value Measurements<br>(in thousands)                                  |   |  |
|---|--------------|--|---|--|
|   |              | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>At September 30, 2014</b>                        |              |  |   |  |
| LMM portfolio investments                           | \$ 680,974   | \$   | \$ 10,020   | \$ 670,954   |
| Middle Market portfolio investments                 | 556,596      |  |   | 556,596  |
| Private Loan portfolio investments                  | 180,689      |  |   | 180,689  |
| Other Portfolio investments                         | 61,225       |  |   | 61,225   |
| External Investment Manager                         | 8,550        |  |   | 8,550  |
| <br>  |              |  |   |  |
| Total portfolio investments                         | 1,488,034    |  | 10,020  | 1,478,014  |
| Marketable securities and idle funds<br>investments | 9,207        | 9,207  |   |  |
| <br>  |              |  |   |  |
| Total investments                                   | \$ 1,497,241 | \$ 9,207   | \$ 10,020   | \$ 1,478,014                                       |
| <br>  |              |  |   |  |
| SBIC debentures at fair value                       | \$ 72,829    | \$   | \$  | \$ 72,829  |

|                                     | Fair Value | Fair Value Measurements<br>(in thousands)                                  |   |  |
|-------------------------------------|------------|--|---|--|
|                                     |            | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>At December 31, 2013</b>         |            |  |   |  |
| LMM portfolio investments           | \$ 659,405 | \$   | \$ 10,235   | \$ 649,170   |
| Middle Market portfolio investments | 471,458    |  | 69,063  | 402,395  |
| Private Loan portfolio investments  | 111,463    |  |   | 111,463  |
| Other Portfolio investments         | 42,798     |  | 2,000   | 40,798   |
| External Investment Manager         | 1,064      |  |   | 1,064  |

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|  |              |           |           |              |
|--|--------------|-----------|-----------|--------------|
| Total portfolio investments                      | 1,286,188    |           | 81,298    | 1,204,890    |
| Marketable securities and idle funds investments | 13,301       | 13,301    |           |              |
| Total investments                                | \$ 1,299,489 | \$ 13,301 | \$ 81,298 | \$ 1,204,890 |
| SBIC debentures at fair value                    | \$ 62,050    | \$        | \$        | \$ 62,050    |



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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

**Portfolio Investment Composition**

Main Street's lower middle market ("LMM") portfolio investments primarily consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies based in the United States. Main Street's LMM portfolio companies generally have annual revenues between \$10 million and \$150 million, and its LMM investments generally range in size from \$5 million to \$50 million. The LMM debt investments are typically secured by either a first or second priority lien on the assets of the portfolio company, primarily bear interest at fixed rates, and generally have a term of between five and seven years from the original investment date. In most LMM portfolio companies, Main Street usually receives nominally priced equity warrants and/or makes direct equity investments in connection with a debt investment.

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

Main Street's Private Loan ("Private Loan") portfolio investments primarily consist of investments in interest-bearing debt securities in companies that are consistent with the size of companies in its LMM portfolio or its Middle Market portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. Main Street's Private Loan portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and typically have a term of between three and seven years from the original investment date.

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

Main Street's external asset management business is conducted through its External Investment Manager. Main Street has entered into an agreement through the Internal Investment Manager to provide the External Investment Manager with asset management service support for HMS Income Fund, Inc. ("HMS Income"). Through this agreement, Main Street provides management and other services to the External Investment Manager, as well as access to Main Street's employees, infrastructure, business relationships, management expertise and capital raising capabilities. Beginning in the first quarter of 2014, Main Street charges the External Investment Manager for the use of these services, and Main Street's total expenses for the three and nine months ended September 30, 2014 include an offset to expenses of \$0.6 million and \$1.3 million, respectively, for the expenses charged to the External Investment Manager (see Note D for additional information). The External Investment

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

Manager earns management fees based on the assets of the funds under management and may earn incentive fees, or a carried interest, based on the performance of the funds managed.

Investment income, consisting of interest, dividends and fees, can fluctuate dramatically due to various factors, including the level of new investment activity, repayments of debt investments or sales of equity interests. Investment income in any given year could also be highly concentrated among several portfolio companies. For the three and nine months ended September 30, 2014 and 2013, Main Street did not record investment income from any single portfolio company in excess of 10% of total investment income.

As of September 30, 2014, Main Street had debt and equity investments in 64 LMM portfolio companies with an aggregate fair value of approximately \$681.0 million, with a total cost basis of approximately \$544.1 million, and a weighted average annual effective yield on its LMM debt investments of approximately 13.5%. As of September 30, 2014, approximately 73% of Main Street's total LMM portfolio investments at cost were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on the assets of Main Street's LMM portfolio companies. At September 30, 2014, Main Street had equity ownership in approximately 94% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 35%. As of December 31, 2013, Main Street had debt and equity investments in 62 LMM portfolio companies with an aggregate fair value of approximately \$659.4 million, with a total cost basis of approximately \$543.3 million, and a weighted average annual effective yield on its LMM debt investments of approximately 14.7%. As of December 31, 2013, approximately 76% of Main Street's total LMM portfolio investments at cost were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on the assets of Main Street's LMM portfolio companies. At December 31, 2013, Main Street had equity ownership in approximately 94% of its LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 33%. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

As of September 30, 2014, Main Street had Middle Market portfolio investments in 86 companies, collectively totaling approximately \$556.6 million in fair value with a total cost basis of approximately \$561.0 million. The weighted average EBITDA for the 86 Middle Market portfolio companies was approximately \$67.9 million as of September 30, 2014. As of September 30, 2014, substantially all of Main Street's Middle Market portfolio investments were in the form of debt investments and approximately 90% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 7.5% as of September 30, 2014. As of December 31, 2013, Main Street had Middle Market portfolio investments in 92 companies, collectively totaling approximately \$471.5 million in fair value with a total cost basis of approximately \$468.3 million. The weighted average EBITDA for the 92 Middle Market portfolio companies was approximately \$79.0 million as of December 31, 2013. As of December 31, 2013, substantially all of its Middle Market portfolio

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

investments were in the form of debt investments and approximately 92% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on Main Street's Middle Market portfolio debt investments was approximately 7.8% as of December 31, 2013. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

As of September 30, 2014, Main Street had Private Loan portfolio investments in 26 companies, collectively totaling approximately \$180.7 million in fair value with a total cost basis of approximately \$188.1 million. The weighted average EBITDA for the 26 Private Loan portfolio companies was approximately \$13.6 million as of September 30, 2014. As of September 30, 2014, approximately 97% of Main Street's Private Loan portfolio investments were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on Main Street's Private Loan portfolio debt investments was approximately 10.4% as of September 30, 2014. As of December 31, 2013, Main Street had Private Loan portfolio investments in 15 companies, collectively totaling approximately \$111.5 million in fair value with a total cost basis of approximately \$111.3 million. The weighted average EBITDA for the 15 Private Loan portfolio companies was approximately \$18.4 million as of December 31, 2013. As of December 31, 2013, approximately 95% of its Private Loan portfolio investments were in the form of debt investments and approximately 98% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on Main Street's Private Loan portfolio debt investments was approximately 11.3% as of December 31, 2013. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

As of September 30, 2014, Main Street had Other Portfolio investments in six companies, collectively totaling approximately \$61.2 million in fair value and approximately \$54.7 million in cost basis and which comprised 4.1% of Main Street's Investment Portfolio at fair value as of September 30, 2014. As of December 31, 2013, Main Street had Other Portfolio investments in six companies, collectively totaling approximately \$42.8 million in fair value and approximately \$40.1 million in cost basis and which comprised 3.3% of Main Street's Investment Portfolio at fair value as of December 31, 2013.

As discussed further above, Main Street holds an investment in the External Investment Manager, a wholly owned subsidiary that is treated as a portfolio investment. As of September 30, 2014, there was no cost basis in this investment and the investment had a fair value of \$8.6 million, which comprised 0.6% of Main Street's Investment Portfolio at fair value. As of December 31, 2013, there was no cost basis in this investment and the investment had a fair value of \$1.1 million, which comprised 0.1% of Main Street's Investment Portfolio at fair value.

The following tables summarize the composition of Main Street's total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at cost and

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)**

fair value by type of investment as a percentage of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments, as of September 30, 2014 and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager).

| <b>Cost:</b>     | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|------------------|---------------------------|--------------------------|
| First lien debt  | 77.3%                     | 79.0%                    |
| Equity           | 10.2%                     | 10.4%                    |
| Second lien debt | 10.0%                     | 8.4%                     |
| Equity warrants  | 1.7%                      | 1.9%                     |
| Other            | 0.8%                      | 0.3%                     |
|                  | 100.0%                    | 100.0%                   |

| <b>Fair Value:</b> | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|--------------------|---------------------------|--------------------------|
| First lien debt    | 67.7%                     | 69.9%                    |
| Equity             | 21.0%                     | 19.3%                    |
| Second lien debt   | 9.2%                      | 7.6%                     |
| Equity warrants    | 1.4%                      | 2.9%                     |
| Other              | 0.7%                      | 0.3%                     |
|                    | 100.0%                    | 100.0%                   |

The following tables summarize the composition of Main Street's total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments by geographic region of the United States and other countries at cost and fair value as a percentage of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments, as of September 30, 2014 and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager). The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

| <b>Cost:</b>            | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|-------------------------|---------------------------|--------------------------|
| Southwest               | 25.1%                     | 27.8%                    |
| Northeast               | 22.0%                     | 18.0%                    |
| West                    | 19.4%                     | 19.1%                    |
| Southeast               | 16.4%                     | 15.6%                    |
| Midwest                 | 14.5%                     | 15.4%                    |
| Canada                  | 0.3%                      | 1.2%                     |
| Other Non-United States | 2.3%                      | 2.9%                     |

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100.0%

100.0%

79

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| <b>Fair Value:</b>      | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|-------------------------|---------------------------|--------------------------|
| Southwest               | 29.7%                     | 30.9%                    |
| West                    | 20.9%                     | 20.1%                    |
| Northeast               | 20.1%                     | 17.6%                    |
| Southeast               | 13.2%                     | 12.6%                    |
| Midwest                 | 13.7%                     | 15.0%                    |
| Canada                  | 0.3%                      | 1.1%                     |
| Other Non-United States | 2.1%                      | 2.7%                     |
|                         | 100.0%                    | 100.0%                   |

Main Street's LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments are in companies conducting business in a variety of industries. The following tables summarize the composition of Main Street's total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments by industry at cost and fair value

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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)

as of September 30, 2014 and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager).

| Cost:  | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Media  | 9.3%               | 7.8%              |
| Energy Equipment & Services                    | 8.4%               | 10.7%             |
| IT Services                                    | 7.5%               | 6.1%              |
| Health Care Providers & Services               | 5.6%               | 5.8%              |
| Hotels, Restaurants & Leisure                  | 5.2%               | 5.8%              |
| Specialty Retail                               | 5.1%               | 7.2%              |
| Machinery                                      | 4.6%               | 3.3%              |
| Construction & Engineering                     | 4.5%               | 4.1%              |
| Diversified Telecommunication Services         | 4.3%               | 3.3%              |
| Software                                       | 3.7%               | 3.8%              |
| Electronic Equipment, Instruments & Components | 3.1%               | 2.3%              |
| Diversified Consumer Services                  | 2.8%               | 2.4%              |
| Internet Software & Services                   | 2.5%               | 2.5%              |
| Commercial Services & Supplies                 | 2.4%               | 5.1%              |
| Auto Components                                | 2.2%               | 1.6%              |
| Road & Rail                                    | 2.0%               | 2.7%              |
| Oil, Gas & Consumable Fuels                    | 1.9%               | 3.2%              |
| Aerospace & Defense                            | 1.8%               | 0.8%              |
| Food Products                                  | 1.7%               | 0.9%              |
| Pharmaceuticals                                | 1.6%               | 0.6%              |
| Textiles, Apparel & Luxury Goods               | 1.4%               | 1.6%              |
| Trading Companies & Distributors               | 1.3%               | 1.5%              |
| Health Care Equipment & Supplies               | 1.2%               | 1.2%              |
| Professional Services                          | 1.2%               | 1.4%              |
| Building Products                              | 1.2%               | 1.4%              |
| Containers & Packaging                         | 1.1%               | 1.0%              |
| Distributors                                   | 1.1%               | 0.0%              |
| Air Freight & Logistics                        | 1.0%               | 0.0%              |
| Household Products                             | 1.0%               | 0.5%              |
| Consumer Finance                               | 1.0%               | 1.1%              |
| Household Durables                             | 1.0%               | 0.8%              |
| Chemicals                                      | 0.7%               | 1.3%              |
| Other(1)                                       | 6.6%               | 8.2%              |
|  | 100.0%             | 100.0%            |

(1)

Includes various industries with each industry individually less than 1.0% of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at each date.





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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE C FAIR VALUE HIERARCHY FOR INVESTMENTS AND DEBENTURES PORTFOLIO COMPOSITION (Continued)

| Fair Value:                                    | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Media  | 8.6%               | 7.6%              |
| Energy Equipment & Services                    | 7.9%               | 10.2%             |
| IT Services                                    | 6.8%               | 5.6%              |
| Machinery                                      | 6.3%               | 5.3%              |
| Health Care Providers & Services               | 5.4%               | 5.6%              |
| Hotels, Restaurants & Leisure                  | 5.1%               | 5.6%              |
| Construction & Engineering                     | 4.8%               | 4.6%              |
| Specialty Retail                               | 4.7%               | 6.5%              |
| Diversified Consumer Services                  | 4.7%               | 3.9%              |
| Diversified Telecommunication Services         | 4.1%               | 3.6%              |
| Software                                       | 3.8%               | 4.0%              |
| Internet Software & Services                   | 2.9%               | 2.9%              |
| Commercial Services & Supplies                 | 2.6%               | 4.6%              |
| Electronic Equipment, Instruments & Components | 2.6%               | 2.4%              |
| Auto Components                                | 2.4%               | 1.5%              |
| Road & Rail                                    | 2.3%               | 3.0%              |
| Oil, Gas & Consumable Fuels                    | 1.7%               | 2.9%              |
| Aerospace & Defense                            | 1.6%               | 0.7%              |
| Food Products                                  | 1.5%               | 0.8%              |
| Pharmaceuticals                                | 1.5%               | 0.6%              |
| Paper & Forest Products                        | 1.4%               | 1.3%              |
| Textiles, Apparel & Luxury Goods               | 1.2%               | 1.4%              |
| Trading Companies & Distributors               | 1.1%               | 1.3%              |
| Health Care Equipment & Supplies               | 1.1%               | 1.0%              |
| Containers & Packaging                         | 1.1%               | 0.9%              |
| Professional Services                          | 1.0%               | 1.2%              |
| Distributors                                   | 1.0%               | 0.0%              |
| Building Products                              | 0.9%               | 1.0%              |
| Chemicals                                      | 0.6%               | 1.2%              |
| Other(1)                                       | 9.3%               | 8.8%              |
|  | 100.0%             | 100.0%            |

(1)

Includes various industries with each industry individually less than 1.0% of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at each date.

At September 30, 2014 and December 31, 2013, Main Street had no portfolio investment that was greater than 10% of the Investment Portfolio at fair value.



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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE D WHOLLY OWNED INVESTMENT MANAGERS**

**External Investment Manager**

As discussed further above in Note A.1., the External Investment Manager provides investment management and other services to External Parties. The External Investment Manager is accounted for as a portfolio investment of MSCC since the External Investment Manager conducts all of its investment management activities for parties outside of MSCC and its consolidated subsidiaries.

During May 2012, MSCC entered into an investment sub-advisory agreement with HMS Adviser, LP ("HMS Adviser"), which is the investment advisor to HMS Income Fund, Inc. ("HMS Income"), a non publicly-traded BDC whose registration statement on Form N-2 was declared effective by the SEC in June 2012, to provide certain investment advisory services to HMS Adviser. In December 2013, after obtaining no-action relief from the SEC to allow it to own a registered investment adviser, MSCC assigned the sub-advisory agreement to the External Investment Manager since the fees received from such arrangement could otherwise have negative consequences on MSCC's ability to meet the source-of-income requirement necessary for it to maintain its RIC tax treatment. Under the investment sub-advisory agreement, the External Investment Manager is entitled to 50% of the base management fee and the incentive fees earned by HMS Adviser under its advisory agreement with HMS Income. However, MSCC and the External Investment Manager agreed to waive all such fees from the effective date of HMS Income's registration statement on Form N-2 through December 31, 2013. As a result, as of December 31, 2013, neither MSCC nor the External Investment Manager had received any base management fee or incentive fees under the investment sub-advisory agreement and neither was due any unpaid compensation for any base management fee or incentive fees under the investment sub-advisory agreement through December 31, 2013. Neither MSCC nor the External Investment Manager has waived the External Investment Manager's base management fees or incentive fees after December 31, 2013 and, as a result, the External Investment Manager began accruing such fees on January 1, 2014. During the three and nine months ended September 30, 2014, the External Investment Manager earned \$0.8 million and \$1.7 million, respectively, of management fees under the sub-advisory agreement with HMS Adviser.

The investment in the External 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. Main Street determines the fair value of the External Investment Manager using the Waterfall methodology under the market approach (see further discussion in Note B.1.). Any change in fair value of the investment in the External Investment Manager is recognized on Main Street's statement of operations in "Net Change in Unrealized appreciation (depreciation) Portfolio investments".

The External Investment Manager has elected, for tax purposes, to be treated as a taxable entity, is not consolidated with Main Street for income tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The External Investment Manager has elected to be treated as a taxable entity to enable it to receive fee income and to allow MSCC to continue to comply with the "source income" requirements contained in the RIC tax provisions of the Code. The taxable income, or loss, of the External Investment Manager may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. The External Investment Manager provides for any income tax expense, or benefit, and any tax assets or liabilities in its separate financial statements.

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE D WHOLLY OWNED INVESTMENT MANAGERS (Continued)**

The Internal Investment Manager provides services to the External Investment Manager and charges the expenses necessary to perform these services to the External Investment Manager generally based on a combination of the direct time spent, new investment origination activity and assets under management, depending on the nature of the expense. For the three and nine months ended September 30, 2014, the Internal Investment Manager charged \$0.6 and \$1.3 million of total expenses, respectively, to the External Investment Manager.

Summarized financial information from the separate financial statements of the External Investment Manager as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 is as follows:

|   | As of<br>September 30,<br>2014 | As of<br>December 31,<br>2013 |
|---|--------------------------------|-------------------------------|
|   | (in thousands)                 |                               |
| Cash  | \$ 548                         | \$                            |
| Accounts receivable HMS Income                  | 814                            |                               |
| <b>Total assets</b>                             | <b>\$ 1,362</b>                | <b>\$</b>                     |
| Accounts Payable to Internal Investment Manager | \$ 1,039                       | \$                            |
| Dividend payable to MSCC                        | 194                            |                               |
| Taxes Payable                                   | 129                            |                               |
| Equity  |                                |                               |
| <b>Total liabilities and equity</b>             | <b>\$ 1,362</b>                | <b>\$</b>                     |

|  | Three Months<br>Ended<br>September 30,<br>2014 | Nine Months<br>Ended<br>September 30,<br>2014 |
|--|--|---|
|  | (in thousands)                                 |   |
| Management fee income  | \$ 834   | \$ 1,668                                      |
| Expenses allocated from Internal Investment Manager:         |  |   |
| Salaries, share-based compensation and other personnel costs | (439)  | (994)   |
| Other G&A expenses   | (177)  | (349)   |

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|                           |        |         |
|---------------------------|--------|---------|
| Total allocated expenses  | (616)  | (1,343) |
| Other direct G&A expenses |        | (2)     |
| Total expenses            | (616)  | (1,345) |
| Pre-tax income            | 218    | 323     |
| Tax expense               | 87     | 129     |
| Net income                | \$ 131 | \$ 194  |

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE D WHOLLY OWNED INVESTMENT MANAGERS (Continued)**

**Internal Investment Manager**

The Internal Investment Manager is a wholly owned subsidiary of MSCC. However, through March 31, 2013, the Internal Investment Manager was accounted for as a portfolio investment since the Internal Investment Manager is not an investment company and since it had historically conducted a significant portion of its investment management activities for parties outside of MSCC and its consolidated subsidiaries. Effective April 1, 2013, the Internal Investment Manager was consolidated prospectively as the controlled operating subsidiary is considered to be providing substantially all of its services directly or indirectly to Main Street or its portfolio companies.

The Internal Investment Manager receives recurring investment management and other fees, in addition to a reimbursement of certain expenses, from MSCC and certain direct and indirect wholly owned subsidiaries of MSCC. Through March 31, 2013, the Internal Investment Manager also received certain management, consulting and advisory fees for providing these services to third parties (the "External Services").

As of March 31, 2013 (the last date the Internal Investment Manager was considered to be a portfolio investment for accounting purposes), the fair value of the investment in the Internal Investment Manager was zero. Beginning April 1, 2013, the Internal Investment Manager was fully consolidated with MSCC and its other consolidated subsidiaries in Main Street's consolidated financial statements and, as of April 1, 2013, all assets and liabilities were included in the consolidated balance sheet at fair value.

The Internal Investment Manager has elected, for tax purposes, to be treated as a taxable entity, is not consolidated with Main Street for income tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The Internal Investment Manager initially elected to be treated as a taxable entity to enable it to receive fee income and to allow MSCC to continue to comply with the "source income" requirements contained in the RIC tax provisions of the Code. The taxable income, or loss, of the Internal Investment Manager may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. Through March 31, 2013, the Internal Investment Manager provided for any income tax expense, or benefit, and any tax assets or liabilities in its separate financial statements. Beginning April 1, 2013, the Internal Investment Manager is included in Main Street's consolidated financial statements and reflected as a consolidated subsidiary and any income tax expense, or benefit, and any tax assets or liabilities are reflected in Main Street's consolidated financial statements.

Pursuant to a historical support services agreement with MSCC, the Internal Investment Manager was reimbursed each quarter by MSCC for its cash operating expenses, less fees that the Internal Investment Manager received from MSC II and third parties, associated with providing investment management and other services to MSCC, its subsidiaries and third parties. Through March 31, 2013, these fees paid by MSC II to the Internal Investment Manager were reflected as "Expenses reimbursed to affiliated Internal Investment Manager" on the Consolidated Statements of Operations along with any additional net costs reimbursed by MSCC and its consolidated subsidiaries to the Internal Investment Manager pursuant to the support services agreement. Beginning April 1, 2013, the expenses of the Internal Investment Manager are included in Main Street's consolidated financial statements, after elimination of any intercompany activity, in the Consolidated Statements of Operations as either compensation expenses or as a part of general and administrative expenses.

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE D WHOLLY OWNED INVESTMENT MANAGERS (Continued)**

In the separate stand-alone financial statements of the Internal Investment Manager as summarized below, as part of the Formation Transactions the Internal Investment Manager recognized an \$18 million intangible asset related to the investment advisory agreement with MSC II consistent with Staff Accounting Bulletin No. 54, Application of "Pushdown" Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase ("SAB 54"). Under SAB 54, push-down accounting is required in "purchase transactions that result in an entity becoming substantially wholly owned." In this case, MSCC acquired 100% of the equity interests in the Internal Investment Manager in the Formation Transactions. Because the \$18 million value attributed to MSCC's investment in the Internal 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 Internal Investment Manager in connection with the Formation Transactions was utilized to establish the push-down accounting basis for the intangible asset. The intangible asset is being amortized over the estimated economic life of the investment advisory agreement with MSC II. Through March 31, 2013, amortization expense was recorded by the Internal Investment Manager in its separate financial statements, but this amortization expense was not included in the expenses reimbursed by MSCC to the Internal Investment Manager based upon the support services agreement since it is non-cash and non-operating in nature. Upon consolidation of the Internal Investment Manager, effective April 1, 2013, and for all periods thereafter, the effects of the intangible asset and related amortization expense have been fully eliminated in Main Street's consolidated financial statements.

Summarized financial information from the separate financial statements of the Internal Investment Manager through March 31, 2013 is as follows:

|   | As of<br>March 31,<br>2013<br>(in thousands)<br>(Unaudited) |
|---|---|
| Cash  | \$ 524  |
| Accounts receivable   | 79  |
| Accounts receivable MSCC                                      | 106   |
| Intangible asset (net of accumulated amortization of \$6,021) | 11,979  |
| Deposits and other  | 556   |
| <br>  |   |
| Total assets  | \$ 13,244   |
| <br>  |   |
| Accounts payable and accrued liabilities                      | \$ 1,410  |
| Equity  | 11,834  |
| <br>  |   |
| Total liabilities and equity                                  | \$ 13,244   |

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE D WHOLLY OWNED INVESTMENT MANAGERS (Continued)**

|  | <b>Three Months<br/>Ended<br/>March 31,<br/>2013<br/>(in thousands)<br/>(Unaudited)</b> |
|--|---|
| Management fee income from MSC II            | \$ 776  |
| Other management advisory fees               |   |
| <b>Total income</b>                          | <b>776</b>  |
| Salaries, benefits and other personnel costs | (2,731)   |
| Occupancy expense                            | (108)   |
| Professional expenses                        | (77)  |
| Amortization expense intangible asset        | (340)   |
| Other expenses                               | (273)   |
| Expense reimbursement from MSCC              | 2,413   |
| <b>Total net expenses</b>                    | <b>(1,116)</b>  |
| <b>Net Loss</b>                              | <b>\$ (340)</b>   |

As a result of the consolidation of the Internal Investment Manager effective April 1, 2013, beginning in the second quarter of 2013, the balance sheet and income statement accounts of the Internal Investment Manager are included in Main Street's consolidated financial statements and the "Expenses reimbursed to affiliated Internal Investment Manager" accounts included in Main Street's historical consolidated financial statements has a zero balance. In addition, as a result of the consolidation of the accounts of the Internal Investment Manager effective April 1, 2013, beginning with the second quarter of 2013, the expenses on Main Street's income statement that were included in "Expenses reimbursed to affiliated Internal Investment Manager" in prior periods are now included in "Compensation" or "General and administrative" expenses. The consolidation of the Internal Investment Manager has no net effect on net investment income or total expenses reported in any of the comparable periods presented.

The following unaudited supplemental pro forma information has been provided for illustrative purposes only to show the effects on the individual line items in Main Street's consolidated statements of operations affected for these periods prior to consolidation of the Internal Investment Manager. Future results may vary significantly from the results reflected in the following pro forma financial information because of future events and transactions, as well as other factors. No per share amounts are shown as the consolidation of the Internal Investment Manager would not have changed any per share results. The following pro forma information has been provided for the nine months ended



Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE D WHOLLY OWNED INVESTMENT MANAGERS (Continued)**

September 30, 2014 and 2013 as though the Internal Investment Manager had been consolidated as of the beginning of each period presented.

|   | <b>Nine Months Ended September 30,</b> |                       |
|---|--|-----------------------|
|   | <b>2014</b>                            | <b>2013</b>           |
|   | <b>(Actual)</b>                        | <b>(Pro-forma)(1)</b> |
|   | <b>(in thousands)</b>                  |                       |
|   | <b>(Unaudited)</b>                     |                       |
| Compensation  | \$ (9,115)                             | \$ (7,879)            |
| General and administrative                                    | (5,279)                                | (3,929)               |
| Expenses reimbursed to affiliated Internal Investment Manager |  |                       |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>   | <b>\$ 78,754</b>                       | <b>\$ 75,688</b>      |

(1)

Represents pro-forma information for the three months ended March 31, 2013 and actual information for the period from April 1, 2013 through September 30, 2013.

**NOTE E SBIC DEBENTURES**

SBIC debentures payable at September 30, 2014 and December 31, 2013 were \$225.0 million and \$200.2 million, respectively. The SBIC debentures provide for interest to be paid semi-annually, with principal due at the applicable 10-year maturity date of each debenture. The weighted average annual interest rate on the SBIC debentures as of September 30, 2014 and December 31, 2013 was 4.2% and 3.8%, respectively. Main Street issued \$24.8 million of new SBIC debentures under the SBIC program in the first quarter of 2014 to reach the regulatory maximum amount of \$225.0 million. The first principal maturity due under the existing SBIC debentures is in 2017, and the remaining weighted average duration as of September 30, 2014 is approximately 6.8 years. For the three months ended September 30, 2014 and 2013, Main Street recognized interest expense attributable to the SBIC debentures of \$2.5 million and \$2.8 million, respectively. For the nine months ended September 30, 2014 and 2013, Main Street recognized interest expense attributable to the SBIC debentures of \$7.0 million and \$8.4 million, respectively. Main Street has incurred leverage and other miscellaneous fees of approximately 3.4% of the debenture principal amount. In accordance with SBA regulations, the Funds are precluded from incurring additional non-SBIC debt without the prior approval of the SBA. The Funds are subject to annual compliance examinations by the SBA. There have been no historical findings resulting from these examinations.

As of September 30, 2014, the recorded value of the SBIC debentures was \$222.6 million which consisted of (i) \$72.8 million recorded at fair value, or \$2.4 million less than the \$75.2 million face value of the SBIC debentures held in MSC II, and (ii) \$149.8 million reported at face value and held in MSMF. As of September 30, 2014, if Main Street had adopted the fair value option under ASC 825 for all of its SBIC debentures, Main Street estimates the fair value of its SBIC debentures would be approximately \$202.8 million, or \$22.2 million less than the \$225.0 million face value of the SBIC debentures.

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE F CREDIT FACILITY**

Main Street maintains the Credit Facility to provide additional liquidity to support its investment and operational activities. The Credit Facility provides for total commitments from a diversified group of fourteen lenders and was amended during September 2014 to increase the total commitments from \$502.5 million to \$522.5 million, decrease the interest rate subject to Main Street maintaining an investment grade rating and extend the final maturity by one year to September 2019. The amended Credit Facility also contains an upsized accordion feature which allows Main Street to increase the total commitments under the facility up to \$650.0 million from new and existing lenders on the same terms and conditions as the existing commitments.

Borrowings under the Credit Facility bear interest, subject to Main Street's election, on a per annum basis equal to (i) the applicable LIBOR rate (0.15% as of September 30, 2014) plus 2.00%, as long as Main Street maintains an investment grade rating (or 2.25% if Main Street does not maintain an investment grade rating) or (ii) the applicable base rate (Prime Rate of 3.25% as of September 30, 2014) plus 1.00%, as long as Main Street maintains an investment grade rating (or 1.25% if Main Street does not maintain an investment grade rating). Main Street pays unused commitment fees of 0.25% per annum on the unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the equity ownership and assets of the Funds and the External Investment Manager. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a minimum availability of at least 10% of the borrowing base, (ii) maintaining an interest coverage ratio of at least 2.0 to 1.0, (iii) maintaining an asset coverage ratio of at least 1.5 to 1.0, and (iv) maintaining a minimum tangible net worth. The Credit Facility is provided on a revolving basis through its final maturity date in September 2019, and contains two, one-year extension options which could extend the final maturity by up to two years, subject to certain conditions, including lender approval.

At September 30, 2014, Main Street had \$287.0 million in borrowings outstanding under the Credit Facility. Main Street recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs, of \$2.0 million and \$1.6 million, respectively, for the three months ended September 30, 2014 and 2013 and of \$5.3 million and \$4.1 million, respectively, for the nine months ended September 30, 2014 and 2013. As of September 30, 2014, the interest rate on the Credit Facility was 2.4%, and Main Street was in compliance with all financial covenants of the Credit Facility.

**NOTE G NOTES**

In April 2013, Main Street issued \$92.0 million, including the underwriters full exercise of their option to purchase additional principal amounts to cover over-allotments, in aggregate principal amount of 6.125% Notes due 2023 (the "6.125% Notes"). The 6.125% Notes are unsecured obligations and rank pari passu with its current and future unsecured indebtedness; senior to any of its future indebtedness that expressly provides it is subordinated to the 6.125% Notes; effectively subordinated to all of its existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness, including borrowings under its Credit Facility; and structurally subordinated to all existing and future indebtedness and other obligations of any of its subsidiaries, including without limitation, the indebtedness of the Funds. The 6.125% Notes mature on April 1, 2023, and may be redeemed in whole or in part at any time or from time to time at Main Street's option on or after April 1, 2018. The 6.125% Notes bear interest at a rate of 6.125% per year payable quarterly on January 1, April 1, July 1 and October 1 of each year, beginning July 1, 2013. The total net proceeds to Main Street from

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE G NOTES (Continued)**

the 6.125% Notes, after underwriting discounts and estimated offering expenses payable by Main Street, were approximately \$89.0 million. Main Street has listed the 6.125% Notes on the New York Stock Exchange under the trading symbol "MSCA". Main Street may from time to time repurchase the 6.125% Notes in accordance with the 1940 Act and the rules promulgated thereunder. As of September 30, 2014, the outstanding balance of the 6.125% Notes was \$90.9 million. Main Street recognized interest expense related to the 6.125% Notes, including amortization of deferred loan costs, of \$1.5 million for the each of three months ended September 30, 2014 and 2013 and \$4.4 million and \$2.9 million for the nine months ended September 30, 2014 and 2013, respectively.

The indenture governing the 6.125% Notes (the "Notes Indenture") contains certain covenants, including covenants requiring Main Street's compliance with (regardless of whether Main Street is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring Main Street to provide financial information to the holders of the 6.125% Notes and the Trustee if Main Street ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Notes Indenture.

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## MAIN STREET CAPITAL CORPORATION

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## NOTE H FINANCIAL HIGHLIGHTS

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2014                               | 2013       |
| <b>Per Share Data:</b>  |                                    |            |
| NAV at the beginning of the period  | \$ 19.89                           | \$ 18.59   |
| Net investment income(1)  | 1.61                               | 1.48       |
| Net realized gain (loss)(1)(2)  | 0.25                               | (0.21)     |
| Net change in unrealized appreciation(1)(2)   | 0.17                               | 0.95       |
| Income tax provision(1)(2)  | (0.20)                             | (0.09)     |
| Net increase in net assets resulting from operations(1)   | 1.83                               | 2.13       |
| Dividends paid to stockholders from net investment income   | (1.46)                             | (1.84)     |
| Dividends paid to stockholders from realized gains/losses   | (0.30)                             | (0.09)     |
| Total dividends paid  | (1.76)                             | (1.93)     |
| Impact of the net change in monthly dividends declared prior to the end of the period and paid in the subsequent period | (0.01)                             | (0.01)     |
| Accretive effect of public stock offerings (issuing shares above NAV per share)   | 1.07                               | 1.12       |
| Accretive effect of DRIP issuance (issuing shares above NAV per share)  | 0.09                               | 0.08       |
| Other(3)  | (0.03)                             | 0.03       |
| NAV at the end of the period  | \$ 21.08                           | \$ 20.01   |
| Market value at the end of the period   | \$ 30.64                           | \$ 29.93   |
| Shares outstanding at the end of the period   | 44,945,194                         | 39,698,645 |

(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) 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

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE H FINANCIAL HIGHLIGHTS (Continued)**

certain per share data based on the shares outstanding as of a period end or transaction date.

|   | <b>Nine Months Ended<br/>September 30,</b>    |             |
|---|---|-------------|
|   | <b>2014</b>                                   | <b>2013</b> |
|   | <b>(in thousands, except<br/>percentages)</b> |             |
| NAV at end of period  | \$ 947,506                                    | \$ 794,176  |
| Average net asset value   | \$ 871,964                                    | \$ 684,436  |
| Average outstanding debt  | \$ 553,622                                    | \$ 433,606  |
| Ratio of total expenses, including income tax expense, to average net asset value(1)(2) | 4.72%   | 4.94%       |
| Ratio of operating expenses to average net asset value(2)                               | 3.76%   | 4.46%       |
| Ratio of operating expenses, excluding interest expense, to average net asset value(2)  | 1.84%   | 2.22%       |
| Ratio of net investment income to average net asset value(2)                            | 7.94%   | 7.68%       |
| Portfolio turnover ratio(2)   | 27.24%  | 25.27%      |
| Total investment return(2)(3)   | (1.06%)                                       | 4.40%       |
| Total return based on change in net asset value(2)(4)                                   | 9.94%   | 11.77%      |

- (1) Total expenses are the sum of operating expenses and income tax expense. Income tax expense includes deferred taxes and certain other tax items which are non-cash in nature and may vary significantly from period to period. Main Street is required to include deferred taxes in calculating its total expenses even though these deferred taxes are not currently payable.
- (2) Not annualized.
- (3) Total investment return based on purchase of stock at the current market price on the first day and a sale at the current market price on the last day of each period reported on the table and assumes reinvestment of dividends at prices obtained by Main Street's dividend reinvestment plan during the period. The return does not reflect sales load.
- (4) Total return based on change in net asset value was calculated using the sum of ending net asset value plus dividends to stockholders and other non-operating changes during the period, as divided by the beginning net asset value.

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

Main Street paid regular monthly dividends of \$0.165 per share for each month of January through September 2014, totaling approximately \$22.2 million, or \$0.495 per share, for the three months ended September 30, 2014, and \$63.3 million, or \$1.485 per share, for the nine months ended September 30, 2014. The third quarter 2014 regular monthly dividends represent a 6% increase from the monthly dividends paid for the third quarter of 2013. Additionally, Main Street paid a \$0.275 per share supplemental semi-annual dividend, totaling \$12.3 million, in June 2014. The regular monthly dividends equal a total of approximately \$16.9 million, or \$0.465 per share, for the three months ended September 30, 2013, and \$48.7 million, or \$1.38 per share, for the nine months ended September 30, 2013. Main Street paid supplemental dividends of \$0.35 per share in January 2013 and \$0.20 per share

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE I DIVIDENDS, DISTRIBUTIONS AND TAXABLE INCOME (Continued)**

in July 2013, totaling approximately \$7.0 million and \$19.1 million for the three and nine months ended September 30, 2013, respectively.

MSCC has elected to be treated for federal income tax purposes as a RIC. MSCC's taxable income includes the taxable income generated by MSCC and certain of its subsidiaries, including the Funds, which are treated as disregarded entities for tax purposes. 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. 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 applicable fiscal year.

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 20% maximum tax rate (plus a 3.8% Medicare surtax, if applicable) 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.

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE I DIVIDENDS, DISTRIBUTIONS AND TAXABLE INCOME (Continued)**

Listed below is a reconciliation of "Net increase in net assets resulting from operations" to taxable income and to total distributions declared to common stockholders for the nine months ended September 30, 2014 and 2013.

|  | <b>Nine Months Ended<br/>September 30,</b>   |             |
|--|--|-------------|
|  | <b>2014</b>                                  | <b>2013</b> |
|  | <b>(estimated, amounts in<br/>thousands)</b> |             |
| Net increase in net assets resulting from operations   | \$ 78,754                                    | \$ 75,688   |
| Share-based compensation expense   | 3,034  | 3,357       |
| Net change in unrealized appreciation  | (7,160)                                      | (33,772)    |
| Income tax provision   | 8,401  | 3,308       |
| Pre-tax book (income) loss not consolidated for tax purposes(1)  | (2,217)                                      | 11,586      |
| Book income and tax income differences, including debt origination, structuring fees, dividends, realized gains and changes in estimates | 332  | 2,974       |
| Estimated taxable income(2)  | 81,144                                       | 63,141      |
| Taxable income earned in prior year and carried forward for distribution in current year   | 37,046                                       | 44,415      |
| Taxable income earned prior to period end and carried forward for distribution next period   | (49,184)                                     | (44,961)    |
| Dividend accrued as of period end and paid in the following period   | 7,641  | 6,352       |
| Total distributions accrued or paid to common stockholders   | \$ 76,647                                    | \$ 68,947   |

- (1) As discussed further in Note D, the Internal Investment Manager was consolidated effective April 1, 2013. Thus, all periods prior to this date do not include a reconciling item for the income (loss) of the Internal Investment Manager as these periods did not include the results from operations of the Internal Investment Manager in the Net increase in net assets resulting from operations.
- (2) Main Street's taxable income for each period is an estimate and will not be finally determined until the company files its tax return for each year. Therefore, the final taxable income, and the taxable income earned in each period and carried forward for distribution in the following period, may be different than this estimate.

The Taxable Subsidiaries hold certain portfolio investments for Main Street. The Taxable Subsidiaries are consolidated with Main Street for financial reporting purposes, and the investments held by the Taxable Subsidiaries are included in Main Street's consolidated financial statements as portfolio investments and recorded at fair value. 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 continue 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 benefit, and tax assets and liabilities, as a result of their ownership of certain portfolio investments. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in Main Street's

consolidated financial statements.



Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE I DIVIDENDS, DISTRIBUTIONS AND TAXABLE INCOME (Continued)**

The Internal Investment Manager currently provides investment management and other services to MSCC and its subsidiaries and receives fee income for such services. In addition, it gets reimbursed for the expenses it charges to the External Investment Manager (see further discussion of the Investment Managers in Note D). Beginning April 1, 2013, the Internal Investment Manager is included in Main Street's consolidated financial statements and reflected as a consolidated subsidiary, but the Internal Investment Manager has elected, for tax purposes, to be treated as a taxable entity and is not consolidated with Main Street for income tax purposes and as a result may generate income tax expense, or benefit, and tax assets and liabilities, as a result of its activities. The Internal Investment Manager elected to be treated as a taxable entity to enable it to receive fee income and to allow MSCC to continue to comply with the "source income" requirements contained in the RIC tax provisions of the Code.

The income tax expense, or benefit, and the related tax assets and liabilities, generated by the Taxable Subsidiaries and the Investment Manager, if any, are reflected in Main Street's Consolidated Statement of Operations. For the three months ended September 30, 2014 and 2013, Main Street recognized a net income tax provision of \$3.0 million and \$0.5 million, respectively, related to deferred taxes of \$2.0 million and \$0.1 million, respectively, and other taxes of \$1.0 million and \$0.4 million, respectively, for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014 and 2013, Main Street recognized a net income tax provision of \$8.4 million and \$3.3 million, respectively, related to deferred taxes of \$6.6 million and \$1.5 million, respectively, and other taxes of \$1.8 million and \$1.8 million, respectively, for the nine months ended September 30, 2014 and 2013. For the three months ended September 30, 2014 and 2013, the other taxes include \$0.7 million and \$0.3 million, respectively, related to an accrual for excise tax on Main Street's estimated spillover taxable income and \$0.3 million and \$0.1 million, respectively, related to accruals for state and other taxes. For the nine months ended September 30, 2014 and 2013, the other taxes include \$1.0 million and \$1.3 million, respectively, related to an accrual for excise tax on Main Street's estimated spillover taxable income and \$0.8 million and \$0.5 million, respectively, related to accruals for state and other taxes.

The net deferred tax liability at September 30, 2014 and December 31, 2013 was \$12.6 million and \$5.9 million, respectively, primarily related to timing differences from net unrealized appreciation of portfolio investments held by the Taxable Subsidiaries, partially offset by net loss carryforwards (primarily resulting from historical realized losses on portfolio investments held by the Taxable Subsidiaries and the operating activities of the Internal Investment Manager), basis differences of portfolio investments held by the Taxable Subsidiaries which are "pass through" entities for tax purposes and excess deductions resulting from the restricted stock plans (see further discussion in Note L). Due to the consolidation of the Internal Investment Manager (see further discussion in Note D) on April 1, 2013, the Company recorded a deferred tax asset of \$2.2 million through additional paid-in capital relating to the prior periods through March 31, 2013.

In accordance with the realization requirements of ASC 718, *Compensation - Stock Compensation*, Main Street uses tax law ordering when determining when tax benefits related to equity compensation greater than equity compensation recognized for financial reporting should be realized. For the three months ended September 30, 2014, Main Street realized a \$0.5 million increase to paid-in-capital due to tax deductions related to equity compensation greater than equity compensation recognized for financial reporting. Additional paid-in capital increases of \$2.1 million will be recognized in future periods when such tax benefits are ultimately realized by reducing taxes payable.

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE J COMMON STOCK**

During April 2014, Main Street completed a follow-on public equity offering of 4,600,000 shares of common stock, including the underwriters' full exercise of their option to purchase 600,000 additional shares, at a price to the public of \$31.50 per share, resulting in total gross proceeds of approximately \$144.9 million, less underwriters' commissions of approximately \$5.1 million and other expenses of approximately \$0.2 million.

During the three months ended September 30, 2013, Main Street completed a follow-on public equity offering of 4,600,000 shares of common stock, including the underwriters' full exercise of their option to purchase 600,000 additional shares, at a price to the public of \$29.75 per share, resulting in total gross proceeds of approximately \$136.9 million, less underwriters' commissions of approximately \$5.1 million and offering costs of approximately \$0.3 million.

**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. The share requirements of the DRIP may be satisfied through the issuance of shares of common stock or through open market purchases of common stock. 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, 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 their clients.

For the nine months ended September 30, 2014, \$11.8 million of the total \$75.6 million in dividends paid to stockholders represented DRIP participation. During this period, the DRIP participation requirements were satisfied with the issuance of 333,657 newly issued shares and with the purchase of 31,825 shares of common stock in the open market. For the nine months ended September 30, 2013, \$12.7 million of the total \$67.8 million in dividends paid to stockholders represented DRIP participation. During this period, the DRIP participation requirements were satisfied with the issuance of 278,166 newly issued shares and with the purchase of 134,659 shares of common stock in the open market. The shares disclosed above relate only to Main Street's DRIP and exclude any activity related to broker-managed dividend reinvestment plans.

**NOTE L SHARE-BASED COMPENSATION**

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

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE L SHARE-BASED COMPENSATION (Continued)**

Main Street's Board of Directors approves the issuance of shares of restricted stock to Main Street employees pursuant to the Main Street Capital Corporation 2008 Equity Incentive Plan. These shares generally vest over a four-year period from the grant date. The fair value is expensed over the service period, starting on the grant date. The following table summarizes the restricted stock issuances approved by Main Street's Board of Directors, net of shares forfeited, and the remaining shares of restricted stock available for issuance as of September 30, 2014.

|   |              |
|---|--------------|
| Restricted stock authorized under the plan        | 2,000,000    |
| Less net restricted stock (granted)/forfeited on: |              |
| July 1, 2008                                      | (245,645)    |
| July 1, 2009                                      | (98,993)(1)  |
| July 1, 2010                                      | (149,357)    |
| June 20, 2011                                     | (116,909)(1) |
| June 20, 2012                                     | (130,196)(1) |
| Quarter ended December 31, 2012                   | (12,476)     |
| Quarter ended March 31, 2013                      | (724)(1)     |
| Quarter ended June 30, 2013                       | (236,852)(1) |
| Quarter ended September 30, 2013                  | (12,688)(1)  |
| Quarter ended December 31, 2013                   | (250)        |
| Quarter ended March 31, 2014                      | (397)        |
| Quarter ended June 30, 2014                       | (209,298)(1) |
| Quarter ended September 30, 2014                  | (13,570)     |

|  |         |
|--|---------|
| Restricted stock available for issuance as of September 30, 2014 | 772,645 |
|--|---------|

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(1) Shares indicated are net of forfeited shares.

The following table summarizes the restricted stock issued to Main Street's independent directors pursuant to the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan. These shares are granted upon appointment or election to the board and vest on the day immediately

Table of Contents**MAIN STREET CAPITAL CORPORATION****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****NOTE L SHARE-BASED COMPENSATION (Continued)**

preceding the annual meeting of stockholders following the respective grant date and are expensed over such service period.

|  |          |
|--|----------|
| Restricted stock authorized under the plan | 200,000  |
| Less restricted stock granted on:          |          |
| July 1, 2008                               | (20,000) |
| July 1, 2009                               | (8,512)  |
| July 1, 2010                               | (7,920)  |
| June 20, 2011                              | (6,584)  |
| August 3, 2011                             | (1,658)  |
| June 20, 2012                              | (5,060)  |
| June 13, 2013                              | (4,304)  |
| August 6, 2013                             | (980)    |
| May 29, 2014                               | (4,775)  |

|  |         |
|--|---------|
| Restricted stock available for issuance as of September 30, 2014 | 140,207 |
|--|---------|

For the three months ended September 30, 2014 and 2013, Main Street recognized total share-based compensation expense of \$1.2 million and \$2.1 million, respectively, related to the restricted stock issued to Main Street employees and independent directors, and for the nine months ended September 30, 2014 and 2013, Main Street recognized total share-based compensation expense of \$3.0 million and \$3.4 million, respectively, related to the restricted stock issued to Main Street employees and independent directors. In August 2013, the Board accelerated the vesting of all of the unvested shares of restricted stock previously granted to and held by Main Street's retiring Executive Vice-Chairman under the 2008 Equity Incentive Plan. The accelerated vesting of these 55,597 shares resulted in non-recurring share-based compensation expense of \$1.3 million during the three months and nine months ended September 30, 2013. Excluding the expense associated with the accelerated vesting of these shares, the total share-based compensation expense for the three months and nine months ended September 30, 2013 was \$0.9 million and \$2.1 million respectively.

As of September 30, 2014, there was \$12.1 million of total unrecognized compensation expense related to Main Street's non-vested restricted shares. This compensation expense is expected to be recognized over a remaining weighted-average period of approximately 3.1 years as of September 30, 2014.

**NOTE M COMMITMENTS AND CONTINGENCIES**

At September 30, 2014, Main Street had a total of \$130.7 million in outstanding commitments comprised of (i) 21 investments with commitments to fund revolving loans that had not been fully drawn or term loans with additional commitments not yet funded and (ii) six investments with capital commitments that had not been fully called.

Main Street may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to impose liability on Main Street in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, Main Street does not expect any

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE M COMMITMENTS AND CONTINGENCIES (Continued)**

current matters will materially affect its financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on Main Street's financial condition or results of operations in any future reporting period.

**NOTE N RELATED PARTY TRANSACTIONS**

As discussed further in Note D, the External Investment Manager is treated as a wholly owned portfolio company of MSCC and is included as part of Main Street's Investment Portfolio. At September 30, 2014, Main Street had a receivable of \$1.2 million due from the External Investment Manager related to operating expenses incurred by the Internal Investment Manager required to support the External Investment Manager's business and for dividends declared but not paid by the External Investment Manager.

In June 2013, Main Street adopted a deferred compensation plan for the non-employee members of its board of directors, which allows the directors at their option to defer all or a portion of the fees paid for their services as directors and have such deferred fees paid in shares of Main Street common stock within 90 days after the participant's end of service as a director. As of September 30, 2014, \$0.6 million of directors' fees had been deferred under this plan. These deferred fees represented 18,672 shares of Main Street common shares. These shares will not be issued or included as outstanding on the consolidated statement of changes in net assets until each applicable participant's end of service as a director, but will be included in operating expenses and weighted average shares outstanding on Main Street's consolidated statement of operations as earned.

**NOTE O SUBSEQUENT EVENTS**

In October 2014, Main Street completed a follow-on investment in an existing portfolio company totaling \$16.4 million. The follow-on investment in SambaSafety Holdings, L.L.C. ("SambaSafety") supported SambaSafety's acquisition of a complementary business in the driver risk management software and technology-enabled services industry, an acquisition which significantly expands SambaSafety's customer base and service offering. The follow-on investment consisted of an additional \$16.0 million of first lien, senior secured term debt and a \$0.4 million equity investment. Headquartered in Albuquerque, New Mexico, SambaSafety is an industry leading provider of driver risk management software and services to car and truck fleet owners, insurance carriers and agents, employment background screeners, and automotive retailers.

In October 2014, Main Street fully exited its investment in Texas ReExcavation, LC ("T-Rex"), a provider of hydro excavation and vacuum excavation services for a variety of industry sectors, including the petrochemical, pipeline, municipal, utilities, construction, oil & gas, engineering, transportation, telecommunication, and environmental industries. Main Street made its original investment in T-Rex in December 2012 and it realized a gain of approximately \$3.7 million on the sale of T-Rex.

In October 2014, Main Street led a financing totaling \$7.6 million of invested capital in Computer Associates, Inc. ("CAI"), to support the majority recapitalization of CAI, with Main Street funding \$6.1 million of the financing in this new portfolio investment. Main Street's portion of the financing included a \$5.4 million first lien, senior secured term loan and a \$0.7 million equity investment. Headquartered in Smithfield, Rhode Island, and founded in 1977, CAI is a leading provider of

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**MAIN STREET CAPITAL CORPORATION**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**NOTE O SUBSEQUENT EVENTS (Continued)**

specialized enterprise resource planning (ERP) software with industry expertise in several industry sectors, including seafood and other food processing and distribution, lumber and building materials, precious metal refining, and jewelry manufacturing.

In October 2014, Main Street led a financing totaling \$12.0 million of invested capital in East West Copolymer & Rubber, LLC ("East West") to support East West's working capital and expansion needs. The financing consisted of a \$12.0 million first lien, senior secured term loan with equity warrant participation, with Main Street funding \$9.6 million of the invested capital. East West is a synthetic rubbers manufacturer with its production facility located in Baton Rouge, Louisiana. East West's Styrene-Butadiene-Rubber ("SBR") & Nitrile-Butadiene-Rubber ("NBR") products are primarily used in the production of tires for automobile, industrial, and agriculture applications.

During October 2014, Main Street declared a semi-annual supplemental cash dividend of \$0.275 per share payable in December 2014. This supplemental cash dividend is in addition to the previously announced regular monthly cash dividends that Main Street declared for the fourth quarter of 2014 of \$0.170 per share for each of October, November and December 2014, and represents a 10% increase from the semi-annual supplemental cash dividend paid in December 2013.

In October 2014, Main Street fully exited its investment in NCP Investment Holdings, Inc. ("NCP"), a healthcare services company operating free-standing outpatient cardiac and vascular procedure labs. Main Street originally invested in NCP in 2004, and we realized a gain of approximately \$8.6 million on the sale of our remaining equity interest in NCP in conjunction with a change of control of NCP.

In October 2014, Main Street fully exited its investment in Spectrio LLC ("Spectrio"), a leading national provider of on-hold messaging and digital signage managed services. Main Street made its initial investment in Spectrio in May 2009, and realized a gain of approximately \$3.9 million on the redemption of its warrant by Spectrio.

In November 2014, Main Street issued \$175.0 million in aggregate principal amount of 4.50% unsecured notes due 2019 (the "4.50% Notes") at an issue price of 99.53%. The 4.50% Notes mature on December 1, 2019, and may be redeemed in whole or in part at any time at Main Street's option subject to certain make whole provisions. The 4.50% Notes bear interest from November 5, 2014 at a rate of 4.50% per year payable semi-annually on June 1 and December 1 of each year, beginning June 1, 2015. The total net proceeds to Main Street from the 4.50% Notes, resulting from the issue price and after underwriting discounts and estimated offering expenses payable by Main Street, were approximately \$171.2 million.

During November 2014, Main Street declared regular monthly dividends of \$0.17 per share for each month of January, February and March of 2015. These regular monthly dividends equal a total of \$0.51 per share for the first quarter of 2015 and represent a 3% increase from the regular monthly dividends declared for the first quarter of 2014. Including the semi-annual supplemental dividend payable in December 2014 and regular monthly dividends declared for the first quarter of 2015, Main Street will have paid \$13.74 per share in cumulative dividends since its October 2007 initial public offering.

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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, 2013, filed with the Securities and Exchange Commission (the "SEC") on February 28, 2014, and "Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed with the SEC on May 9, 2014, 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, 2013.*

**ORGANIZATION**

Main Street Capital Corporation ("MSCC") was formed in March 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, (ii) acquiring 100% of the equity interests of Main Street Capital Partners, LLC (the "Internal 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 Internal Investment Manager acts as MSMF's manager and investment adviser. Because we wholly own the Internal Investment Manager, which employs all of the executive officers and other employees of MSCC, we do not pay any external investment advisory fees, but instead we incur the operating costs associated with employing investment and portfolio management professionals through the Internal Investment Manager. The IPO and related transactions discussed above were consummated in October 2007 and are collectively termed the "Formation Transactions."

During January 2010, MSCC acquired (the "Exchange Offer") 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") and 100% of the membership interests in the general partner of MSC II, Main Street Capital II GP, LLC ("MSC II GP"). MSC II is an investment fund that operates as an SBIC and commenced operations in January 2006. During the first quarter of 2012, MSCC acquired all of the remaining minority ownership in the total dollar value of the MSC II limited partnership interests (the "Final MSC II Exchange"). The Exchange Offer and related transactions, including the acquisition of MSC II GP interests and the Final MSC II Exchange, are collectively termed the "Exchange Offer Transactions."

MSC Adviser I, LLC (the "External Investment Manager" and, together with the Internal Investment Manager, the "Investment Managers") was formed in November 2013 as a wholly owned subsidiary of MSCC to provide investment management and other services to parties other than MSCC and its subsidiaries ("External Parties") and receive fee income for such services. MSCC has been granted no action relief by the Securities and Exchange Commission ("SEC") to allow the External Investment Manager to register as a registered investment adviser ("RIA") under Investment Advisers Act of 1940, as amended (the "Advisers Act"). The External Investment Manager is accounted for as a portfolio investment of MSCC, since the External Investment Manager conducts all of its investment management activities for parties outside of MSCC and its consolidated subsidiaries.

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.

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

Unless otherwise noted or the context otherwise indicates, the terms "we," "us," "our" and "Main Street" refer to MSCC and its consolidated subsidiaries, which include the Funds, the Taxable Subsidiaries and, beginning April 1, 2013, the Internal Investment Manager.

**OVERVIEW**

We are a principal investment firm primarily focused on providing customized debt and equity financing to lower middle market ("LMM") companies and debt capital to middle market ("Middle Market") companies. Our portfolio investments are typically made to support management buyouts, recapitalizations, growth financings, refinancings and acquisitions of companies that operate in diverse industry sectors. We seek to partner with entrepreneurs, business owners and management teams and generally provide "one stop" financing alternatives within our LMM portfolio. We invest primarily in secured debt investments, equity investments, warrants and other securities of LMM companies based in the United States and in secured debt investments of Middle Market companies generally headquartered in the United States.

Our principal investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our equity and equity related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. Our LMM companies generally have annual revenues between \$10 million and \$150 million, and our LMM portfolio investments generally range in size from \$5 million to \$50 million. Our Middle Market investments are made in businesses that are generally larger in size than our LMM portfolio companies, with annual revenues typically between \$150 million and \$1.5 billion, and our Middle Market investments generally range in size from \$3 million to \$15 million. Our private loan ("Private Loan") investments are made in businesses that are consistent with the size of companies in our LMM portfolio or our Middle Market portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in our LMM portfolio or Middle Market portfolio.

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

Our external asset management business is conducted through our External Investment Manager. We have entered into an agreement through the Internal Investment Manager to provide the External Investment Manager with asset management service support for HMS Income Fund, Inc. ("HMS Income"). Through this agreement, we provide management and other services to the External Investment Manager, as well as access to our employees, infrastructure, business relationships, management expertise and capital raising capabilities. Beginning in the first quarter of 2014, we charge the External Investment Manager for the use of these services, and our total expenses for the three and nine months ended September 30, 2014 include an offset to expenses of \$0.6 and \$1.3 million, respectively, related to these charged expenses. The External Investment Manager earns management



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fees based on the assets of the funds under management and may earn incentive fees, or a carried interest, based on the performance of the funds managed.

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 LMM creates the opportunity for us to meet the financing needs of LMM companies while also negotiating favorable transaction terms and equity participations. Our ability to invest across a company's capital structure, from secured loans to equity securities, allows us to offer portfolio companies a comprehensive suite of financing options, or a "one stop" financing solution. 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. Our LMM portfolio debt investments are generally secured by a first lien on the assets of the portfolio company and typically have a term of between five and seven years from the original investment date. We believe that our LMM investment strategy has a lower correlation to the broader debt and equity markets.

As of September 30, 2014, we had debt and equity investments in 64 LMM portfolio companies with an aggregate fair value of approximately \$681.0 million, with a total cost basis of approximately \$544.1 million, and a weighted average annual effective yield on our LMM debt investments of approximately 13.5%. As of September 30, 2014, approximately 73% of our total LMM portfolio investments at cost were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on the assets of our LMM portfolio companies. At September 30, 2014, we had equity ownership in approximately 94% of our LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 35%. As of December 31, 2013, we had debt and equity investments in 62 LMM portfolio companies with an aggregate fair value of approximately \$659.4 million, with a total cost basis of approximately \$543.3 million and a weighted average annual effective yield on our LMM debt investments of approximately 14.7%. As of December 31, 2013, approximately 76% of our total LMM portfolio investments at cost were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on the assets of our LMM portfolio companies. At December 31, 2013, we had equity ownership in approximately 94% of our LMM portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 33%. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

In addition to our LMM investment strategy, we pursue investments in Middle Market companies. Our Middle Market portfolio investments primarily consist of direct investments in or secondary purchases of interest bearing debt securities in privately held companies that are generally larger in size than the LMM companies included in our LMM portfolio. Our Middle Market portfolio debt investments are generally secured by either a first or second priority lien on the assets of the portfolio company and typically have an expected duration of between three and five years from the original investment date.

As of September 30, 2014, we had Middle Market portfolio investments in 86 companies, collectively totaling approximately \$556.6 million in fair value with a total cost basis of approximately \$561.0 million. The weighted average EBITDA for the 86 Middle Market portfolio companies was approximately \$67.9 million as of September 30, 2014. As of September 30, 2014, substantially all of our Middle Market portfolio investments were in the form of debt investments and approximately 90% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on our Middle Market portfolio debt investments was approximately 7.5% as of September 30, 2014. As of December 31, 2013, we had Middle Market

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portfolio investments in 92 companies collectively totaling approximately \$471.5 million in fair value with a total cost basis of approximately \$468.3 million. The weighted average EBITDA for the 92 Middle Market portfolio companies was approximately \$79.0 million as of December 31, 2013. As of December 31, 2013, substantially all of our Middle Market portfolio investments were in the form of debt investments and approximately 92% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on our Middle Market portfolio debt investments was approximately 7.8% as of December 31, 2013. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

Our Private Loan portfolio investments primarily consist of investments in interest-bearing debt securities in companies that are consistent with the size of the companies included in our LMM portfolio or our Middle Market portfolio. Our Private Loan portfolio debt investments are generally secured by either a first or second priority lien on the assets of the portfolio company and typically have a term of between three and seven years from the original investment date.

As of September 30, 2014, we had Private Loan portfolio investments in 26 companies, collectively totaling approximately \$180.7 million in fair value with a total cost basis of approximately \$188.1 million. The weighted average EBITDA for the 26 Private Loan portfolio companies was approximately \$13.6 million as of September 30, 2014. As of September 30, 2014, approximately 97% of our Private Loan portfolio investments were in the form of debt investments and approximately 86% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on our Private Loan portfolio debt investments was approximately 10.4% as of September 30, 2014. As of December 31, 2013, we had Private Loan portfolio investments in 15 companies, collectively totaling approximately \$111.5 million in fair value with a total cost basis of approximately \$111.3 million. The weighted average EBITDA for the 15 Private Loan portfolio companies was approximately \$18.4 million as of December 31, 2013. As of December 31, 2013, approximately 95% of our Private Loan portfolio investments were in the form of debt investments and approximately 98% of such debt investments at cost were secured by first priority liens on portfolio company assets. The weighted average annual effective yield on our Private Loan portfolio debt investments was approximately 11.3% as of December 31, 2013. The weighted average annual yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2014 and December 31, 2013, including amortization of deferred debt origination fees and accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status.

As of September 30, 2014, we had Other Portfolio investments in six companies, collectively totaling approximately \$61.2 million in fair value and approximately \$54.7 million in cost basis and which comprised 4.1% of our Investment Portfolio at fair value as of September 30, 2014. As of December 31, 2013, we had Other Portfolio investments in six companies, collectively totaling approximately \$42.8 million in fair value and approximately \$40.1 million in cost basis and which comprised 3.3% of our Investment Portfolio at fair value as of December 31, 2013.

As discussed further above, we hold an investment in the External Investment Manager, a wholly owned subsidiary that is treated as a portfolio investment. As of September 30, 2014, there was no cost basis in this investment and the investment had a fair value of \$8.6 million, which comprised 0.6% of our Investment Portfolio at fair value. As of December 31, 2013, there was no cost basis in this investment and the investment had a fair value of \$1.1 million, which comprised 0.1% of our Investment Portfolio at fair value.

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

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

MSCC and its consolidated subsidiaries are internally managed by the Internal Investment Manager, a wholly owned subsidiary of MSCC, which employs all of the executive officers and other employees of Main Street. Because the Internal Investment Manager is wholly owned by MSCC, Main Street does not pay any external investment advisory fees, but instead incurs the operating costs associated with employing investment and portfolio management professionals through the Internal Investment Manager. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly traded and privately held investment firms which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our Investment Portfolio. For the three and nine months ended September 30, 2014, the ratio of our total operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 1.4% and 1.5%, respectively, on an annualized basis, compared to 1.6% and 1.6%, respectively, on an annualized basis for the three and nine months ended September 30, 2013 and 1.7% for the year ended December 31, 2013 (excluding interest expense and excluding the effect of the non-recurring accelerated vesting of restricted stock of our retired Executive Vice-Chairman, which resulted in additional share-based compensation expense of \$1.3 million during the each of the periods in 2013). Including the effect of the accelerated vesting of restricted stock, the ratio for the three and nine months ended September 30, 2013, both on an annualized basis, and for the year ended December 31, 2013 would have been 2.0%, 1.8% and 1.8%, respectively.

During May 2012, MSCC entered into an investment sub advisory agreement with HMS Adviser, LP ("HMS Adviser"), which is the investment advisor to HMS Income, a non-publicly traded BDC whose registration statement on Form N-2 was declared effective by the SEC in June 2012, to provide certain investment advisory services to HMS Adviser. In December 2013, after obtaining no-action relief from the SEC to allow us to own a registered investment adviser, MSCC assigned the sub advisory agreement to the External Investment Manager since the fees received from such arrangement could otherwise have negative consequences on MSCC's ability to meet the source of income requirement necessary for it to maintain its RIC tax treatment. Under the investment sub advisory agreement, the External Investment Manager is entitled to 50% of the base management fee and the incentive fees earned by HMS Adviser under its advisory agreement with HMS Income. However, MSCC and the External Investment Manager agreed to waive all such fees from the effective date of HMS Income's registration statement on Form N-2 through December 31, 2013. As a result, as of December 31, 2013, neither MSCC nor the External Investment Manager had received any base

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management fee or incentive fees under the investment sub advisory agreement and neither was due any unpaid compensation for any base management fee or incentive fees under the investment sub-advisory agreement through December 31, 2013. Neither MSCC nor the External Investment Manager has waived the External Investment Manager's management base fees or incentive fees after December 31, 2013 and, as a result, the External Investment Manager began accruing such fees on January 1, 2014. During the three and nine months ended September 30, 2014, the External Investment Manager earned \$0.8 million and \$1.7 million, respectively, of base management fees under the sub-advisory agreement with HMS Adviser.

During April 2014, we received an exemptive order from the SEC permitting co-investments by us and HMS Income in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. We intend to make such co-investments with HMS Income in accordance with the conditions of the order. The order requires, among other things, that we and the External Investment Manager consider whether each such investment opportunity is appropriate for HMS Income and, if it is appropriate, to propose an allocation of the investment opportunity between us and HMS Income.

**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 each of the periods presented herein, our consolidated financial statements include the accounts of MSCC and its consolidated subsidiaries (which as noted above and discussed in detail below, include the Funds and the Taxable Subsidiaries and, beginning April 1, 2013, include the Internal Investment Manager which was previously treated as a portfolio investment). The Investment Portfolio, as used herein, refers to all of our investments in LMM portfolio companies, investments in Middle Market portfolio companies, Private Loan portfolio investments, Other Portfolio investments, the investment in the External Investment Manager and, for all periods up to and including March 31, 2013, the investment in the Internal Investment Manager, but excludes all "Marketable securities and idle funds investments", and, for all periods after March 31, 2013, the Investment Portfolio also excludes the investment in the Internal Investment Manager. For all periods up to and including the period ending March 31, 2013, the Internal Investment Manager was accounted for as a portfolio investment (see further discussion above) and was not consolidated with MSCC and its consolidated subsidiaries. For all periods after March 31, 2013, the Internal Investment Manager is consolidated with MSCC and its other consolidated subsidiaries. "Marketable securities and idle funds investments" are classified as financial instruments and are reported separately on our Consolidated Balance Sheets and Consolidated Schedules of Investments due to the nature of such investments. Our results of operations for the three and nine months ended September 30, 2014 and 2013, cash flows for the nine months ended September 30, 2014 and 2013, and financial position as of September 30, 2014 and December 31, 2013, are presented on a consolidated basis. The effects of all intercompany transactions between us and our consolidated subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior period balances to conform with the current presentation, including reclassifying the expenses charged to the External Investment Manager.

The accompanying unaudited consolidated financial statements of Main Street are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. The results of operations for the three and nine months ended September 30, 2014 and 2013 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited financial statements and notes

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should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013. 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 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and Accounting Standards Codification ("Codification" or "ASC") 946, *Financial Services Investment Companies* ("ASC 946"), 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 ASC 946 occurs if we hold a controlling interest in an operating company that provides all or substantially all of its services directly to us, or to its portfolio companies. None of the portfolio investments made by us qualify for this exception, including the investment in the External Investment Manager, except as discussed below with respect to the Internal Investment Manager. Therefore, the Investment Portfolio is carried on the balance sheet at fair value, with any adjustments to fair value recognized as "Net Change in Unrealized Appreciation (Depreciation)" on our Statement of Operations until the investment is realized, usually upon exit, resulting in any gain or loss being recognized as a "Net Realized Gain (Loss)." For all periods prior to and including March 31, 2013, the Internal Investment Manager was accounted for as a portfolio investment and included as part of the Investment Portfolio in our consolidated financial statements. The Internal Investment Manager was consolidated with MSCC and its other consolidated subsidiaries prospectively beginning April 1, 2013 as the controlled operating subsidiary is providing substantially all of its services directly or indirectly to Main Street or our portfolio companies.

***Investment Portfolio Valuation***

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our Investment Portfolio and the related amounts of unrealized appreciation and depreciation. As of September 30, 2014 and December 31, 2013, approximately 94% and 95% of our total assets, respectively, represented our Investment Portfolio valued at fair value. We are required to report our investments at fair value. We follow the provisions of the Financial Accounting Standards Board ("FASB") 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 us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable, and willing and able to transact.

Our portfolio strategy calls for us to invest primarily in illiquid debt and equity securities issued by private, LMM companies and debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. We categorize some of our investments in LMM companies and Middle Market companies as Private Loan portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either the LMM companies or Middle Market companies, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in our LMM portfolio or Middle Market portfolio. Our portfolio also includes Other Portfolio investments which primarily consist of investments that are not consistent with the typical profiles for our LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments, including investments which may be managed by third parties. Our portfolio investments may be subject to restrictions on resale.

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LMM investments and Other Portfolio investments generally have no established trading market while Middle Market securities generally have established markets that are not active. Private Loan investments may include investments which have no established trading market or have established markets that are not active. We determine in good faith the fair value of our Investment Portfolio 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. Our valuation policies and processes are intended to provide a consistent basis for determining the fair value of the portfolio.

For LMM portfolio investments, we generally review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process by using an enterprise value waterfall ("Waterfall") for our LMM equity investments and an income approach using a yield-to-maturity model ("Yield-to-Maturity") for our LMM debt investments. For Middle Market portfolio investments, we primarily use observable inputs such as quoted prices in the valuation process. We determine the appropriateness of the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices. For Middle Market and Private Loan portfolio investments in debt securities for which we have determined that third-party quotes or other independent pricing are not available or appropriate, we generally estimate the fair value based on the assumptions that we believe hypothetical market participants would use to value the investment in a current hypothetical sale using the Yield-to-Maturity valuation method. For our Other Portfolio equity investments, we generally calculate the fair value of the investment primarily based on the net asset value ("NAV") of the fund. All of the valuation approaches for our portfolio investments estimate the value of the investment as if we were to sell, or exit, the investment as of the measurement date.

Under the Waterfall valuation method, we estimate the enterprise value of a portfolio company using a combination of market and income approaches or other appropriate valuation methods, such as considering recent transactions in the equity securities of the portfolio company or third-party valuations of the portfolio company, and then perform a waterfall calculation by using the enterprise value over the portfolio company's securities in order of their preference relative to one another. 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, we analyze various factors including the portfolio company's historical and projected financial results. The operating results of a portfolio company may include unaudited, projected, budgeted or pro forma financial information and may require adjustments for non-recurring items or to normalize the operating results that may require significant judgment in our determination. In addition, projecting future financial results requires significant judgment regarding future growth assumptions. In evaluating the operating results, we also analyze the impact of exposure to litigation, loss of customers or other contingencies. After determining the appropriate enterprise value, we allocate the enterprise value to investments in order of the legal priority of the various components of the portfolio company's capital structure. In applying the Waterfall valuation method, we assume the loans are paid off at the principal amount in a change in control transaction and are not assumed by the buyer, which we believe is consistent with its past transaction history and standard industry practices.

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,

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"control" portfolio investments are composed of debt and equity securities in companies for which we have a controlling interest in the equity ownership of the portfolio company or the ability to nominate a majority of the portfolio company's board of directors. For valuation purposes, "non-control" portfolio investments are generally composed of debt and equity securities in companies for which we do not have a controlling interest in the equity ownership of the portfolio company or the ability to nominate a majority of the portfolio company's board of directors.

Under the Yield-to-Maturity valuation method, we use the income approach to determine the fair value of debt securities, based on projections of the discounted future free cash flows that the debt security will likely generate, including analyzing the discounted cash flows of interest and principal amounts 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 our debt securities is generally the legal maturity date of the instrument, as we generally intend to hold our loans and debt securities to maturity. The Yield-to-Maturity analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors. We will use the value determined by the Yield-to-Maturity 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 principal amount of the debt security valued using the Yield-to-Maturity valuation method. A change in the assumptions that we use to estimate the fair value of our debt securities using the Yield-to-Maturity valuation method could have a material impact on the determination of fair value. If there is deterioration in credit quality or if a debt security is in workout status, we may consider other factors in determining the fair value of the debt security, including the value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would most likely be received in a liquidation analysis.

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, we will measure the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, we may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of our investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, and expected future cash flows available to equity holders, including the rate of return on those cash flows compared to an implied market return on equity required by market participants, or other uncertainties surrounding our ability to realize the full NAV of our interests in the investment fund.

Pursuant to our internal valuation process and the requirements under the 1940 Act, we perform valuation procedures on our investments in each LMM portfolio company quarterly. In addition to our internal valuation process, in arriving at estimates of fair value for our investments in our LMM portfolio companies, we, among other things, consult with a nationally recognized independent financial advisory services firm. The nationally recognized independent advisor is generally consulted relative to our investments in each LMM portfolio company at least once in every calendar year, and for our investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, we may determine that it is not cost-effective, and as a result is not in our stockholders' best interest, to consult with the nationally recognized independent advisor on our investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of our investment in a LMM portfolio company is determined to be insignificant relative to the total Investment Portfolio. We consulted with our independent advisor in arriving at our determination of fair value on our investments in a total of 42 LMM portfolio companies for the nine months ended September 30, 2014, representing approximately 74% of the total LMM portfolio at fair value as of September 30, 2014, and on a total of 44 LMM portfolio companies for the nine months ended September 30, 2013, representing approximately 66% of the total LMM portfolio at fair value as of September 30, 2013. Excluding our investments in new LMM portfolio companies that were not reviewed because their equity is publicly traded or they had

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not been in the Investment Portfolio for at least twelve months subsequent to the initial investment as of September 30, 2014 and 2013, as applicable, the percentage of the LMM portfolio reviewed for the nine months ended September 30, 2014 and 2013 was 83% and 82% of total LMM portfolio at fair value as of September 30, 2014 and 2013, respectively.

For valuation purposes, all of our Middle Market portfolio investments are non-control investments. To the extent sufficient observable inputs are available to determine fair value, we use observable inputs to determine the fair value of these investments through obtaining third-party quotes or other independent pricing. For Middle Market portfolio investments for which we have determined that third-party quotes or other independent pricing are not available or appropriate, we generally estimate the fair value based on the assumptions that we believe hypothetical market participants would use to value our Middle Market debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method and our Middle Market equity investments in a current hypothetical sale using the Waterfall valuation method.

For valuation purposes, all of our Private Loan portfolio investments are non-control investments. For Private Loan portfolio investments for which we have determined that third-party quotes or other independent pricing are not available or appropriate, we generally estimate the fair value based on the assumptions that we believe hypothetical market participants would use to value our Private Loan debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method and our Private Loan equity investments in a current hypothetical sale using the Waterfall valuation method.

For valuation purposes, all of our Other Portfolio investments are non-control investments. Our Other Portfolio investments comprised 4.1% and 3.3%, respectively, of our Investment Portfolio at fair value as of September 30, 2014 and December 31, 2013. Similar to the LMM investment portfolio, market quotations for Other Portfolio equity investments are generally not readily available. For our Other Portfolio equity investments, we generally determine the fair value of our investments using the NAV valuation method. For Other Portfolio debt investments, we determine the fair value of these investments through obtaining third-party quotes or other independent pricing to the extent the use of these inputs are available and appropriate to determine fair value. For Other Portfolio debt investments for which we have determined that third-party quotes or other independent pricing are not available or appropriate, we generally estimate the fair value based on the assumptions that we believe hypothetical market participants would use to value our Other Portfolio debt investments in a current hypothetical sale using the Yield-to-Maturity valuation method.

For valuation purposes, our investment in the External Investment Manager is a control investment. Market quotations are not readily available for this investment, and as a result, we determine the fair value of the External Investment Manager using the Waterfall methodology under the market approach. In estimating the enterprise value, we analyze various factors, including the entity's historical and projected financial results, as well as its size, marketability and performance relative to the population of market multiples. This valuation approach estimates the value of the investment as if we were to sell, or exit, the investment. In addition, we consider the value associated with our ability to control the capital structure of the company, as well as the timing of a potential exit.

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

Our Board of Directors has the final responsibility for reviewing and approving, in good faith, our determination of the fair value for our Investment Portfolio, as well as our valuation procedures,



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consistent with the 1940 Act requirements. We believe our Investment Portfolio as of September 30, 2014 and December 31, 2013 approximates fair value as of those dates based on the markets in which we operate and other conditions in existence on those reporting dates.

***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 by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. In accordance with our valuation policy, we evaluate accrued interest and dividend income periodically for collectability. When a loan or debt security becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally place the loan or debt security on non-accrual status and cease recognizing interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding the debtor's ability to service the debt or other obligations, or if a loan or debt security is fully impaired, sold or written off, we remove it from non-accrual status.

*Fee Income*

We may periodically provide services, including structuring and advisory services, to our portfolio companies or other third parties. 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 deferred and accreted into interest income over the life of the financing.

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

We hold debt and preferred equity instruments in our Investment Portfolio that contain payment-in-kind ("PIK") interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. Cumulative dividends are recorded as dividend income, and any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of these 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 stop accruing PIK interest and cumulative dividends and 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. For the three months ended September 30, 2014 and 2013, (i) approximately 2.5% and 3.9%, respectively, of our total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 1.8% and 1.8%, respectively, of our total investment income was attributable to cumulative dividend income not paid currently in cash. For the nine months ended September 30, 2014 and 2013, (i) approximately 3.9% and 4.2%, respectively, of our total investment income was attributable to PIK interest income not paid currently in cash and (ii) approximately 1.4% and 1.2%, respectively, of our total investment income was attributable to cumulative dividend income not paid currently in cash.

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***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 measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term.

***Income Taxes***

MSCC has elected to be treated for federal income tax purposes as a RIC. MSCC's taxable income includes the taxable income generated by MSCC and certain of its subsidiaries, including the Funds, which are treated as disregarded entities for tax purposes. 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 applicable fiscal year.

The Taxable Subsidiaries hold certain portfolio investments for us. The Taxable Subsidiaries are consolidated with us for U.S. GAAP reporting purposes, and the portfolio investments held by them are included in our consolidated financial statement as portfolio investments and recorded at fair value. The Taxable Subsidiaries permit us to hold equity investments in portfolio companies which are "pass-through" entities for tax purposes and continue to comply with the "source-income" requirements contained in the RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with us for income tax purposes and may generate income tax expense, or benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements.

The Internal Investment Manager has elected, for tax purposes, to be treated as a taxable entity, is not consolidated with us for income tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The Internal Investment Manager elected to be treated as a taxable entity to enable it to receive fee income and to allow MSCC to continue to comply with the "source income" requirements contained in the RIC tax provisions of the Code. The taxable income, or loss, of the Internal Investment Manager may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. Through March 31, 2013, the Internal Investment Manager provided for any income tax expense, or benefit, and any related tax assets or liabilities, in its separate financial statements. Beginning April 1, 2013, the Internal Investment Manager is included in our consolidated financial statements and reflected as a consolidated subsidiary and any income tax expense, or benefit, and any related tax assets and liabilities, are reflected in our consolidated financial statements.

The Taxable Subsidiaries and the Internal Investment Manager 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.

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**INVESTMENT PORTFOLIO COMPOSITION**

LMM portfolio investments primarily consist of secured debt, equity warrants and direct equity investments in privately held, LMM companies based in the United States. Our LMM portfolio companies generally have annual revenues between \$10 million and \$150 million, and our LMM investments generally range in size from \$5 million to \$50 million. The LMM debt investments are typically secured by either a first or second priority lien on the assets of the portfolio company, primarily bear interest at fixed rates, and generally have a term of between five and seven years from the original investment date. In most LMM portfolio companies, we usually receive nominally priced equity warrants and/or make direct equity investments in connection with a debt investment.

Middle Market portfolio investments primarily consist of direct investments in or secondary purchases of interest-bearing debt securities in privately held companies based in the United States that are generally larger in size than the LMM companies included in our LMM portfolio. Our Middle Market portfolio companies generally have annual revenues between \$150 million and \$1.5 billion, and our Middle Market investments generally range in size from \$3 million to \$15 million. Our Middle Market portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and typically have a term of between three and seven years from the original investment date.

Our Private Loan portfolio investments primarily consist of investments in interest-bearing debt securities in companies that are consistent with the size of companies in our LMM portfolio or our Middle Market portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. Our Private Loan portfolio debt investments are generally secured by either a first or second priority lien on the assets of the company and typically have a term of between three and seven years from the original investment date.

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

Our external asset management business is conducted through the External Investment Manager. We have entered into an agreement through the Internal Investment Manager to provide the External Investment Manager with asset management service support for HMS Income. Through this agreement, we provide management and other services to the External Investment Manager, as well as access to our employees, infrastructure, business relationships, management expertise and capital raising capabilities. Beginning in the first quarter of 2014, we charge the External Investment Manager for the use of these services, and our total expenses for the three and nine months ended September 30, 2014 include an offset to expenses of \$0.6 million and \$1.3 million, respectively, for these expenses charged to the External Investment Manager. The External Investment Manager earns management fees based on the assets of the funds under management and may earn incentive fees, or a carried interest, based on the performance of the funds managed.

The following tables summarize the composition of our total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at cost and fair value by type of investment as a percentage of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments as of September 30, 2014

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and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager).

| <b>Cost:</b>     | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|------------------|-------------------------------|------------------------------|
| First lien debt  | 77.3%                         | 79.0%                        |
| Equity           | 10.2%                         | 10.4%                        |
| Second lien debt | 10.0%                         | 8.4%                         |
| Equity warrants  | 1.7%                          | 1.9%                         |
| Other            | 0.8%                          | 0.3%                         |
|                  | 100.0%                        | 100.0%                       |

| <b>Fair Value:</b> | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--------------------|-------------------------------|------------------------------|
| First lien debt    | 67.7%                         | 69.9%                        |
| Equity             | 21.0%                         | 19.3%                        |
| Second lien debt   | 9.2%                          | 7.6%                         |
| Equity warrants    | 1.4%                          | 2.9%                         |
| Other              | 0.7%                          | 0.3%                         |
|                    | 100.0%                        | 100.0%                       |

The following tables summarize the composition of our total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments by geographic region of the United States and other countries at cost and fair value as a percentage of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments as of September 30, 2014 and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager). The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

| <b>Cost:</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-------------------------|-------------------------------|------------------------------|
| Southwest               | 25.1%                         | 27.8%                        |
| Northeast               | 22.0%                         | 18.0%                        |
| West                    | 19.4%                         | 19.1%                        |
| Southeast               | 16.4%                         | 15.6%                        |
| Midwest                 | 14.5%                         | 15.4%                        |
| Canada                  | 0.3%                          | 1.2%                         |
| Other Non-United States | 2.3%                          | 2.9%                         |
|                         | 100.0%                        | 100.0%                       |

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| <b>Fair Value:</b>      | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-------------------------|-------------------------------|------------------------------|
| Southwest               | 29.7%                         | 30.9%                        |
| West                    | 20.9%                         | 20.1%                        |
| Northeast               | 20.1%                         | 17.6%                        |
| Southeast               | 13.2%                         | 12.6%                        |
| Midwest                 | 13.7%                         | 15.0%                        |
| Canada                  | 0.3%                          | 1.1%                         |
| Other Non-United States | 2.1%                          | 2.7%                         |
|                         | 100.0%                        | 100.0%                       |

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Our LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments are in companies conducting business in a variety of industries. The following tables summarize the composition of our total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments by industry at cost and fair value as of September 30, 2014 and December 31, 2013 (this information excludes Other Portfolio investments and the External Investment Manager).

| <b>Cost:</b>                                   | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|-------------------------------|------------------------------|
| Media  | 9.3%                          | 7.8%                         |
| Energy Equipment & Services                    | 8.4%                          | 10.7%                        |
| IT Services                                    | 7.5%                          | 6.1%                         |
| Health Care Providers & Services               | 5.6%                          | 5.8%                         |
| Hotels, Restaurants & Leisure                  | 5.2%                          | 5.8%                         |
| Specialty Retail                               | 5.1%                          | 7.2%                         |
| Machinery                                      | 4.6%                          | 3.3%                         |
| Construction & Engineering                     | 4.5%                          | 4.1%                         |
| Diversified Telecommunication Services         | 4.3%                          | 3.3%                         |
| Software                                       | 3.7%                          | 3.8%                         |
| Electronic Equipment, Instruments & Components | 3.1%                          | 2.3%                         |
| Diversified Consumer Services                  | 2.8%                          | 2.4%                         |
| Internet Software & Services                   | 2.5%                          | 2.5%                         |
| Commercial Services & Supplies                 | 2.4%                          | 5.1%                         |
| Auto Components                                | 2.2%                          | 1.6%                         |
| Road & Rail                                    | 2.0%                          | 2.7%                         |
| Oil, Gas & Consumable Fuels                    | 1.9%                          | 3.2%                         |
| Aerospace & Defense                            | 1.8%                          | 0.8%                         |
| Food Products                                  | 1.7%                          | 0.9%                         |
| Pharmaceuticals                                | 1.6%                          | 0.6%                         |
| Textiles, Apparel & Luxury Goods               | 1.4%                          | 1.6%                         |
| Trading Companies & Distributors               | 1.3%                          | 1.5%                         |
| Health Care Equipment & Supplies               | 1.2%                          | 1.2%                         |
| Professional Services                          | 1.2%                          | 1.4%                         |
| Building Products                              | 1.2%                          | 1.4%                         |
| Containers & Packaging                         | 1.1%                          | 1.0%                         |
| Distributors                                   | 1.1%                          | 0.0%                         |
| Air Freight & Logistics                        | 1.0%                          | 0.0%                         |
| Household Products                             | 1.0%                          | 0.5%                         |
| Consumer Finance                               | 1.0%                          | 1.1%                         |
| Household Durables                             | 1.0%                          | 0.8%                         |
| Chemicals                                      | 0.7%                          | 1.3%                         |
| Other(1)                                       | 6.6%                          | 8.2%                         |
|  | 100.0%                        | 100.0%                       |

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(1) Includes various industries with each industry individually less than 1.0% of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at each date.

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| Fair Value:                                    | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| Media  | 8.6%                  | 7.6%                 |
| Energy Equipment & Services                    | 7.9%                  | 10.2%                |
| IT Services                                    | 6.8%                  | 5.6%                 |
| Machinery                                      | 6.3%                  | 5.3%                 |
| Health Care Providers & Services               | 5.4%                  | 5.6%                 |
| Hotels, Restaurants & Leisure                  | 5.1%                  | 5.6%                 |
| Construction & Engineering                     | 4.8%                  | 4.6%                 |
| Specialty Retail                               | 4.7%                  | 6.5%                 |
| Diversified Consumer Services                  | 4.7%                  | 3.9%                 |
| Diversified Telecommunication Services         | 4.1%                  | 3.6%                 |
| Software                                       | 3.8%                  | 4.0%                 |
| Internet Software & Services                   | 2.9%                  | 2.9%                 |
| Commercial Services & Supplies                 | 2.6%                  | 4.6%                 |
| Electronic Equipment, Instruments & Components | 2.6%                  | 2.4%                 |
| Auto Components                                | 2.4%                  | 1.5%                 |
| Road & Rail                                    | 2.3%                  | 3.0%                 |
| Oil, Gas & Consumable Fuels                    | 1.7%                  | 2.9%                 |
| Aerospace & Defense                            | 1.6%                  | 0.7%                 |
| Food Products                                  | 1.5%                  | 0.8%                 |
| Pharmaceuticals                                | 1.5%                  | 0.6%                 |
| Paper & Forest Products                        | 1.4%                  | 1.3%                 |
| Textiles, Apparel & Luxury Goods               | 1.2%                  | 1.4%                 |
| Trading Companies & Distributors               | 1.1%                  | 1.3%                 |
| Health Care Equipment & Supplies               | 1.1%                  | 1.0%                 |
| Containers & Packaging                         | 1.1%                  | 0.9%                 |
| Professional Services                          | 1.0%                  | 1.2%                 |
| Distributors                                   | 1.0%                  | 0.0%                 |
| Building Products                              | 0.9%                  | 1.0%                 |
| Chemicals                                      | 0.6%                  | 1.2%                 |
| Other(1)                                       | 9.3%                  | 8.8%                 |
|  | 100.0%                | 100.0%               |

- (1) Includes various industries with each industry individually less than 1.0% of the total combined LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments at each date.

Our LMM portfolio investments, Middle Market portfolio investments and Private Loan portfolio investments carry a number of risks including, but not limited to: (1) investing in companies which may have limited operating histories and financial resources; (2) holding investments that generally are not publicly traded and which may be subject to legal and other restrictions on resale; and (3) other risks common to investing in below investment grade debt and equity investments in our Investment Portfolio. Please see "Risk Factors - Risks Related to Our Investments" contained in our Form 10-K for the fiscal year ended December 31, 2013 for a more complete discussion of the risks involved with investing in our Investment Portfolio.

**PORTFOLIO ASSET QUALITY**

We utilize an internally developed investment rating system to rate the performance of each LMM portfolio company and to monitor our expected level of returns on each of our LMM investments in relation to our expectations for the portfolio company. The investment rating system takes into consideration various factors, including but not limited to each investment's expected level of





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returns and the collectability of our debt investments, comparisons to competitors and other industry participants and the portfolio company's future outlook.

Investment Rating 1 represents a LMM portfolio company that is performing in a manner which significantly exceeds expectations.

Investment Rating 2 represents a LMM portfolio company that, in general, is performing above expectations.

Investment Rating 3 represents a LMM portfolio company that is generally performing in accordance with expectations.

Investment Rating 4 represents a LMM portfolio company that is underperforming expectations. Investments with such a rating require increased monitoring and scrutiny by us.

Investment Rating 5 represents a LMM portfolio company that is significantly underperforming. Investments with such a rating require heightened levels of monitoring and scrutiny by us and involve the recognition of significant unrealized depreciation on such investment.

All new LMM portfolio investments receive an initial Investment Rating of 3.

The following table shows the distribution of our LMM portfolio investments on the 1 to 5 investment rating scale at fair value as of September 30, 2014 and December 31, 2013:

| Investment Rating | As of September 30, 2014           |                               | As of December 31, 2013   |                               |
|-------------------|------------------------------------|-------------------------------|---------------------------|-------------------------------|
|                   | Investments at Fair Value          | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
|                   | (in thousands, except percentages) |                               |                           |                               |
| 1                 | \$ 253,105                         | 37.1%                         | \$ 242,013                | 36.7%                         |
| 2                 | 137,082                            | 20.1%                         | 116,908                   | 17.7%                         |
| 3                 | 223,779                            | 32.9%                         | 239,843                   | 36.4%                         |
| 4                 | 54,178                             | 8.0%                          | 60,641                    | 9.2%                          |
| 5                 | 12,830                             | 1.9%                          |                           | 0.0%                          |
| Total             | \$ 680,974                         | 100.0%                        | \$ 659,405                | 100.0%                        |

Based upon our investment rating system, the weighted average rating of our LMM portfolio was approximately 2.2 as of September 30, 2014 and December 31, 2013.

For the total Investment Portfolio, as of September 30, 2014, we had three investments on non-accrual status, which comprised approximately 1.2% of the total Investment Portfolio at fair value and 3.9% of the total Investment Portfolio at cost, and no fully impaired investments. As of December 31, 2013, we had two investments on non-accrual status, which comprised approximately 2.3% of the total Investment Portfolio at fair value and 4.7% of the total Investment Portfolio at cost, and no fully impaired investments.

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



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**DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS**

*Comparison of the three months ended September 30, 2014 and September 30, 2013*

|  | Three Months Ended<br>September 30, |           | Net Change |       |
|--|-------------------------------------|-----------|------------|-------|
|  | 2014                                | 2013      | Amount     | %     |
|  | (in thousands)                      |           |            |       |
| Total investment income                                    | \$ 36,351                           | \$ 29,659 | \$ 6,692   | 23%   |
| Total expenses   | (11,464)                            | (12,182)  | 718        | (6%)  |
| Net investment income                                      | 24,887                              | 17,477    | 7,410      | 42%   |
| Net realized gain (loss) from investments                  | 15,710                              | (2,997)   | 18,707     |       |
| Net realized loss from SBIC debentures                     |                                     | (4,775)   | 4,775      |       |
| Net realized income  | 40,597                              | 9,705     | 30,892     | 318%  |
| Net change in unrealized appreciation (depreciation) from: |                                     |           |            |       |
| Portfolio investments                                      | (6,891)                             | 14,475    | (21,366)   |       |
| SBIC debentures and marketable securities and idle funds   | (9,175)                             | 4,349     | (13,524)   |       |
| Total net change in unrealized appreciation                | (16,066)                            | 18,824    | (34,890)   |       |
| Income tax provision                                       | (2,962)                             | (475)     | (2,487)    | 524%  |
| Net increase in net assets resulting from operations       | \$ 21,569                           | \$ 28,054 | \$ (6,485) | (23%) |

|  | Three Months Ended<br>September 30,      |           | Net Change |       |
|--|--|-----------|------------|-------|
|  | 2014                                     | 2013      | Amount     | %     |
|  | (in thousands, except per share amounts) |           |            |       |
| Net investment income  | \$ 24,887                                | \$ 17,477 | \$ 7,410   | 42%   |
| Share-based compensation expense                                   | 1,208                                    | 2,152     | (944)      | (44%) |
| Distributable net investment income(a)                             | 26,095                                   | 19,629    | 6,466      | 33%   |
| Net realized gain (loss) from investments                          | 15,710                                   | (2,997)   | 18,707     |       |
| Net realized loss from SBIC debentures                             |  | (4,775)   | 4,775      |       |
| Distributable net realized income(a)                               | \$ 41,805                                | \$ 11,857 | \$ 29,948  | 253%  |
| Distributable net investment income per share Basic and diluted(a) | \$ 0.58                                  | \$ 0.53   | \$ 0.05    | 9%    |

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|  |    |      |    |      |    |      |      |
|--|----|------|----|------|----|------|------|
| Distributable net realized income per share Basic and diluted(a) | \$ | 0.93 | \$ | 0.32 | \$ | 0.61 | 191% |
|--|----|------|----|------|----|------|------|

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(a)

Distributable net investment income and distributable net realized income are net investment income and net realized income, respectively, as determined in accordance with U.S. GAAP, excluding the impact of share-based compensation expense which is non-cash in nature. We believe presenting distributable net investment income and distributable net realized income, and related per share amounts, is useful and appropriate supplemental disclosure of information for analyzing our 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 our 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.

Table of Contents*Investment Income*

For the three months ended September 30, 2014, total investment income was \$36.4 million, a 23% increase over the \$29.7 million of total investment income for the corresponding period of 2013. This comparable period increase was principally attributable to (i) a \$2.9 million increase in interest income primarily from higher average levels of portfolio debt investments, (ii) a \$2.6 million increase in dividend income from Investment Portfolio equity investments and (iii) a \$1.4 million increase in fee income due to increases in investment, refinancing and prepayment activity from the Investment Portfolio debt investments. The \$6.7 million increase in total investment income in the three months ended September 30, 2014 includes (i) \$0.4 million of special dividend income activity during the period and (ii) a \$0.2 million net increase in the amount of total investment income related to accelerated prepayment and repricing activity for certain Investment Portfolio debt investments when compared to the same period in 2013.

*Expenses*

For the three months ended September 30, 2014, total expenses decreased to \$11.5 million from \$12.2 million for the corresponding period of 2013. This comparable period decrease in operating expenses was principally attributable to (i) a \$0.9 million decrease in share-based compensation expense from the corresponding period of 2013 primarily due to the effect of the non-recurring accelerated vesting of restricted stock of our retired Executive Vice-Chairman, which resulted in additional share-compensation expense of \$1.3 million during the three months ended September 30, 2013 and (ii) the \$0.6 million of operating expenses charged to the External Investment Manager in the three months ended September 30, 2013 (see further discussion in "Overview"), with these decreases partially offset by (i) a \$0.5 million increase in compensation expense related to increases in the number of personnel, base compensation and incentive compensation accruals and (ii) a \$0.3 million increase in other general and administrative expenses, in each case when compared to the prior year. For the three months ended September 30, 2014, the ratio of our total operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 1.4% on an annualized basis, compared to 1.6% on an annualized basis for the three months ended September 30, 2013 and 1.7% for the year ended December 31, 2013 (in both cases for the prior year comparisons, excluding the effect of the accelerated vesting of restricted stock discussed above). Including the effect of the accelerated vesting of restricted stock, the ratio would have been 2.0% on an annualized basis for the three months ended September 30, 2013 and 1.8% for the year ended December 31, 2013.

*Distributable Net Investment Income*

Distributable net investment income increased 33% to \$26.1 million, or \$0.58 per share, compared with \$19.6 million, or \$0.53 per share, in the corresponding period of 2013. The increase in distributable net investment income was primarily due to the higher level of total investment income and lower operating expenses, due to the changes discussed above. Distributable net investment income on a per share basis for the three months ended September 30, 2014 reflects (i) an increase of approximately \$0.01 per share from the comparable period in 2013 attributable to the special dividend income activity as discussed above and (ii) a greater number of average shares outstanding compared to the corresponding period in 2013 primarily due to the August 2013 and April 2014 follow-on equity offerings.

*Net Investment Income*

Net investment income for the three months ended September 30, 2014 was \$24.9 million, or a 42% increase, compared to net investment income of \$17.5 million for the corresponding period of 2013. The increase in net investment income was principally attributable to the increase in total investment income and the lower operating expenses as discussed above.

Table of Contents*Distributable Net Realized Income*

Distributable net realized income was \$41.8 million, or \$0.93 per share, for the three months ended September 30, 2014 compared with \$11.9 million, or \$0.32 per share, in the corresponding period of 2013. The \$29.9 million increase was due to (i) the increase in the net realized gain (loss) from investments of \$18.7 million to a net realized gain of \$15.7 million for the three months ended September 30, 2014 when compared to the net realized loss from investments of \$3.0 million for the three months ended September 30, 2013, (ii) the \$6.5 million increase in total distributable net investment income in the three months ended September 30, 2014 when compared to the corresponding period of 2013 as discussed above and (iii) the decrease in the net realized loss from SBIC debentures from \$4.8 million for the three months ended September 30, 2013 to zero from the three months ended September 30, 2014. The \$15.7 million net realized gain from investments during the third quarter of 2014 was primarily attributable to \$14.7 million in gains realized in conjunction with the full exit of two LMM portfolio companies.

*Net Realized Income*

The \$30.9 million increase in net realized income compared with the corresponding period of 2013 was due to (i) the \$18.7 million increase in the net realized gain (loss) from investments in the three months ended September 30, 2014 when compared to the corresponding period of 2013, (ii) the net realized loss from SBIC debentures of \$4.8 million in the corresponding period of 2013 and (iii) the higher level of net investment income in the three months ended September 30, 2014, in each case as discussed above.

*Net Increase in Net Assets Resulting from Operations*

The net increase in net assets resulting from operations during the three months ended September 30, 2014 was \$21.6 million, or \$0.48 per share, compared with \$28.1 million, or \$0.76 per share, in the prior year. This \$6.5 million decrease from the comparable period in the prior year was primarily the result of (i) a \$34.9 million decrease in the net change in unrealized appreciation (depreciation) to \$16.1 million of unrealized depreciation in the third quarter of 2014, compared to \$18.8 million in unrealized appreciation for the comparable period in the prior year and (ii) a \$2.5 million increase in the income tax provision from the comparable period in the prior year, with these changes partially offset by (i) a \$30.9 million increase in net realized income due to the factors discussed above. The total net change in unrealized depreciation for the third quarter of 2014 of \$16.1 million primarily included (i) \$8.7 million of unrealized depreciation on the SBIC debentures held by MSC II which are accounted for on a fair value basis, (ii) \$6.9 million of net unrealized depreciation from portfolio investments and (iii) \$0.4 million of net unrealized depreciation on Marketable securities and idle funds investments. The \$6.9 million net change in unrealized appreciation (depreciation) from portfolio investments for the three months ended September 30, 2014 was principally attributable to the net impact of (i) unrealized appreciation on 22 LMM portfolio investments totaling \$16.5 million, partially offset by unrealized depreciation on 11 LMM portfolio investments totaling \$8.9 million, (ii) \$2.9 million of net unrealized appreciation on Other Portfolio investments and (iii) \$3.8 million of net unrealized appreciation on the External Investment Manager, offset by (i) accounting reversals of net unrealized appreciation from prior periods of \$13.1 million related to portfolio investment exits and repayments, (ii) \$2.9 million of net unrealized depreciation on Private Loan portfolio investments and (iii) \$5.2 million of net unrealized depreciation on Middle Market portfolio investments. The income tax provision for the three months ended September 30, 2014 of \$3.0 million principally consisted of (i) deferred taxes of \$2.0 million, which is primarily the result of deferred taxes on net unrealized appreciation on our portfolio investments held in our Taxable Subsidiaries, and (ii) other taxes of \$1.0 million, which includes a \$0.7 million accrual for excise tax on our estimated spillover taxable income and \$0.3 million related to accruals for state and other taxes.

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*Comparison of the nine months ended September 30, 2014 and September 30, 2013*

|  | Nine Months Ended<br>September 30, |           | Net Change |       |
|--|------------------------------------|-----------|------------|-------|
|  | 2014                               | 2013      | Amount     | %     |
|  | (in thousands)                     |           |            |       |
| Total investment income  | \$ 102,004                         | \$ 83,104 | \$ 18,900  | 23%   |
| Total expenses   | (32,798)                           | (30,511)  | (2,287)    | 7%    |
| Net investment income  | 69,206                             | 52,593    | 16,613     | 32%   |
| Net realized gain from investments   | 10,789                             | (2,594)   | 13,383     |       |
| Net realized loss from SBIC debentures   |                                    | (4,775)   | 4,775      |       |
| Net realized income  | 79,995                             | 45,224    | 34,771     | 77%   |
| Net change in unrealized appreciation (depreciation) from: Portfolio investments | 17,018                             | 30,889    | (13,871)   | (45%) |
| SBIC debentures and marketable securities and idle funds                         | (9,858)                            | 2,883     | (12,741)   |       |
| Total net change in unrealized appreciation                                      | 7,160                              | 33,772    | (26,612)   | (79%) |
| Income tax provision   | (8,401)                            | (3,308)   | (5,093)    | 154%  |
| Net increase in net assets resulting from operations                             | \$ 78,754                          | \$ 75,688 | \$ 3,066   | 4%    |

|  | Nine Months Ended<br>September 30,       |           | Net Change |       |
|--|--|-----------|------------|-------|
|  | 2014                                     | 2013      | Amount     | %     |
|  | (in thousands, except per share amounts) |           |            |       |
| Net investment income  | \$ 69,206                                | \$ 52,593 | \$ 16,613  | 32%   |
| Share-based compensation expense                                   | 3,034                                    | 3,357     | (323)      | (10%) |
| Distributable net investment income(a)                             | 72,240                                   | 55,950    | 16,290     | 29%   |
| Net realized gain (loss) from investments                          | 10,789                                   | (2,594)   | 13,383     |       |
| Net realized loss from SBIC debentures                             |  | (4,775)   | 4,775      |       |
| Distributable net realized income(a)                               | \$ 83,029                                | \$ 48,581 | \$ 34,448  | 71%   |
| Distributable net investment income per share Basic and diluted(a) | \$ 1.68                                  | \$ 1.57   | \$ 0.11    | 7%    |

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|  |    |      |    |      |    |      |     |
|--|----|------|----|------|----|------|-----|
| Distributable net realized income per share Basic and diluted(a) | \$ | 1.93 | \$ | 1.37 | \$ | 0.56 | 41% |
|--|----|------|----|------|----|------|-----|

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(a)

Distributable net investment income and distributable net realized income are net investment income and net realized income, respectively, as determined in accordance with U.S. GAAP, excluding the impact of share-based compensation expense which is non-cash in nature. We believe presenting distributable net investment income and distributable net realized income, and related per share amounts, is useful and appropriate supplemental disclosure of information for analyzing our 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 our 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.



Table of Contents*Investment Income*

For the nine months ended September 30, 2014, total investment income was \$102.0 million, a 23% increase over the \$83.1 million of total investment income for the corresponding period of 2013. This comparable period increase was principally attributable to (i) a \$12.3 million increase in interest income from higher average levels of portfolio debt investments, (ii) a \$6.5 million increase in dividend income from Investment Portfolio equity investments and (iii) a \$0.7 million increase in fee income from higher origination activity and refinancing and prepayment activity, partially offset by a \$0.6 million decrease in interest and dividend income due to a lower level of Marketable securities and idle funds investments. The \$18.9 million increase in total investment income in the nine months ended September 30, 2014 includes a \$0.6 million net decrease in investment income related to accelerated prepayment and repricing activity for certain Investment Portfolio debt investments and Marketable securities and idle funds investments and \$0.9 million of special dividend income activity.

*Expenses*

For the nine months ended September 30, 2014, total expenses increased to \$32.8 million from \$30.5 million for the corresponding period of 2013. This comparable period increase in operating expenses was principally attributable to (i) a \$1.4 million increase in interest expense, primarily as a result of the issuance of our 6.125% Notes due 2023 (the "6.125% Notes") in April 2013 and a higher average outstanding balance on our credit facility ("Credit Facility") when compared to prior year, partially offset by a decrease in interest expense from our SBIC debentures due to a lower average outstanding balance and a lower average interest rate, in both cases when compared to the prior year, (ii) a \$1.2 million increase in compensation expense related to increases in the number of personnel, base compensation and other incentive compensation accruals and (iii) a \$1.4 million increase related to other general and administrative expenses, partially offset by (i) a \$1.3 million decrease in expenses related to the expenses charged to the External Investment Manager (see further discussion in "Overview"), in both cases when compared to the prior year and (ii) a \$0.3 million decrease in share-based compensation expense due to the net effect of the non-recurring accelerated vesting of restricted stock of our retired Executive Vice Chairman, which resulted in additional share-based compensation expense of \$1.3 million in the prior year, partially offset by an increase of \$1.0 million related to non-cash amortization for restricted share grants. For the nine months ended September 30, 2014, the ratio of our total operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 1.5% on an annualized basis, compared to 1.6% on an annualized basis for the nine months ended September 30, 2013 and 1.7% for the year ended December 31, 2013 (in both cases for the prior year comparisons excluding the effect of the accelerated vesting as discussed above). Including the effect of the accelerated vesting of restricted stock, the ratio would have been 1.8% on an annualized basis for the nine months ended September 30, 2013 and 1.8% for the year ended December 31, 2013.

*Distributable Net Investment Income*

Distributable net investment income increased 29% to \$72.2 million, or \$1.68 per share, compared with \$56.0 million, or \$1.57 per share, in the corresponding period of 2013. The increase in distributable net investment income was primarily due to the higher level of total investment income partially offset by higher operating expenses, due to the changes discussed above. Distributable net investment income on a per share basis for the nine months ended September 30, 2014 reflects (i) an increase of approximately \$0.02 per share from the comparable period in 2013 attributable to the special dividend income activity as discussed above and (ii) a greater number of average shares outstanding compared to the corresponding period in 2013 primarily due to the August 2013 and April 2014 follow-on equity offerings.

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*Net Investment Income*

Net investment income for the nine months ended September 30, 2014 was \$69.2 million, or a 32% increase, compared to net investment income of \$52.6 million for the corresponding period of 2013. The increase in net investment income was principally attributable to the increase in total investment income partially offset by higher operating expenses as discussed above.

*Distributable Net Realized Income*

Distributable net realized income was \$83.0 million, or \$1.93 per share, for the nine months ended September 30, 2014 compared with \$48.6 million, or \$1.37 per share, in the corresponding period of 2013. The \$34.4 million increase was primarily attributable to (i) the \$16.3 million increase in total distributable net investment income in the nine months ended September 30, 2014 when compared to the corresponding period of 2013 as discussed above, (ii) an increase in the net realized gain (loss) from investments of \$13.4 million to \$10.8 million for the nine months ended September 30, 2014, when compared to a net realized loss of \$2.6 million in the prior year and (iii) the \$4.8 million decrease in the net realized loss from SBIC debentures to zero for the nine months ended September 30, 2014. The net realized gain from investments of \$10.8 million during the nine months ended September 30, 2014 was primarily attributable to (i) \$14.7 million of realized gains recognized on the exit of two LMM portfolio investments in the third quarter of 2014 and (ii) net realized gains on several Middle Market investments totaling \$1.9 million, partially offset by a net realized loss of \$6.5 million in conjunction with a change in control transaction involving a LMM portfolio company in the second quarter of 2014.

*Net Realized Income*

The higher level of net investment income for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, the \$13.4 million increase in the net realized gain resulting from a \$10.8 million net realized gain (loss) from investments in the nine months ended September 30, 2014 compared to a \$2.6 million net realized loss in the corresponding period of 2013 and the \$4.8 million decrease in the net realized loss from SBIC debentures in each case as discussed above, resulted in a \$34.8 million increase in net realized income compared with the corresponding period of 2013.

*Net Increase in Net Assets Resulting from Operations*

The net increase in net assets resulting from operations during the nine months ended September 30, 2014 was \$78.8 million, or \$1.83 per share, compared with \$75.7 million, or \$2.13 per share, during the nine months ended September 30, 2013. This \$3.1 million increase from the comparable period in the prior year was primarily the result of (i) a \$16.6 million increase in net investment income and (ii) a \$13.4 increase in the net realized gain (loss) from investments and (iii) the \$4.8 million decrease in the net realized loss from SBIC debentures, in each case due to the factors discussed above, partially offset by (i) a \$26.6 million decrease in net change in unrealized appreciation to \$7.2 million for the nine months ended September 30, 2014 compared to \$33.8 million for the comparable period in the prior year and (ii) a \$5.1 million increase in the income tax provision from the comparable period in the prior year. The total net change in unrealized appreciation for the nine months ended 2014 of \$7.2 million included (i) \$17.0 million of net unrealized appreciation from portfolio investments and (ii) \$0.9 million of net unrealized appreciation on Marketable securities and idle funds investments, partially offset by (i) \$10.8 million of unrealized depreciation on the SBIC debentures held by MSC II which are accounted for on a fair value basis. The \$17.0 million net change in unrealized appreciation from portfolio investments for the nine months ended September 30, 2014 was principally attributable to (i) unrealized appreciation on 34 LMM portfolio investments totaling \$44.8 million, partially offset by unrealized depreciation on 13 LMM portfolio investments totaling

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\$18.0 million, (ii) \$7.5 million of unrealized appreciation on the External Investment Manager and (iii) \$4.2 million of net unrealized appreciation on Other Portfolio investments, partially offset by (i) accounting reversals of net unrealized appreciation from prior periods of \$10.1 million related to portfolio investment exits and repayments, (ii) \$6.7 million of net unrealized depreciation on Private Loan portfolio investments, and (iii) \$4.6 million of net unrealized depreciation on Middle Market portfolio investments. The income tax provision for the nine months ended September 30, 2014 of \$8.4 million principally consisted of deferred taxes of \$6.6 million, which is primarily the result of deferred taxes on net unrealized appreciation on our portfolio investments held in our Taxable Subsidiaries, and other taxes of \$1.8 million, which includes a \$1.0 million accrual for excise tax on our estimated spillover taxable income and \$0.8 million related to accruals for state and other taxes.

***Liquidity and Capital Resources***

*Cash Flows*

For the nine months ended September 30, 2014, we experienced a net decrease in cash and cash equivalents in the amount of \$10.4 million. During the period, we used \$156.8 million of cash for our operating activities, which resulted primarily from (i) cash flows we generated from the ordinary operating profits earned through our operating activities totaling \$59.9 million, which is our \$72.2 million of distributable net investment income, excluding the non-cash effects of the accretion of unearned income of \$8.2 million, payment-in-kind interest income of \$3.9 million, cumulative dividends of \$1.4 million and the amortization expense for deferred financing costs of \$1.2 million, (ii) cash uses totaling \$662.1 million from (a) the funding of new portfolio company investments and settlement of accruals for portfolio investments existing as of December 31, 2013, which together total \$637.8 million, (b) the funding of new Marketable securities and idle funds investments and settlement of accruals for Marketable securities and idle funds investments existing as of December 31, 2013, which together total \$17.7 million, (c) \$3.6 million related to decreases in payables and accruals, and (d) increases in other assets of \$3.0 million, (iii) cash proceeds totaling \$445.4 million from (a) \$422.7 million in cash proceeds from the repayments of debt investments and sales of equity investments and (b) \$22.7 million of cash proceeds from the sale of Marketable securities and idle funds investments.

During the nine months ended September 30, 2014, \$146.4 million in cash was provided by financing activities, which was attributable to (i) \$139.7 million of net proceeds from the public offering of common stock, net of offering costs, (ii) \$24.8 million of proceeds from the issuance of SBIC debentures and (iii) \$50.0 million in net cash proceeds on our Credit Facility, partially offset by (i) \$64.7 million in cash dividends paid to stockholders, (ii) \$1.9 million paid for deferred loan costs and SBIC debenture fees and (iii) \$1.5 million for the purchase of vested stock for employee payroll tax withholding.

*Capital Resources*

As of September 30, 2014, we had \$24.3 million in cash and cash equivalents, \$9.2 million in Marketable securities and idle funds investments and \$235.5 million of unused capacity under the Credit Facility, which we maintain to support our investment and operating activities. As of September 30, 2014, our net asset value totaled \$947.5 million, or \$21.08 per share.

The Credit Facility was amended during September 2014 to increase the total commitments from \$502.5 million to \$522.5 million, decrease the interest rate subject to Main Street maintaining an investment grade rating and extend the final maturity by one year to September 2019. The amended Credit Facility also contains an upsized accordion feature which allows us to increase the total commitments under the facility up to \$650.0 million from new and existing lenders on the same terms and conditions as the existing commitments.

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Borrowings under the Credit Facility bear interest, subject to our election, on a per annum basis equal to (i) the applicable LIBOR rate (0.15% as of September 30, 2014) plus 2.00%, as long as we maintain an investment grade rating (or 2.25% if we do not maintain an investment grade rating) or (ii) the applicable base rate (Prime Rate of 3.25% as of September 30, 2014) plus 1.00%, as long as we maintain an investment grade rating (or 1.25% if we do not maintain an investment grade rating). We pay unused commitment fees of 0.25% per annum on the unused lender commitments under the Credit Facility. The Credit Facility is secured by a first lien on the assets of MSCC and its subsidiaries, excluding the equity ownership or assets of the Funds and the External Investment Manager. The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a minimum availability of at least 10% of the borrowing base, (ii) maintaining an interest coverage ratio of at least 2.0 to 1.0, (iii) maintaining an asset coverage ratio of at least 1.5 to 1.0, and (iv) maintaining a minimum tangible net worth. The Credit Facility is provided on a revolving basis through its final maturity date in September 2019, and contains two, one-year extension options which could extend the final maturity by up to two years, subject to certain conditions, including lender approval. As of September 30, 2014, we had \$287.0 million in borrowings outstanding under the Credit Facility, the interest rate on the Credit Facility was 2.4% and we were in compliance with all financial covenants of the Credit Facility.

Due to each of the Funds' status as a licensed SBIC, we have the ability to issue, through the Funds, debentures guaranteed by the SBA at favorable interest rates. Under the regulations applicable to SBIC funds, an SBIC can have outstanding debentures guaranteed by the SBA generally in an amount up to twice its regulatory capital, which effectively approximates the amount of its equity capital, up to a regulatory maximum amount of debentures of \$225.0 million. Debentures guaranteed by the SBA have fixed interest rates that equal prevailing 10-year Treasury Note rates plus a market spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity, but may be pre-paid at any time with no prepayment penalty. During the three months ended March 31, 2014, we issued \$24.8 million of SBIC debentures under the SBIC program to reach the current regulatory maximum amount of \$225.0 million. On September 30, 2014, through our two wholly owned SBIC's, we had \$225.0 million of outstanding SBIC debentures guaranteed by the SBA, which bear a weighted average annual fixed interest rate of approximately 4.2%, paid semi-annually, and mature ten years from issuance. The first maturity related to our SBIC debentures does not occur until 2017, and the remaining weighted average duration is approximately 6.8 years as of September 30, 2014.

In April 2013, we issued \$92.0 million, including the underwriter's full exercise of the over-allotment option, in aggregate principal amount of the 6.125% Notes. The 6.125% Notes are unsecured obligations and rank pari passu with our current and future senior unsecured indebtedness; senior to any of our future indebtedness that expressly provides it is subordinated to the 6.125% Notes; effectively subordinated to all of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness, including borrowings under our Credit Facility; and structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of the Funds. The 6.125% Notes mature on April 1, 2023, and may be redeemed in whole or in part at any time or from time to time at our option on or after April 1, 2018. We may from time to time repurchase all or a portion of the 6.125% Notes in accordance with the 1940 Act and the rules promulgated thereunder. As of September 30, 2014, the outstanding balance of the 6.125% Notes was \$90.9 million.

The indenture governing the 6.125% Notes (the "Notes Indenture") contains certain covenants, including covenants requiring our compliance with (regardless of whether we are subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, as well as covenants requiring us to provide financial information to the holders of the 6.125% Notes and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act

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of 1934. These covenants are subject to limitations and exceptions that are described in the Notes Indenture.

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

We periodically invest excess cash balances into Marketable securities and idle funds investments. The primary investment objective of Marketable securities and idle funds investments is to generate incremental cash returns on excess cash balances prior to utilizing those funds for investment in our LMM, Middle Market and Private Loan portfolio investments. Marketable securities and idle funds investments generally consist of debt investments, independently rated debt investments, certificates of deposit with financial institutions, diversified bond funds and publicly traded debt and equity investments. 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, Middle Market and Private Loan portfolio investment needs, and any regulatory requirements applicable to us.

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. We did not seek authorization to sell shares of our common stock below the then current net asset value per share of our common stock from our stockholders at our 2014 annual meeting of stockholders because our common stock price per share had been trading significantly above the current net asset value per share of our common stock. We would therefore need future approval from our stockholders to issue shares below the then current net asset value per share.

In order to satisfy the Code requirements applicable to a RIC, we intend to distribute to our stockholders, after consideration and application of our ability under the Code to spillover certain excess undistributed taxable income from one tax year into the next tax year, substantially all of our taxable income. In addition, as a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. In January 2008, we received an exemptive order from the SEC to exclude SBA guaranteed debt securities issued by MSMF and any other wholly owned subsidiaries of ours which operate as SBICs from the asset coverage requirements of the 1940 Act as applicable to us, which, in turn, enables us to fund more investments with debt capital.

Although we have been able to secure access to additional liquidity, including recent public equity and debt offerings, our \$522.5 million Credit Facility, and the available leverage through the SBIC program, there is no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

***Recently Issued or Adopted Accounting Standards***

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* ("ASU 2013-04"). ASU 2013-04 provides additional guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Public companies are required to apply ASU 2013-04 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material effect on our consolidated financial statements.

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In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"). ASU 2013-08 amends the criteria that define an investment company, clarifies the measurement guidance and requires certain additional disclosures. Public companies are required to apply ASU 2013-08 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material effect on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The adoption of this standard did not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-9 supersedes the revenue recognition requirements under ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. The new Guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact the adoption of this new accounting standard will have on our Consolidated Financial Statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by us as of the specified effective date. We believe that the impact of recently issued standards that have been issued and any that are not yet effective will not have a material impact on our financial statements upon adoption.

***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 labor, raw materials and third party services and required energy consumption.

***Off-Balance Sheet Arrangements***

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At September 30, 2014, we had a total of \$130.7 million in outstanding commitments comprised of (i) 21 investments with commitments to fund

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revolving loans that had not been fully drawn or term loans with additional commitments not yet funded and (ii) six investments with capital commitments that had not been fully called.

### ***Contractual Obligations***

As of September 30, 2014, the future fixed commitments for cash payments in connection with our SBIC debentures and the 6.125% Notes for each of the next five years and thereafter are as follows:

|                                    | 2014                   | 2015             | 2016             | 2017             | 2018             | 2019 and<br>thereafter | Total             |
|------------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------------|-------------------|
|                                    | (dollars in thousands) |                  |                  |                  |                  |                        |                   |
| SBIC debentures                    | \$                     | \$               | \$               | \$ 15,000        | \$ 10,200        | \$ 199,800             | \$ 225,000        |
| Interest due on SBIC<br>debentures |                        | 9,421            | 9,448            | 9,423            | 8,130            | 25,295                 | 61,717            |
| 6.125% Notes                       |                        |                  |                  |                  |                  | 90,882                 | 90,882            |
| Interest due on 6.125%<br>Notes    | 4,175                  | 5,566            | 5,566            | 5,567            | 5,567            | 25,050                 | 51,491            |
| <b>Total</b>                       | <b>\$ 4,175</b>        | <b>\$ 14,987</b> | <b>\$ 15,014</b> | <b>\$ 29,990</b> | <b>\$ 23,897</b> | <b>\$ 341,027</b>      | <b>\$ 429,090</b> |

As of September 30, 2014, we had \$287.0 million in borrowings outstanding under our Credit Facility, which is currently scheduled to mature in September 2019. The Credit Facility contains two, one year extension options which could extend the maturity to September 2021. See further discussion of the Credit Facility terms in "Liquidity and Capital Resources Capital Resources".

### ***Related Party Transactions***

As discussed further above, the External Investment Manager is treated as a wholly owned portfolio company of MSCC and is included as part of our Investment Portfolio. At September 30, 2014, Main Street had a receivable of \$1.2 million due from the External Investment Manager which included approximately \$1.0 million related to operating expenses incurred by the Internal Investment Manager required to support the External Investment Manager's business, along with dividends declared but not paid by the External Investment Manager of approximately \$0.2 million.

In June 2013, we adopted a deferred compensation plan for the non-employee members of our board of directors, which allows the directors at their option to defer all or a portion of the fees paid for their services as directors and have such deferred fees paid in shares of our common stock within 90 days after the participant's end of service as a director. As of September 30, 2014, \$0.6 million of directors' fees had been deferred under this plan. These deferred fees represented 18,672 shares of our common shares. These shares will not be issued or included as outstanding on the consolidated statement of changes in net assets until each applicable participant's end of service as a director, but will be included in operating expenses and weighted average shares outstanding on our consolidated statement of operations as earned.

### ***Recent Developments***

In October 2014, we completed a follow-on investment in an existing portfolio company totaling \$16.4 million. Our follow-on investment in SambaSafety Holdings, L.L.C. ("SambaSafety") supported SambaSafety's acquisition of a complementary business in the driver risk management software and technology-enabled services industry, an acquisition which significantly expands SambaSafety's customer base and service offering. The follow-on investment consisted of an additional \$16.0 million of first lien, senior secured term debt and a \$0.4 million equity investment. Headquartered in Albuquerque, New Mexico, SambaSafety is an industry leading provider of driver risk management software and services to car and truck fleet owners, insurance carriers and agents, employment background screeners, and automotive retailers.

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In October 2014, we fully exited our investment in Texas ReExcavation, LC ("T-Rex"), a provider of hydro excavation and vacuum excavation services for a variety of industry sectors, including the petrochemical, pipeline, municipal, utilities, construction, oil & gas, engineering, transportation, telecommunication, and environmental industries. We made our original investment in T-Rex in December 2012 and we realized a gain of approximately \$3.7 million on the sale of T-Rex.

In October 2014, we led a financing totaling \$7.6 million of invested capital in Computer Associates, Inc. ("CAI"), to support the majority recapitalization of CAI, with Main Street funding \$6.1 million of the financing in this new portfolio investment. Main Street's portion of the financing included a \$5.4 million first lien, senior secured term loan and a \$0.7 million equity investment. Headquartered in Smithfield, Rhode Island, and founded in 1977, CAI is a leading provider of specialized enterprise resource planning (ERP) software with industry expertise in several industry sectors, including seafood and other food processing and distribution, lumber and building materials, precious metal refining, and jewelry manufacturing.

In October 2014, we fully exited our investment in Spectrio LLC ("Spectrio"), a leading national provider of on-hold messaging and digital signage managed services. We made our initial investment in Spectrio in May 2009, and we realized a gain of approximately \$3.9 million on the redemption of our warrant by Spectrio.

In October 2014, we led a financing totaling \$12.0 million of invested capital in East West Copolymer & Rubber, LLC ("East West") to support East West's working capital and expansion needs. The financing consisted of a \$12.0 million first lien, senior secured term loan with equity warrant participation, with our funding totaling \$9.6 million of the invested capital. East West is a synthetic rubbers manufacturer with its production facility located in Baton Rouge, Louisiana. East West's Styrene-Butadiene-Rubber ("SBR") & Nitrile-Butadiene-Rubber ("NBR") products are primarily used in the production of tires for automobile, industrial, and agriculture applications.

In October 2014, we declared a semi-annual supplemental cash dividend of \$0.275 per share payable in December 2014. This supplemental cash dividend is in addition to the previously announced regular monthly cash dividends that we declared for the fourth quarter of 2014 of \$0.170 per share for each of October, November and December 2014, and represents a 10% increase from the semi-annual supplemental cash dividend paid in December 2013.

In October 2014, we fully exited our investment in NCP Investment Holdings, Inc. ("NCP"), a healthcare services company operating free-standing outpatient cardiac and vascular procedure labs. We originally invested in NCP in 2004, and we realized a gain of approximately \$8.6 million on the sale of our remaining equity interest in NCP in conjunction with a change of control of NCP.

In November 2014, we issued \$175.0 million in aggregate principal amount of 4.50% unsecured notes due 2019 (the "4.50% Notes") at an issue price of 99.53%. The 4.50% Notes mature on December 1, 2019, and may be redeemed in whole or in part at any time at our option subject to certain make whole provisions. The 4.50% Notes bear interest from November 5, 2014 at a rate of 4.50% per year payable semi-annually on June 1 and December 1 of each year, beginning June 1, 2015. Our total net proceeds from the 4.50% Notes, resulting from the issue price and after underwriting discounts and estimated offering expenses payable by us, were approximately \$171.2 million.

During November 2014, we declared regular monthly dividends of \$0.17 per share for each month of January, February and March of 2015. These regular monthly dividends equal a total of \$0.51 per share for the first quarter of 2015 and represent a 3% increase from the regular monthly dividends declared for the first quarter of 2014. Including the semi-annual supplemental dividend payable in December 2014 and regular monthly dividends declared for the first quarter of 2015, we will have paid \$13.74 per share in cumulative dividends since our October 2007 initial public offering.



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

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from the Investment Portfolio and Marketable securities and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. The majority of our debt investments are made with either fixed interest rates or floating interest rates that are subject to contractual minimum interest rates for the term of the investment. As of September 30, 2014, approximately 56% of our debt investment portfolio (at cost) bore interest at floating interest rates with 99% of those floating-rate debt investments (at cost) subject to contractual minimum interest rates. As of September 30, 2014, none of our Marketable securities and idle funds investments bore interest at floating rates. Our interest expense will be affected by changes in the published LIBOR rate in connection with our Credit Facility; however, the long term interest rates on our outstanding SBIC debentures and the 6.125% Notes, which comprise the majority of our outstanding debt, are fixed for the life of such debt investments. As of September 30, 2014, we had not entered into any interest rate hedging arrangements. At September 30, 2014, based on the applicable levels of our Credit Facility and floating-rate debt investments, a 1% change in interest rates would not have a material effect on our level of net investment income.

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, Chief Executive Officer and President, our Chief Financial Officer, our Chief Compliance Officer and our Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chairman, Chief Executive Officer and President, our Chief Financial Officer, our Chief Compliance Officer and our Chief Accounting Officer, have concluded that our current disclosure controls and procedures are effective in timely alerting them of material information relating to us that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934. There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013 that we filed with the SEC on February 28, 2014 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 that we filed with the SEC on May 9, 2014.

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

During the nine months ended September 30, 2014, we issued 333,657 shares of our common stock under our dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value for the shares of common stock issued during the nine months ended September 30, 2014 under the dividend reinvestment plan was approximately \$10.8 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<br/>Number</b> | <b>Description of Exhibit</b>  |
|---------------------------|--|
| 10.1*                     | Second Amendment to Second Amended and Restated Credit Agreement dated September 25, 2014 (previously filed as Exhibit 10.1 to Main Street Capital Corporation's Current Report on Form 8-K filed on September 30, 2014 (File No. 1-33723)).   |
| 10.2*                     | Third Amendment to Second Amended and Restated Credit Agreement dated October 22, 2014 (previously filed as Exhibit (k)(6) to Main Street Capital Corporation's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2 filed on November 4, 2014 (Reg. No. 333-183555)). |
| 31.1                      | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 31.2                      | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 32.1                      | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).   |
| 32.2                      | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).   |

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\*

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

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**SIGNATURES**

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

**Main Street Capital Corporation**

Date: November 7, 2014

/s/ VINCENT D. FOSTER

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

Date: November 7, 2014

/s/ DWAYNE L. HYZAK

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

Date: November 7, 2014

/s/ SHANNON D. MARTIN

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

**EXHIBIT INDEX**

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