Main Street Capital CORP
Form N-2/A
April 24, 2009

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**As filed with the Securities and Exchange Commission on April 24, 2009**
**Securities Act File No. 333-155806**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form N-2**
**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**
**Pre-Effective Amendment No. 2**
**Main Street Capital Corporation**
*(Exact name of registrant as specified in charter)*
**1300 Post Oak Boulevard, Suite 800**
**Houston, TX 77056**
**(713) 350-6000**
*(Address and telephone number,*
*including area code, of principal executive offices)*
**Vincent D. Foster**
**Chief Executive Officer**
**Main Street Capital Corporation**
**1300 Post Oak Boulevard, Suite 800**
**Houston, TX 77056**
*(Name and address of agent for service)*
***COPIES TO:***

**Jason B. Beauvais**
**Vice President, General Counsel**
**and Secretary**
**Main Street Capital Corporation**
**1300 Post Oak Boulevard, Suite 800**
**Houston, TX 77056**

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**Approximate date of proposed public offering:** From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. þ

It is proposed that this filing will become effective (check appropriate box): o when declared effective pursuant to section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

| Title of Securities Being Registered | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|---|---|---|
| Common Stock, $0.01 par value per share | $**300,000,000** | $**11,790(1)** |

(1) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED April 24, 2009**

**PROSPECTUS**

**$300,000,000**
**Main Street Capital Corporation**
**Common Stock**

We may offer, from time to time, up to $300,000,000 of our common stock, $0.01 par value per share, in one or more offerings. Our common stock may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. The offering price per share of our common stock, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering, except (i) with the consent of the majority of our common stockholders or (ii) under such other circumstances as the Securities and Exchange Commission may permit. On June 17, 2008, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual stockholders meeting. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however, we cannot issue shares of our common stock below net asset value unless our Board of Directors determines that it would be in our and our stockholders best interests to do so. Shares of closed-end investment companies such as us frequently trade at a discount to their net asset value. This risk is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade above, at or below net asset value. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our common stock.

Our common stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our common stock, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our common stock through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such common stock.

We are a principal investment fund focused on providing customized debt and equity financing to lower middle-market companies that operate in diverse industries. We seek to fill the current financing gap for lower middle-market businesses, which have limited access to financing from commercial banks and other traditional sources.

Our investment objective is to maximize our portfolio s total return by generating current income from our debt investments and realizing capital appreciation from our equity and equity-related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. We are an internally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

Our common stock is listed on the Nasdaq Global Select Market under the symbol MAIN. On April 23, 2009, the last reported sale price of our common stock on the Nasdaq Global Select Market was $11.70 per share.

**Investing in our common stock involves a high degree of risk, and should be considered highly speculative. See Risk Factors beginning on page 8 to read about factors you should consider, including the risk of leverage, before investing in our common stock.**

This prospectus and the accompanying prospectus supplement contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus and the accompanying prospectus supplement before investing and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056 or by telephone at (713) 350-6000 or on our website at *www.mainstcapital.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The Securities and Exchange Commission also maintains a website at *www.sec.gov* that contains such information.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is , 2009**

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This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to $300,000,000 of our common stock on terms to be determined at the time of the offering. This prospectus provides you with a general description of the common stock that we may offer. Each time we use this prospectus to offer common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under Available Information and Risk Factors before you make an investment decision.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or any accompanying supplement to this prospectus. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any accompanying prospectus supplement is accurate as of the dates on their covers.

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## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read the entire prospectus and any prospectus supplement carefully, including the section entitled Risk Factors.*

*Main Street Capital Corporation ( MSCC ) was formed on March 9, 2007, for the purpose of (i) acquiring 100% of the equity interests of Main Street Mezzanine Fund, LP (the Fund ) and its general partner, Main Street Mezzanine Management, LLC (the General Partner ), (ii) acquiring 100% of the equity interests of Main Street Capital Partners, LLC (the Investment Manager ), (iii) raising capital in an initial public offering, which was completed in October 2007 (the IPO ), and (iv) thereafter operating as an internally managed business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). The transactions discussed above were consummated in October 2007 and are collectively termed the Formation Transactions. The Fund is licensed as a Small Business Investment Company ( SBIC ) by the United States Small Business Administration ( SBA ) and the Investment Manager acts as the Fund s manager and investment adviser. The Investment Manager also acts as the manager and investment adviser to Main Street Capital II, LP ( MSC II ), a privately owned, affiliated SBIC which commenced investment operations in January 2006. MSCC did not acquire any interest in MSC II in connection with the Formation Transactions and currently does not hold any equity interest in MSC II. Unless otherwise noted or the context otherwise indicates, the terms we, us, our and Main Street refer to the Fund and the General Partner prior to the IPO and to MSCC and its subsidiaries, including the Fund and the General Partner, subsequent to the IPO.*

### Main Street

We are a principal investment firm focused on providing customized financing solutions to lower middle-market companies, which we generally define as companies with annual revenues between $10 million and $100 million. Our investment objective is to maximize our portfolio s total return by generating current income from our debt investments and realizing 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 investments generally range in size from $2 million to $15 million. Our ability to invest across a company s capital structure, from senior secured loans to subordinated debt to equity securities, allows us to offer portfolio companies a comprehensive suite of financing solutions, or one-stop financing.

Our investments are made through both MSCC and the Fund. Since the IPO, MSCC and the Fund have co-invested in substantially every investment we have made. MSCC and the Fund share the same investment strategies and criteria in the lower middle-market, although they are subject to different regulatory regimes. See Regulation. An investor s return in MSCC will depend, in part, on the Fund s investment returns as the Fund is a wholly owned subsidiary of MSCC.

We typically seek to work with entrepreneurs, business owners and management teams to provide customized financing for strategic acquisitions, business expansion and other growth initiatives, ownership transitions and recapitalizations. In structuring transactions, we seek to protect our rights, manage our risk and create value by: (i) providing financing at lower leverage ratios; (ii) generally taking first priority liens on assets; and (iii) providing significant equity incentives for management teams of our portfolio companies. We seek to avoid competing with other capital providers for transactions because we believe competitive transactions often have execution risks and can result in potential conflicts among creditors and lower returns due to more aggressive valuation multiples and higher leverage ratios.

As of December 31, 2008, Main Street had debt and equity investments in 31 portfolio companies. Approximately 84% of our total portfolio investments at cost, excluding our 100% equity interest in the Investment Manager, were in the form of debt investments and 91% of such debt investments at cost were secured by first priority liens on the assets of our portfolio companies. As of December 31, 2008, Main Street had a weighted average effective yield on its debt investments of 14%. Weighted average yields are computed using the effective interest rates for all debt investments at December 31, 2008, including amortization of deferred debt origination fees and accretion of original issue discount. At December 31, 2008, we had equity ownership in approximately 94% of our portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 25%.

You should be aware that investments in the lower middle-market carry a number of risks including, but not limited to, investing in companies which have a limited operating history and financial resources and other risks common to investing in below investment grade debt and equity investments in private, smaller companies. Please see Risk Factors Risks Related to Our Investments for a more complete discussion of the risks involved with investing in the lower middle-market.

Our principal executive offices are located at 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056, and our telephone number is (713) 350-6000. We maintain a website at *http://www.mainstcapital.com*. Information contained on our website is not incorporated by reference into this prospectus or any prospectus supplement, and you should not consider that information to be part of this prospectus or any prospectus supplement.

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## Business Strategies

Our investment objective is to maximize our portfolio s total return by generating current income from our debt investments and realizing capital appreciation from our equity and equity-related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. We have adopted the following business strategies to achieve our investment objective:

*Delivering Customized Financing Solutions.* We believe our ability to provide a broad range of customized financing solutions to lower middle-market companies sets us apart from other capital providers that focus on providing a limited number of financing solutions. We offer to our portfolio companies customized debt financing solutions with equity components that are tailored to the facts and circumstances of each situation. Our ability to invest across a company s capital structure, from senior secured loans to subordinated debt to equity securities, allows us to offer our portfolio companies a comprehensive suite of financing solutions, or one-stop financing.

*Focusing on Established Companies in the Lower Middle-Market.* We generally invest in companies with established market positions, experienced management teams and proven revenue streams. Those companies generally possess better risk-adjusted return profiles than newer companies that are building management or are in the early stages of building a revenue base. In addition, established lower middle-market companies generally provide opportunities for capital appreciation.

*Leveraging the Skills and Experience of Our Investment Team.* Our investment team has significant experience in lending to and investing in lower middle-market companies. The members of our investment team have broad investment backgrounds, with prior experience at private investment funds, investment banks and other financial services companies, and currently include seven certified public accountants and one chartered financial analyst. The expertise of our investment team in analyzing, valuing, structuring, negotiating and closing transactions should provide us with competitive advantages by allowing us to consider customized financing solutions and non-traditional and complex structures.

*Investing Across Multiple Industries.* We seek to maintain a portfolio of investments that is appropriately balanced among various companies, industries, geographic regions and end markets. This portfolio balance is intended to mitigate the potential effects of negative economic events for particular companies, regions and industries.

*Capitalizing on Strong Transaction Sourcing Network.* Our investment team seeks to leverage its extensive network of referral sources for investments in lower middle-market companies. We have developed a reputation in our marketplace as a responsive, efficient and reliable source of financing, which has created a growing stream of proprietary deal flow for us.

*Benefiting from Lower Cost of Capital.* The Fund s SBIC license has allowed it to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Because lower cost SBA leverage is, and will continue to be, a significant part of our capital base through the Fund, our relative cost of debt capital should be lower than many of our competitors. In addition, the SBIC leverage that we receive through the Fund represents a stable, long-term component of our capital structure.

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## Investment Criteria

Our investment team has identified the following investment criteria that it believes are important in evaluating prospective portfolio companies. Our investment team uses these criteria in evaluating investment opportunities. However, not all of these criteria have been, or will be, met in connection with each of our investments.

*Proven Management Team with Meaningful Financial Commitment.* We look for operationally-oriented management with direct industry experience and a successful track record. In addition, we expect the management team of each portfolio company to have meaningful equity ownership in the portfolio company to better align our respective economic interests. We believe management teams with these attributes are more likely to manage the companies in a manner that protects our debt investment and enhances the value of our equity investment.

*Established Companies with Positive Cash Flow.* We seek to invest in established companies in the lower middle-market with sound historical financial performance. We typically focus on companies that have historically generated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of $1.0 million to $10.0 million and commensurate levels of free cash flow. We generally do not intend to invest in start-up companies or companies with speculative business plans.

*Defensible Competitive Advantages/Favorable Industry Position.* We primarily focus on companies having competitive advantages in their respective markets and/or operating in industries with barriers to entry, which may help to protect their market position and profitability.

*Exit Alternatives.* We expect that the primary means by which we exit our debt investments will be through the repayment of our investment from internally generated cash flow and/or refinancing. In addition, we seek to invest in companies whose business models and expected future cash flows may provide alternate methods of repaying our investment, such as through a strategic acquisition by other industry participants or a recapitalization.

## Formation Transactions

As part of the Formation Transactions, the Investment Manager, which employs all of the executive officers and other employees of MSCC, became a wholly owned subsidiary of MSCC. However, the Investment Manager is accounted for as a portfolio investment of Main Street, since the Investment Manager is not a registered investment company and since it conducts a significant portion of its investment management activities for MSC II, a separate SBIC fund in which MSCC does not have an equity interest. The Investment Manager receives recurring investment management fees from MSC II pursuant to a separate investment advisory agreement, paid quarterly, which currently total $3.3 million per year. The portfolio investment in the Investment Manager is accounted for using fair value accounting, with the fair value determined by MSCC and approved, in good faith, by MSCC s Board of Directors. MSCC s valuation of the Investment Manager is based upon the discounted net cash flows from third party recurring investment managers fees. The net cash flows utilized in the valuation of the Investment Manager exclude any revenues and expenses from all related parties (including MSCC) but include the management fees from MSC II and an estimated allocation of costs related to providing services to MSC II. For more information on the Investment Manager, see Note D Wholly Owned Investment Manager to our consolidated financial statements.

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In connection with the Formation Transactions, MSCC entered into a support services agreement with the Investment Manager. The agreement requires the Investment Manager to manage the day-to-day operational and investment activities of Main Street. The Investment Manager generally incurs all normal operating and administrative expenses, except those specifically required to be borne by MSCC, which principally include costs that are specific to MSCC s status as a publicly traded entity. The expenses paid by the Investment Manager include the cost of salaries and related benefits, rent, equipment and other administrative costs required for Main Street s day-to-day operations.

The Investment Manager is reimbursed for its expenses associated with providing operational and investment management services to MSCC and its subsidiaries. Each quarter, as part of the support services agreement, MSCC makes payments to cover all expenses incurred by the Investment Manager, less amounts the Investment Manager receives from MSC II pursuant to a separate investment advisory services agreement. Based on this separate investment advisory services agreement, MSC II paid the Investment Manager approximately $3.3 million in 2008 for these services.

The IPO involved the public offering and sale of 4,300,000 shares of our common stock, including shares sold upon the underwriters exercise of the over-allotment option, at a price to the public of $15.00 per share of our common stock, resulting in net proceeds to us of approximately $60.2 million, after deducting underwriters commissions totaling approximately $4.3 million. As a result of the IPO and the Formation Transactions described above, we are a closed-end, non-diversified management investment company that has elected to be treated as a BDC under the 1940 Act. Because the Investment Manager, which employs all of the executive officers and other employees of MSCC, is wholly owned by us, we do not pay any external investment advisory fees, but instead we incur the net operating costs associated with employing investment and portfolio management professionals through the Investment Manager.

Immediately following the completion of the Formation Transactions, Main Street Equity Interests, Inc. ( MSEI ) was created as a wholly-owned consolidated subsidiary of MSCC to hold certain of our portfolio investments. MSEI has elected for tax purposes to be treated as a taxable entity and is taxed at normal corporate tax rates based on its taxable income. The taxable income of MSEI may differ from its book income due to deferred tax timing differences as well as permanent differences.

We co-invested with MSC II in several existing portfolio investments prior to the IPO, but did not co-invest with MSC II subsequent to the IPO and prior to June 2008. On June 4, 2008, we received exemptive relief from the SEC to allow us to resume co-investing with MSC II in accordance with the terms of such exemptive relief.

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**The Offering**

We may offer, from time to time, up to $300,000,000 of our common stock, on terms to be determined at the time of the offering. Our common stock may be offered at prices and on terms to be disclosed in one or more prospectus supplements. The offering price per share of our common stock, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering, except (i) with the consent of the majority of our common stockholders (which we received from our stockholders at our June 17, 2008 annual stockholders meeting, for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual stockholders meeting) or (ii) under such other circumstances as the SEC may permit. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however, we cannot issue shares of our common stock below net asset value unless our Board of Directors determines that it would be in our and our stockholders best interests to do so.

Our common stock may be offered directly to one or more purchasers by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our common stock by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our common stock through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our common stock.

Set forth below is additional information regarding the offering of our common stock:

| | |
|---|---|
| Use of proceeds | We intend to use all of the net proceeds from selling our common stock to make investments in lower middle-market companies in accordance with our investment objective and strategies described in this prospectus or any prospectus supplement, pay our operating expenses and dividends to our stockholders and for general corporate purposes. Pending such use, we will |

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| | |
|---|---|
| | invest the net proceeds primarily in short-term securities consistent with our BDC election and our election to be taxed as a regulated investment company ( RIC ). See Use of Proceeds. |
| Nasdaq Global Select Market symbol | MAIN |
| Dividends | We have paid quarterly, but, beginning in the fourth quarter of 2008, will pay monthly, dividends to our stockholders out of assets legally available for distribution. Our dividends, if any, will be determined by our Board of Directors. |
| Taxation | MSCC has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90.0% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. See Material U.S. Federal Income Tax Considerations. |
| Dividend reinvestment plan | We have adopted a dividend reinvestment plan for our stockholders. The dividend reinvestment plan is an opt out reinvestment plan. As a result, if we declare dividends, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive dividends in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their dividends in cash. See Dividend Reinvestment Plan. |
| Trading at a discount | Shares of closed-end investment companies frequently trade at a discount to their net asset value. This risk is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. |
| Risk factors | Investing in our common stock involves a high degree of risk. You should consider carefully the information found in Risk Factors, including the following risks: |

The current state of the economy and financial markets increases the liklihood of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies financial positions and operating results and affect the industries in which we invest, which could, in turn, harm our operating results.

Our investment portfolio is and will continue to be recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is and will continue to be uncertainty as to the value of our portfolio investments.

Our financial condition and results of operations depends on our ability to effectively manage and deploy capital.

We may face increasing competition for investment opportunities.

We have a limited operating history as a BDC and as a RIC.

Regulations governing our operation as a BDC will affect our ability to, and the way in which we raise additional capital.

Our wholly-owned subsidiary, the Fund, is licensed by the SBA, and therefore subject to SBIC regulations.

Because we borrow money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.

- We, through the Fund, issue debt securities guaranteed by the SBA and sold in the capital markets. As a result of its guarantee of the debt securities, the SBA has fixed dollar claims on the assets of the Fund that are superior to the claims of our common stockholders.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code.

We may not be able to pay you dividends, our dividends may not grow over time, and a portion of dividends paid to you may be a return of capital.

Because we intend to distribute substantially all of our income to our stockholders to maintain our status as a RIC, we will continue to need additional capital to finance our growth, and regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.

Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock.

Our investments in portfolio companies involve higher levels of risk, and we could lose all or part of our investment. Investing in lower middle-market companies involves a number of significant risks. Among other things, these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investment, as well as a corresponding decrease in the value of the equity components of our investments;

may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;

are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

generally have less publicly available information about their businesses, operations and financial condition. We are required to rely on the ability of our management team and investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

Shares of closed-end investment companies, including BDCs, may trade at a discount to their net asset value.

We may be unable to invest a significant portion of the net proceeds from an offering on acceptable terms, which could harm our financial condition and operating results.

The market price of our common stock may be volatile and fluctuate significantly.

See Risk Factors beginning on page 8 for a more complete discussion of these and other risks you should carefully consider before deciding to invest in shares of our common stock.

| | |
|---|---|
| Available Information | We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, or the Exchange Act. You can inspect any materials we file with the SEC, without charge, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at 1300 Post Oak Boulevard, Suite 800, Houston, TX 77056, by telephone at (713) 350-6000 or on our website at *http://www.mainstcapital.com*. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s web site is *http://www.sec.gov*. Information contained on our website or on the SEC s web site about us is not incorporated into this prospectus, and you should not consider information contained on our website or on the SEC s website to be part of this prospectus. |

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## FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you, us or Main Street, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

***Stockholder Transaction Expenses:***

| | |
|---|---|
| Sales load (as a percentage of offering price) | % (1) |
| Offering expenses | % (2) |
| Dividend reinvestment plan expenses | % (3) |
| Total stockholder transaction expenses (as a percentage of offering price) | % (4) |

***Annual Expenses (as a percentage of net assets attributable to common stock):***

| | |
|---|---|
| Operating expenses | 6.3% (5) |
| Interest payments on borrowed funds | 2.8% (6) |
| Total annual expenses | 9.1% (7) |

(1) In the event that our common stock is sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) In the event that we conduct on offering of our common stock, a corresponding prospectus supplement will disclose the estimated offering expenses.

(3) The expenses of administering our dividend reinvestment plan are

included in operating expenses.

(4) Total stockholder transaction expenses may include sales load and will be disclosed in a future prospectus supplement, if any.

(5) Operating expenses include the expenses of the Investment Manager as if it were consolidated with MSCC for accounting purposes, including expenses incurred by the Investment Manager in managing MSC II pursuant to an investment advisory services agreement between the Investment Manager and MSC II and other third party consulting arrangements. Based on this investment advisory services agreement, MSC II paid the

Investment Manager approximately $3.3 million in 2008 for these services. In accordance with the terms of the support services agreement between MSCC and the Investment Manager, MSCC is only required to reimburse the Investment Manager for expenses incurred by the Investment Manager in providing investment management and other services to MSCC less amounts the Investment Manager receives from MSC II and other third parties. Consequently, MSCC is only incurring the expenses of the Investment Manager net of fees received for third party investment advisory and consulting services. Our percentage of operating expenses to net assets attributable to common stock only including the expenses incurred by MSCC net of the investment advisory and consulting service fees received by the Investment Manager from MSC II and other third parties would be 3.4%.

(6) Interest payments on borrowed funds principally consist of approximately $3.2 million of annual interest payments on funds borrowed directly by the Fund. As of December 31, 2008, the Fund had $55.0 million of outstanding indebtedness guaranteed by the SBA. This does not include MSCC s undrawn $30 million investment credit facility which would bear interest, subject to MSCC s election, on a per annum basis

equal to (i) the applicable LIBOR rate plus 2.75% or (ii) the applicable base rate plus 0.75%.

(7) The total annual expenses are the sum of operating expenses and interest payments on borrowed funds. In the future we may borrow money to leverage our net assets and increase our total assets.

***Example***

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

| | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return | $94 | $270 | $430 | $774 |

**The example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.** While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. In addition, while the example assumes reinvestment of all dividends at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by (i) the market price per share of our common stock at the close of trading on the dividend payment date in the event that we use newly issued shares to satisfy the share requirements of the divided reinvestment plan or (ii) the average purchase price of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event that shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

# RISK FACTORS

*Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus and any accompanying prospectus supplement, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.*

## Risks Relating to Economic Conditions

***The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies financial positions and operating results and affect the industries in which we invest, which could, in turn, harm our operating results.***

Beginning in late 2007, the United States entered a recession. Throughout 2008, the economy continued to deteriorate and many believe that the current recession could continue for an extended period. During 2008, banks and others in the financial services industry reported significant write-downs in the fair value of their assets, which has led to the failure of a number of banks and investment companies, a number of distressed mergers and acquisitions, the government take-over of the nation s two largest government-sponsored mortgage companies, and the passage of the $700 billion Emergency Economic Stabilization Act of 2008 in October 2008 and the $787 billion American Recovery and Reinvestment Act of 2009 (the 2009 Stimulus Bill ). In addition, the stock market has declined significantly, with both the S&P 500 and the NASDAQ Global Select Market (on which our stock trades), declining by nearly 40% between December 31, 2007 and December 31, 2008. As the recession deepened during 2008, unemployment rose and consumer confidence declined, which led to significant reductions in spending by both consumers and businesses.

Although we have been able to secure access to additional liquidity, including the recently obtained $30 million investment credit facility and the increase in available leverage through the SBIC program as part of the 2009 Stimulus Bill, the current turmoil in the debt markets and uncertainty in the equity capital markets provides no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

The deterioration in consumer confidence and a general reduction in spending by both consumers and businesses has had an adverse effect on a number of the industries in which some of our portfolio companies operate. In the event that the United States economy remains in a protracted period of weakness, the results of some of the lower middle-market companies like those in which we invest, will continue to experience deterioration, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in their defaults. In addition, the end markets for certain of our portfolio companies products and services have experienced, and continue to experience, negative economic trends. We can provide no assurance that the performance of certain of our portfolio companies will not be negatively impacted by economic or other conditions which could have a negative impact on our future results.

## Risks Relating to Our Business and Structure

***Our investment portfolio is and will continue to be recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is and will continue to be uncertainty as to the value of our portfolio investments.***

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by us with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value. Typically, there is not a public market for the securities of the privately held companies in which we have invested and will generally continue to invest. As a result, we value these securities quarterly at fair value based on input from management, a third party independent valuation firm and our audit committee and with the oversight, review and approval of our Board of Directors.

The determination of fair value and consequently, the amount of unrealized gains and losses in our portfolio, are to a certain degree, subjective and dependent on a valuation process approved by our Board of Directors. Certain factors that may be considered in determining the fair value of our investments include external events, such as private mergers, sales and acquisitions involving comparable companies. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize on one or more of our investments. As a result, investors purchasing our common stock based on an overstated net asset value would pay a higher price than the value of our investments might warrant. Conversely, investors selling shares during a period in which the net asset value understates the value of our investments will receive a lower price for their shares than the value of our investments might warrant.

***Our financial condition and results of operations depends on our ability to effectively manage and deploy capital.***

Our ability to achieve our investment objective of maximizing 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, depends on our ability to effectively manage and deploy capital, which depends, in turn, on our investment team s ability to identify, evaluate and monitor, and our ability to finance and invest in, companies that meet our investment criteria.

Accomplishing our investment objective on a cost-effective basis is largely a function of our investment team s handling of the investment process, its ability to provide competent, attentive and efficient services and our access to investments offering acceptable terms. In addition to monitoring the performance of our existing investments, members of our investment team are also called upon, from time to time, to provide managerial assistance to some of our portfolio companies. These demands on their time may distract them or slow the rate of investment.

Even if we are able to grow and build upon our investment operations, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. The results of our operations will depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies as described herein, it could negatively impact our ability to pay dividends.

***We may face increasing competition for investment opportunities.***

We compete for investments with other BDCs and investment funds (including private equity funds, mezzanine funds and other SBICs), as well as traditional financial services companies such as commercial banks and other sources of funding. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us, including from federal government agencies through federal rescue programs such as the U.S. Department of Treasury s Financial Stability Plan (formerly known as the Troubled Asset Relief Program). In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose investment opportunities if we do not match our competitors pricing, terms and structure. If we are forced to match our competitors pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the market for investments in lower middle-market companies is underserved by traditional commercial banks and other financing sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC.

***We are dependent upon our key investment personnel for our future success.***

We depend on the members of our investment team, particularly Vincent D. Foster, Todd A. Reppert, Rodger A. Stout, Curtis L. Hartman, Dwayne L. Hyzak and David L. Magdol, for the identification, review, final selection, structuring, closing and monitoring of our investments. These employees have significant investment expertise and relationships that we rely on to implement our business plan. Although we have entered into employment agreements with Messrs, Reppert, Stout, Hartman, Hyzak and Magdol and a non-compete agreement with Mr. Foster, we have no guarantee that they will remain employed with us. If we lose the services of these individuals, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer.

***Our success depends on attracting and retaining qualified personnel in a competitive environment.***

Our growth will require that we retain new investment and administrative personnel in a competitive market. Our ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. Many of the entities, including investment funds (such as private equity funds and mezzanine funds) and traditional financial services companies, with which we compete for experienced personnel have greater resources than we have.

The competitive environment for qualified personnel may require us to take certain measures to ensure that we are able to attract and retain experienced personnel. Such measures may include increasing the attractiveness of our overall compensation packages, altering the structure of our compensation packages through the use of additional forms of compensation, or other steps. The inability to attract and retain experienced personnel would have a material adverse effect on our business.

***Our business model depends to a significant extent upon strong referral relationships, and our inability to maintain or develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.***

We expect that members of our management team will maintain their relationships with intermediaries, financial institutions, investment bankers, commercial bankers, attorneys, accountants, consultants and other individuals within our network, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If our management team fails to maintain its existing relationships or develop new relationships with sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom members of our management team have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

***We have a limited operating history as a BDC and as a RIC.***

The 1940 Act imposes numerous constraints on the operations of BDCs. Prior to the completion of the IPO, we did not operate, and our management team had no experience operating, as a BDC under the 1940 Act or as a RIC under Subchapter M of the Code. As a result, we have limited operating results under these regulatory frameworks that can demonstrate either their effect on our business or our ability to manage our business under these frameworks. Our management team s limited experience in managing a portfolio of assets under such constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us. If we do not remain a BDC, we might be regulated as a registered closed-end investment company under the 1940 Act, which would further decrease our operating flexibility.

***Regulations governing our operation as a BDC will affect our ability to, and the way in which we raise additional capital.***

Our business will require capital to operate and grow. We may acquire such additional capital from the following sources:

*Senior Securities*. We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities. As a result of issuing senior securities, we will be exposed to additional risks, including the following:

- Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% immediately after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we will be prohibited from issuing debt securities or preferred stock and/or borrowing money from banks or other financial institutions until such time as we satisfy this test.

- Any amounts that we use to service our debt or make payments on preferred stock will not be available for dividends to our common stockholders.

- It is likely that any senior securities or other indebtedness we issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, some of these securities or other indebtedness may be rated by rating agencies, and in obtaining a rating for such securities and other indebtedness, we may be required to abide by operating and investment guidelines that further restrict operating and financial flexibility.

- We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities and other indebtedness.

- Preferred stock or any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock, including separate voting rights and could delay or prevent a transaction or a change in control to the detriment of the holders of our common stock.

*Additional Common Stock.* We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our Board of Directors determines that such sale is in the best interests of our stockholders, and our stockholders approve such sale. See Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock for a discussion of proposals approved by our stockholders that permit us to issue shares of our common stock below net asset value. We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to applicable requirements of the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and they may experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on favorable terms or at all.

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***Our wholly-owned subsidiary, the Fund, is licensed by the SBA, and therefore subject to SBIC regulations.***

The Fund, our wholly-owned subsidiary, is licensed to act as a small business investment company and is regulated by the SBA. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBIC requirements may cause the Fund to forego attractive investment opportunities that are not permitted under SBIC regulations.

Further, the SBIC regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBIC regulations. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC. If the Fund fails to comply with applicable SBIC regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. Such actions by the SBA would, in turn, negatively affect us because the Fund is our wholly owned subsidiary.

***Because we borrow money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.***

Borrowings, also known as leverage, magnify the potential for gain or loss on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our common stock. We, through the Fund, issue debt securities guaranteed by the SBA and sold in the capital markets. As a result of its guarantee of the debt securities, the SBA has fixed dollar claims on the assets of the Fund that are superior to the claims of our common stockholders. We may also borrow from banks and other lenders, including under the $30 million, three-year investment credit facility we entered into in October 2008. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources for a discussion regarding the two credit facilities into which we have entered. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends. Leverage is generally considered a speculative investment technique.

As of December 31, 2008, we, through the Fund, had $55 million of outstanding indebtedness guaranteed by the SBA, which had a weighted average annualized interest cost of approximately 5.8% (exclusive of deferred financing costs). The debentures guaranteed by the SBA have a maturity of ten years and require semi-annual payments of interest. We will need to generate sufficient cash flow to make required interest payments on the debentures. If we are unable to meet the financial obligations under the debentures, the SBA, as a creditor, will have a superior claim to the assets of the Fund over our stockholders in the event we liquidate or the SBA exercises its remedies under such debentures as the result of a default by us.

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below.

**Assumed Return on Our Portfolio(1)**
**(net of expenses)**

| | **(10.0)%** | **(5.0)%** | **0.0%** | **5.0%** | **10.0%** |
|---|---|---|---|---|---|
| Corresponding net return to common stockholder | (18.0)% | (10.4)% | (2.8)% | 4.8% | 12.3% |

(1) Assumes \$170.6 million in total assets, \$55 million in debt outstanding, \$112.4 million in net assets, and an average cost of funds of 5.8%. Actual interest payments may be different.

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Our ability to achieve our investment objective may depend in part on our ability to achieve additional leverage on favorable terms by issuing debentures guaranteed by the SBA, through the Fund, or by borrowing from banks or insurance companies, and there can be no assurance that such additional leverage can in fact be achieved.

***SBIC regulations limit the outstanding dollar amount of SBA-guaranteed debentures that may be issued by an SBIC or group of SBICs under common control.***

The SBIC regulations currently limit the dollar amount of SBA-guaranteed debentures that can be issued by any one SBIC or group of SBICs under common control to $225 million. Moreover, an SBIC may not generally borrow an amount in excess of two times its regulatory capital. Because of our investment team s affiliations with MSC II, a privately owned SBIC which commenced investment operations in January 2006, the Fund and MSC II may be deemed to be a group of affiliated SBICs under common control. Thus, the dollar amount of SBA-guaranteed debentures that can be issued collectively by the Fund and MSC II may be limited to $225 million, absent relief from the SBA. While we cannot presently predict whether or not we, through the Fund, will borrow the maximum permitted amount, if we reach the maximum dollar amount of SBA guaranteed debentures permitted, and thereafter require additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

The Fund s current status as an SBIC does not automatically assure that it will continue to receive SBA-guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon the Fund continuing to be in compliance with SBIC regulations and policies. Moreover, the amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by the Fund.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of portfolio dividend and fee income, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.***

Our Board of Directors has the authority to modify or waive our current operating policies, investment criteria and strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies, investment criteria and strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you dividends and cause you to lose all or part of your investment.

***We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code.***

To maintain RIC tax treatment under the Code, we must meet the following annual distribution, source income and asset diversification requirements:

The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. For more information regarding tax treatment, see Material U.S. Federal Income Tax Considerations Taxation as a Regulated Investment Company. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and are (and may in the future become) subject to certain financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

The source income requirement will be satisfied if we obtain at least 90% of our income for each year from distributions, interest, gains from the sale of stock or securities or similar sources.

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> The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain qualified publicly traded partnerships. Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to maintain RIC tax treatment for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

***We may not be able to pay you dividends, our dividends may not grow over time, and a portion of dividends paid to you may be a return of capital.***

We intend to pay monthly dividends to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to pay a specified level of cash dividends, previously projected dividends for future periods, or year-to-year increases in cash dividends. Our ability to pay dividends might be adversely affected by, among other things, the impact of one or more of the risk factors described herein. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC could limit our ability to pay dividends. All dividends will be paid at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations, the Fund s compliance with applicable SBIC regulations and such other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that we will pay dividends to our stockholders in the future.

When we make monthly distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings, recognized capital gains or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for federal tax purposes. In the future, our distributions may include a return of capital.

***We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the origination of a loan or possibly in other circumstances, or contractual payment-in-kind, or PIK, interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discounts or increases in loan balances as a result of contractual PIK arrangements will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash. Approximately 2.7% of our total investment income for the year ended December 31, 2008 was attributable to paid in kind interest.

Since, in certain cases, we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the annual distribution requirement necessary to maintain RIC tax treatment under the Code. Accordingly, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, please see Material U.S. Federal Income Tax Considerations Taxation as a Regulated Investment Company.

***We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.***

We may distribute taxable dividends that are payable in part in our stock. Under a recently issued IRS revenue procedure, up to 90% of any such taxable dividend for 2009 could be payable in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

***The Fund, as an SBIC, may be unable to make distributions to us that will enable us to meet or maintain RIC status, which could result in the imposition of an entity-level tax.***

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our net ordinary income and net capital gain income, including income from certain of our subsidiaries, which includes the income from the Fund. We will be partially dependent on the Fund for cash distributions to enable us to meet the RIC distribution requirements. The Fund may be limited by the Small Business Investment Act of 1958, and SBIC regulations governing SBICs, from making certain distributions to us that may be necessary to enable us to maintain our status as a RIC. We may have to request a waiver of the SBA s restrictions for the Fund to make certain distributions to maintain our eligibility for RIC status. We cannot assure you that the SBA will grant such waiver and if the Fund is unable to obtain a waiver, compliance with the SBIC regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

***Because we intend to distribute substantially all of our income to our stockholders to maintain our status as a RIC, we will continue to need additional capital to finance our growth, and regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.***

In order to satisfy the requirements applicable to a RIC and to minimize corporate-level taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and net capital gain income. We may carry forward excess undistributed taxable income into the next year, net of the 4% excise tax. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. As a BDC, we generally are required to meet an asset coverage ratio, as defined in the 1940 Act , of at least 200% immediately after each issuance of senior securities. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. In addition, as a BDC, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline.

***Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock.***

At our 2008 annual meeting of stockholders, our stockholders approved two proposals designed to allow us to access the capital markets in ways that we were previously unable to as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act. Specifically, our stockholders approved proposals that (1) authorize us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual meeting of stockholders and (2) authorize us to issue securities to subscribe to, convert to, or purchase shares of our common stock in one or more offerings. Any decision to sell shares of our common stock below the then current net asset value per share of our common stock or securities to subscribe to, convert to, or purchase shares of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders best interests.

If we were to sell shares of our common stock below net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then *current* net asset value per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. In addition, if we issue securities to subscribe to, convert to or purchase shares of common stock, the exercise or conversion of such securities would increase the number of outstanding shares of our common stock. Any such exercise would be dilutive on the voting power of existing stockholders, and could be dilutive with regard to dividends and our net asset value, and other economic aspects of the common stock.

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted; however, the example below illustrates the effect of dilution to existing stockholders resulting from the sale of common stock at prices below the net asset value of such shares.

*Illustration: Example of Dilutive Effect of the Issuance of Shares Below Net Asset Value*. Assume that Company XYZ has 1,000,000 total shares outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The net asset value per share of the common stock of Company XYZ is $10.00. The following table illustrates the reduction to net asset value, or NAV, and the dilution experienced by Stockholder A following the sale of 40,000 shares of the common stock of Company XYZ at $9.50 per share, a price below its NAV per share.

| | Prior to Sale Below NAV | Following Sale Below NAV | Percentage Change |
|---|---|---|---|
| ***Reduction to NAV*** | | | |
| Total Shares Outstanding | 1,000,000 | 1,040,000 | 4.0% |
| NAV per share | $ 10.00 | $ 9.98 | (0.2)% |
| ***Dilution to Existing Stockholder*** | | | |
| Shares Held by Stockholder A | 10,000 | 10,000(1) | 0.0% |
| Percentage Held by Stockholder A | 1.00% | 0.96% | (3.8)% |
| Total Interest of Stockholder A in NAV | $ 100,000 | $ 99,808 | (0.2)% |

(1) Assumes that Stockholder A does not purchase additional shares in the sale of shares below NAV.

***Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.***

We, the Fund, and our portfolio companies are subject to applicable local, state and federal laws and regulations, including, without limitation, federal immigration laws and regulations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In addition, any change to the SBA s current debenture SBIC program could have a significant impact on our ability to obtain lower-cost leverage, through the Fund, and, therefore, our ability to compete with other finance companies.

Additionally, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth herein and may result in our investment focus shifting from the areas of expertise of our investment team to other types of investments in which our investment team may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

***Terrorist attacks, acts of war or natural disasters may affect any market for our common stock, impact the businesses in which we invest and harm our business, operating results and financial condition.***

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

### Risks Related to Our Investments

***Our investments in portfolio companies involve higher levels of risk, and we could lose all or part of our investment.***

Investing in lower middle-market companies involves a number of significant risks. Among other things, these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investment, as well as a corresponding decrease in the value of the equity components of our investments;

- may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;

- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

- generally have less publicly available information about their businesses, operations and financial condition. We are required to rely on the ability of our management team and investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and may lose all or part of our investment.

In addition, in the course of providing significant managerial assistance to certain of our portfolio companies, certain of our officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, our officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through our indemnification of such officers and directors) and the diversion of management time and resources.

***The lack of liquidity in our investments may adversely affect our business.***

We invest, and will continue to invest in companies whose securities are not publicly traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

***We may not have the funds or ability to make additional investments in our portfolio companies.***

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected yield on the investment.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

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We invest primarily in secured term debt as well as equity issued by lower middle-market companies. Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Even though we may have structured certain of our investments as secured loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, and based upon principles of equitable subordination as defined by existing case law, a bankruptcy court could subordinate all or a portion of our claim to that of other creditors and transfer any lien securing such subordinated claim to the bankruptcy estate. The principles of equitable subordination defined by case law have generally indicated that a claim may be subordinated only if its holder is guilty of misconduct or where the senior loan is re-characterized as an equity investment and the senior lender has actually provided significant managerial assistance to the bankrupt debtor. We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance or actions to compel and collect payments from the borrower outside the ordinary course of business.

***Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.***

Certain loans that we make are secured by a second priority security interest in the same collateral pledged by a portfolio company to secure senior debt owed by the portfolio company to commercial banks or other traditional lenders. Often the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender s consent. Prior to and as a condition of permitting the portfolio company to borrow money from us secured by the same collateral pledged to the senior lender, the senior lender will require assurances that it will control the disposition of any collateral in the event of bankruptcy or other default. In many such cases, the senior lender will require us to enter into an intercreditor agreement prior to permitting the portfolio company to borrow from us. Typically the intercreditor agreements we are requested to execute expressly subordinate our debt instruments to those held by the senior lender and further provide that the senior lender shall control: (1) the commencement of foreclosure or other proceedings to liquidate and collect on the collateral; (2) the nature, timing and conduct of foreclosure or other collection proceedings; (3) the amendment of any collateral document; (4) the release of the security interests in respect of any collateral; and (5) the waiver of defaults under any security agreement. Because of the control we may cede to senior lenders under intercreditor agreements we may enter, we may be unable to realize the proceeds of any collateral securing some of our loans.

Finally, the value of the collateral securing our debt investment will ultimately depend on market and economic conditions, the availability of buyers and other factors. Therefore, there can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by our first or second priority liens. There is also a risk that such collateral securing our investments will decrease in value over time, will be difficult to sell in a timely manner, will be difficult to appraise and will fluctuate in value based upon the success of the portfolio company and market conditions. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by our second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company s remaining assets, if any.

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***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. Although we seek to maintain a diversified portfolio in accordance with our business strategies, to the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market s assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our RIC asset diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

***We generally will not control our portfolio companies.***

We do not, and do not expect to, control the decision making in many of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest will make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, will take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that would decrease the value of our portfolio holdings.

***Defaults by our portfolio companies will harm our operating results.***

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company s ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

***Any unrealized losses we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized losses in our loan portfolio could be an indication of a portfolio company s inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

***Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.***

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

***Changes in interest rates may affect our cost of capital and net investment income.***

Some of our debt investments will bear interest at variable rates and the interest income from these investments could be negatively affected by decreases in market interest rates. In addition, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could increase our cost of capital, which would reduce our net investment income. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, a situation which could reduce the value of our common stock. Conversely, a decrease in interest rates may have an adverse impact on our returns by requiring us to seek lower yields on our debt investments and by increasing the risk that our portfolio companies will prepay our debt investments, resulting in the need to redeploy capital at potentially lower rates. A decrease in market interest rates may also adversely impact our returns on idle funds, which would reduce our net investment income.

***We may not realize gains from our equity investments.***

Certain investments that we have made in the past and may make in the future include warrants or other equity securities. Investments in equity securities involve a number of significant risks, including the risk of further dilution as a result of additional issuances, inability to access additional capital and failure to pay current distributions. Investments in preferred securities involve special risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights. In addition, we may from time to time make non-control, equity investments in portfolio companies. Our goal is ultimately to realize gains upon our disposition of such equity interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these puts rights for the consideration provided in our investment documents if the issuer is in financial distress.

**Risks Relating to an Offering of Our Common Stock**

***Shares of closed-end investment companies, including BDCs, may trade at a discount to their net asset value.***

Shares of closed-end investment companies, including BDCs, may trade at a discount from net asset value. This characteristic of closed-end investment companies and BDCs is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade at, above or below net asset value. In addition, if our common stock trades below net asset value, 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. See Risks Relating to Our Business and Structure Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock for a discussion of proposals approved by our stockholders that permit us to issue shares of our common stock below net asset value.

***We may be unable to invest a significant portion of the net proceeds from an offering on acceptable terms, which could harm our financial condition and operating results.***

Delays in investing the net proceeds raised in an offering may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of any offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

We anticipate that, depending on market conditions and the amount of any particular offering, it may take us a substantial period of time to invest substantially all of the net proceeds of any offering in securities meeting our investment objective. During this period, we will invest the net proceeds of any offering primarily in cash, cash equivalents, U.S. government securities and high-quality debt instruments, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in securities meeting our investment objective. As a result, any distributions that we pay during such period may be substantially lower than the distributions that we may be able to pay when our portfolio is fully invested in securities meeting our investment objective. In addition, until such time as the net proceeds of any offering are invested in securities meeting our investment objective, the market price for our common stock may decline. Thus, the initial return on your investment may be lower than when, if ever, our portfolio is fully invested in securities meeting our investment objective.

***Investing in our common stock may involve an above average degree of risk.***

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies involve higher levels of risk, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

***The market price of our common stock may be volatile and fluctuate significantly.***

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital. The market price and liquidity of the market for our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to RICs, BDCs or SBICs;
- inability to obtain any exemptive relief that may be required by us in the future from the SEC;
- loss of our BDC or RIC status or the Fund s status as an SBIC;
- changes in our earnings or variations in our operating results;
- changes in the value of our portfolio of investments;
- any shortfall in our investment income or net investment income or any increase in losses from levels expected by investors or securities analysts;
- loss of a major funding source;
- fluctuations in interest rates;
- the operating performance of companies comparable to us;
- departure of our key personnel;
- global or national credit market changes; and
- general economic trends and other external factors.

***Provisions of the Maryland General Corporation Law and our articles of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Maryland General Corporation Law and our articles of incorporation and bylaws contain provisions that may have the effect of discouraging, delaying or making difficult a change in control of our company or the removal of our incumbent directors. The existence of these provisions, among others, may have a negative impact on the price of our common stock and may discourage third-party bids for ownership of our company. These provisions may prevent any premiums being offered to you for our common stock.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus and any accompanying prospectus supplement constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus and any accompanying prospectus supplement may include statements as to:

- our future operating results and dividend projections;
- our business prospects and the prospects of our portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

In addition, words such as anticipate, believe, expect and intend indicate a forward-looking statement, although all forward-looking statements include these words. The forward-looking statements contained in this prospectus and any accompanying prospectus supplement involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this prospectus and any accompanying prospectus supplement. Other factors that could cause actual results to differ materially include:

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this prospectus and will base the forward-looking statements included in any accompanying prospectus supplement on information available to us on the date of this prospectus and any accompanying prospectus supplement, as appropriate, and we assume no obligation to update any such forward-looking statements, except as required by law. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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## FORMATION TRANSACTIONS

MSCC was formed on March 9, 2007, for the purpose of (i) acquiring 100% of the equity interests of the Fund and its general partner, the General Partner, (ii) acquiring 100% of the equity interests of the Investment Manager, (iii) raising capital in the IPO, and (iv) thereafter operating as an internally managed BDC under the 1940 Act. The Fund is licensed as an SBIC by the SBA and the Investment Manager acts as the Fund s manager and investment adviser. The Investment Manager also acts as the manager and investment adviser to MSC II, a privately owned, affiliated SBIC which commenced investment operations in January 2006. MSCC did not acquire any interest in MSC II in connection with the Formation Transactions and currently does not hold any equity interest in MSC II. The transactions discussed above were consummated in October 2007 and are collectively termed the Formation Transactions.

As part of the Formation Transactions, the Investment Manager, which employs all of the executive officers and other employees of MSCC, became a wholly owned subsidiary of MSCC. However, the Investment Manager is accounted for as a portfolio investment of Main Street, since the Investment Manager is not a registered investment company and since it conducts a significant portion of its investment management activities for MSC II, a separate SBIC fund in which MSCC does not have an equity interest. The Investment Manager receives recurring investment management fees from MSC II pursuant to a separate investment advisory agreement, paid quarterly, which currently total $3.3 million per year. The portfolio investment in the Investment Manager is accounted for using fair value accounting, with the fair value determined by MSCC and approved, in good faith, by MSCC s Board of Directors. MSCC s valuation of the Investment Manager is based upon the discounted net cash flows from third party recurring investment managers fees. The net cash flows utilized in the valuation of the Investment Manager exclude any revenues and expenses from all related parties (including MSCC) but include the management fees from MSC II and an estimated allocation of costs related to providing services to MSC II. For more information on the Investment Manager, see Note D Wholly Owned Investment Manager to our consolidated financial statements.

In connection with the Formation Transactions, MSCC entered into a support services agreement with the Investment Manager. The agreement requires the Investment Manager to manage the day-to-day operational and investment activities of Main Street. The Investment Manager generally incurs all normal operating and administrative expenses, except those specifically required to be borne by MSCC, which principally include costs that are specific to MSCC s status as a publicly traded entity. The expenses paid by the Investment Manager include the cost of salaries and related benefits, rent, equipment and other administrative costs required for Main Street s day-to-day operations.

The Investment Manager is reimbursed for its expenses associated with providing operational and investment management services to MSCC and its subsidiaries. Each quarter, as part of the support services agreement, MSCC makes payments to cover all expenses incurred by the Investment Manager, less amounts the Investment Manager receives from MSC II pursuant to a separate investment advisory services agreement. Based on this separate investment advisory services agreement, MSC II paid the Investment Manager approximately $3.3 million in 2008 for these services.

The IPO involved the public offering and sale of 4,300,000 shares of our common stock, including shares sold upon the underwriters exercise of the over-allotment option, at a price to the public of $15.00 per share of our common stock, resulting in net proceeds to us of approximately $60.2 million, after deducting underwriters commissions totaling approximately $4.3 million. As a result of the IPO and the Formation Transactions described above, we are a closed-end, non-diversified management investment company that has elected to be treated as a BDC under the 1940 Act. Because the Investment Manager, which employs all of the executive officers and other employees of MSCC, is wholly owned by us, we do not pay any external investment advisory fees, but instead we incur the net operating costs associated with employing investment and portfolio management professionals through the Investment Manager.

Immediately following the completion of the Formation Transactions, MSEI was created as a wholly-owned consolidated subsidiary of MSCC to hold certain of our portfolio investments. MSEI has elected for tax purposes to be treated as a taxable entity and is taxed at normal corporate tax rates based on its taxable income. The taxable income of MSEI may differ from its book income due to deferred tax timing differences as well as permanent differences.

We co-invested with MSC II in several existing portfolio investments prior to the IPO, but did not co-invest with MSC II subsequent to the IPO and prior to June 2008. On June 4, 2008, we received exemptive relief from the SEC to allow us to resume co-investing with MSC II in accordance with the terms of such exemptive relief.

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## USE OF PROCEEDS

We intend to use all of the net proceeds from selling our common stock to make investments in lower middle-market companies in accordance with our investment objective and strategies described in this prospectus or any prospectus supplement, pay our operating expenses and dividends to our stockholders and for general corporate purposes. Pending such use, we will invest the net proceeds of any offering primarily in short-term securities consistent with our BDC election and our election to be taxed as a RIC. See Regulation Regulation as a Business Development Company Idle Funds Investments. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such an offering.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the Nasdaq Global Select Market under the symbol MAIN. The following table sets forth, for each fiscal quarter since our initial public offering, the range of high and low sales prices of our common stock as reported on the Nasdaq Global Select Market, the sales price as a percentage of our net asset value (NAV) and the dividends declared by us for each fiscal quarter. The stock quotations are inter-dealer quotations and do not include mark-ups, mark-downs or commissions and as such do not necessarily represent actual transactions.

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During the fourth quarter of 2008, we began paying monthly instead of quarterly dividends to our stockholders, determined by our Board of Directors on a quarterly basis.

| | NAV(1) | Price Range High | Price Range Low | Percentage of High Sales Price to NAV(2) | Percentage of Low Sales Price to NAV(2) | Cash Dividend Per Share(3) |
|---|---|---|---|---|---|---|
| ***Year ended December 31, 2007*** | | | | | | |
| October 5, 2007 to December 31, 2007(4) | $12.85 | $15.02 | $13.60 | 117% | 106% | $ 0.33 |
| ***Year ended December 31, 2008*** | | | | | | |
| First Quarter | $12.87 | $14.10 | $12.75 | 110% | 99% | $ 0.34 |
| Second Quarter | $13.02 | $14.40 | $10.90 | 111% | 84% | $ 0.35 |
| Third Quarter | $12.49 | $14.40 | $11.38 | 115% | 91% | $ 0.36 |
| Fourth Quarter | $12.20 | $11.95 | $ 8.82 | 98% | 72% | $0.375 |
| ***Year ended December 31, 2009*** | | | | | | |
| First Quarter | * | $10.43 | $ 9.07 | * | * | $0.375 |
| Second Quarter (through April 23, 2009) | * | $12.99 | $ 9.66 | * | * | $0.375 |

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period. Net asset value has not yet been determined for the first and second quarters of 2009.

(2) Calculated as the respective high or low sales price divided by net asset value.

(3) Represents the dividend declared in the specified quarter. We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. See Dividend Reinvestment Plan.

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(4) Our stock began trading on the Nasdaq Global Select Market on October 5, 2007.

The last reported price for our common stock on April 23, 2009 was $11.70 per share. As of April 22, 2009, we had 120 stockholders of record.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibilities that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether the common stock offered hereby will trade at, above, or below net asset value. Since our IPO in October 2007, our shares of common stock have traded at prices both less than and exceeding our net asset value.

We have distributed quarterly, but, beginning in the fourth quarter of 2008, we began to distribute monthly, dividends to our stockholders.

Our dividends, if any, are determined by our Board of Directors. MSCC has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

To maintain RIC tax treatment, we must, among other things, distribute at least 90.0% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. Please refer to  Material U.S. Federal Income Tax Considerations  for further information regarding the consequences of our retention of net capital gains. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See  Regulation  and  Material U.S. Federal Income Tax Considerations.

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## PURCHASES OF EQUITY SECURITIES

On November 13, 2008, we announced that our Board of Directors authorized our officers, in their discretion and subject to compliance with the 1940 Act and other applicable laws, to purchase on the open market or in privately negotiated transactions, an amount up to $5 million of the outstanding shares of our common stock at prices per share not to exceed our last reported net asset value per share. The share repurchase program is authorized to be in effect through the earlier of December 31, 2009 or such time as the approved $5 million repurchase amount has been fully utilized. We can not assure you the extent that we will conduct open market purchases, and to the extent we do conduct open market purchases, we may terminate them at any time. As of December 31, 2008, we had purchased 34,700 shares of our common stock for $331,006 in the open market pursuant to the program. The following chart summarizes repurchases of our common stock under the stock repurchase program through December 31, 2008.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2008 through October 31, 2008 | | $ | | |
| November 1, 2008 through November 30, 2008 | 8,500 | $ 9.29 | 8,500 | |
| December 1, 2008 through December 31, 2008 | 26,200 | $ 9.62 | 26,200 | |
| Total | 34,700 | $ 9.54 | 34,700 | $ 4,668,994 |

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## SELECTED FINANCIAL DATA

The selected financial and other data below reflects the combined operations of the Fund and the General Partner for the years ended December 31, 2004, 2005 and 2006 and the consolidated operations of Main Street and its subsidiaries for the years ended December 31, 2007 and 2008. The selected financial data at December 31, 2005, 2006, 2007 and 2008 and for the years ended December 31, 2004, 2005, 2006, 2007 and 2008, have been derived from combined/consolidated financial statements that have been audited by Grant Thornton LLP, an independent registered public accounting firm. The selected financial data at December 31, 2004 has been derived from unaudited combined financial statements. You should read this selected financial and other data in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the financial statements and related notes thereto.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| | (Dollars in thousands) | | | | |
| **Statement of operations data:** | | | | | |
| Investment income: | | | | | |
| Total interest, fee and dividend income | $ 4,452 | $ 7,338 | $ 9,013 | $ 11,312 | $ 15,967 |
| Interest from idle funds and other | 9 | 222 | 749 | 1,163 | 1,328 |
| Total investment income | 4,461 | 7,560 | 9,762 | 12,475 | 17,295 |
| Expenses: | | | | | |
| Interest | (869) | (2,064) | (2,717) | (3,246) | (3,778) |
| General and administrative | (184) | (197) | (198) | (512) | (1,684) |
| Expenses reimbursed to Investment Manager | | | | | (1,007) |
| Share-based compensation | | | | | (511) |
| Management fees to affiliate | (1,916) | (1,929) | (1,942) | (1,500) | |
| Professional costs related to initial public offering | | | | (695) | |
| Total expenses | (2,969) | (4,190) | (4,857) | (5,953) | (6,980) |
| Net investment income | 1,492 | 3,370 | 4,905 | 6,522 | 10,315 |
| Total net realized gain from investments | 1,171 | 1,488 | 2,430 | 4,692 | 1,398 |
| Net realized income | 2,663 | 4,858 | 7,335 | 11,214 | 11,713 |
| Total net change in unrealized appreciation (depreciation) from investments | 1,764 | 3,032 | 8,488 | (5,406) | (3,961) |
| Income tax benefit (provision) | | | | (3,263) | 3,182 |
| Net increase in net assets resulting from operations | $ 4,427 | $ 7,890 | $ 15,823 | $ 2,545 | $ 10,934 |
| Net investment income per share basic and diluted | N/A | N/A | N/A | $ 0.76 | $ 1.15 |
| Net realized income per share basic and diluted | N/A | N/A | N/A | $ 1.31 | $ 1.31 |

| | | | | | |
|---|---|---|---|---|---|
| Net increase in net assets resulting from operations per share basic and diluted | N/A | N/A | N/A | $ 0.30 | $ 1.22 |
| Weighted average shares outstanding basic | N/A | N/A | N/A | 8,587,701 | 8,967,383 |
| Weighted average shares outstanding diluted | N/A | N/A | N/A | 8,587,701 | 8,971,064 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 (Unaudited) | 2005 | 2006 | 2007 | 2008 |
| | (Dollars in thousands) | | | | |
| **Balance sheet data:** | | | | | |
| Assets: | | | | | |
| Total portfolio investments at fair value | $ 37,972 | $ 51,192 | $ 73,711 | $ 105,650 | $ 127,007 |
| Idle funds investments | | | | 24,063 | 4,390 |
| Cash and cash equivalents | 796 | 26,261 | 13,769 | 41,889 | 35,375 |
| Deferred tax asset | | | | | 1,121 |
| Other assets | 262 | 439 | 630 | 1,576 | 1,101 |
| Deferred financing costs, net of accumulated amortization | 984 | 1,442 | 1,333 | 1,670 | 1,635 |
| Total assets | $ 40,014 | $ 79,334 | $ 89,443 | $ 174,848 | $ 170,629 |
| Liabilities and net assets: | | | | | |
| SBIC debentures | $ 22,000 | $ 45,100 | $ 45,100 | $ 55,000 | $ 55,000 |
| Deferred tax liability | | | | 3,026 | |
| Interest payable | 354 | 771 | 855 | 1,063 | 1,108 |
| Accounts payable and other liabilities | 422 | 194 | 216 | 610 | 2,165 |
| Total liabilities | 22,776 | 46,065 | 46,171 | 59,699 | 58,273 |
| Total net assets | 17,238 | 33,269 | 43,272 | 115,149 | 112,356 |
| Total liabilities and net assets | $ 40,014 | $ 79,334 | $ 89,443 | $ 174,848 | $ 170,629 |
| **Other data:** | | | | | |
| Weighted average effective yield on debt investments(1) | 15.3% | 15.3% | 15.0% | 14.3% | 14.0% |
| Number of portfolio companies(3) | 14 | 19 | 24 | 27 | 31 |
| Expense ratios (as percentage of average net assets): | | | | | |
| Operating expenses(2) | 13.7% | 9.0% | 5.5% | 4.8% | 2.8% |
| Interest expense | 5.7% | 8.8% | 7.0% | 5.7% | 3.3% |

(1) Weighted-average effective yield is calculated based on our debt investments at the end of each period and includes amortization of deferred debt origination fees and accretion of original issue discount, but excludes debt investments with non-accrual status.

(2) The ratio for the year ended December 31, 2007 reflects the impact of professional costs related to the IPO. These costs were 25.7% of operating expenses for the year.

(3) Excludes the investment in affiliated Investment Manager, as referenced in Formation Transactions and in the notes to the financial statements elsewhere herein.

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## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this prospectus.*

*Statements we make in the following discussion which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings Cautionary Statement Concerning Forward-Looking Statements and Risk Factors in this prospectus.*

### ORGANIZATION

Main Street Capital Corporation ( MSCC ) was formed on March 9, 2007 for the purpose of (i) acquiring 100% of the equity interests of Main Street Mezzanine Fund, LP (the Fund ) and its general partner, Main Street Mezzanine Management, LLC (the General Partner ), (ii) acquiring 100% of the equity interests of Main Street Capital Partners, LLC (the Investment Manager ), (iii) raising capital in an initial public offering, which was completed in October 2007 (the IPO ), and (iv) thereafter operating as an internally managed business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). The transactions discussed above were consummated in October 2007 and are collectively termed the Formation Transactions. Immediately following the Formation Transactions, Main Street Equity Interests, Inc. ( MSEI ) was formed as a wholly owned consolidated subsidiary of MSCC. MSEI has elected for tax purposes to be treated as a taxable entity and is taxed at normal corporate tax rates based on its taxable income. Unless otherwise noted or the context otherwise indicates, the terms we, us, our and Ma Street refer to the Fund and the General Partner prior to the IPO and to MSCC and its subsidiaries, including the Fund and the General Partner, subsequent to the IPO.

### OVERVIEW

We are a principal investment firm focused on providing customized debt and equity financing to lower middle-market companies, which we generally define as companies with annual revenues between $10 and $100 million that operate in diverse industries. We invest primarily in secured debt instruments, equity investments, warrants and other securities of lower middle-market companies based in the United States. Our principal investment objective is to maximize our portfolio s total return by generating current income from our debt investments and capital appreciation from our equity and equity-related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. Our investments generally range in size from $2 million to $15 million.

Our investments are made through both MSCC and the Fund. Since the IPO, MSCC and the Fund have co-invested in substantially every investment we have made. MSCC and the Fund share the same investment strategies and criteria in the lower middle-market, although they are subject to different regulatory regimes. See Regulation. An investor s return in MSCC will depend, in part, on the Fund s investment returns as the Fund is a wholly owned subsidiary of MSCC.

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

Due to the uncertainties in the current economic environment and our desire to maintain adequate liquidity, we intend to be very selective in our near term portfolio growth. However, we anticipate that our net investment income will continue to grow as we deploy our existing lower yield cash and cash equivalents into higher yielding portfolio investments. During 2008, we paid approximately $1.425 per share in dividends. In September 2008, we declared monthly dividends for the fourth quarter of 2008 totaling $0.375 per share representing a 13.6% increase from the dividends paid in the fourth quarter of 2007. In December 2008, we declared monthly dividends for the first quarter of 2009 totaling $0.375 per share representing a 10.3% increase from the dividends paid in the first quarter of 2008. For tax purposes, the monthly dividend paid in January 2009 was applied against the 2008 taxable income distribution requirements since it was declared and accrued prior to December 31, 2008. Excluding the impact for the tax treatment of the January 2009 dividend, we estimate that we generated undistributed taxable income (or spillover income ) of approximately $4 million, or $0.44 per share, during 2008 that will be carried forward toward distributions paid in 2009. For the 2009 calendar year, we estimate that we will pay dividends in the range of $1.50 to $1.65 per share representing an increase of 5.3% to 15.8% over the total dividends per share paid during calendar year 2008. The estimated range for total 2009 dividends is based upon projections of 2009 taxable income, anticipated 2009 portfolio activity, and the $4 million of 2008 spillover income which will be utilized to pay dividends during 2009. We will continue to pay dividends on a monthly basis during 2009 and will continue to provide quarterly updates related to our 2009 dividend guidance.

At December 31, 2008, we had $39.8 million in cash and cash equivalents plus idle funds investments. During October 2008, we closed a $30 million multi-year investment line of credit. Due to our existing and available cash and other resources, we expect to have sufficient cash resources to support our investment and operational activities throughout all of 2009 and well into 2010. However, this projection will be impacted by, among other things, the pace of new and follow on investments, investment redemptions, the level of cash flow from operations and cash flow from realized gains, and the level of dividends paid in cash.

The recently enacted American Recovery and Reinvestment Act of 2009 (the 2009 Stimulus Bill ) contains several provisions applicable to Small Business Investment Company ( SBIC ) funds, including the Fund, our wholly owned subsidiary. One of the key SBIC-related provisions included in the 2009 Stimulus Bill increases the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately $137 million, as adjusted annually based upon changes in the Consumer Price Index. Due to the increase in the maximum amount of SBIC leverage available, we will now have access to incremental SBIC leverage to support our future investment activities. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, we will allocate such increased borrowing capacity between our wholly owned SBIC subsidiary and Main Street Capital II, LP ( MSC II ), an independently owned SBIC that is managed by Main Street and therefore deemed to be affiliated for SBIC regulatory purposes. It is currently estimated that at least $55 million to $60 million of additional SBIC leverage is now accessible by Main Street for future investment activities, subject to the required capitalization of our wholly owned SBIC subsidiary.

In our view, the SBIC leverage, including the increased capacity, remains a strategic advantage due to its long-term, flexible structure and a very low fixed cost. The SBIC leverage also provides proper matching of duration and cost compared with our portfolio debt investments. The weighted average duration of our portfolio debt investments is 3.5 years compared to a weighted average duration of over 6 years for our SBIC leverage. This duration on our SBIC leverage does not consider the opportunity to revolve or refinance our existing SBIC leverage into new 10-year tranches upon contractual maturity. Approximately 85% of portfolio debt investments bear interest at fixed rates which is also appropriately matched by the long-term, low cost fixed rates available through our SBIC leverage. In addition, we believe the embedded value of our SBIC leverage would be significant if we had adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ) relating to accounting for debt obligations at their fair value.

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## CRITICAL ACCOUNTING POLICIES

### *Basis of Presentation*

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). For the years ended December 31, 2008 and 2007, the consolidated financial statements of Main Street include the accounts of MSCC, the Fund, MSEI and the General Partner. The Investment Manager is accounted for as a portfolio investment. The Formation Transactions involved an exchange of equity interests between companies under common control. In accordance with the guidance on exchanges of equity interests between entities under common control contained in SFAS No. 141, *Business Combinations* ( SFAS 141 ), Main Street s results of operations and cash flows for the year ended December 31, 2007 are presented as if the Formation Transactions had occurred as of January 1, 2007. Main Street s results of operations for the years ended December 31, 2008 and 2007, cash flows for the years ended December 31, 2008 and 2007 and financial positions as of December 31, 2008 and 2007 are presented on a consolidated basis. In addition, the results of Main Street s operations and its cash flows for the year ended December 31, 2006 have been presented on a combined basis in order to provide comparative information with respect to prior periods. The effects of all intercompany transactions between Main Street and its subsidiaries have been eliminated in consolidation. As a result of adopting the provisions of SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), in the first quarter of 2008, certain reclassifications have been made to prior period balances to conform with the current financial statement presentation.

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

### *Portfolio Investment Valuation*

The most significant estimate inherent in the preparation of our financial statements is the valuation of our portfolio investments and the related amounts of unrealized appreciation and depreciation. As of December 31, 2008 and December 31, 2007, approximately 74% and 60%, respectively, of our total assets represented investments in portfolio companies valued at fair value (including the investment in the Investment Manager). We are required to report our investments at fair value. We adopted the provisions of SFAS 157 in the first quarter of 2008. SFAS 157 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. With the adoption of this statement, we incorporated the income approach to estimate the fair value of our debt investments principally using a yield-to-maturity model, resulting in the recognition of $0.7 million in unrealized appreciation from ten debt investments upon adoption.

Our business plan calls for us to invest primarily in illiquid securities issued by private companies and/or thinly traded public companies. These investments may be subject to restrictions on resale and will generally have no established trading market. As a result, we determine in good faith the fair value of our portfolio investments pursuant to a valuation policy in accordance with SFAS 157 and a valuation process approved by our Board of Directors and in accordance with the 1940 Act. We review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

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

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

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

***Revenue Recognition***

*Interest and Dividend Income*

We record interest and dividend income on the accrual basis to the extent amounts are expected to be collected. Dividend income is recorded as dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. In accordance with our valuation policy, we evaluate accrued interest and dividend income periodically for collectibility. 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 ability to service the debt or other obligations, or if a loan or debt security is fully impaired or written off, we will remove it from non-accrual status.

*Fee Income*

We may periodically provide services, including structuring and advisory services, to our portfolio companies. For services that are separately identifiable and evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment or other applicable transaction closes. Fees received in connection with debt financing transactions for services that do not meet these criteria are treated as debt origination fees, net of direct loan origination costs, and are amortized, based on the effective interest method, as additional interest income over the life of the related debt investment.

*Payment-in-Kind ( PIK ) Interest*

While not significant to our total debt investment portfolio, we currently hold several loans in our portfolio that contain PIK interest provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain regulated investment company ( RIC ) tax treatment (as discussed below), this non-cash source of income will need to be paid out to stockholders in the form of distributions, even though we may not have collected the cash. We will stop accruing PIK interest and write off any accrued and uncollected interest when it is determined that PIK interest is no longer collectible.

***Share-Based Compensation***

We account for our share-based compensation plan using the fair value method, as prescribed by SFAS No. 123R, *Share-Based Payment*. Accordingly, for restricted stock awards, we measured the grant date fair value based upon the market price of our common stock on the date of the grant and will amortize this fair value to share-based compensation expense over the requisite service period or vesting term.

***Income Taxes***

MSCC has elected and intends to qualify for the tax treatment applicable to a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ), and, among other things, intends to make the required distributions to our stockholders as specified therein. As a RIC, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.

MSCC s wholly owned subsidiary, MSEI, is a taxable entity which holds certain of our portfolio investments. MSEI is consolidated with Main Street for U.S. GAAP reporting purposes, and the portfolio investments held by MSEI are included in our consolidated financial statements. The principal purpose of MSEI is to permit us to hold equity investments in portfolio companies which are pass through entities for tax purposes in order to comply with the source income requirements contained in the RIC tax provisions. MSEI is not consolidated with Main Street for income tax purposes and may generate income tax expense as a result of MSEI s ownership of certain portfolio investments. This income tax expense, if any, is reflected in our consolidated statement of operations.

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

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**PORTFOLIO COMPOSITION**

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

The Investment Manager is a wholly owned subsidiary of MSCC. However, the Investment Manager is accounted for as a portfolio investment of Main Street, since it is not an investment company and since it conducts a significant portion of its investment management activities outside of MSCC and its subsidiaries. To allow for more relevant disclosure of our core investment portfolio, our investment in the Investment Manager has been excluded from the tables and amounts set forth below.

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

| **Cost:** | **December 31, 2008** | **December 31, 2007** |
|---|---|---|
| First lien debt | 76.2% | 81.5% |
| Equity | 11.0% | 10.7% |
| Second lien debt | 7.4% | 6.1% |
| Equity warrants | 5.4% | 1.7% |
| | 100.0% | 100.0% |

| **Fair Value:** | **December 31, 2008** | **December 31, 2007** |
|---|---|---|
| First lien debt | 67.0% | 70.1% |
| Equity | 15.7% | 18.6% |
| Equity warrants | 10.2% | 8.0% |
| Second lien debt | 7.1% | 3.3% |
| | 100.0% | 100.0% |

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

| **Cost:** | **December 31, 2008** | **December 31, 2007** |
|---|---|---|

| | | |
|---|---|---|
| Southwest | 50.2% | 31.9% |
| West | 36.3% | 37.1% |
| Southeast | 5.1% | 11.4% |
| Midwest | 4.7% | 5.8% |
| Northeast | 3.7% | 13.8% |
| | 100.0% | 100.0% |

| **Fair Value:** | **December 31, 2008** | **December 31, 2007** |
|---|---|---|
| Southwest | 56.0% | 41.2% |
| West | 31.1% | 32.9% |
| Midwest | 5.1% | 6.5% |
| Southeast | 4.1% | 10.3% |
| Northeast | 3.7% | 9.1% |
| | 100.0% | 100.0% |

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Main Street s portfolio investments are generally in lower middle-market companies conducting business in a variety of industries. Set forth below are tables showing the composition of Main Street s core investment portfolio by industry at cost and fair value as of December 31, 2008 and 2007:

| Cost: | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Industrial equipment | 12.0% | 6.6% |
| Precast concrete manufacturing | 11.3% | |
| Custom wood products | 9.3% | 8.4% |
| Agricultural services | 8.3% | 11.6% |
| Electronics manufacturing | 7.6% | 9.5% |
| Transportation/Logistics | 6.6% | 6.7% |
| Retail | 6.5% | 3.3% |
| Restaurant | 6.1% | 3.4% |
| Health care products | 5.8% | 4.2% |
| Mining and minerals | 4.8% | 9.1% |
| Manufacturing | 4.7% | 12.0% |
| Health care services | 4.2% | 5.9% |
| Professional services | 4.1% | 3.3% |
| Metal fabrication | 3.4% | 4.6% |
| Equipment rental | 2.1% | 2.6% |
| Infrastructure products | 1.7% | 2.4% |
| Information services | 0.9% | 1.2% |
| Industrial services | 0.5% | 0.4% |
| Distribution | 0.1% | 2.2% |
| Consumer products | | 2.6% |
| | 100.0% | 100.0% |

| Fair Value: | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Precast concrete manufacturing | 13.7% | |
| Industrial equipment | 10.2% | 6.0% |
| Agricultural services | 8.1% | 10.5% |
| Electronics manufacturing | 7.7% | 9.6% |
| Retail | 7.0% | 3.4% |
| Custom wood products | 6.8% | 7.5% |
| Restaurant | 6.7% | 4.5% |
| Transportation/Logistics | 6.5% | 6.6% |
| Health care services | 6.1% | 6.0% |
| Health care products | 5.8% | 4.1% |
| Professional services | 5.4% | 4.1% |
| Manufacturing | 5.1% | 9.5% |
| Metal fabrication | 4.3% | 4.2% |

| | | |
|---|---|---|
| Industrial services | 2.8% | 2.9% |
| Equipment rental | 2.0% | 2.4% |
| Information services | 0.9% | 1.2% |
| Infrastructure products | 0.5% | 2.2% |
| Distribution | 0.4% | 2.4% |
| Mining and minerals | | 12.9% |
| | 100.0% | 100.0% |

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

**PORTFOLIO ASSET QUALITY**

We utilize an internally developed investment rating system for our entire portfolio of investments. Investment Rating 1 represents a portfolio company that is performing in a manner which significantly exceeds our original expectations and projections. Investment Rating 2 represents a portfolio company that is performing above our original expectations. Investment Rating 3 represents a portfolio company that is generally performing in accordance with our original expectations. Investment Rating 4 represents a portfolio company that is underperforming our original expectations. Investments with such a rating require increased Main Street monitoring and scrutiny. Investment Rating 5 represents a portfolio company that is significantly underperforming. Investments with such a rating require heightened levels of Main Street monitoring and scrutiny and involve the recognition of unrealized depreciation on such investment.

The following table shows the distribution of our investments on our 1 to 5 investment rating scale at fair value as of December 31, 2008 and 2007 (excluding Main Street s investment in the Investment Manager):

| | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| **Investment Rating** | **Investments at Fair Value** | **Percentage of Total Portfolio** | **Investments at Fair Value** | **Percentage of Total Portfolio** |
| | (Dollars in thousands) | | | |
| 1 | $ 27,523 | 24.9% | $ 24,619 | 28.0% |
| 2 | 23,150 | 21.0% | 35,068 | 39.8% |
| 3 | 53,123 | 48.1% | 24,034 | 27.3% |
| 4 | 6,035 | 5.5% | | 0.0% |
| 5 | 500 | 0.5% | 4,304 | 4.9% |
| Totals | $ 110,331 | 100.0% | $ 88,025 | 100.0% |

Based upon our investment rating system, the weighted average rating of our portfolio as of December 31, 2008 and 2007 was approximately 2.4 and 2.2 respectively. As of December 31, 2008 and 2007, we had one debt investment in each period representing 0.5% and 3.1%, respectively, of total portfolio fair value (excluding Main Street s investment in the Investment Manager) which was on non-accrual status.

In the event that the United States economy remains in a prolonged period of weakness, it is possible that the financial results of small- to mid-sized companies, like those in which we invest, could experience deterioration, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults. In addition, the end markets for certain of our portfolio companies products and services have experienced, and continue to experience, negative economic trends. We are seeing somewhat reduced operating results at several portfolio companies due to the general economic difficulties. We expect the trend of reduced operating results to continue throughout 2009. Consequently, we can provide no assurance that the performance of certain of our portfolio companies will not be negatively impacted by these economic or other conditions which could have a negative impact on our future results.

## DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

***Comparison of years ended December 31, 2008 and December 31, 2007***

| | Years Ended December 31, 2008 | Years Ended December 31, 2007 | Net Change Amount | Net Change % |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Total investment income | $ 17.3 | $ 12.5 | $ 4.8 | 39% |
| Total expenses | (7.0) | (6.0) | (1.0) | 17% |
| Net investment income | 10.3 | 6.5 | 3.8 | 58% |
| Total net realized gain from investments | 1.4 | 4.7 | (3.3) | (70)% |
| Net realized income | 11.7 | 11.2 | 0.5 | 4% |
| Net change in unrealized appreciation (depreciation) from investments | (4.0) | (5.4) | 1.4 | NA |
| Income tax benefit (provision) | 3.2 | (3.3) | 6.5 | NA |
| Net increase in net assets resulting from operations | $ 10.9 | $ 2.5 | $ 8.4 | 330% |

| | Years Ended December 31, 2008 | Years Ended December 31, 2007 | Net Change Amount | Net Change % |
|---|---|---|---|---|
| Net investment income | $ 10.3 | $ 6.5 | $ 3.8 | 58% |
| Share-based compensation expense | 0.5 | | 0.5 | NA |
| Distributable net investment income(a) | 10.8 | 6.5 | 4.3 | 66% |
| Total net realized gain (loss) from investments | 1.4 | 4.7 | (3.3) | (70)% |
| Distributable net realized income(a) | $ 12.2 | $ 11.2 | $ 1.0 | 9% |

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

*Investment Income*

For the year ended December 31, 2008, total investment income was $17.3 million, a $4.8 million, or 39%, increase over the $12.5 million of total investment income for the year ended December 31, 2007. The increase was attributable to a $4.6 million increase in interest, fee and dividend income from investments and a $0.2 million increase in interest income from idle funds, which was principally earned on the remaining proceeds from our IPO. The increase in interest, fee and dividend income was primarily attributable to (i) higher average levels of outstanding debt investments, which was principally due to the closing of eight new debt investments since December 31, 2007, partially offset by debt repayments received during the same period and certain portfolio investments that were on non-accrual status or written off in 2008, (ii) significantly higher levels of cash dividend income from portfolio equity investments, and (iii) higher levels of fee income. For the year ended December 31, 2008, Main Street received approximately $3 million in cash dividend payments from portfolio company equity investments. These dividend payments were paid to Main Street based upon the accumulated earnings and available cash of certain portfolio companies for the year ended December 31, 2008. Future dividend payments will vary due to changes in portfolio company accumulated earnings and available cash.

*Expenses*

For the year ended December 31, 2008, total expenses increased by approximately $1.0 million, or 17%, to approximately $7.0 million from $6.0 million for the year ended December 31, 2007. Share-based compensation expense recognized during 2008 related to non-cash amortization expense for restricted share grants made in July 2008 totaled $0.5 million. There were no similar expenses incurred during 2007. In addition, 2007 operating expenses included $0.7 million of costs related to Main Street s IPO which was completed in October 2007. There were no similar expenses incurred during 2008. Operating expenses, excluding the non-cash, share-based compensation expense and the 2007 IPO-related expenses discussed above, increased $1.2 million in 2008 compared with 2007 due to a $0.7 million increase in general and administrative expense associated with higher costs to operate as a public company and a $0.5 million increase in interest expense as a result of an additional $9.9 million of SBIC Debentures borrowed through the Fund during 2007, and unused commitment fees on two credit facilities totaling $80 million, one entered into in December 2007 and the other in October 2008, by MSCC.

*Distributable Net Investment Income*

Distributable net investment income for the year ended December 31, 2008 was $10.8 million, or a 66% increase, compared to distributable net investment income of $6.5 million during the year ended December 31, 2007. The increase in distributable net investment income was attributable to the increase in total investment income partially offset by the increase in total expenses discussed above.

*Net Investment Income*

Net investment income for the year ended December 31, 2008 was $10.3 million, or a 58% increase, compared to net investment income of $6.5 million during the year ended December 31, 2007. The increase in net investment income was attributable to the increase in total investment income partially offset by the increase in total expenses discussed above.

*Distributable Net Realized Income*

For the year ended December 31, 2008, the net realized gains from investments was $1.4 million, representing a $3.3 million, or 70%, decrease over the net realized gains of $4.7 million during the year ended December 31, 2007. The net realized gains during the year ended December 31, 2008 principally related to the realized gains recognized on equity investments in four portfolio companies, offset by realized losses on debt and equity investments in two portfolio companies, compared to higher net realized gains recognized on equity investments in four portfolio companies during the year ended December 31, 2007.

The higher distributable net investment income in the year ended December 31, 2008 offset by the lower net realized gains during that period resulted in a $1.0 million, or 9%, increase in the distributable net realized income for the year ended December 31, 2008 compared with the year ended December 31, 2007.

*Net Realized Income*

The higher net investment income in the year ended December 31, 2008 offset by the lower net realized gains during that period resulted in a $0.5 million, or 4%, increase in the net realized income for the year ended December 31, 2008 compared with the corresponding period in 2007.

*Net Increase in Net Assets Resulting from Operations*

For the year ended December 31, 2008, the net increase in net assets resulting from operations was $10.9 million in 2008 compared with $2.5 million for the year ended December 31, 2007. The $4.0 million net change in unrealized depreciation from investments for 2008 was attributable to (i) $2.9 million from the accounting reversal of net unrealized appreciation attributable to the total net realized gain on the exit of six portfolio investments, (ii) unrealized depreciation on nine investments in portfolio companies totaling $8.9 million, offset by unrealized appreciation on thirteen investments in portfolio companies totaling $8.7 million, and (iii) $0.9 million in unrealized depreciation attributable to Main Street s investment in its affiliated investment manager. During 2008, Main Street also recognized a cumulative income tax benefit of $3.2 million primarily consisting of deferred tax benefits related to net unrealized losses on certain portfolio investments and the difference between taxable income and book income from equity investments which are flow through entities owned by MSEI, our wholly owned taxable subsidiary. We do not anticipate incurring this level of tax benefit in future periods.

***Comparison of years ended December 31, 2007, and December 31, 2006***

| | Years Ended December 31, 2007 | 2006 | Net Change Amount | % |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Total investment income | $ 12.5 | $ 9.8 | $ 2.7 | 28% |
| Total expenses | (6.0) | (4.9) | (1.1) | 23% |
| Net investment income | 6.5 | 4.9 | 1.6 | 33% |
| Total net realized gain (loss) from investments | 4.7 | 2.4 | 2.3 | 93% |
| Net realized income | 11.2 | 7.3 | 3.9 | 53% |
| Net change in unrealized appreciation (depreciation) from investments | (5.4) | 8.5 | (13.9) | NA |
| Income tax benefit (provision) | (3.3) | | (3.3) | NA |
| Net increase in net assets resulting from operations | $ 2.5 | $ 15.8 | $ (13.3) | (84)% |

*Investment Income*

For the year ended December 31, 2007, total investment income was $12.5 million, a $2.7 million, or 28%, increase over the $9.8 million of total investment income for the year ended December 31, 2006. The increase was primarily attributable to a $2.3 million increase in interest, fee and dividend income from investments and a $0.4 million increase in interest income from idle funds principally related to funds received from the IPO. The increase in interest, fee and dividend income from investments was primarily attributable to (i) higher average levels of outstanding debt investments, which was principally due to the closing of six new debt investments in the year ended December 31, 2007 and several new debt investments in the last half of 2006, partially offset by debt repayments received during the same periods, and (ii) higher levels of dividend income from portfolio equity investments.

*Expenses*

For the year ended December 31, 2007, total expenses increased by approximately $1.1 million, or 23%, to approximately $6.0 million from $4.9 million for the year ended December 31, 2006. The increase in total expenses was primarily attributable to a $0.5 million increase in interest expense as a result of the additional $9.9 million of SBIC Debentures borrowed by the Fund during the year ended December 31, 2007 and $0.7 million of professional costs related to the IPO. The professional costs related to the IPO principally consisted of audit and review costs as well as other offering-related professional fees. In addition, general and administrative expenses increased $0.3 million primarily attributable to an increase in administration costs associated with being a public company. The increase in total expenses was partially offset by a decrease of $0.4 million in management fees paid due to Main Street s internally managed operating structure subsequent to the IPO.

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*Net Investment Income*

As a result of the $2.7 million increase in total investment income as compared to the $1.1 million increase in total expenses, net investment income for the year ended December 31, 2007, was $6.5 million, or a 33% increase, compared to net investment income of $4.9 million during the year ended December 31, 2006. Professional fees related to the IPO represented $0.7 million of the $1.1 million increase in total expenses, or 11.7% of total expenses for the year ended December 31, 2007.

*Net Realized Income*

For the year ended December 31, 2007, net realized gains from investments were $4.7 million, representing a $2.3 million increase over net realized gains during the year ended December 31, 2006. The higher level of net realized gains during the year ended December 31, 2007 principally related to the realized gains recognized on equity investments in four portfolio companies compared to lower net realized gains recognized on equity investments in five portfolio companies during the year ended December 31, 2006.

The higher net realized gains in the year ended December 31, 2007 combined with the higher net investment income during 2007 resulted in a $3.9 million, or 53%, increase, in the net realized income for the year ended December 31, 2007 compared with 2006.

*Net Increase in Net Assets Resulting from Operations*

During the year ended December 31, 2007, we recorded a net change in unrealized depreciation in the amount of $5.4 million, or a $13.9 million decrease over the $8.5 million in net change in unrealized appreciation for the year ended December 31, 2006. The net change in unrealized depreciation for the year ended December 31, 2007 included unrealized appreciation on 13 equity investments in portfolio companies, partially offset by unrealized depreciation on 6 equity investments, the reclassification of $3.8 million of previously recognized unrealized gains into realized gains on 5 exited investments and $0.4 million in unrealized depreciation attributable to Main Street s investment in the affiliated Investment Manager.

Subsequent to the Formation Transactions and the IPO, we recognized a cumulative income tax expense of $3.3 million primarily consisting of non-cash deferred taxes related to net unrealized gains from certain portfolio equity investments transferred into MSEI, our wholly-owned taxable subsidiary. These equity investments had historically been made in portfolio companies which were pass through entities for tax purposes. The transfer of the equity investments into MSEI was required in order to comply with the RIC source income requirements. We do not anticipate incurring this level of deferred tax expense in future periods, given the amount recognized in the fourth quarter of fiscal 2007 represents the cumulative impact of deferred taxes related to net unrealized gains on the equity investments transferred.

As a result of these events, our net increase in net assets resulting from operations during the year ended December 31, 2007, was $2.5 million, or an 84% decrease compared to a net increase in net assets resulting from operations of $15.8 million during the year ended December 31, 2006.

***Liquidity and Capital Resources***

*Cash Flows*

For the year ended December 31, 2008, we experienced a net decrease in cash and cash equivalents of $6.5 million. During that period, we generated $10.9 million of cash from our operating activities, primarily from net investment income partially offset by the semi-annual interest payments on our SBIC debentures, through the Fund. We used $3.5 million in net cash for investing activities, principally due to the funding of new investments and several smaller follow-on investments for a total of $47.7 million. We also made a $4.2 million investment in idle funds investments, and received proceeds from the maturity of a $24.1 million investment in idle funds investments. We received $16.3 million in cash proceeds from repayment of debt investments and $8.0 million of cash proceeds from the redemption and sale of equity investments. For the year ended December 31, 2008, we used $13.9 million in cash for financing activities, which principally consisted of $13.2 million in cash dividends to stockholders, $0.4 million in deferred loan origination costs and $0.3 million used in the purchase of treasury stock pursuant to our open market share repurchase program.

For the year ended December 31, 2007, we experienced a net increase in cash and equivalents in the amount of $28.1 million. During 2007, we generated $5.4 million of cash from our operating activities, primarily from net investment income. We used $38.0 million in net cash for investing activities, principally due to the funding of new investments and several smaller follow-on investments for a total of $29.5 million of invested capital and the purchase of $24.1 million of investments in idle funds investments, partially offset by $9.6 million in cash proceeds from repayment of debt investments and $5.9 million of cash proceeds from the redemption or sale of several equity investments. We generated $60.7 million in cash from financing activities, which principally consisted of the net proceeds of $60.2 million from the IPO and $9.9 million in additional SBIC debenture borrowings, through the Fund, partially offset by $7.5 million of cash distributions to partners and stockholders and $1.6 million of payments related to IPO costs.

For the year ended December 31, 2006, we experienced a net decrease in cash and cash equivalents in the amount of $12.5 million. During 2006, we generated $4.2 million of cash from our operating activities, primarily from net investment income. During 2006, we used $10.9 million in cash for investing activities. The 2006 net cash used for investing activities included the funding of new or follow on investments for a total of $28.1 million of invested capital, partially offset by $12.2 million in cash proceeds from repayments of debt investments and $5.0 million of cash proceeds from the redemption or sale of several equity investments. During 2006, we used $5.9 million in cash for financing activities, which principally consisted of $6.2 million of cash distributions to partners (including a $0.5 million return of capital distribution), partially offset by additional partner contributions.

*Capital Resources*

As of December 31, 2008, we had $39.8 million in cash and cash equivalents plus idle funds investments, and our net assets totaled $112.4 million. On October 24, 2008, Main Street entered into a $30 million, three-year investment credit facility (the Investment Facility ) with Branch Banking and Trust Company ( BB&T ) and Compass Bank, as lenders, and BB&T, as administrative agent for the lenders. The purpose of the Investment Facility is to provide additional liquidity in support of future investment and operational activities. The Investment Facility allows for an increase in the total size of the facility up to $75 million, subject to certain conditions, and has a maturity date of October 24, 2011. Borrowings under the Investment Facility bear interest, subject to Main Street s election, on a per annum basis equal to (i) the applicable LIBOR rate plus 2.75% or (ii) the applicable base rate plus 0.75%. Main Street will pay unused commitment fees of 0.375% per annum on the average unused lender commitments under the Investment Facility. The Investment Facility is secured by certain assets of MSCC, MSEI and the Investment Manager. The Investment Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a minimum liquidity of not less than 10% of the aggregate principal amount outstanding, (ii) maintaining an interest coverage ratio of at least 2.00 to 1.00, and (iii) maintaining a minimum tangible net worth. At December 31, 2008, Main Street had no borrowings outstanding under the Investment Facility, and Main Street was in compliance with all covenants of the Investment Facility.

Due to our existing cash and cash equivalents plus idle funds investments and the additional borrowing capacity under the Investment Facility, we project that we will have sufficient liquidity to fund our investment and operational activities throughout all of calendar year 2009 and well into 2010. However, this projection will be impacted by, among other things, the pace of new and follow on investments, investment redemptions, the level of cash flow from operations and cash flow from realized gains, and the level of dividends paid in cash.

We anticipate that we will continue to fund our investment activities through existing cash and cash equivalents plus idle funds investments and a combination of future debt and additional equity capital. Due to the Fund s status as a licensed SBIC, we have the ability to issue, through the Fund, debentures guaranteed by the Small Business Administration (the SBA ) at favorable interest rates. Under the regulations applicable to

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SBICs, an SBIC can have outstanding debentures guaranteed by the SBA generally in an amount up to twice its regulatory capital, which generally equates to the amount of its equity capital.

The 2009 Stimulus Bill contains several provisions applicable to SBIC funds, including the Fund. One of the key SBIC-related provisions included in the 2009 Stimulus Bill increases the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately $137 million, as adjusted annually based upon changes in the Consumer Price Index. Due to the increase in the maximum amount of SBIC leverage available, we will now have access to incremental SBIC leverage to support our future investment activities. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, we will allocate such increased borrowing capacity between the Fund, our wholly owned SBIC subsidiary, and MSC II, an independently owned SBIC that is managed by Main Street and therefore deemed to be affiliated with the Fund for SBIC regulatory purposes. It is currently estimated that at least $55 million to $60 million of additional SBIC leverage is now accessible by Main Street for future investment activities, subject to the required capitalization of the Fund.

Debentures guaranteed by the SBA have fixed interest rates that approximate prevailing 10-year Treasury Note rates plus a spread and have a maturity of ten years with interest payable semi-annually. The principal amount of the debentures is not required to be paid before maturity but may be pre-paid at any time. Debentures issued prior to September 2006 were subject to pre-payment penalties during their first five years. Those pre-payment penalties no longer apply to debentures issued after September 1, 2006. On December 31, 2008, we, through the Fund, had $55 million of outstanding indebtedness guaranteed by the SBA, which carried an average fixed interest rate of approximately 5.8%. The first maturity related to the Fund s SBIC debentures does not occur until 2013.

On December 31, 2007, we entered into a Treasury Secured Revolving Credit Agreement (the Treasury Facility ) among us, Wachovia Bank, National Association, and Branch Banking and Trust Company ( BB&T ), as administrative agent for the lenders. Under the Treasury Facility, the lenders agreed to extend revolving loans to us in an amount not to exceed $100 million; however, due to the maturation of our investment portfolio and the additional flexibility provided by the Investment Facility, we unilaterally reduced the Treasury Facility from $100 million to $50 million during October 2008. The reduction in the size of the Treasury Facility resulted in a 50% reduction in the amount of unused commitment fees paid by us. The purpose of the Treasury Facility is to provide us flexibility in the sizing of portfolio investments and to facilitate the growth of our investment portfolio. The Treasury Facility has a two-year term and bears interest, at our option, either (i) at the LIBOR rate or (ii) at a published prime rate of interest, plus 0.25% in either case. The applicable interest rates under the Treasury Facility would be increased by 0.15% if usage under the Treasury Facility is in excess of 50% of the days within a given calendar quarter. The Treasury Facility also requires payment of 0.15% per annum in unused commitment fees based on the average daily unused balances under the facility. The Treasury Facility is secured by certain securities accounts maintained by BB&T and is also guaranteed by the Investment Manager. The Treasury Facility contains certain affirmative and negative covenants, including but not limited to: (i) maintaining a cash collateral coverage ratio of at least 1.01 to 1.0, (ii) maintaining an interest coverage ratio of at least 2.0 to 1.0, and (iii) maintaining a minimum tangible net worth. At December 31, 2008, we had no borrowings outstanding under the Treasury Facility, and Main Street was in compliance with all covenants of the Treasury Facility.

We intend to generate additional cash from future offerings of securities, future borrowings, repayments or sales of investments, and cash flow from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investments of cash in U.S. government securities and other idle funds investments that mature in one year or less with the exception of diversified bond funds. Our primary uses of funds will be investments in portfolio companies, operating expenses and cash distributions to holders of our common stock.

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. See Risk Factors Risks Relating to Our Business and Structure

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Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock for a discussion of the proposal approved by our stockholders at our 2008 annual meeting of stockholders that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual meeting of stockholders. We will need approval of similar proposals by our stockholders to issue shares below the then current net asset value per share after the earlier of June 16, 2009 and the date of our 2009 annual meeting of stockholders.

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

*Current Market Conditions*

Beginning in late 2007, the United States entered a recession. Throughout 2008, the economy continued to deteriorate and many believe that the current recession could continue for an extended period. During 2008, banks and others in the financial services industry reported significant write-downs in the fair value of their assets, which has led to the failure of a number of banks and investment companies, a number of distressed mergers and acquisitions, the government take-over of the nation s two largest government-sponsored mortgage companies, and the passage of the $700 billion Emergency Economic Stabilization Act of 2008 in October 2008 and the $787 billion 2009 Stimulus Bill. In addition, the stock market has declined significantly, with both the S&P 500 and the NASDAQ Global Select Market (on which our stock trades), declining by nearly 40% between December 31, 2007 and December 31, 2008. As the recession deepened during 2008, unemployment rose and consumer confidence declined, which led to significant reductions in spending by both consumers and businesses.

Although we have been able to secure access to additional liquidity, including the recently obtained $30 million investment credit facility and the increase in available leverage through the SBIC program as part of the 2009 Stimulus Bill, the current turmoil in the debt markets and uncertainty in the equity capital markets provides no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

The deterioration in consumer confidence and a general reduction in spending by both consumers and businesses has had an adverse effect on a number of the industries in which some of our portfolio companies operate. In the event that the United States economy remains in a protracted period of weakness, the results of some of the lower middle-market companies like those in which we invest, will continue to experience deterioration, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in their defaults. In addition, the end markets for certain of our portfolio companies products and services have experienced, and continue to experience, negative economic trends. We can provide no assurance that the performance of certain of our portfolio companies will not be negatively impacted by economic or other conditions which could have a negative impact on our future results.

***Recently Issued Accounting Standards***

In June 2008, the Financial Accounting Standards Board ( FASB ) issued EITF 03-6-1, Determining *Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FASB Staff Position

( FSP ) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ( EPS ). This FSP will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented will be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform to the provisions of this FSP. Early application is not permitted. We are currently analyzing the effect, if any, this statement may have on our consolidated results of operations.

In October 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ( FSP 157-3 ). FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market. The FSP does not change the fair value measurement principles set forth in SFAS 157. Since adopting SFAS 157 in January 2008, our practices for determining the fair value of our investment portfolio have been, and continue to be, consistent with the guidance provided in the example in FSP 157-3. Therefore, our adoption of FSP 157-3 did not affect our practices for determining the fair value of our investment portfolio and does not have a material effect on our financial position or results of operations.

### *Inflation*

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

### *Off-Balance Sheet Arrangements*

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At December 31, 2008, we had two outstanding commitments to fund unused revolving loans for up to $900,000.

### *Contractual Obligations*

As of December 31, 2008, our future fixed commitments for cash payments on contractual obligations for each of the next five years and thereafter are as follows:

| | Total | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and thereafter |
|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) (Unaudited) | | | | | | |
| SBIC debentures payable | $ 55,000 | $ | $ | $ | $ | $ 4,000 | $ 51,000 |
| Interest due on SBIC debentures | 21,495 | 3,179 | 3,179 | 3,179 | 3,188 | 3,179 | 5,591 |
| Total | $ 76,495 | $ 3,179 | $ 3,179 | $ 3,179 | $ 3,188 | $ 7,179 | $ 56,591 |

MSCC is obligated to make payments under a support services agreement with the Investment Manager. Subsequent to the completion of the Formation Transactions and the IPO, the Investment Manager is reimbursed for its excess expenses associated with providing investment management and other services to MSCC and its subsidiaries, as well as MSC II. Each quarter, as part of the support services agreement, MSCC makes payments to cover all expenses incurred by the Investment Manager, less the recurring management fees that the Investment Manager receives from

MSC II pursuant to a long-term investment advisory services agreement and any other fees received for providing external services.

***Related Party Transactions***

We co-invested with MSC II in several existing portfolio investments prior to the IPO, but did not co-invest with MSC II subsequent to the IPO and prior to June 2008. In June 2008, we received exemptive relief from the SEC to allow us to resume co-investing with MSC II in accordance with the terms of such exemptive relief. MSC II is managed by the Investment Manager, and the Investment Manager is wholly

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owned by MSCC. MSC II is an SBIC fund with similar investment objectives to Main Street and which began its investment operations in January 2006. The co-investments among Main Street and MSC II had all been made at the same time and on the same terms and conditions. The co-investments were also made in accordance with the Investment Manager s conflicts policy and in accordance with the applicable SBIC conflict of interest regulations.

As discussed further in Note D to the accompanying consolidated financials statements, Main Street paid certain management fees to the Investment Manager during the year ended December 31, 2007. Subsequent to the completion of the Formation Transactions, the Investment Manager is a wholly owned portfolio company of Main Street. At December 31, 2008 and 2007, the Investment Manager had a receivable of $302,633 and a payable of $207,783, respectively, with MSCC related to recurring expenses required to support MSCC s business.

**RECENT DEVELOPMENTS**

The recently enacted 2009 Stimulus Bill contains several provisions applicable to SBIC funds, including the Fund, our wholly owned subsidiary. One of the key SBIC- related provisions included in the 2009 Stimulus Bill increases the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately $137 million, as adjusted annually based upon changes in the Consumer Price Index. Due to the increase in the maximum amount of SBIC leverage available, we will now have access to incremental SBIC leverage to support our future investment activities. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, we will allocate such increased borrowing capacity between our wholly owned SBIC subsidiary and MSC II, an independently owned SBIC that is managed by Main Street and therefore deemed to be affiliated with the Fund for SBIC regulatory purposes. It is currently estimated that at least $55 million to $60 million of additional SBIC leverage is now accessible by Main Street for future investment activities, subject to the required capitalization of our wholly owned SBIC subsidiary.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of December 31 for the years indicated in the table, unless otherwise noted. Grant Thornton LLP s report on the senior securities table as of December 31, 2008, is attached as an exhibit to the registration statement of which this prospectus is a part.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities (1) *(dollars in thousands)* | Asset Coverage per Unit (2) | Involuntary Liquidating Preference per Unit (3) | Average Market Value per Unit (4) |
|---|---|---|---|---|
| SBIC debentures payable | | | | |
| 2004 | $ 22,000 | 1,784 | | N/A |
| 2005 | 45,100 | 1,738 | | N/A |
| 2006 | 45,100 | 1,959 | | N/A |
| 2007 | 55,000 | 3,094 | | N/A |
| 2008 | 55,000 | 3,043 | | N/A |

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in

terms of dollar amounts per $1,000 of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The indicates information which the Securities and Exchange Commission expressly does not require to be disclosed for certain types of senior securities.

(4) Not applicable because senior securities are not registered for public trading.

**BUSINESS**

We are a principal investment firm focused on providing customized financing solutions to lower middle-market companies, which we generally define as companies with annual revenues between $10 million and $100 million. Our investment objective is to maximize our portfolio s total return by generating current income from our debt investments and realizing 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 investments generally range in size from $2 million to $15 million. Our ability to invest across a company s capital structure, from senior secured loans to subordinated debt to equity securities, allows us to offer portfolio companies a comprehensive suite of financing solutions, or one-stop financing.

Our investments are made through both MSCC and the Fund. Since the IPO, MSCC and the Fund have co-invested in substantially every investment we have made. MSCC and the Fund share the same investment strategies and criteria in the lower middle-market, although they are subject to different regulatory regimes. See Regulation. An investor s return in MSCC will depend, in part, on the Fund s investment returns as the Fund is a wholly owned subsidiary of MSCC.

We typically seek to work with entrepreneurs, business owners and management teams to provide customized financing for strategic acquisitions, business expansion and other growth initiatives, ownership transitions and recapitalizations. In structuring transactions, we seek to protect our rights, manage our risk and create value by: (i) providing financing at lower leverage ratios; (ii) generally taking first priority liens on assets; and (iii) providing significant equity incentives for management teams of our portfolio companies. We seek to avoid competing with other capital providers for transactions because we believe competitive transactions often have execution risks and can result in potential conflicts among creditors and lower returns due to more aggressive valuation multiples and higher leverage ratios.

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As of December 31, 2008, Main Street had debt and equity investments in 31 portfolio companies. Approximately 84% of our total portfolio investments at cost, excluding our 100% equity interest in the Investment Manager, were in the form of debt investments and 91% of such debt investments at cost were secured by first priority liens on the assets of our portfolio companies. As of December 31, 2008, Main Street had a weighted average effective yield on its debt investments of 14%. Weighted average yields are computed using the effective interest rates for all debt investments at December 31, 2008, including amortization of deferred debt origination fees and accretion of original issue discount. At December 31, 2008, we had equity ownership in approximately 94% of our portfolio companies and the average fully diluted equity ownership in those portfolio companies was approximately 25%.

**Business Strategies**

Our investment objective is to maximize our portfolio s total return by generating current income from our debt investments and realizing capital appreciation from our equity and equity-related investments, including warrants, convertible securities and other rights to acquire equity securities in a portfolio company. We have adopted the following business strategies to achieve our investment objective:

*Delivering Customized Financing Solutions.* We believe our ability to provide a broad range of customized financing solutions to lower middle-market companies sets us apart from other capital providers that focus on providing a limited number of financing solutions. We offer to our portfolio companies customized debt financing solutions with equity components that are tailored to the facts and circumstances of each situation. Our ability to invest across a company s capital structure, from senior secured loans to subordinated debt to equity securities, allows us to offer our portfolio companies a comprehensive suite of financing solutions, or one-stop financing.

*Focusing on Established Companies in the Lower Middle-Market.* We generally invest in companies with established market positions, experienced management teams and proven revenue streams. Those companies generally possess better risk-adjusted return profiles than newer companies that are building management or are in the early stages of building a revenue base. In addition, established lower middle-market companies generally provide opportunities for capital appreciation.

*Leveraging the Skills and Experience of Our Investment Team.* Our investment team has significant experience in lending to and investing in lower middle-market companies. The members of our investment team have broad investment backgrounds, with prior experience at private investment funds, investment banks and other financial services companies, and currently include seven certified public accountants and one chartered financial analyst. The expertise of our investment team in analyzing, valuing, structuring, negotiating and closing transactions should provide us with competitive advantages by allowing us to consider customized financing solutions and non-traditional and complex structures.

*Investing Across Multiple Industries.* We seek to maintain a portfolio of investments that is appropriately balanced among various companies, industries, geographic regions and end markets. This portfolio balance is intended to mitigate the potential effects of negative economic events for particular companies, regions and industries.

*Capitalizing on Strong Transaction Sourcing Network.* Our investment team seeks to leverage its extensive network of referral sources for investments in lower middle-market companies. We have developed a reputation in our marketplace as a responsive, efficient and reliable source of financing, which has created a growing stream of proprietary deal flow for us.

*Benefiting from Lower Cost of Capital.* The Fund s SBIC license has allowed it to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. Because lower cost SBA leverage is, and will continue to be, a significant part of our capital base through the Fund, our relative cost of debt capital should be lower than many of our competitors. In addition, the SBIC leverage that we receive through the Fund represents a stable, long-term component of our capital structure.

**Investment Criteria**

Our investment team has identified the following investment criteria that it believes are important in evaluating prospective portfolio companies. Our investment team uses these criteria in evaluating investment opportunities. However, not all of these criteria have been, or will be, met in connection with each of our investments.

*Proven Management Team with Meaningful Financial Commitment.* We look for operationally-oriented management with direct industry experience and a successful track record. In addition, we expect the management team of each portfolio company to have meaningful equity ownership in the portfolio company to better align our respective economic interests. We believe management teams with these attributes are more likely to manage the companies in a manner that protects our debt investment and enhances the value of our equity investment.

*Established Companies with Positive Cash Flow.* We seek to invest in established companies in the lower middle-market with sound historical financial performance. We typically focus on companies that have historically generated EBITDA of $1.0 million to $10.0 million and commensurate levels of free cash flow. We generally do not intend to invest in start-up companies or companies with speculative business plans.

*Defensible Competitive Advantages/Favorable Industry Position.* We primarily focus on companies having competitive advantages in their respective markets and/or operating in industries with barriers to entry, which may help to protect their market position and profitability.

*Exit Alternatives.* We expect that the primary means by which we exit our debt investments will be through the repayment of our investment from internally generated cash flow and/or refinancing. In addition, we seek to invest in companies whose business models and expected future cash flows may provide alternate methods of repaying our investment, such as through a strategic acquisition by other industry participants or a recapitalization.

**Portfolio Investments**

***Debt Investments***

Historically, we have made debt investments principally in the form of single tranche debt. Single tranche debt financing involves issuing one debt security that blends the risk and return profiles of both secured and subordinated debt. We believe that single tranche debt is more appropriate for many lower middle-market companies given their size in order to reduce structural complexity and potential conflicts among creditors.

Our debt investments generally have terms of three to seven years, with limited required amortization prior to maturity, and provide for monthly or quarterly payment of interest at fixed interest rates generally between 12% and 14% per annum, payable currently in cash. In some instances, we have provided floating interest rates for a portion of a single tranche debt security. In addition, certain debt investments may have a form of interest that is not paid currently but is accrued and added to the loan balance and paid at maturity. We refer to this as payment-in-kind or PIK interest. We typically structure our debt investments with the maximum seniority and collateral that we can reasonably obtain while seeking to achieve our total return target. In most cases, our debt investment will be collateralized by a first priority lien on substantially all the assets of the portfolio company. As of December 31, 2008, 91% of our debt investments at cost were secured by first priority liens on the assets of portfolio companies.

In addition to seeking a senior lien position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by negotiating covenants that are designed to protect our investments while affording our portfolio companies as much flexibility in managing their businesses as possible. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control or change of management provisions, key-man life insurance, guarantees, equity pledges, personal guaranties, where appropriate, and put rights. In addition, we typically seek board representation or observation rights in all of our portfolio companies.

While we will continue to focus on single tranche debt investments, we also anticipate structuring some of our debt investments as mezzanine loans. We anticipate that these mezzanine loans will be primarily junior secured or unsecured, subordinated loans that provide for relatively high fixed interest rates that will provide us with significant current interest income. These loans typically will have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine loan term. Also, in some cases, our mezzanine loans may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine loans will have maturities of three to five years. We will generally target fixed interest rates of 12% to 14%, payable currently in cash for our mezzanine loan investments with higher targeted total returns from equity warrants, direct equity investments or PIK interest.

***Warrants***

In connection with our debt investments, we have historically received equity warrants to establish or increase our equity interest in the portfolio company. Warrants we receive in connection with a debt investment typically require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We typically structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as secured or unsecured put rights, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In certain cases, we also may obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

***Direct Equity Investments***

We also will seek to make direct equity investments in situations where it is appropriate to align our interests with key management and stockholders, and to allow for some participation in the appreciation in enterprise values of our portfolio companies. We usually make our direct equity investments in connection with debt investments. In addition, we may have both equity warrants and direct equity positions in some of our portfolio companies. We seek to maintain fully diluted equity positions in our portfolio companies of 5% to 50%, and may have controlling interests in some instances. We have a value orientation toward our direct equity investments and have traditionally been able to purchase our equity investments at reasonable valuations.

## Investment Process

Our investment committee is responsible for all aspects of our investment process. The current members of our investment committee are Vincent D. Foster, our Chairman and Chief Executive Officer, Todd A. Reppert, our President and Chief Financial Officer, and Dwayne L. Hyzak, Senior Vice President. Mr. Hyzak replaced David L. Magdol, Senior Vice President, in this revolving seat on the investment committee effective January 1, 2009 and will serve through 2009. Our investment strategy involves a team approach, whereby potential transactions are screened by members of our investment team before being presented to the investment committee. Our investment committee meets on an as needed basis depending on transaction volume. Our investment committee generally categorizes our investment process into seven distinct stages:

***Deal Generation/Origination***

Deal generation and origination is maximized through long-standing and extensive relationships with industry contacts, brokers, commercial and investment bankers, entrepreneurs, services providers such as lawyers and accountants, as well as current and former portfolio companies and investors. Our investment team has focused its deal generation and origination efforts on lower middle-market companies. We have developed a reputation as a knowledgeable, reliable and active source of capital and assistance in this market.

***Screening***

During the screening process, if a transaction initially meets our investment criteria, we will perform preliminary due diligence, taking into consideration some or all of the following information:

- a comprehensive financial model based on quantitative analysis of historical financial performance, projections and pro forma adjustments to determine the estimated internal rate of return;
- a brief industry and market analysis; importing direct industry expertise from other portfolio companies or investors;
- preliminary qualitative analysis of the management team s competencies and backgrounds;
- potential investment structures and pricing terms; and
- regulatory compliance.

Upon successful screening of the proposed transaction, the investment team makes a recommendation to our investment committee. If our investment committee concurs with moving forward on the proposed transaction, we issue a non-binding term sheet to the company.

***Term Sheet***

The non-binding term sheet will include the key economic terms based upon our analysis performed during the screening process as well as a proposed timeline and our qualitative expectation for the transaction. While the term sheet is non-binding, it generally does require an expense deposit to be paid in order to move the transaction to the due diligence phase. Upon execution of a term sheet and payment of the expense deposit, we begin our formal due diligence process.

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***Due Diligence***

Due diligence on a proposed investment is performed by a minimum of two members of our investment team, whom we refer to collectively as the deal team, and certain external resources, who together conduct due diligence to understand the relationships among the prospective portfolio company s business plan, operations and financial performance. Our due diligence review includes some or all of the following:

- initial or additional site visits with management and key personnel;
- detailed review of historical and projected financial statements;
- operational reviews and analysis;
- interviews with customers and suppliers;
- detailed evaluation of company management, including background checks;
- review of material contracts;
- in-depth industry, market, and strategy analysis; and
- review by legal, environmental or other consultants, if applicable.

During the due diligence process, significant attention is given to sensitivity analyses and how the company might be expected to perform given downside, base-case and upside scenarios. In certain cases, we may decide not to make an investment based on the results of the diligence process.

***Document and Close***

Upon completion of a satisfactory due diligence review, the deal team presents the findings and a recommendation to our investment committee. The presentation contains information including, but not limited to, the following:

- company history and overview;
- transaction overview, history and rationale, including an analysis of transaction strengths and risks;
- analysis of key customers and suppliers and key contracts;
- a working capital analysis;
- an analysis of the company s business strategy;
- a management background check and assessment;
- third-party accounting, legal, environmental or other due diligence findings;
- investment structure and expected returns;
- anticipated sources of repayment and potential exit strategies;
- pro forma capitalization and ownership;
- an analysis of historical financial results and key financial ratios;
- sensitivities to management s financial projections; and

detailed reconciliations of historical to pro forma results.

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If any adjustments to the transaction terms or structures are proposed by the investment committee, such changes are made and applicable analyses updated. Approval for the transaction must be made by the affirmative vote from a majority of the members of the investment committee. Upon receipt of transaction approval, we will re-confirm regulatory company compliance, process and finalize all required legal documents, and fund the investment.

***Post-Investment***

We continuously monitor the status and progress of the portfolio companies. We offer managerial assistance to our portfolio companies, giving them access to our investment experience, direct industry expertise and contacts. The same deal team that was involved in the investment process will continue its involvement in the portfolio company post-investment. This provides for continuity of knowledge and allows the deal team to maintain a strong business relationship with key management of our portfolio companies for post-investment assistance and monitoring purposes. As part of the monitoring process, the deal team will analyze monthly/quarterly financial statements versus the previous periods and year, review financial projections, meet with management, attend board meetings and review all compliance certificates and covenants. While we maintain limited involvement in the ordinary course operations of our portfolio companies, we maintain a higher level of involvement in non-ordinary course financing or strategic activities and any non-performing scenarios.

We also use an internally developed investment rating system to characterize and monitor our expected level of returns on each of our investments.

*Investment Rating 1* represents a portfolio company that is performing in a manner which significantly exceeds our original expectations and projections;

*Investment Rating 2* represents a portfolio company that, in general, is performing above our original expectations;

*Investment Rating 3* represents a portfolio company that is generally performing in accordance with our original expectations;

*Investment Rating 4* represents a portfolio company that is underperforming our original expectations. Investments with such a rating require increased Main Street monitoring and scrutiny; and

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

The following table shows the distribution of our portfolio investments (excluding the investment in our affiliated Investment Manager) on the 1 to 5 investment rating scale at fair value as of December 31, 2008 and December 31, 2007:

| | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| **Investment Rating** | **Investments at Fair Value** | **Percentage of Total Portfolio** | **Investments at Fair Value** | **Percentage of Total Portfolio** |
| | (Dollars in thousands) | | | |
| 1 | $ 27,523 | 24.9% | $ 24,619 | 28.0% |
| 2 | 23,150 | 21.0% | 35,068 | 39.8% |
| 3 | 53,123 | 48.1% | 24,034 | 27.3% |
| 4 | 6,035 | 5.5% | | 0.0% |
| 5 | 500 | 0.5% | 4,304 | 4.9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Totals | $ | 110,331 | 100.0% | $ | 88,025 | 100.0% |

Based upon our investment rating system, the weighted average rating of our portfolio as of December 31, 2008 and 2007 was approximately 2.4 and 2.2, respectively. As of December 31, 2008 and 2007, we had one debt investment in each period representing 0.5% and 3.1%, respectively, of total portfolio fair value (excluding Main Street s investment in the Investment Manager) which was on non-accrual status.

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***Exit Strategies/Refinancing***

While we generally exit most investments through the refinancing or repayment of our debt and redemption of our equity positions, we typically assist our portfolio companies in developing and planning exit opportunities, including any sale or merger of our portfolio companies. We may also assist in the structure, timing, execution and transition of the exit strategy.

**Determination of Net Asset Value and Valuation Process**

We determine the net asset value per share of our common stock on a quarterly basis. The net asset value per share is equal to our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding.

Our business plan calls for us to invest primarily in illiquid securities issued by private companies and/or thinly traded public companies. These investments may be subject to restrictions on resale and will generally have no established trading market. As a result, we determine in good faith the fair value of our portfolio investments pursuant to a valuation policy in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ) and a valuation process approved by our Board of Directors and in accordance with the 1940 Act. We review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

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

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

Due to the inherent uncertainty in the valuation process, our estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments could cause the gains or losses ultimately realized on these investments to be 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.

As described below, we undertake a multi-step valuation process each quarter in connection with determining the fair value of our investments, with our Board of Directors ultimately and solely responsible for overseeing, reviewing and approving, in good faith, our estimate of the fair value of each individual investment.

- Our quarterly valuation process will begin with each portfolio company or investment being initially valued by the deal team responsible for the portfolio investment;

- Preliminary valuation conclusions will then be reviewed and discussed with senior management;

- The Audit Committee of our Board of Directors will review the preliminary valuations, and the deal team will consider and assess, as appropriate, any changes that may be required to the preliminary valuation to address any comments provided by the Audit Committee;

- The Board of Directors will assess the valuations and will ultimately approve the fair value of each investment in our portfolio in good faith; and

- An independent valuation firm engaged by the Board of Directors will perform certain mutually agreed limited procedures that we have identified and asked them to perform on a selection of our final portfolio company valuation conclusions.

Prior to the IPO, the valuations of the Fund s investments were determined by the General Partner through a multi-step process consistent with the process discussed above except that the review and determination of fair value was made by the General Partner and not by the Audit Committee or the Board of Directors.

Duff & Phelps, LLC, an independent valuation firm ( Duff & Phelps ), has provided third-party valuation consulting services to Main Street, which consisted of certain mutually agreed limited procedures that Main Street identified and requested Duff & Phelps to perform (hereinafter referred to as the Procedures ). During 2008, the Procedures were performed on investments in 24 portfolio companies and on the investment in the Investment Manager comprising approximately 84% of the total portfolio investments at fair value as of December 31, 2008, with the Procedures performed on investments in 5 portfolio companies for the quarter ended March 31, 2008, investments in 8 portfolio companies for the quarter ended June 30, 2008, 5 portfolio companies for the quarter ended September 30, 2008 and 6 portfolio companies and the Investment Manager for the quarter ended December 31, 2008. Duff & Phelps had also reviewed a total of 24 portfolio companies comprising approximately 77% of the total portfolio investments at fair value as of December 31, 2007. Upon completion of the Procedures in each case, Duff & Phelps concluded that the fair value, as determined by Main Street, of those investments subjected to the Procedures did not appear to be unreasonable.

Determination of fair value involves subjective judgments and estimates. The notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

## Competition

We compete for investments with a number of BDCs and investment funds (including private equity funds, mezzanine funds and other SBICs), as well as traditional financial services companies such as commercial banks and other sources of financing. Many of the entities that compete with us have greater financial and managerial resources. We believe we are able to be competitive with these entities primarily on the basis of our focus on the underserved lower middle-market the experience and contacts of our management team, our responsive and efficient investment analysis and decision-making processes, our comprehensive suite of customized financing solutions and the investment terms we offer.

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We believe that some of our competitors make senior secured loans, junior secured loans and subordinated debt investments with interest rates and returns that are comparable to or lower than the rates and returns that we target. Therefore, we do not seek to compete primarily on the interest rates and returns that we offer to potential portfolio companies. For additional information concerning the competitive risks we face, see Risk Factors Risks Relating to Our Business and Structure We may face increasing competition for investment opportunities.

**Employees**

As of December 31, 2008, we had 17 employees, each of whom was employed by the Investment Manager. These employees include investment and portfolio management professionals, operations professionals and administrative staff. In 2008, we hired several investment professionals, as well as our Chief Accounting Officer and General Counsel. We will hire additional investment professionals and additional administrative personnel, as necessary. All of our employees are located in our Houston office.

**Properties**

We do not own any real estate or other physical properties materially important to our operations. Currently, we lease office space in Houston, Texas for our corporate headquarters.

**Legal Proceedings**

Although we may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise, we are currently not a party to any pending material legal proceedings.

## PORTFOLIO COMPANIES

The following table sets forth certain unaudited information as of December 31, 2008, for each portfolio company in which we had a debt or equity investment. Other than these investments, our only formal relationships with our portfolio companies are the managerial assistance ancillary to our investments and the board observer or participation rights we may receive.

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| Name and Address of Portfolio Company | Nature of Principal Business | Title of Securities Held by Us | Percentage of Fully Diluted Equity Held | Cost of Investment |
|---|---|---|---|---|
| **Millwork Company, Inc.** | Manufacturer/Distributor | 12% Secured Debt | | 2,955,442 |
| ella Street, Suite 200 | of Wood Doors | Warrants | 12.2% | 97,808 |
| 77041 | | | | **3,053,250** |
| **ensor Technologies, Inc.** | Manufacturer of Commercial/ | Prime plus 0.5% Secured Debt | | 3,800,000 |
| ive | Industrial Sensors | Warrants | 20.0% | 50,000 |
| J 07828 | | | | **3,850,000** |
| **LLC** | Casual Restaurant | 12% Secured Debt | | 2,728,113 |
| ain Street Suite 100 | Group | LLC Interests | 42.3% | 41,837 |
| 002 | | | | **2,769,950** |
| **bal Resources, LLC** | Processor of | 13% PIK Secured Debt | | 4,655,836 |
| Blvd, Suite B | Industrial Minerals | LLC Interests | 8.5% | 400,000 |
| A 93561 | | | | **5,055,836** |
| **s, LLC** | Produces and Sells | 14% Secured Debt | | 1,642,518 |
| d Suite 150 | IT Certification | 10% Secured Debt | | 150,000 |
| 97401 | Training Videos | LLC Interests | 29.1% | 432,000 |
| | | Warrants | 10.5% | 72,000 |
| | | | | **2,296,518** |
| **gement, LLC (Lambs)** | Aftermarket Automotive | 14% Secured Debt | | 2,372,601 |
| ille Road, Suite 300 | Services Chain | LLC Interests | 42.0% | 1,200,000 |
| 8759 | | | | **3,572,601** |
| **Healthcare Medical Billing, Inc.** | Healthcare Services | 12% Secured Debt | | 1,141,706 |
| hington Ave. | | Common Stock | 6.0% | 390,000 |
| A 92025 | | Warrants | 12.0% | 240,000 |
| | | | | **1,771,706** |
| **bits, LLC** | Tradeshow Exhibits/ | 13% current / 5% PIK Secured Debt | | 2,273,194 |
| nnessee | Custom Displays | LLC Interests | 28.1% | 300,000 |
| 80223 | | | | **2,573,194** |

| | | | | |
|---|---|---|---|---|
| **ine Hardwoods, Inc.** | Hardwood Products | Common Stock | 3.3% | **130,000** |
| Road | | | | |
| 29638 | | | | |
| **acturing, LLC** | Industrial Metal | Prime plus 1% Secured Debt | | 1,190,764 |
| St. | Fabrication | 13% Secured Debt | | 1,747,777 |
| 77396 | | LLC Interests | 18.6% | 472,000 |
| | | Warrants | 8.4% | 160,000 |
| | | | | **3,570,541** |
| **Customs & Dispatch Services, LLC** | Transportation/ | 13% Secured Debt | | 1,171,988 |
| ville Road | Logistics | LLC Interests | 27.8% | 375,000 |
| 77013 | | Warrants | 16.5% | 37,500 |
| | | | | **1,584,488** |
| **uisition, LLC** | Manufacturer of | 8% Secured Debt | | **1,781,303** |
| angerine Rd. | Utility Structures | | | |
| 5654 | | | | |
| **ting & Coatings, LLC** | Plating & Industrial | Prime plus 2% Secured Debt | | 300,000 |
| a St. | Coating Services | LLC Interests | 11.1% | 210,000 |
| on, TX 77587 | | | | **510,000** |
| **oldings, LLC** | Agricultural Services | 12.5% Secured Debt | | 5,311,329 |
| 2 | | Prime plus 1% Secured Debt | | 1,579,911 |
| 93215 | | LLC Interests | 60.0% | 1,800,000 |
| | | | | **8,691,240** |
| **lers of Idaho, LLC** | Retail Jewelry | Prime Plus 2% Secured Debt | | 1,030,957 |
| nue North | | 13% current / 6% PIK Secured Debt | | 986,980 |
| D 83301 | | LLC Interests | 24.3% | 376,000 |
| | | | | **2,393,937** |
| **ries, LLC** | Specialty Manufacturer | 14% Secured Debt | | 3,787,758 |
| y 96 | of Oilfield and | 8% Secured Debt | | 468,750 |
| KS 67575 | Industrial Products | 8% Secured Debt | | 450,000 |
| | | LLC Interests | 14.5% | 187,500 |
| | | | | **4,894,008** |
| **lthcare, LP** | Healthcare Facilities | 13% Secured Debt | | 2,259,664 |
| orial Drive, Suite 540 | | Warrants | 17.5% | 105,000 |

| | | | | |
|---|---|---|---|---|
| 77056 | | | | **2,364,664** |
| **ecast, LLC** | Precast Concrete | 18% Secured Debt | | 6,348,011 |
| d Lane | Manufacturing | Prime Plus 2% Secured Debt | | 3,660,945 |
| TX 78250 | | LLC Interests | 36.1% | 2,000,000 |
| | | | | **12,008,956** |
| **ench Safety, LLC** | Trench & Traffic | 10% PIK Debt | | 404,256 |
| Hardy Road, Suite 100 | Safety Equipment | LLC Interests | 11.7% | 1,792,308 |
| 77060 | | | | **2,196,564** |
| **gs, Inc.** | Manufacturer of | 12% Secured Debt | | 6,603,400 |
| Service Road | Overhead Cranes | Common Stock | 28.8% | 900,000 |
| TX 75189 | | | | **7,503,400** |
| **ns, LLC** | Manufacturer of | 14% Secured Debt | | 1,819,464 |
| on Avenue | Components for | Warrants | 7.4% | 132,856 |
| 94520 | Medical Devices | | | **1,952,320** |
| **n & Production, LLC** | Design and Fabrication | 10% Secured Debt | | 465,060 |
| land Ct. | of Custom Display | 0% Secured Debt | | 2,000,000 |
| 77477 | Systems | Warrants | 40.0% | 1,595,858 |
| | | Warrants | 20.0% | 40,000 |
| | | | | **4,100,918** |
| **ales Management, LLC** | Sales Consulting | 13% Secured Debt | | 1,909,972 |
| ester Blvd. #204 | and Training | Warrants | 12.0% | 45,000 |
| Village, CO 80111 | | | | **1,954,972** |
| **tems Homes, Inc.** | Manages Substance | 15% Secured Debt | | **226,589** |
| ester Blvd. #204 | Abuse Treatment | | | |
| A 95008 | Centers | | | |
| **nnovations, LLC** | Manufacturer of Specialty | 7% Secured Debt | | 409,297 |
| way 36 | Cutting Tools and Punches | 13.5% Secured Debt | | 3,698,216 |
| 77422 | | | | **4,107,513** |
| **caffolding & Equipment, LLC** | Manufacturer of Scaffolding | Prime plus 1% Secured Debt | | 875,072 |
| St. | and Shoring Equipment | 13% current / 5% PIK Secured Debt | | 3,311,508 |
| N 38106 | | LLC Interests | 18.4% | 992,063 |
| | | | | **5,178,643** |
| **ply, LLC** | Farm and Ranch Supply | LLC Interests | 39.6% | **905,743** |

| | | | | |
|---|---|---|---|---|
| St. | | | | |
| 78801 | | | | |
| **ests, Inc.** | Manufacturer/ | 13% Secured Debt | | 3,579,117 |
| Springs St. Suite 600 | Installer of Commercial | Common Stock | 8.9% | 372,000 |
| V 89113 | Signage | Warrants | 11.2% | 160,000 |
| | | | | **4,111,117** |
| **okey Point, Inc.** | Specialty Transportation/ | 14% current / 4% PIK Secured Debt | | 4,704,533 |
| vood Dr. | Logistics | Common Stock | 7.6% | 600,000 |
| A 98223 | | | | **5,304,533** |
| **Inc.** | Telecommunication/ | 13% Secured Debt | | |
| of Texas Hwy., Bldg. 2, Suite 235 | Information Services | Common Stock | 9.9% | 631,199 |
| 8746 | | | | 296,631 |
| | | | | **927,830** |
| **YPD, LLC** | Restaurant | Prime Plus 2% Secured Debt | | 594,239 |
| 73rd St., #219 | | 13% current / 5% PIK Secured Debt | | 2,663,437 |
| Z 85260 | | Warrants | 28.6% | 360,000 |
| | | | | **3,617,676** |
| | | | | **104,960,011** |

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## Description of Portfolio Companies

Set forth below is a brief description of each of our current portfolio companies as of December 31, 2008.

*Advantage Millwork Company, Inc.* is a premier designer and manufacturer of high quality wood, decorative metal and wrought iron entry doors.

*American Sensor Technologies, Inc.* designs, develops, manufactures and markets state-of-the-art, high performance commercial and industrial sensors.

*Café Brazil, LLC* owns and operates nine full service restaurant/coffee houses in the Dallas/Fort Worth Metroplex.

*Carlton Global Resources, LLC* is a producer and processor of various industrial minerals for use in the manufacturing, construction and building materials industry.

*CBT Nuggets, LLC* produces and sells original content IT certification training videos. CBT Nuggets, LLC s training videos provide comprehensive training for certification exams from Microsoft ®, CompTIA ®, Cisco ®, Citrix ® and many other professional certification vendors.

*Ceres Management, LLC (d/b/a Lamb s Tire and Automotive Centers)* is a leading operator of Goodyear tire retail and automotive repair centers in and around Austin, Texas, with fifteen operating locations.

*California Healthcare Medical Billing, Inc.* provides outsourced billing, revenue cycle management, business services, IT and Electronic Health Record (EHR) technology to physician practices and clinics.

*Condit Exhibits, LLC* is a Denver, Colorado based designer, manufacturer and manager of trade show exhibits and permanent displays.

*East Teak Fine Hardwoods, Inc.* is a leading provider of teak lumber, exotic hardwoods and hardwood products.

*Gulf Manufacturing, LLC* manufactures, modifies, and distributes specialty flanges, fittings, rings, plates, spacers, and other fabricated metal products utilized primarily in piping applications.

*Hawthorne Customs & Dispatch Services, LLC* provides one stop logistics services to its customers in order to facilitate the import and export of various products to and from the United States.

*Hayden Acquisition, LLC* is a manufacturer and supplier of precast concrete underground utility structures to the construction industry.

*Houston Plating & Coatings, LLC* is a provider of nickel plating and industrial coating services primarily serving the oil field services industry.

*Hydratec Holdings, LLC* is engaged in the design, sale and installation of agricultural micro-irrigation products/systems to farmers in the San Joaquin valley in central California.

*Jensen Jewelers of Idaho, LLC* is the largest privately owned jewelry chain in the Rocky Mountains with 14 stores in 5 states, including Idaho, Montana, Nevada, South Dakota and Wyoming.

*KBK Industries, LLC* is a manufacturer of standard and customized fiberglass tanks and related products primarily for use in oil and gas production, chemical production and agriculture applications.

*Laurus Healthcare, LP* develops and manages single or multi-specialty health care centers through physician partnerships that provide various surgical, diagnostic and interventional services.

*NAPCO Precast, LLC* designs, manufactures, transports and erects precast and pre-stressed concrete products primarily for the non-residential/commercial construction industry.

*National Trench Safety, LLC* engages in the rental and sale of underground equipment and trench safety products, including trench shielding, trench shoring, road plates, pipe lasers, pipe plugs and confined space equipment.

*OMi Holdings, Inc.* designs, manufactures, and installs overhead material handling equipment including bridge cranes, runway systems, monorails, jib cranes and hoists.

*Pulse Systems, LLC* manufactures a wide variety of components used in medical devices for minimally-invasive surgery, primarily in the endovascular field.

*Quest Design & Production, LLC* is engaged in the design, fabrication and installation of graphic presentation materials and associated custom display fixtures used in sales and information center environments.

*Schneider Sales Management, LLC* is a leading publisher of proprietary sales training materials and provider of sales-management consulting services for financial institutions.

*Support Systems Homes, Inc.* operates drug and alcohol rehabilitation centers offering a wide range of substance abuse treatment programs for recovery from addictions.

*Technical Innovations, LLC* designs and manufactures manual, semiautomatic, pneumatic and computer numerically controlled machines and tools used primarily by medical device manufacturers to place access holes in catheters.

*Universal Scaffolding & Equipment, LLC* is in the business of manufacturing, sourcing and selling scaffolding, forming and shoring products, and related custom fabricated products for the commercial and industrial construction industry.

*Uvalco Supply, LLC* is a leading provider of farm and ranch supplies to ranch owners and farmers, as well as a leading provider of design, fabrication and erection services for metal buildings throughout South Texas.

*Vision Interests, Inc.* is a full service sign company that designs, manufactures, installs and services interior and exterior signage for a wide range of customers.

*Walden Smokey Point, Inc.* is an established leader in a niche sector of the trucking and logistics industry.

*WorldCall, Inc.* is a holding company which owns both regulated and unregulated communications and information service providers.

*Ziegler s NYPD, LLC* is a New York- themed Pizzeria and Italian restaurant with locations across the Phoenix metro area.

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# MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors appoints our officers, who serve at the discretion of the Board of Directors. The responsibilities of the Board of Directors include, among other things, the oversight of our investment activities, the quarterly valuation of our assets, oversight of our financing arrangements and corporate governance activities. The Board of Directors has an Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, and may establish additional committees from time to time as necessary.

## Board of Directors and Executive Officers

Our Board of Directors consist of six members, four of whom are classified under applicable Nasdaq listing standards as independent directors and under Section 2(a)(19) of the 1940 Act as non-interested persons. Pursuant to our articles of incorporation, each member of our Board of Directors serves a one year term, with each current director serving until the 2009 annual meeting of stockholders and until his respective successor is duly qualified and elected. Our articles of incorporation give our Board of Directors sole authority to appoint directors to fill vacancies that are created either through an increase in the number of directors or due to the resignation, removal or death of any director.

***Directors***

Information regarding our current Board of Directors is set forth below as of April 30, 2009. We have divided the directors into two groups independent directors and interested directors. Interested directors are interested persons of MSCC as defined in Section 2(a)(19) of the 1940 Act. The address for each director is c/o Main Street Capital Corporation, 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056.

*Independent Directors*

| Name | Age | Director Since | Expiration of Term |
|---|---|---|---|
| Michael Appling Jr. | 42 | 2007 | 2009 |
| Joseph E. Canon | 67 | 2007 | 2009 |
| Arthur L. French | 68 | 2007 | 2009 |
| William D. Gutermuth | 57 | 2007 | 2009 |

*Interested Directors*

| Name | Age | Director Since | Expiration of Term |
|---|---|---|---|
| Vincent D. Foster | 52 | 2007 | 2009 |
| Todd A. Reppert | 39 | 2007 | 2009 |

***Executive Officers***

The following persons serve as our executive officers in the following capacities (ages as of April 30, 2009):

| Name | Age | Position(s) Held with the Company |
|---|---|---|
| Vincent D. Foster | 52 | Chairman of the Board and Chief Executive Officer |
| Todd A. Reppert | 39 | Director, President and Chief Financial Officer |
| Rodger A. Stout | 57 | Senior Vice President-Finance and Administration, Chief Compliance Officer and Treasurer |
| Jason B. Beauvais | 34 | Vice President, General Counsel and Secretary |
| Michael S. Galvan | 40 | Vice President and Chief Accounting Officer |
| Curtis L. Hartman | 36 | Senior Vice President |
| Dwayne L. Hyzak | 36 | Senior Vice President |
| David L. Magdol | 38 | Senior Vice President |

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The address for each executive officer is c/o Main Street Capital Corporation, 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056.

**Biographical Information**

***Independent Directors***

*Michael Appling Jr.* has been a member of our Board of Directors since July 2007. Mr. Appling is also the President and Chief Executive Officer of TNT Crane & Rigging Inc., a privately held full service crane and rigging operator. From July 2002 through August 2007, he was the Executive Vice President and Chief Financial Officer of XServ, Inc., a large private equity-funded, international industrial services and rental company. Mr. Appling has also held the position of CEO and President for United Scaffolding, Inc., an XServ, Inc. operating subsidiary. In February 2007, XServ, Inc. was sold to The Brock Group, a private industrial services company headquartered in Texas. From March 2000 to June 2002, Mr. Appling served as the Chief Financial Officer of CheMatch.com, an online commodities trading forum. ChemConnect, Inc., a venture-backed independent trading exchange, acquired CheMatch.com in January 2002. From June 1999 to March 2000, Mr. Appling was Vice President and Chief Financial Officer of American Eco Corporation, a publicly traded, international fabrication, construction and maintenance provider to the energy, pulp and paper and power industries. Mr. Appling worked for ITEQ, Inc., a publicly traded, international fabrication and services company from September 1997 to May 1999, first as a Director of Corporate Development and then as Vice President, Finance and Accounting. From July 1991 to September 1997, Mr. Appling worked at Arthur Andersen LLP, where he practiced as a certified public accountant.

*Joseph E. Canon* has been a member of our Board of Directors since July 2007. Since 1982, Mr. Canon has been the Executive Vice President and Executive Director, and a member of the Board of Directors, of Dodge Jones Foundation, a private charitable foundation located in Abilene, Texas. Prior to 1982, Mr. Canon was an Executive Vice President of the First National Bank of Abilene. From 1974 to 1982, he was the Vice President and Trust Officer with the First National Bank of Abilene. Mr. Canon currently serves on the Board of Directors of First Financial Bankshares, Inc. (NASDAQ-GM:FFIN), a financial holding company headquartered in Abilene, Texas. Mr. Canon also serves on the Board of Directors for several bank and trust/asset management subsidiaries of First Financial Bankshares, Inc. He has also served on the Board of Directors of various other organizations including the Abilene Convention and Visitors Bureau, Abilene Chamber of Commerce, Conference of Southwest Foundations, City of Abilene Tax Increment District, West Central Texas Municipal Water District and the John G. and Marie Stella Kenedy Memorial Foundation.

*Arthur L. French* has been a member of our Board of Directors since July 2007. From September 2003 through March 2007, Mr. French was a member of the Advisory Board of the Investment Manager and limited partner of the Fund (both of which are now subsidiaries of Main Street). Mr. French began his private investment activities in January 2000; he has served as a director of FabTech Industries, a steel fabricator, since November 2000, and as a director of Rawson, Inc., a distributor of industrial instrumentation products, since May 2003. Mr. French served as Chairman and Chief Executive Officer of Metals USA Inc. from 1996-1999, where he managed the process of founders acquisition, assembled the management team and took the company through a successful IPO in July 1997. From 1989-1996, he served as Executive Vice President and Director of Keystone International, Inc. After serving as a helicopter pilot in the United States Army, Captain-Corps of Engineers from 1963-1966, Mr. French began his career as a Sales Engineer for Fisher Controls International, Inc., in 1966. During his 23-year career at Fisher Controls, from 1966-1989, Mr. French held various titles, and ended his career at Fisher Controls as President and Chief Operating Officer.

*William D. Gutermuth* has been a member of our Board of Directors since July 2007. Since 1986, Mr. Gutermuth has been a partner in the law firm of Bracewell & Giuliani LLP, specializing in the practice of corporate and securities law. From 1999 until 2005, Mr. Gutermuth was the Chair of Bracewell & Giuliani s Corporate and Securities Section. Mr. Gutermuth is a published author and frequent lecturer on topics relating to corporate governance and enterprise risk management. He has been recognized by independent evaluation organizations as One of the Best Lawyers in America-Corporate M&A and Securities Law and as a Texas Super Lawyer . In addition, Mr. Gutermuth serves as a director of the Texas TriCities Chapter of the National Association of Corporate Directors.

***Interested Directors***

*Vincent D. Foster* has been Chairman of our Board of Directors since April 2007. He is our Chief Executive Officer and a member of our investment committee. Since 2002, Mr. Foster has been a senior managing director of the General Partner and the Investment Manager (both of which are now subsidiaries of Main Street). He has also been the senior managing director of the general partner for MSC II, an SBIC he co-founded, since January 2006. From 2000 to 2002, Mr. Foster was the senior managing director of the predecessor entity of the Fund. Prior to that, Mr. Foster co-founded Main Street Merchant Partners, a merchant-banking firm. He has served as director of U.S. Concrete, Inc. (NASDAQ-GM: RMIX) since 1999. He also serves as a director of Quanta Services, Inc. (NYSE: PWR), an electrical and telecommunications contracting company, Carriage Services, Inc. (NYSE: CSV), a death-care company, and Team, Inc. (NASDAQ-GS: TISI), a provider of specialty industrial services. In addition, Mr. Foster serves as a director, officer and founder of the Texas TriCities Chapter of the National Association of Corporate Directors. Prior to his private investment activities, Mr. Foster was a partner of Andersen Worldwide and Arthur Andersen LLP from 1988-1997. Mr. Foster was the director of Andersen s Corporate Finance and Mergers and Acquisitions practice for the Southwest United States and specialized in working with companies involved in consolidating industries.

*Todd A. Reppert* has been a member of our Board of Directors since April 2007. He is our President and Chief Financial Officer and is a member of our investment committee. Since 2002, he has been a senior managing director of the General Partner and the Investment Manager (both of which are now subsidiaries of Main Street). Mr. Reppert has been a senior managing director of the general partner for MSC II, an SBIC he co-founded, since January 2006. From 2000 to 2002, Mr. Reppert was a senior managing director of the predecessor entity of the Fund. Prior to that, he was a principal of Sterling City Capital, LLC, a private investment group focused on small to middle-market companies. Prior to joining Sterling City Capital in 1997, Mr. Reppert was with Arthur Andersen LLP. At Arthur Andersen LLP, he assisted in several industry consolidation initiatives, as well as numerous corporate finance and merger/acquisition initiatives.

***Non-Director Executive Officers***

*Rodger A. Stout* serves as our Chief Compliance Officer, Senior Vice President-Finance and Administration and Treasurer. Mr. Stout has been the chief financial officer of the General Partner, the Investment Manager and the general partner of MSC II, an SBIC, since 2006. From 2000 to 2006, Mr. Stout was senior vice president and chief financial officer for FabTech Industries, Inc., a consolidation of nine steel fabricators. From 1985 to 2000, he was a senior financial executive for Jerold B. Katz Interests. He held numerous positions over his 15-year tenure with this national scope financial services conglomerate. Those positions included director, executive vice president, senior financial officer and investment officer. Prior to 1985, Mr. Stout was an international tax executive in the oil and gas service industry.

*Jason B. Beauvais* serves as our Vice President, General Counsel and Secretary. Prior to joining us in June 2008, Mr. Beauvais was an attorney with Occidental Petroleum Corporation, an international oil and gas exploration and production company, since August 2006. From October 2002 to August 2006, he was an associate in the Corporate and Securities section of Baker Botts L.L.P., where he primarily counseled companies in public issuances and private placements of debt and equity and handled a wide range of general corporate and securities matters as well as mergers and acquisitions. Mr. Beauvais has been licensed to practice law in Texas since 2002.

*Michael S. Galvan* serves as our Vice President and Chief Accounting Officer. Prior to joining us in February 2008, Mr. Galvan was senior manager of financial operations with Direct Energy, a retail gas and electricity service provider since October 2006. From September 2005 to October 2006, he was a senior audit manager with Malone & Bailey, PC, where he managed and coordinated audits of publicly traded companies and other companies. From March 2003 to September 2005, Mr. Galvan was Director of Bankruptcy Coordination at Enron Corporation. Prior to March 2003, he served in other executive positions at various Enron affiliates.

*Curtis L. Hartman* serves as one of our Senior Vice Presidents. Mr. Hartman has been a managing director of the General Partner and the Investment Manager since 2002 and a managing director of the general partner for MSC II since January 2006. From 2000 to 2002, he was a director of the predecessor entity of the Fund. From 1999 to 2000, Mr. Hartman was an investment adviser for Sterling City Capital, LLC. Concurrently with joining Sterling City Capital, he joined United Glass Corporation, a Sterling City Capital portfolio company, as director of corporate development. Prior to joining Sterling City Capital, Mr. Hartman was a manager with PricewaterhouseCoopers LLP, in its M&A/Transaction Services group. Prior to that, he was employed as a senior auditor by Deloitte & Touche LLP.

*Dwayne L. Hyzak* serves as one of our Senior Vice Presidents and is a member of our investment committee. Mr. Hyzak has been a managing director of the General Partner and the Investment Manager since 2002. He has also been a managing director of the general partner for MSC II since January 2006. From 2000 to 2002, Mr. Hyzak was a director of integration with Quanta Services, Inc. (NYSE: PWR), an electrical and telecommunications contracting company, where he was principally focused on the company s mergers and acquisitions and corporate finance activities. Prior to joining Quanta Services, Inc., he was a manager with Arthur Andersen LLP in its Transaction

Advisory Services group.

*David L. Magdol* serves as one of our Senior Vice Presidents. Mr. Magdol has been a managing director of the General Partner and the Investment Manager since 2002 and a managing director of the general partner for MSC II since January 2006. From 2000 to 2002, Mr. Magdol was a vice president in the Investment Banking Group of Lazard Freres & Co. LLC. From 1996 to 2000, Mr. Magdol served as a vice president of McMullen Group, a private equity investment firm capitalized by Dr. John J. McMullen. From 1993 to 1995, Mr. Magdol worked in the Structured Finance Services Group of Chemical Bank as a management associate.

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**Meetings of the Board of Directors and Committees**

Our Board of Directors met six times and acted by unanimous written consent eight times during 2008. Our Board of Directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Each of the audit committee, compensation committee and nominating and corporate governance committee operates pursuant to a charter, each of which is available under Governance on the Investor Relations section of our website at *www.mainstcapital.com*, and is also available in print to any stockholder who requests a copy in writing to Main Street Capital Corporation, Corporate Secretary s Office, 1300 Post Oak Blvd., Suite 800, Houston, Texas 77056.

Our Board of Directors approved the designation of Arthur L. French as lead director to preside at all executive sessions of non-management directors. In the lead director s absence, the remaining non-management directors may appoint a presiding director by majority vote. The non-management directors meet in executive session without management on a regular basis. Stockholders or other interested persons may send written communications to Arthur L. French, addressed to Lead Director, c/o Main Street Capital Corporation, Corporate Secretary s Office, 1300 Post Oak Blvd., Suite 800, Houston, Texas 77056.

***Audit Committee***

The Audit Committee is responsible for selecting, engaging and discharging our independent accountants, reviewing the plans, scope and results of the audit engagement with our independent accountants, approving professional services provided by our independent accountants (as well as the compensation for those services), reviewing the independence of our independent accountants and reviewing the adequacy of our internal control over financial reporting. In addition, the Audit Committee is responsible for assisting our Board of Directors, in connection with its review and approval of the determination of, the fair value of our debt and equity securities that are not publicly traded or for which current market values are not readily available. Our Board of Directors has determined that Mr. Appling is an Audit Committee financial expert as defined by the SEC and an independent director. Messrs. Canon and French are the other members of the Audit Committee. During the year ended December 31, 2008, the Audit Committee met five times and acted by unanimous written consent once.

***Compensation Committee***

The Compensation Committee determines the compensation for our executive officers and the amount of salary, bonus and stock-based compensation to be included in the compensation package for each of our executive officers. The actions of the Compensation Committee are generally reviewed and ratified by the entire Board of Directors, excluding the employee directors. The members of the Compensation Committee are Messrs. Canon, French and Gutermuth. During the year ended December 31, 2008, the Compensation Committee met five times and acted by unanimous written consent once.

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee is responsible for determining criteria for service on our Board of Directors, identifying, researching and recommending to the Board of Directors director nominees for election by our stockholders, selecting nominees to fill vacancies on our Board of Directors or a committee of the Board, developing and recommending to our Board of Directors any amendments to our corporate governance principles and overseeing the self-evaluation of our Board of Directors and its committees and evaluations of our management. The members of the Nominating and Corporate Governance Committee are Messrs. Appling, Canon and Gutermuth. During the year ended December 31, 2008, the Nominating and Corporate Governance Committee met five times.

**Investment Committee**

Our investment committee is responsible for all aspects of our investment process, including, origination, due diligence and underwriting, approval, documentation and closing, and portfolio management and investment monitoring. The current members of our investment committee are Messrs. Foster, Reppert and Hyzak. Our investment strategy involves a team approach, whereby potential transactions are screened by members of our investment team before being presented to the investment committee. Our investment committee meets on an as needed basis depending on transaction volume.

**Code of Business Conduct and Ethics**

We have adopted a code of business conduct and ethics that applies to our directors, officers and employees. Our code of business conduct and ethics is available on the Investor Relations section of our Web site at *www.mainstcapital.com* under Governance. We intend to disclose any future amendments to, or waivers from, this code of conduct within four business days of the waiver or amendment through a Web site posting.

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## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS
## DIRECTOR COMPENSATION

The following table sets forth the compensation that we paid during the year ended December 31, 2008 to our directors. Directors who are also employees of Main Street or of its subsidiaries do not receive compensation for their services as directors.

| Name | Fees Earned or Paid in Cash | Stock Awards (1)(2) | All Other Compensation (3) | Total |
|---|---|---|---|---|
| Michael Appling Jr. | $ 40,000 | $ 45,000 | $ 1,838 | $ 86,838 |
| Joseph E. Canon | 35,000 | 45,000 | 1,838 | 81,838 |
| Arthur L. French | 35,000 | 45,000 | 1,838 | 81,838 |
| William D. Gutermuth | 30,000 | 45,000 | 1,838 | 76,838 |

(1) These amounts represent the dollar amount recognized for financial statement reporting purposes with respect to the 2008 fiscal year for the fair value of awards granted in 2008 as well as prior fiscal years, if any, as determined in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Please see the discussion of the assumptions

made in the valuation of these awards in Note M to the audited consolidated financial statements included herein. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by our directors.

(2) Each of our non-employee directors received an award of 5,000 restricted shares under the Main Street Capital Corporation 2008 Non-Employee Director Restricted Stock Plan on July 1, 2008. 2,500 restricted shares of each grant vested 100% immediately on the grant date for service on the Board over the past year, and 2,500 restricted shares of each grant will vest 100% on June 10, 2009, provided that the grantee

has been in continuous service as a member of the Board of Directors through such date. The grant date fair value of each non-employee director s award of restricted stock granted in 2008 was $60,000 based on the $12.00 closing price of our common stock on the Nasdaq Global Select Market on July 1, 2008. Each non-employee director had 2,500 unvested shares of restricted stock outstanding as of December 31, 2008.

(3) These amounts reflect the dollar value of dividends paid on unvested restricted stock awards in 2008.

The compensation for non-employee directors for 2008 was comprised of cash compensation paid to or earned by directors in connection with their service as a director. That cash compensation consisted of an annual retainer of $30,000. Non-employee directors will not receive fees based on meetings attended absent circumstances that require an exceptionally high number of meetings within an annual period. We also reimburse our non-employee directors for all reasonable expenses incurred in connection with their service on our Board. The chairs of our Board committees receive additional annual retainers as follows:

the chair of the Audit Committee: $10,000; and

the chair of each of the Compensation and Nominating and Corporate Governance committees: $5,000.

Our 2008 Non-Employee Director Restricted Stock Plan provides a means through which we may attract and retain qualified non-employee directors to enter into and remain in service on our Board of Directors. Under our 2008

Non-Employee Director Restricted Stock Plan, at the beginning of each one-year term of service on our Board of Directors, each non-employee director will receive a number of shares equivalent to $30,000 worth of shares based on the market value at the close of the exchange on the date of grant. Forfeiture provisions will lapse as to an entire award at the end of the one-year term.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

*The following Compensation Discussion and Analysis, or CD&A, provides information relating to the 2008 compensation of Main Street s Chief Executive Officer, President and Chief Financial Officer and four other most highly compensated executive officers during 2008. Those six individuals are referred to in this CD&A as the Named Executive Officers, or NEOs.*

**Compensation Philosophy and Objectives**

The Main Street compensation system was developed by the Compensation Committee and approved by all Independent Directors. The system is designed to attract and retain key executives, motivate them to achieve the company s short-term and long-term objectives, reward them for superior performance and align their interests with those of the company s stockholders. Significant elements of the compensation arrangements with the NEOs (other than the Chief Executive Officer) are set forth in separate employment agreements Main Street entered into with them in connection with the company s initial public offering. Main Street s Chief Executive Officer, who has signed a non-compete agreement, serves at the discretion of the Board of Directors. The structure of those employment agreements and Main Street s incentive compensation programs are designed to encourage and reward the following, among other things:

- superior risk-adjusted returns on the company s investment portfolio;
- management team development;
- maintenance of liquidity and capital flexibility to accomplish the company s business objectives; and
- strength in income and capital gains to support and grow the company s dividend payments.

Subject to the provisions of the employment agreements with the NEOs described below, the Compensation Committee has the primary authority to establish compensation for the NEOs and other key employees and administers all executive compensation arrangements and policies. Main Street s Chief Executive Officer assists the Compensation Committee by providing annual recommendations regarding the compensation of NEOs and other key employees, excluding himself. The Compensation Committee can exercise its discretion in modifying or accepting those recommendations. The Chief Executive Officer routinely attends Compensation Committee meetings. However, the Compensation Committee also meets in executive session without the Chief Executive Officer or other members of management present when discussing the Chief Executive Officer s compensation and on certain other occasions.

The Compensation Committee takes into account competitive market practices with respect to the salaries and total direct compensation of the NEOs. Members of the Compensation Committee consider market practices by reviewing proxy statements or similar information made available by other internally managed business development companies, or BDCs, under the 1940 Act. The Compensation Committee also has the authority to utilize compensation consultants to better understand competitive pay practices. In this regard, the Compensation Committee engaged a compensation consultant in late 2008 to study the level and structure of compensation paid to our NEOs as compared to other internally managed business development companies, private equity firms and specialty finance companies (both public and private). The Compensation Committee is considering the findings of the compensation consultant but does not currently expect any material changes to the compensation program for our NEOs.

**Assessment of Market Data**

To assess the competitiveness of executive compensation levels, the Compensation Committee analyzes a comparative group of BDCs and reviews their competitive performance and compensation levels. This analysis centers around key elements of compensation practices within the BDC industry in general and, more specifically, compensation practices at internally managed BDCs reasonably comparable in asset size, typical investment size and type, market capitalization and general business scope to the company. Since there are relatively few internally managed BDCs, and because of Main Street s relatively small asset size and market capitalization in comparison to many BDCs, the Compensation Committee includes certain internally managed BDCs in Main Street s peer group that are substantially larger than the company. The peer group consists of the following companies: American Capital Strategies, Ltd., Allied Capital Corporation, Hercules Technology Growth Capital, Inc., Kohlberg Capital Corporation, MCG Capital Corporation, Patriot Capital Funding, Inc., Harris & Harris Group, Inc. and Triangle Capital Corporation.

Items reviewed include, but are not necessarily limited to, base compensation, bonus compensation, equity option awards, restricted stock awards, and other compensation as detailed in the respective proxies, research analysts reports and other publicly available information. In addition to actual levels of compensation, the Compensation Committee also analyzes the approach other BDCs are taking with regard to their compensation practices. Such items include, but are not necessarily limited to, the use of employment agreements for certain employees, a mix of cash and equity compensation, the use of third party compensation consultants and certain corporate and executive performance measures established to achieve long-term total return for stockholders. Although each of the peer companies is not precisely comparable in size, scope and operations to the company, the Compensation Committee believes that they are the most relevant comparable companies available with disclosed executive compensation data, and provide a good representation of competitive compensation levels for the company s executives.

**Assessment of Company Performance**

The Compensation Committee believes that consistent financial performance coupled with reasonable, long-term stockholders returns and proportional employee compensation are essential components for Main Street s long-term business success. Main Street typically makes three to seven year investments in lower middle-market companies. The company s business plan involves taking on investment risk over an extended period of time, and a premium is placed on the ability to maintain stability of net asset values and continuity of earnings to pass through to stockholders in the form of recurring dividends. Main Street s strategy is to generate current income from debt investments and to realize capital gains from equity-related investments. This income supports the payment of dividends to stockholders. The recurring payment of dividends requires a methodical investment acquisition approach and active monitoring and management of the investment portfolio over time. A meaningful part of the company s employee base is dedicated to the maintenance of asset values and expansion of this recurring income to support and grow dividends. The Compensation Committee believes that stability with regard to the management team is important in achieving successful implementation of the company s strategy.

**Executive Compensation Components**

For 2008, the components of Main Street s direct compensation program for NEOs include:

- base salary;
- annual cash bonuses;
- long-term compensation pursuant to the 2008 Equity Incentive Plan; and
- other benefits.

The Compensation Committee designs each NEO s direct compensation package to appropriately reward the NEO for his contribution to the company. The judgment and experience of the Compensation Committee are weighed with performance metrics and consultation with the Chief Executive Officer to determine the appropriate mix of compensation for each individual. Cash compensation consisting of base salary and discretionary bonuses tied to achievement of individual performance goals reviewed and approved by the Compensation Committee is intended to motivate NEOs to remain with the company and work to achieve its business objectives. Stock-based compensation is awarded based on performance expectations reviewed and approved by the Compensation Committee for each NEO. The blend of short-term and long-term compensation may be adjusted from time to time to balance the Compensation Committee s views regarding an NEO s individual preference for current cash compensation with appropriate retention incentives.

***Base Salary***

Base salary is used to recognize particularly the experience, skills, knowledge and responsibilities required of the NEOs in their roles. In connection with establishing the base salary of each NEO, the Compensation Committee and management considered a number of factors, including the seniority and experience level of the individual, the functional role of his position, the level of the individual s responsibility, the company s ability to replace the individual, the past base salary of the individual and the number of well-qualified candidates available in the area. In addition, the Compensation Committee considers publicly available information regarding the base salaries paid to similarly situated executive officers and other competitive market practices.

The salaries of the NEOs are reviewed on an annual basis, as well as at the time of promotion or any substantial change in responsibilities. Each of the NEO employment agreements establishes a target for annual increase in base salary at 5%, but provides that any increase is at the sole discretion of the Compensation Committee. Each such employment agreement also provides that the base salary is not subject to reduction. The key factors in determining increases in salary level are relative performance and competitive pressures.

***Annual Cash Bonuses***

Annual cash bonuses are intended to reward individual performance during the year and can therefore be highly variable from year to year. Bonus opportunities for the NEOs are determined by the Compensation Committee on a discretionary basis and are based on performance criteria, including corporate and individual performance goals and measures, set by the Compensation Committee with the Chief Executive Officer s input. As more fully described below in Employment Agreements, the employment agreements of the NEOs provide for target annual cash bonus amounts as a percentage of base salary.

***Long-Term Incentive Awards***

Main Street s Board and stockholders have approved the 2008 Equity Incentive Plan to provide stock-based awards as long-term incentive compensation to employees, including the NEOs. The company uses stock-based awards to (i) attract and retain key employees, (ii) motivate employees by means of performance-related incentives to achieve long-range performance goals, (iii) enable employees to participate in the company s long-term growth and (iv) link employees compensation to the long-term interests of stockholders. At the time of each award, the Compensation Committee will determine the terms of the award, including any performance period (or periods) and any performance objectives relating to vesting of the award.

*Options*. The Compensation Committee may grant equity options to purchase Main Street s common stock (including incentive stock options and nonqualified stock options). The Compensation Committee expects that any options granted by it will represent a fixed number of shares of common stock, will have an exercise price equal to the fair market value of common stock on the date of grant, and will be exercisable, or vested, at some later time after grant. Some stock options may provide for vesting simply by the grantee remaining employed by Main Street for a period of time, and some may provide for vesting based on the grantee and/or the company attaining specified performance levels. To date the Compensation Committee has not granted any stock options to any NEO.

*Restricted Stock*. Main Street has received exemptive relief from the SEC that permits the company to grant restricted stock in exchange for or in recognition of services by its executive officers and employees. Pursuant to the 2008 Equity Incentive Plan, the Compensation Committee may award shares of restricted stock to plan participants in such amounts and on such terms as the Compensation Committee determines in its sole discretion, provided that such awards are consistent with the conditions set forth in the SEC s exemptive order. Each restricted stock grant will be for a fixed number of shares as set forth in an award agreement between the grantee and Main Street. Award agreements will set forth time and/or performance vesting schedules and other appropriate terms and/or restrictions with respect to awards, including rights to dividends and voting rights. As more fully described below, each of the NEO employment agreements provides for a target annual restricted stock award or an equitable substitute.

***Other Benefits***

Main Street s NEOs participate in the same benefit plans and programs as the company s other employees, including comprehensive medical insurance, comprehensive dental insurance, business travel accident insurance, short term disability coverage, long term disability insurance, and vision care.

Main Street maintains a 401(k) plan for all full-time employees who are at least 21 years of age through which the company makes non-discretionary matching contributions to each participant s plan account on the participant s behalf. For each participating employee, the company s contribution is generally a match of the employee s contributions up to a 4.5% contribution level with a maximum annual matching contribution of $10,350 during 2008. All contributions to the plan, including the company s, vest immediately. The Board of Directors may also, at its sole discretion, make additional contributions to employee 401(k) plan accounts, which would vest on the same basis as other employer contributions.

*Perquisites*

The company provides no other material benefits, perquisites or retirement benefits to the NEOs.

**Employment Agreements**

In connection with Main Street s initial public offering, the company entered into employment agreements with each of its NEOs, other than Mr. Foster, its Chief Executive Officer. Initial terms of the employment agreements extend to December 31, 2010. As the Chairman of the Board of Directors and Chief Executive Officer, Mr. Foster does not have an employment agreement and will serve as an executive officer at the direction and discretion of the Board of Directors. However, Mr. Foster has executed a confidentiality and non-compete agreement with the company. The NEO employment agreements specify an initial base salary which was paid in 2007 and contemplate a 5% target annual increase in base salary (provided that any increase is in the sole discretion of the Compensation Committee).

Each NEO employment agreement specifies a target discretionary annual bonus as a percentage of his then current base salary based upon achieving the performance objectives established by the Compensation Committee. Under the NEO employment agreements, the applicable NEOs have referenced target bonus amounts for each of the years ending December 31, 2008, 2009 and 2010. The target bonus amounts for Mr. Reppert are 50%, 60% and 70% of his base salary, respectively, for each of those three calendar years. The target bonus amounts for Messrs. Stout, Hartman, Hyzak and Magdol are 40%, 50% and 60% of their base salaries for each of those three calendar years, respectively. The Compensation Committee has established applicable individual performance objectives, and will approve the actual bonus awarded to each NEO annually.

Each NEO employment agreement also provides for the initial grant of restricted stock in an amount equal to 40,000 shares for Mr. Reppert and 30,000 shares for each of Messrs. Stout, Hartman, Hyzak and Magdol in respect of such executive s service performed in 2007, including in connection with the successful completion of the company s initial public offering, and in 2008. As discussed below, initial grants of restricted stock related to this provision were made to the NEOs on July 1, 2008. In addition, the NEO employment agreements provide for targeted annual restricted stock awards for each of calendar years 2009 and 2010 with date of grant valuation of 75% of base salary for Mr. Reppert and date of grant valuation of 50% of base salaries for each of Messrs. Stout, Hartman, Hyzak and Magdol, in each case subject to the Compensation Committee s discretion based on the satisfaction of objective, reasonable and attainable performance criteria established by the Compensation Committee. Restricted stock awards will generally vest in equal annual portions over the four years subsequent to the date of grant.

The NEO employment agreements also provide for certain severance and other benefits upon termination after a change of control or certain other specified termination events. The severance and other benefits in these circumstances are discussed below and reflected in the  Potential Payments upon Termination or Change of Control Table.

Mr. Reppert s employment agreement generally provides for a non-competition period after his voluntary termination or a termination without cause by the company. However, Messrs. Stout, Hartman, Hyzak and Magdol would generally only be subject to the non-competition provisions of their employment agreements in the event they are terminated without cause. The NEO employment agreements also provide for a non-solicitation period after any termination of employment and provide for the protection of Main Street s confidential information.

**Change in Control and Severance**

Upon a change in control, equity-based awards under the 2008 Equity Incentive Plan may vest and/or become immediately exercisable or salable. In addition, upon termination of employment following a change in control, the NEOs who are parties to the NEO employment agreements may be entitled to severance payments.

*2008 Equity Incentive Plan.* Upon specified transactions involving a change in control (as defined in the 2008 Equity Incentive Plan), all outstanding awards under the 2008 Equity Incentive Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the plan participants will be subject to accelerated vesting in full and, in the case of options, then terminated to the extent not exercised within a designated time period.

Transactions involving a  change in control  under the 2008 Equity Incentive Plan include:

a consolidation, merger, stock sale or similar transaction or series of related transactions in which Main Street is not the surviving corporation or which results in the acquisition of all or substantially all of the company s then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert;

a sale or transfer of all or substantially all of the company s assets;

Main Street s dissolution or liquidation; or

a change in the membership of the company s Board of Directors such that the individuals who, as of the effective date of the plan, constitute the Board of Directors, whom are referred to as the Continuing Directors, and any new director whose election or nomination by the Board of Directors was approved by a vote of at least a majority of the Continuing Directors, cease to constitute at least a majority of the Board.

*Severance*. Under specified transactions involving a change in control (as defined in each NEO employment agreement), if an NEO who is a party to an NEO employment agreement terminates his employment with Main Street for good reason within one year following such change in control, or if the company terminates or fails to renew the NEO s employment agreement within the one year commencing with a change in control, he will receive a severance package beginning on the date of termination. The severance package will include a lump-sum payment equal to two or three times, depending upon the NEO s position, the NEO s annual salary at that time, plus the NEO s target bonus compensation as described in the employment agreement, and the company will continue to provide the NEO with certain benefits provided to him immediately prior to the termination as described in the employment agreement for a designated time period.

Under the employment agreements, a Change in Control occurs if:

A person or a group acquires ownership of Main Street s capital stock that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the company s capital stock;

a person or a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of capital stock possessing 30 percent or more of the total voting power of the company s capital stock;

a majority of members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of such appointment or election; or a person or a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) company assets that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the company s assets immediately prior to such acquisition or acquisitions. Certain transfers of assets are not considered a change in control if transferred to specified parties.

The rationale behind providing a severance package in certain events is (1) to attract and retain dedicated and talented executives and to provide such executives with reasonable financial remuneration and restitution in the event of dislocation and disruption of employment as a result of involuntary severance, and (2) to maintain and maximize shareholder value through the management team s commitment and fidelity to the integrity of a change-in-control transaction. For further discussion regarding executive compensation in the event of a termination or change in control, please see the table entitled Potential Payments upon Termination or Change in Control Table included herein.

**Tax Deductibility of Compensation**

Section 162(m) of the Internal Revenue Code generally disallows a deduction to public companies to the extent of excess annual compensation over $1 million paid to certain executive officers, except for qualified performance-based compensation. Main Street s general policy, where consistent with business objectives, is to preserve the deductibility of executive officer compensation. The Compensation Committee may authorize forms of compensation that might not be deductible if the Compensation Committee deems such to be in the best interests of Main Street and its stockholders. The company had no nondeductible compensation paid to executive officers in 2008.

**2008 Compensation Determination**

The Compensation Committee analyzed the competitiveness of the components of compensation described above on both an individual and aggregate basis. The Compensation Committee believes that the total compensation paid to the NEOs for the fiscal year ended December 31, 2008 achieves the overall objectives of Main Street s executive compensation program.

***Determination of Annual Base Salary***

The Compensation Committee annually reviews the base salary of each executive officer, including each NEO, and determines whether or not to increase it in its sole discretion. Increases to base salary can be awarded to recognize, among other things, relative performance, relative cost of living and competitive pressures. Increases in the 2008 annual base salary of each NEO over his 2007 annualized base salary are based exclusively on the loss by such NEO of certain benefits that were received prior to the company s initial public offering. Without the adjustments described in the previous sentence, the 2008 base salary of each NEO would have been equal to such NEO s 2007 annualized base salary.

Mr. Foster was paid an annual base salary of $353,910 for 2008, an increase of 1.5% over his 2007 annualized base salary.

Mr. Reppert was paid an annual base salary of $316,410 for 2008, an increase of 1.7% over his 2007 annualized base salary.

Mr. Stout was paid an annual base salary of $215,160 for 2008, an increase of 2.5% over his 2007 annualized base salary.

Mr. Hartman was paid an annual base salary of $215,160 for 2008, an increase of 2.5% over his 2007 annualized base salary.

Mr. Hyzak was paid an annual base salary of $215,160 for 2008, an increase of 2.5% over his 2007 annualized base salary.

Mr. Magdol was paid an annual base salary of $215,160 for 2008, an increase of 2.5% over his 2007 annualized base salary.

***Determination of Annual Cash Incentive Bonus***

Cash bonuses are determined annually by the Compensation Committee on a discretionary basis. Cash bonuses for 2008 were accrued in 2008 but were determined by the Compensation Committee and paid to NEOs in the first quarter of 2009. The 2008 target cash bonus percentage of base salary for each NEO is presented below as well as the actual cash bonus percentage of base salary for each NEO in 2008. The Compensation Committee, in its sole discretion, may award cash bonuses that exceed cash bonus targets if it believes that the performance of the NEO during the given year merits such a bonus. The company did not pay a cash bonus to any NEO in 2007.

| **Named Executive Officer** | **Target % of 2008 Salary** | **Actual % of 2008 Salary Awarded** |
|---|---|---|
| Vincent D. Foster | n/a | 0% |
| Todd A. Reppert | 50% | 36% |
| Rodger A. Stout | 40% | 35% |
| Curtis L. Hartman | 40% | 35% |
| Dwayne L. Hyzak | 40% | 35% |
| David L. Magdol | 40% | 35% |

The Compensation Committee considered performance achievements in the determination of cash bonuses for 2008, including company performance and the personal performance of each individual. The performance goals used for determining the cash bonuses for NEOs included, among other things, the following:

Maintaining liquidity and capital flexibility to accomplish the company s business objectives;

Maintaining appropriate dividend payouts to stockholders;

Maintaining the highest ethical standards, internal controls and adherence to regulatory requirements; and

Maintaining reasonable relative overall portfolio performance.

Based on a recommendation by Mr. Foster in light of the current economic environment, the Compensation Committee did not award Mr. Foster a 2008 cash bonus but will however consider awarding Mr. Foster additional restricted stock in 2009 in lieu thereof. Cash bonuses were paid as shown below to other NEOs for 2008 performance. These bonuses are less than specified in the individual employment contracts of the NEOs but do not reflect negatively on any individual executive s performance. Instead, these bonus amounts reflect the Compensation Committee s and the executives desire to maintain an appropriate operating cost level in a difficult economic environment.

Mr. Reppert was paid an annual cash bonus of $115,000 for 2008. This cash bonus recognizes Mr. Reppert s performance as President and CFO during very turbulent market conditions and particularly his leadership in strengthening the company s liquidity and capital flexibility.

Mr. Stout was paid an annual cash bonus of $75,000 for 2008. This cash bonus recognizes Mr. Stout s management of internal control, financial and accounting responsibilities while transitioning to treasury and compliance accountability.

Mr. Hartman was paid an annual cash bonus of $75,000 for 2008. This cash bonus recognizes Mr. Hartman s performance in managing current portfolio investments, executing new investment opportunities and developing and training Main Street personnel.

Mr. Hyzak was paid an annual cash bonus of $75,000 for 2008. This cash bonus recognizes Mr. Hyzak s performance in managing current portfolio investments, executing new investment opportunities and developing and training Main Street personnel.

Mr. Magdol was paid an annual cash bonus of $75,000 for 2008. This cash bonus recognizes Mr. Magdol s performance in managing current portfolio investments, executing new investment opportunities and developing and training Main Street personnel.

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***Determination of Long-Term Incentive Awards***

As contemplated by each NEO s employment agreement, after approval of the 2008 Equity Incentive Plan by the stockholders, each NEO was granted shares of restricted stock under the plan, effective July 1, 2008. The 2008 target grant amount of restricted shares for each NEO is presented below as well as the actual 2008 grant amount of restricted shares awarded to each NEO. All restricted stock grants to NEOs under the 2008 Equity Incentive Plan vest ratably over four years from the grant date. Messrs. Foster and Reppert recommended that the Compensation Committee reallocate a portion of their individual grants of restricted shares to other company employees, including Messrs. Stout, Hartman, Hyzak and Magdol, for their diligence and dedication in connection with the successful initial public offering of the company in October 2007 and in the implementation of the company s strategies in 2007 and 2008.

| **Named Executive Officer** | **Target Number of Restricted Shares** | **Actual Number of Restricted Shares Granted** |
|---|---|---|
| Vincent D. Foster | n/a | 30,000 |
| Todd A. Reppert | 40,000 | 30,000 |
| Rodger A. Stout | 30,000 | 35,000 |
| Curtis L. Hartman | 30,000 | 32,500 |
| Dwayne L. Hyzak | 30,000 | 35,000 |
| David L. Magdol | 30,000 | 32,500 |

**Executive Officer Compensation**

The following table summarizes compensation of our Chief Executive Officer, our President and Chief Financial Officer and our four highest paid executive officers who did not serve as our Chief Executive Officer or Chief Financial Officer during 2008, all of whom we refer to as our NEOs, for the fiscal year ended December 31, 2008.

**Summary Compensation Table**

| **Name and Principal Position** | **Year** | **Salary(1)** | **Bonus(2)** | **Stock Awards(3)** | **All Other Compensation(4)** | **Total** |
|---|---|---|---|---|---|---|
| Vincent D. Foster | 2008 | $353,910 | n/a | $45,000 | $ 32,400(5) | $431,310 |
| Chairman & Chief Executive Officer | 2007 | 87,188 | n/a | n/a | 2,531 | 89,719 |
| Todd A. Reppert | 2008 | $316,410 | $115,000 | $45,000 | $ 32,400(6) | $508,810 |
| President & Chief Financial Officer | 2007 | 77,813 | n/a | n/a | 2,531 | 80,344 |
| Rodger A. Stout Chief Compliance Officer, Senior Vice President Finance and | 2008 | $215,160 | $ 75,000 | $52,500 | $ 35,072(7) | $377,732 |
| Administration and Treasurer | 2007 | 52,500 | n/a | n/a | 2,363 | 54,863 |
| Curtis L. Hartman | 2008 | $215,160 | $ 75,000 | $48,750 | $ 33,570(8) | $372,480 |
| Senior Vice President | 2007 | 52,500 | n/a | n/a | 2,531 | 55,031 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Dwayne L. Hyzak<br>Senior Vice President | 2008<br>2007 | $215,160<br>52,500 | $ 75,000<br>n/a | $52,500<br>n/a | $ 35,407(9)<br>2,531 | $378,067<br>55,031 |
| David L. Magdol<br>Senior Vice President | 2008<br>2007 | $215,160<br>52,500 | $ 75,000<br>n/a | $48,750<br>n/a | $ 33,570(10)<br>2,531 | $372,480<br>55,031 |

(1) The 2007 salary amounts reflect the actual salaries of the NEOs that were in effect during the period from October 4, 2007, the completion of our initial public offering, through December 31, 2007. All executive compensation is paid by one of our wholly owned subsidiaries, Main Street Capital Partners, LLC.

(2) These amounts reflect annual cash bonuses earned during 2008 by the NEOs and were determined based on individual performance goals adopted by the Compensation Committee. No cash bonuses were paid to NEOs in 2007. All annual cash bonuses are paid by one of our

wholly owned subsidiaries, Main Street Capital Partners, LLC.

(3) These amounts represent the dollar amount recognized for financial statement reporting purposes with respect to the 2008 fiscal year for the fair value of awards granted in 2008 as well as prior fiscal years, if any, as determined in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Please see the discussion of the assumptions made in the valuation of these awards in Note M to the audited consolidated financial statements included herein. These amounts reflect our accounting

expense for these awards, and do not correspond to the actual value that will be recognized by our NEOs.

(4) For 2008, these amounts reflect (i) employer matching contributions we made to our 401(k) Plan and (ii) the dollar value of dividends paid on unvested restricted stock awards. For 2007, these amounts reflect employer matching contributions we made to our 401(k) Plan during the period from October 4, 2007, the completion of our initial public offering, through December 31, 2007. We make matching contributions for each semi-monthly payroll period.

(5) Includes $10,350 employer matching contributions to our 401(k) Plan

and $22,050 dollar value of dividends on unvested restricted stock awards.

(6) Includes $10,350 employer matching contributions to our 401(k) Plan and $22,050 dollar value of dividends on unvested restricted stock awards.

(7) Includes $25,725 dollar value of dividends on unvested restricted stock awards.

(8) Includes $23,888 dollar value of dividends on unvested restricted stock awards.

(9) Includes $25,725 dollar value of dividends on unvested restricted stock awards.

(10) Includes $23,888 dollar value of dividends on unvested restricted stock awards.

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**Grants of Plan-Based Awards**

The following table sets forth information regarding restricted stock awards granted to our NEOs in fiscal 2008:

| Name | Grant Date | Stock Awards; Number of Shares of Stock | Grant Date Fair Value of Stock Awards |
|---|---|---|---|
| Vincent D. Foster | 7/1/08 | 30,000 | $ 360,000 |
| Todd A. Reppert | 7/1/08 | 30,000 | $ 360,000 |
| Rodger A. Stout | 7/1/08 | 35,000 | $ 420,000 |
| Curtis L. Hartman | 7/1/08 | 32,500 | $ 390,000 |
| Dwayne L. Hyzak | 7/1/08 | 35,000 | $ 420,000 |
| David L. Magdol | 7/1/08 | 32,500 | $ 390,000 |

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth the awards of restricted stock for which forfeiture provisions were outstanding at December 31, 2008:

| | Stock Awards | |
|---|---|---|
| Name | Number of Shares of Stock that have not Vested (1) | Market Value of Shares of Stock that have not Vested (2) |
| Vincent D. Foster | 30,000 | $ 293,100 |
| Todd A. Reppert | 30,000 | $ 293,100 |
| Rodger A. Stout | 35,000 | $ 341,950 |
| Curtis L. Hartman | 32,500 | $ 317,525 |
| Dwayne L. Hyzak | 35,000 | $ 341,950 |
| David L. Magdol | 32,500 | $ 317,525 |

(1) No restricted stock awards have been transferred.

(2) The market value of shares of stock that have not vested was determined based on the closing price of our common stock on the

Nasdaq Global Select Market on December 31, 2008, which was $9.77.

**Potential Payments upon Termination or Change in Control**

Each NEO, other than our Chief Executive Officer (who has signed a non-compete agreement and serves at the discretion of our Board of Directors), is entitled under his employment agreement to certain payments upon termination of employment or in the event of a change in control. The following table sets forth those potential payments as of December 31, 2008 with respect to each applicable NEO:

| | Benefit | Death(3) | Disability(3) | Termination with Cause(4) | Termination Without Cause or Good Reason(3)(4) | Within One Year After Change in Control; Termination Without Cause or Good Reason(3)(4) |
|---|---|---|---|---|---|---|
| Todd A. Reppert | Severance(1) | $ | $ | $ | $ 632,820 | $ 949,230 |
| | Bonus(2) | | | | 379,692 | 569,538 |
| Rodger A. Stout | Severance(1) | | | | 322,740 | 430,320 |
| | Bonus(2) | | | | 161,370 | 215,160 |
| Curtis L. Hartman | Severance(1) | | | | 322,740 | 430,320 |
| | Bonus(2) | | | | 161,370 | 215,160 |
| Dwayne L. Hyzak | Severance(1) | | | | 322,740 | 430,320 |
| | Bonus(2) | | | | 161,370 | 215,160 |
| David L. Magdol | Severance(1) | | | | 322,740 | 430,320 |
| | Bonus(2) | | | | 161,370 | 215,160 |

(1) Severance pay includes an NEO s annual base salary and applicable multiple thereof paid monthly beginning at the time of termination or paid in lump-sum if termination is within one year of a change in control.

(2) Bonus compensation includes an NEO s current

target annual bonus and applicable multiple thereof paid monthly beginning at the time of termination or paid lump-sum if termination is within one year of a change in control.

(3) Upon these termination events, the NEO will become fully vested in any previously unvested stock-based compensation.

(4) For a discussion of how the employment agreements define the term Change of Control, see Compensation Discussion and Analysis Change in Control and Severance. The employment agreements define Cause as conviction of a felony or other crime of moral turpitude; failure or refusal to perform all duties and obligations; gross negligence or willful misconduct to our material

detriment; or the material breach of the employment agreement or any provision of a uniformly applied policy such as our Code of Business Conduct and Ethics. The employment agreements define Good Reason as the existence, without the executive s consent, of any of the following conditions at any time during the two years prior to the executive s termination: a material diminution in an executive s base salary, target bonus or authority and duties (not including any position on our Board of Directors); implementation of a requirement that the executive report to an employee or corporate officer rather than directly to the Chairman of the Board and the Chief Executive Officer or a material diminution in the authority and responsibilities of the executive s supervisor; a material change in the location where the executive s duties are to be performed; or the material breach by us of the employment agreement, including the failure of any successor to us to assume the terms of the agreement.

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## CERTAIN RELATIONSHIPS AND TRANSACTIONS

**Transactions with Related Persons**

We co-invested with Main Street Capital II , LP in several existing portfolio investments prior to our initial public offering (the IPO ), but did not co-invest with Main Street Capital II, LP subsequent to the IPO and prior to June 2008. In June 2008, we received exemptive relief from the SEC to allow us to resume co-investing with Main Street Capital II, LP in accordance with the terms of such exemptive relief. Main Street Capital II, LP is managed by Main Street Capital Partners, LLC, and Main Street Capital Partners, LLC is wholly owned by us. Main Street Capital II, LP is a privately owned SBIC fund with similar investment objectives to us and which began its investment operations in January 2006. The co-investments among us and Main Street Capital II, LP have all been made at the same time and on the same terms and conditions. The co-investments were also made in accordance with Main Street Capital Partners, LLC s conflicts policy and in accordance with the applicable SBIC conflict of interest regulations.

In addition, during the year ended December 31, 2008, one of our wholly owned subsidiaries, Main Street Capital Partners, LLC, received $3.3 million from Main Street Capital II , L.P. for providing investment advisory services to Main Street Capital II, L.P .. Messrs. Foster and Reppert control the general partner of Main Street Capital II, L.P.

## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock by:

- each person known to us to beneficially own more than five percent of the outstanding shares of our common stock;
- each of our directors and executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. There is no common stock subject to options that are currently exercisable or exercisable within 60 days of March 20, 2009. Percentage of beneficial ownership is based on 9,076,139 shares of common stock outstanding as of March 20, 2009.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, and maintains an address c/o Main Street Capital Corporation. Our address is 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056.

| | Shares Owned Beneficially | |
|---|---|---|
| **Name** | **Number** | **Percentage** |
| **Independent Directors:** | | |
| Michael Appling Jr. | 19,239 | * |
| Joseph E. Canon | 292,620(1) | 3.2% |
| Arthur L. French | 15,487 | * |
| William D. Gutermuth | 10,709 | * |
| **Interested Directors:** | | |
| Vincent D. Foster | 1,068,785 (2) | 11.78% |
| Todd A. Reppert | 654,089(3) | 7.21% |
| **Executive Officers:** | | |
| Rodger A. Stout | 67,537 | * |
| Jason B. Beauvais | 9,176 | * |
| Michael S. Galvan | 8,575 | * |
| Curtis L. Hartman | 227,972(4) | 2.51% |
| Dwayne L. Hyzak | 239,486 | 2.64% |
| David L. Magdol | 247,767 | 2.73% |
| All Directors and Officers as a Group (12 persons) | 2,861,443 | 31.53% |

* Less than 1%

(1) Includes (i) 63,121 shares of common stock held by the Dodge Jones Foundation for which Mr. Canon has sole voting and investment power as Executive Vice President and (ii) 218,183 shares of common stock held by JMK Investments, LP for which Mr. Canon has shared voting and investment power as co-manager of its general partner. Mr. Canon disclaims beneficial ownership of the securities held by the Dodge Jones Foundation and JMK Investments, LP.

(2) Includes 7,629 shares of common stock held by Foster Irrevocable Trust for the benefit of Mr. Foster s children. Although Mr. Foster is not

the trustee, and accordingly does not have voting power or dispositive power over these shares, he may from time to time direct the trustee to vote and dispose of these shares. Also includes 2,222 shares and 2,175 shares held in custodial accounts for Mr. Foster s daughters, Amy Foster and Brittany Foster, respectively.

(3) Includes 142,387 shares of common stock held by Reppert Investments Limited Partnership which are beneficially owned by Mr. Reppert.

(4) Includes 188,947 shares of common stock held in margin accounts or otherwise pledged.

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The following table sets forth, as of March 20, 2009, the dollar range of our equity securities that is beneficially owned by each of our directors.

| | Dollar Range of Equity Securities Beneficially Owned(1)(2)(3) |
|---|---|
| **Interested Directors:** | |
| Vincent D. Foster | over $100,000 |
| Todd A. Reppert | over $100,000 |
| **Independent Directors:** | |
| Michael Appling Jr. | over $100,000 |
| Joseph E. Canon | over $100,000 |
| Arthur L. French | over $100,000 |
| William D. Gutermuth | over $100,000 |

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

(2) The dollar range of equity securities beneficially owned by our directors is based on a stock price of $9.47 per share as of March 20, 2009.

(3) The dollar range of equity securities beneficially owned are: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, or over $100,000.

## SALES OF COMMON STOCK BELOW NET ASSET VALUE

On June 17, 2008, our common stockholders voted to allow us to issue common stock at any discount from our net asset value (NAV) per share for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual stockholders meeting, and we are seeking similar approval from our stockholders at our 2009 annual stockholders meeting for the following year. In order to sell shares pursuant to this authorization:

- a majority of our independent directors who have no financial interest in the sale must have approved the sale; and

- a majority of such directors, who are not interested persons of Main Street, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, must have determined in good faith, and as of a time immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of those shares, less any underwriting commission or discount.

We are permitted to sell shares of common stock below NAV per share in rights offerings although we will not do so under this prospectus. Any offering of common stock below NAV per share will be designed to raise capital for investment in accordance with our investment objectives and business strategies.

In making a determination that an offering below NAV per share is in our and our stockholders best interests, our Board of Directors would consider a variety of factors including:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of our common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the proposed offering price would closely approximate the market value of our shares;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments to be funded with the proceeds from the offering, if any; and

The leverage available to us, both before and after any offering, and the terms thereof.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different sets of investors:

existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Impact on Existing Stockholders who do not Participate in the Offering**

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold and their NAV per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 common shares outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per share are thus $10,000,000 and $10.00. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at $9.50 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 100,000 shares (10% of the outstanding shares) at $9.00 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of 200,000 shares (20% of the outstanding shares) at $8.00 per share after offering expenses and commissions (a 20% discount from NAV). The prospectus supplement pursuant to which any discounted offering is made will include a chart based on the actual number of shares in such offering and the actual discount to the most recently determined NAV.

| | | Example 1 5% Offering at 5% Discount | | Example 2 10% Offering at 10% Discount | | Example 3 20% Offering at 20% Discount | |
|---|---|---|---|---|---|---|---|
| | **Prior to Sale Below NAV** | **Following Sale** | **% Change** | **Following Sale** | **% Change** | **Following Sale** | **% Change** |
| ***Offering Price*** | | | | | | | |
| Price per Share to Public (1) | | $ 10.00 | | $ 9.47 | | $ 8.42 | |
| Net Proceeds per Share to Issuer | | $ 9.50 | | $ 9.00 | | $ 8.00 | |
| ***Increase in Shares and Decrease to NAV*** | | | | | | | |
| Total Shares Outstanding | 1,000,000 | 1,050,000 | 5.00% | 1,100,000 | 10.00% | 1,200,000 | 20.00% |
| NAV per Share | $ 10.00 | $ 9.98 | (0.20)% | $ 9.91 | (0.90)% | $ 9.67 | (3.30)% |
| ***Dilution to Nonparticipating Stockholder A*** | | | | | | | |

(1) Assumes 5% in selling compensation and expenses paid by us.

**Impact on Existing Stockholders who do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of NAV dilution to such stockholders will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than their proportionate percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares purchased by such stockholder increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and the level of discount to NAV increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,000 shares, which is 0.5% of an offering of 200,000 shares rather than its 1.0% proportionate share) and (2) 150% of such percentage (i.e., 3,000 shares, which is 1.5% of an offering of 200,000 shares rather than its 1.0% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

| | Prior to Sale Below NAV | 50% Participation Following Sale | % Change | 150% Participation Following Sale | % Change |
|---|---|---|---|---|---|
| ***Offering Price*** | | | | | |
| Price per Share to Public (1) | | $ 8.42 | | $ 8.42 | |
| Net Proceeds per Share to Issuer | | $ 8.00 | | $ 8.00 | |
| ***Increase in Shares and Decrease to NAV*** | | | | | |
| Total Shares Outstanding | 1,000,000 | 1,200,000 | 20.00% | 1,200,000 | 20.00% |
| NAV per Share | $ 10.00 | $ 9.67 | (3.33)% | $ 9.67 | (3.33)% |
| ***Dilution/Accretion to Participating Stockholder A*** | | | | | |
| **Share Dilution/Accretion** | | | | | |
| Shares Held by Stockholder A | 10,000 | 11,000 | 10.00% | 13,000 | 30.00% |
| Percentage Outstanding Held by Stockholder A | 1.00% | 0.92% | (8.33)% | 1.08% | 8.33% |
| **NAV Dilution/Accretion** | | | | | |
| Total NAV Held by Stockholder A | $ 100,000 | $ 106,333 | 6.33% | $ 125,667 | 25.67% |
| Total Investment by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale) | | $ 108,420 | | $ 125,260 | |
| Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment) | | $ (2,087) | | $ 407 | |
| **NAV Dilution/Accretion per Share** | | | | | |
| NAV per Share Held by Stockholder A | | $ 9.67 | | $ 9.67 | |
| Investment per Share Held by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale) | $ 10.00 | $ 9.86 | (1.44)% | $ 9.64 | (3.65)% |
| NAV Dilution/Accretion per Share Experienced by | | $ (0.19) | | $ 0.03 | |

| | | |
|---|---|---|
| Stockholder A (NAV per Share Less Investment per Share) | | |
| Percentage NAV Dilution/Accretion Experienced by Stockholder A (NAV Dilution/Accretion per Share Divided by Investment per Share) | (1.92)% | 0.32% |

(1) Assumes 5% in selling compensation and expenses paid by us.

**Impact on New Investors**

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by us will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares (Example 1 below). On the other hand, investors who are not currently stockholders, but who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares (Examples 2 and 3 below). These latter investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (1.00%) of the shares in the offering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus supplement pursuant to which any discounted offering is made will include a chart for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

| | | **Example 1 5% Offering at 5% Discount** | | **Example 2 10% Offering at 10% Discount** | | **Example 3 20% Offering at 20% Discount** | |
|---|---|---|---|---|---|---|---|
| | **Prior to Sale Below NAV** | **Following Sale** | **% Change** | **Following Sale** | **% Change** | **Following Sale** | **% Change** |
| ***Offering Price*** | | | | | | | |
| Price per Share to Public (1) | | $ 10.00 | | $ 9.47 | | $ 8.42 | |
| Net Proceeds per Share to Issuer | | $ 9.50 | | $ 9.00 | | $ 8.00 | |
| ***Increase in Shares and Decrease to NAV*** | | | | | | | |
| | 1,000,000 | 1,050,000 | 5.00% | 1,100,000 | 10.00% | 1,200,000 | 20.00% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total Shares Outstanding | | | | | | | |
| NAV per Share | $ 10.00 | $ 9.98 | (0.20)% | $ 9.91 | (0.90)% | $ 9.67 | (3.30)% |
| ***Dilution/Accretion to New Investor A*** | | | | | | | |
| **Share Dilution** | | | | | | | |
| Shares Held by Investor A | | 500 | | 1,000 | | 2,000 | |
| Percentage Outstanding Held by Investor A | 0.00% | 0.05% | | 0.09% | | 0.17% | |
| **NAV Dilution** | | | | | | | |
| Total NAV Held by Investor A | | $ 4,990 | | $ 9,910 | | $ 19,340 | |
| Total Investment by Investor A (At Price to Public) | | $ 5,000 | | $ 9,470 | | $ 16,840 | |
| Total Dilution/Accretion to Investor A (Total NAV Less Total Investment) | | $ (10) | | $ 440 | | $ 2,500 | |
| **NAV Dilution per Share** | | | | | | | |
| NAV per Share Held by Investor A | | $ 9.98 | | $ 9.91 | | $ 9.67 | |
| Investment per Share Held by Investor A | | $ 10.00 | | $ 9.47 | | $ 8.42 | |
| NAV Dilution/Accretion per Share Experienced by Investor A (NAV per Share Less Investment per Share) | | $ (0.02) | | $ 0.44 | | $ 1.25 | |
| Percentage NAV Dilution/Accretion Experienced by Investor A (NAV Dilution/Accretion per Share Divided by Investment per Share) | | | (0.20)% | | 4.65% | | 14.85% |

(1) Assumes 5% in selling compensation and expenses paid by us.

## DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for the reinvestment of dividends on behalf of our stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if we declare a cash dividend, our stockholders who have not opted out of our dividend reinvestment plan by the dividend record date will have their cash dividend automatically reinvested into additional shares of our common stock.

No action will be required on the part of a registered stockholder to have their cash dividends reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant s account, issue a certificate registered in the participant s name for the number of whole shares of our common stock and a check for any fractional share. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

When the share price is generally trading above net asset value, we intend to primarily use newly issued shares to implement the plan. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan when our share price is generally trading below net asset value. The number of newly issued shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on the Nasdaq Global Select Market on the dividend payment date. Shares purchased in open market transactions by the administrator of the dividend reinvestment plan will be allocated to a stockholder based upon the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased with respect to the dividend. Market price per share on that date will be the closing price for such shares on the Nasdaq Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There will be no brokerage charges or other charges for dividend reinvestment to stockholders who participate in the plan. We will pay the plan administrator s fees under the plan.

Stockholders who receive dividends in the form of stock generally are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder s basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend will have a holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder s account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.amstock.com*, by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at 59 Maiden Lane New York, New York 10038 or by calling the plan administrators at (212) 936-5100.

We may terminate the plan upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 59 Maiden Lane New York, New York 10038 or by telephone at (212) 936-5100.

## DESCRIPTION OF CAPITAL STOCK

*The following description is based on relevant portions of the Maryland General Corporation Law and on our articles of incorporation and bylaws. This summary may not contain all of the information that is important to you, and we refer you to the Maryland General Corporation Law and our articles of incorporation and bylaws for a more detailed description of the provisions summarized below.*

### Capital Stock

Under the terms of our articles of incorporation, our authorized capital stock consists of 150,000,000 shares of common stock, par value $0.01 per share, of which 9,054,931 shares were outstanding as of April 22, 2009. Under our articles of incorporation, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to cause the issuance of such shares, without obtaining stockholder approval. In addition, as permitted by the Maryland General Corporation Law, but subject to the 1940 Act, our articles of incorporation provide that the Board of Directors, without any action by our stockholders, may amend the articles of incorporation from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

#### *Common Stock*

All shares of our common stock have equal voting rights and rights to earnings, assets and distributions, except as described below. When shares are issued, upon payment therefor, they will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefore. Shares of our common stock have no conversion, exchange, preemptive or redemption rights. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

#### *Preferred Stock*

Our articles of incorporation authorize our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our articles of incorporation to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50.0% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

**Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses**

Maryland law permits a Maryland corporation to include in its articles of incorporation a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our articles of incorporation contain such a provision that eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the 1940 Act ).

Our articles of incorporation require us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to a proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. Our bylaws also require that, to the maximum extent permitted by Maryland law, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our bylaws.

Maryland law requires a corporation (unless its articles of incorporation provide otherwise, which our articles of incorporation do not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of his or her service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

In addition, we have entered into Indemnity Agreements with our directors and executive officers. The Indemnity Agreements generally provide that we will, to the extent specified in the agreements and to the fullest extent permitted by the 1940 Act and Maryland law as in effect on the day the agreement is executed, indemnify and advance expenses to each indemnitee that is, or is threatened to be made, a party to or a witness in any civil, criminal or administrative proceeding. We will indemnify the indemnitee against all expenses, judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred in connection with any such proceeding unless it is established that (i) the act or omission of the indemnitee was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty, (ii) the indemnitee actually received an improper personal benefit, or (iii) in the case of a criminal proceeding, the indemnitee had reasonable cause to believe his conduct was unlawful. Additionally, for so long as we are subject to the 1940 Act, no advancement of expenses will be made until (i) the indemnitee provides a security for his undertaking, (ii) we are insured against losses arising by reason of any lawful advances, or (iii) the majority of a quorum of our disinterested directors, or independent counsel in a written opinion, determine based on a review of readily available facts that there is reason to believe that the indemnitee ultimately will be found entitled to indemnification. The Indemnity Agreements also provide that if the indemnification rights provided for therein are unavailable for any reason, we will pay, in the first instance, the entire amount incurred by the indemnitee in connection with any covered proceeding and waive and relinquish any right of contribution we may have against the indemnitee. The rights provided by the Indemnity Agreements are in addition to any other rights to indemnification or advancement of expenses to which the indemnitee may be entitled under applicable law, our articles of incorporation, our bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment or repeal of the Indemnity Agreements will limit or restrict any right of the indemnitee in respect of any action taken or omitted by the indemnitee prior to such amendment or repeal. The Indemnity Agreements will terminate upon the later of (i) ten years after the date the indemnitee has ceased to serve as our director or officer, or (ii) one year after the final termination of any proceeding for which the indemnitee is granted rights of indemnification or advancement of expenses or which is brought by the indemnitee. The above description of the Indemnity Agreements is subject to, and is qualified in its entirety by reference to, all the provisions of the form of Indemnity Agreement.

We have obtained primary and excess insurance policies insuring our directors and officers against certain liabilities they may incur in their capacity as directors and officers. Under such policies, the insurer, on our behalf, may also pay amounts for which we have granted indemnification to the directors or officers.

**Provisions of the Maryland General Corporation Law and Our Articles of Incorporation and Bylaws**

The Maryland General Corporation Law and our articles of incorporation and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

***Election of Directors***

Our bylaws currently provide that directors are elected by a plurality of the votes cast in the election of directors. Pursuant to our articles of incorporation and bylaws, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

***Number of Directors; Vacancies; Removal***

Our articles of incorporation provide that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless the bylaws are amended, the number of directors may never be less than one or more than twelve. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act. Our articles of incorporation provide that a director may be removed only for cause, as defined in the articles of incorporation, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

***Action by Stockholders***

Under the Maryland General Corporation Law, stockholder action may be taken only at an annual or special meeting of stockholders or by unanimous consent in lieu of a meeting (unless the articles of incorporation provide for stockholder action by less than unanimous written consent, which our articles of incorporation do not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

***Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals***

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

***Calling of Special Meeting of Stockholders***

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

***Approval of Extraordinary Corporate Action; Amendment of Articles of Incorporation and Bylaws***

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its articles of incorporation, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its articles of incorporation for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our articles of incorporation generally provide for approval of amendments to our articles of incorporation and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our articles of incorporation also provide that certain amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 75.0% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least 75.0% of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by the stockholders entitled to cast a majority of the votes entitled to be cast on such a matter. The continuing directors are defined in our articles of incorporation as our current directors, as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors.

Our articles of incorporation and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

***No Appraisal Rights***

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act, or Control Share Act, discussed below, as permitted by the Maryland General Corporation Law, our articles of incorporation provide that stockholders will not be entitled to exercise appraisal rights.

***Control Share Acquisitions***

The Control Share Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth but less than one-third;

- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be otherwise amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the Board of Directors determines that it would be in our best interests and if the staff of the SEC does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

***Business Combinations***

Under the Maryland Business Combination Act, or the Business Combination Act, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10.0% or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10.0% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which such stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80.0% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

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These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution exempting any business combination between us and any other person from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. If these resolutions are repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

***Conflict with 1940 Act***

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, or any provision of our articles of incorporation or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A U.S. stockholder generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- A citizen or individual resident of the United States;
- A corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- A trust if a court within the United States is asked to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantive decisions of the trust; or
- A trust or an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A Non-U.S. stockholder generally is a beneficial owner of shares of our common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

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**Election to be Taxed as a Regulated Investment Company**

MSCC has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code Commencing October 2, 2007. As a RIC, we generally do not have to pay corporate-level federal income taxes on any income that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to maintain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses, subject to carrying forward taxable income for payment in the following year and paying a 4.0% excise tax as described below (the Annual Distribution Requirement ).

**Taxation as a Regulated Investment Company**

For any taxable year in which we qualify as a RIC and satisfy the Annual Distribution Requirement, then we will not be subject to federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income and capital gain net income for each calendar year, and (2) any income recognized, but not distributed, in preceding years (the Excise Tax Avoidance Requirement ). Dividends declared and paid by us in a year will generally differ from taxable income for that year as such dividends may include the distribution of current year taxable income, less amounts carried over into the following year, and the distribution of prior year taxable income carried over into and distributed in the current year. For amounts we carry over into the following year, we will be required to pay the 4% excise tax based on 98% of our annual taxable income in excess of distributions for the year.

In order to qualify as a RIC for federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each taxable year;

- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test ); and

- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and

  - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain qualified publicly traded partnerships (collectively, the Diversification Tests ).

In order to comply with the 90% Income Test, we formed MSEI, a wholly-owned subsidiary of MSCC, for the primary purpose of permitting us to own equity interests in portfolio companies which are pass through entities for tax purposes. Absent MSEI, a portion of the gross income from such portfolio companies would flow directly to us for purposes of the 90% Income Test. To the extent such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore cause us to incur significant federal income taxes. MSEI is consolidated with Main Street for generally accepted accounting principles in the United States, or U.S. GAAP purposes, and the portfolio investments held by MSEI are included in our consolidated financial statements. MSEI is not consolidated with Main Street for income tax purposes and may generate income tax expense as a result of its ownership of the portfolio investments. This income tax expense, if any, is reflected in our Consolidated Statement of Operations.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders in certain circumstances while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. See Regulation Regulation as a Business Development Company Senior Securities. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Pursuant to a recent revenue procedure issued by the Internal Revenue Service, or the IRS, the IRS has indicated that it will treat distributions from certain publicly traded RICs (including business development companies) that are paid part in cash and part in stock as dividends that would satisfy the RIC s annual distribution requirements. In order to qualify for such treatment, the revenue procedure requires that at least 10% of the total distribution be paid in cash and that each stockholder have a right to elect to receive its entire distribution in cash. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a proportionate share of the cash to be distributed (although no stockholder electing to receive cash may receive less than 10% of such stockholder s distribution in cash). This revenue procedure applies to distributions made with respect to taxable years ending prior to January 1, 2010.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

**Taxation of U.S. Stockholders**

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions ( Qualifying Dividends ) may be eligible for a maximum tax rate of 15.0%. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15.0% maximum rate applicable to Qualifying Dividends. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 15.0% in the case of individuals, trusts or estates, regardless of the U.S. stockholder s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder s adjusted tax basis in such stockholder s common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but to designate the retained net capital gain as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder s other U.S. federal income tax obligations. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder s cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

In any fiscal year, we may elect to make distributions to our stockholders in excess of our taxable earnings for that fiscal year. As a result, a portion of those distributions may be deemed a return of capital to our stockholders.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. The amount of gain or loss will be measured by the difference between such stockholder s adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. stockholders currently are subject to a maximum federal income tax rate of 15.0% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35.0% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carryback such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder s taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year s distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15.0% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder s particular situation.

As a RIC, we will be subject to the alternative minimum tax ( AMT ), but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect the stockholders AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the Internal Revenue Service, we intend in general to apportion these items in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances.

We may be required to withhold federal income tax ( backup withholding ) currently at a rate of 28.0% from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual s taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder s federal income tax liability, provided that proper information is provided to the IRS.

**Taxation of Non-U.S. Stockholders**

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person s particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Distributions of our investment company taxable income to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of federal tax at a 30.0% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

In addition, with respect to certain distributions made to Non-U.S. stockholders in our taxable years beginning before January 1, 2010, no withholding will be required and the distributions generally will not be subject to federal income tax if (i) the distributions are properly designated in a notice timely delivered to our stockholders as interest-related dividends or short-term capital gain dividends, (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions will be designated as eligible for this exemption from withholding.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30.0% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

### Failure to Qualify as a RIC

If we were unable to qualify for treatment as a RIC in any year, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. Distributions would not be required, and any distributions would be taxable to our stockholders as ordinary dividend income eligible for the 15.0% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain.

## REGULATION

### Regulation as a Business Development Company

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of the members of the board of directors of a BDC be persons other than interested persons, as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities.

The 1940 Act defines a majority of the outstanding voting securities as the lesser of (i) 67% or more of the voting securities present at a meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy or (ii) 50% of our voting securities.

#### *Qualifying Assets*

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company s total assets. The principal categories of qualifying assets relevant to our business are any of the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company (as defined below), or from any person

who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC.

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(2) Securities of any eligible portfolio company that we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

An eligible portfolio company is defined in the 1940 Act as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

(c) satisfies any of the following:

(i) does not have any class of securities that is traded on a national securities exchange or has a class of securities listed on a national securities exchange but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million;

(ii) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company; or

(iii) is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million.

***Managerial Assistance to Portfolio Companies***

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, we must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where we purchase such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

***Idle Funds Investments***

Pending investment in other types of qualifying assets, as described above, our investments may consist of U.S. government securities, investments in high-quality debt investments and diversified bond funds, which we refer to, collectively, as idle funds investments, so that 70% of our assets are qualifying assets.

***Senior Securities***

We are permitted, under specified conditions, to issue multiple classes of debt and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% of all debt and/or senior stock immediately after each such issuance. In addition, while any senior securities remain outstanding (other than senior securities representing indebtedness issued in consideration of a privately arranged loan which is not intended to be publicly distributed), we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our Business and Structure, including, without limitation, Because we borrow money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.

In January 2008, we received an exemptive order from the SEC to exclude debt securities issued by the Fund from the asset coverage requirements of the 1940 Act as applicable to Main Street. The exemptive order provides for the exclusion of all debt securities issued by the Fund, including the $55 million of currently outstanding debt related to its participation in the SBIC program. This exemptive order provides us with expanded capacity and flexibility in obtaining future sources of capital for our investment and operational objectives.

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***Common Stock***

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our Board of Directors determines that such sale is in our best interests and that of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). On June 17, 2008, our stockholders approved proposals that (1) authorize us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year ending on the earlier of June 16, 2009 or the date of our 2009 annual meeting of stockholders and (2) authorize us to issue securities to subscribe to, convert to, or purchase shares of our common stock in one or more offerings. We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to applicable requirements of the 1940 Act. See Risk Factors Risks Relating to Our Business and Structure Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock.

***Code of Ethics***

We have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code s requirements.

***Proxy Voting Policies and Procedures***

We vote proxies relating to our portfolio securities in a manner in which we believe is consistent with the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that we expect would have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by the deal team which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision-making process to disclose to our chief compliance officer any potential conflict of which he or she is aware and any contact that he or she has had with any interested party regarding a proxy vote and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Stockholders may obtain information, without charge, regarding how we voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056.

***Other 1940 Act Regulations***

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Board of Directors who are not interested persons and, in some cases, prior approval by the SEC. In June 2008, we received an exemptive order from the SEC to permit co-investments in portfolio companies among Main Street and certain of its affiliates, including MSC II, subject to certain conditions of the order.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

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We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and to designate a chief compliance officer to be responsible for administering the policies and procedures.

We may be periodically examined by the SEC for compliance with the 1940 Act.

**Small Business Investment Company Regulations**

The Fund is licensed by the SBA to operate as a SBIC under Section 301(c) of the Small Business Investment Act of 1958. As a part of the Formation Transactions, the Fund became a wholly-owned subsidiary of MSCC, and continues to hold its SBIC license. The Fund initially obtained its SBIC license on September 30, 2002.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBIC regulations, SBICs may make loans to eligible small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The Fund has typically invested in secured debt, acquired warrants and/or made equity investments in qualifying small businesses.

Under present SBIC regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth not exceeding $18 million and have average annual net income after federal income taxes not exceeding $6 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote 20% of its investment activity to smaller concerns as defined by the SBA. A smaller concern generally includes businesses that have a tangible net worth not exceeding $6 million and have average annual net income after federal income taxes not exceeding $2 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBIC regulations also provide alternative size standard criteria to determine eligibility for designation as an eligible small business or smaller concern, which criteria depend on the primary industry in which the business is engaged and are based on such factors as the number of employees and gross revenue. However, once an SBIC has invested in a company, it may continue to make follow on investments in the company, regardless of the size of the portfolio company at the time of the follow on investment, up to the time of the portfolio company s initial public offering.

The SBA prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending and investment outside the United States, to businesses engaged in a few prohibited industries, and to certain passive (non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC s regulatory capital in any one portfolio company and its affiliates.

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies (such as limiting the permissible interest rate on debt securities held by an SBIC in a portfolio company). Although prior regulations prohibited an SBIC from controlling a small business concern except in limited circumstances, regulations adopted by the SBA in 2002 now allow an SBIC to exercise control over a small business for a period of seven years from the date on which the SBIC initially acquires its control position. This control period may be extended for an additional period of time with the SBA s prior written approval.

The SBA restricts the ability of an SBIC to lend money to any of its officers, directors and employees or to invest in affiliates thereof. The SBA also prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC. A change of control is any event which would result in the transfer of the power, direct or indirect, to direct the management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise.

An SBIC (or group of SBICs under common control) may generally have outstanding debentures guaranteed by the SBA in amounts up to twice the amount of the privately-raised funds of the SBIC(s). Debentures guaranteed by the SBA have a maturity of ten years, require semi-annual payments of interest, do not require any principal payments prior to maturity, and, historically, were subject to certain prepayment penalties. Those prepayment penalties no longer apply as of September 2006. As of December 31, 2008, we, through the Fund, had issued $55 million of SBA-guaranteed debentures, which had an annual weight-averaged interest rate of approximately 5.8%.

The recently enacted American Recovery and Reinvestment Act of 2009 (the 2009 Stimulus Bill ) contains several provisions applicable to SBIC funds, including the Fund, Main Street s wholly owned subsidiary. One of the key

SBIC-related provisions included in the 2009 Stimulus Bill increases the maximum amount of combined SBIC leverage (or SBIC leverage cap) to $225 million for affiliated SBIC funds. The prior maximum amount of SBIC leverage available to affiliated SBIC funds was approximately $137 million, as adjusted annually based upon changes in the Consumer Price Index. Due to the increase in the maximum amount of SBIC leverage available to affiliated SBIC funds, Main Street, through the Fund, will now have access to incremental SBIC leverage to support its future investment activities. Since the increase in the SBIC leverage cap applies to affiliated SBIC funds, Main Street will allocate such increased borrowing capacity between the Fund and MSC II, an independently owned SBIC that is managed by Main Street and therefore deemed to be affiliated with the Fund for SBIC regulatory purposes. It is currently estimated that at least $55 million to $60 million of additional SBIC leverage is now accessible by Main Street, through the Fund, for future investment activities, subject to the required capitalization of the Fund.

SBICs must invest idle funds that are not being used to make loans in investments permitted under SBIC regulations in the following limited types of securities: (i) direct obligations of, or obligations guaranteed as to principal and interest by, the United States government, which mature within 15 months from the date of the investment; (ii) repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government); (iii) certificates of deposit with a maturity of one year or less, issued by a federally insured institution; (iv) a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less; (v) a checking account in a federally insured institution; or (vi) a reasonable petty cash fund.

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SBICs are periodically examined and audited by the SBA s staff to determine their compliance with SBIC regulations and are periodically required to file certain forms with the SBA.

We requested that the SEC allow us to exclude any indebtedness guaranteed by the SBA and issued by the Fund from the 200% asset coverage requirements applicable to us as a BDC. In January 2008, we received an exemptive order from the SEC to exclude such debt securities issued by the Fund, including the $55 million of currently outstanding debt related to the Fund s participation in the SBIC program.

Neither the SBA nor the U.S. government or any of its agencies or officers has approved any ownership interest to be issued by us or any obligation that we or any of our subsidiaries may incur.

**Securities Exchange Act of 1934 and Sarbanes-Oxley Act Compliance**

We are subject to the reporting and disclosure requirements of the Securities Exchange Act of 1934 (the Exchange Act ), including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act of 2002, which imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. For example:

- pursuant to Rule 13a-14 of the Exchange Act, our Chief Executive Officer and Chief Financial Officer are required to certify the accuracy of the financial statements contained in our periodic reports;

- pursuant to Item 307 of Regulation S-K, our periodic reports are required to disclose our conclusions about the effectiveness of our disclosure controls and procedures;

- pursuant to Rule 13a-15 of the Exchange Act, our management is required to prepare a report regarding its assessment of our internal control over financial reporting, and separately, our independent registered public accounting firm audits our internal controls over financial reporting; and

- pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal control over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**The Nasdaq Global Select Market Corporate Governance Regulations**

The Nasdaq Global Select Market has adopted corporate governance regulations that listed companies must comply with. We believe we are in compliance with such corporate governance listing standards. We intend to monitor our compliance with all future listing standards and to take all necessary actions to ensure that we stay in compliance.

## PLAN OF DISTRIBUTION

We may sell our common stock through underwriters or dealers, at the market to or through a market maker or into an existing trading market or otherwise, directly to one or more purchasers or through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of our common stock will also be named in the applicable prospectus supplement.

The distribution of our common stock may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock less any underwriting commissions or discounts must equal or exceed the net asset value per share of our common stock except (i) with the consent of the majority of our common stockholders or (ii) under such other circumstances as the SEC may permit. See Risk Factors Risks Relating to Our Business and Structure Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or issue securities to subscribe to, convert to or purchase shares of our common stock for a discussion of proposals approved by our stockholders that permit us to issue shares of our common stock below net asset value.

In connection with the sale of our common stock, underwriters or agents may receive compensation from us or from purchasers of our common stock, for whom they may act as agents, in the form of discounts, concessions or commissions.

Underwriters may sell our common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our common stock may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our common stock may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell common stock covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

Any of our common stock sold pursuant to a prospectus supplement will be listed on the Nasdaq Global Select Market, or another exchange on which our common stock is traded.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our common stock may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our common stock from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our common stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, our common stock offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, our common stock may not be sold unless it has been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority, Inc. will not be greater than 10% for the sale of any securities being registered and 0.5% for due diligence.

## CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR

Our securities are held under custody agreements by Amegy Bank National Association, whose address is 1221 McKinney Street Level P-1 Houston, Texas 77010, and Branch Banking and Trust Company, whose address is 5130 Parkway Plaza Boulevard, Charlotte, North Carolina 28217. American Stock Transfer & Trust Company acts as our transfer agent, distribution paying agent and registrar. The principal business address of our transfer agent is 59 Maiden Lane New York, New York 10038, telephone number: (212) 936-5100.

## BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Our investment team is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. We do not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm s risk and skill in positioning blocks of securities. While we will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided. We did not pay any brokerage commissions during the year ended December 31, 2008.

## LEGAL MATTERS

Certain legal matters regarding the shares of common stock offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington D.C. Certain legal matters will be passed upon for underwriters, if any, by the counsel named in the prospectus supplement, if any.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements and Schedule 12-14 of Main Street Capital Corporation as of December 31, 2008 and December 31, 2007 and for the two years then ended, the combined financial statements of Main Street Mezzanine Fund, LP and Main Street Mezzanine Management, LLC as of December 31, 2006 and for the year then ended, and the Senior Securities table, included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said reports.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus or any prospectus supplement. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus or any prospectus supplement.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC s website at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## PRIVACY NOTICE

We are committed to protecting your privacy. This privacy notice explains the privacy policies of Main Street and its affiliated companies. This notice supersedes any other privacy notice you may have received from Main Street.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. The only information we collect from you is your name, address, and number of shares you hold. This information is used only so that we can send you annual reports and other information about us, and send you proxy statements or other information required by law.

We do not share this information with any non-affiliated third party except as described below.

*The People and Companies that Make Up Main Street.* It is our policy that only our authorized employees who need to know your personal information will have access to it. Our personnel who violate our privacy policy are subject to disciplinary action.

*Service Providers.* We may disclose your personal information to companies that provide services on our behalf, such as record keeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.

*Courts and Government Officials.* If required by law, we may disclose your personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

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## INDEX TO FINANCIAL STATEMENTS

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of
Main Street Capital Corporation

We have audited the accompanying consolidated balance sheet of Main Street Capital Corporation (a Maryland corporation), and its consolidated subsidiaries, Main Street Mezzanine Management, LLC, Main Street Equity Interests, Inc. and Main Street Mezzanine Fund, LP, including the consolidated schedule of investments, as of December 31, 2008 and 2007 and the related consolidated statements of operations, changes in net assets and cash flows and the consolidated financial highlights (see Note H) for the two years then ended. We have also audited the combined statements of operations, changes in net assets, and cash flows and the combined financial highlights of Main Street Mezzanine Fund, LP and Main Street Mezzanine Management, LLC for the year ended December 31, 2006. These financial statements and financial highlights are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the consolidated financial position of Main Street Capital Corporation and subsidiaries as of December 31, 2008 and 2007 and the consolidated results of their operations, changes in net assets, cash flows and financial highlights for the two years then ended and the combined results of operations, changes in net assets, cash flows and financial highlights of Main Street Mezzanine Fund, LP and Main Street Mezzanine Management, LLC for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the consolidated financial statements, the Company changed its method of accounting for the fair value of its portfolio investments in 2008 due to the adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Main Street Capital Corporation s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2009, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ GRANT THORNTON LLP

Houston, Texas
March 12, 2009

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders of
Main Street Capital Corporation

We have audited Main Street Capital Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Main Street Capital Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Main Street Capital Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Main Street Capital Corporation and subsidiaries as of December 31, 2008 and 2007, including the consolidated schedule of investments as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets and cash flows, and the financial highlights (see Note H), for the two years then ended and the combined results of operations, changes in net assets, cash flows and financial highlights of Main Street Mezzanine Fund, LP and Main Street Mezzanine Management, LLC for the year ended December 31, 2006, and our report dated March 11, 2009, expressed an unqualified opinion on those consolidated and combined financial statements.

/s/ GRANT THORNTON LLP

Houston, Texas
March 12, 2009

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**MAIN STREET CAPITAL CORPORATION**

**Consolidated Balance Sheets**

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value: | | |
| Control investments (cost: $60,767,805 and $43,053,372 as of December 31, 2008 and 2007, respectively) | $ 65,542,608 | $ 48,108,197 |
| Affiliate investments (cost: $37,946,800 and $33,037,053 as of December 31, 2008 and 2007, respectively) | 39,412,695 | 36,176,216 |
| Non-Control/Non-Affiliate investments (cost: $6,245,405 and $3,381,001 as of December 31, 2008 and 2007, respectively) | 5,375,886 | 3,741,001 |
| Investment in affiliated Investment Manager (cost: $18,000,000 as of December 31, 2008 and 2007) | 16,675,626 | 17,625,000 |
| Total investments (cost: $122,960,010 and $97,471,426 as of December 31, 2008 and 2007, respectively) | 127,006,815 | 105,650,414 |
| Idle funds investments (cost: $4,218,704 and $24,063,261 as of December 31, 2008 and 2007, respectively) | 4,389,795 | 24,063,261 |
| Cash and cash equivalents | 35,374,826 | 41,889,324 |
| Deferred tax asset | 1,121,681 | |
| Other assets | 1,100,922 | 1,574,888 |
| Deferred financing costs (net of accumulated amortization of $956,037 and $529,952 as of December 31, 2008 and 2007, respectively) | 1,635,238 | 1,670,135 |
| Total assets | $ 170,629,277 | $ 174,848,022 |
| **LIABILITIES** | | |
| SBIC debentures | $ 55,000,000 | $ 55,000,000 |
| Deferred tax liability | | 3,025,672 |
| Interest payable | 1,108,193 | 1,062,672 |
| Accounts payable and other liabilities | 2,165,028 | 610,470 |
| Total liabilities | 58,273,221 | 59,698,814 |
| Commitments and contingencies | | |
| **NET ASSETS** | | |
| Common stock, $0.01 par value per share (150,000,000 shares authorized; 9,241,183 and 8,959,718 issued and 9,206,483 and 8,959,718 outstanding as of December 31, 2008 and 2007, respectively) | 92,412 | 89,597 |
| Additional paid-in capital | 104,798,399 | 104,076,033 |
| Undistributed net realized income | 3,658,495 | 6,067,131 |
| Net unrealized appreciation from investments, net of income taxes | 4,137,756 | 4,916,447 |
| Treasury stock, at cost (34,700 and 0 shares as of December 31, 2008 and 2007, respectively) | (331,006) | |

| | | | | |
|---|---|---|---|---|
| Total net assets | | 112,356,056 | | 115,149,208 |
| Total liabilities and net assets | $ | 170,629,277 | $ | 174,848,022 |
| **NET ASSET VALUE PER SHARE** | $ | 12.20 | $ | 12.85 |

The accompanying notes are an integral part of these financial statements

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**MAIN STREET CAPITAL CORPORATION**

**Statements of Operations**

| | Years Ended December 31, 2008 (Consolidated) | 2007 (Consolidated) | 2006 (Combined) |
|---|---|---|---|
| **INVESTMENT INCOME:** | | | |
| Interest, fee and dividend income: | | | |
| Control investments | $ 9,826,369 | $ 5,201,382 | $ 4,295,354 |
| Affiliate investments | 4,842,442 | 5,390,655 | 3,573,570 |
| Non-Control/Non-Affiliate investments | 1,298,386 | 720,076 | 1,144,213 |
| Total interest, fee and dividend income | 15,967,197 | 11,312,113 | 9,013,137 |
| Interest from idle funds and other | 1,328,229 | 1,162,865 | 748,670 |
| Total investment income | 17,295,426 | 12,474,978 | 9,761,807 |
| **EXPENSES:** | | | |
| Interest | (3,777,919) | (3,245,839) | (2,717,236) |
| General and administrative | (1,684,084) | (512,253) | (197,979) |
| Expenses reimbursed to Investment Manager | (1,006,835) | | |
| Share-based compensation | (511,452) | | |
| Management fees to affiliate | | (1,499,937) | (1,942,032) |
| Professional costs related to initial public offering | | (695,250) | |
| Total expenses | (6,980,290) | (5,953,279) | (4,857,247) |
| **NET INVESTMENT INCOME** | 10,315,136 | 6,521,699 | 4,904,560 |
| **NET REALIZED GAIN (LOSS) FROM INVESTMENTS:** | | | |
| Control investments | 188,214 | 1,802,713 | (805,469) |
| Affiliate investments | 1,209,280 | 3,160,034 | 1,940,794 |
| Non-Control/Non-Affiliate investments | | (270,538) | 1,294,598 |
| Total net realized gain (loss) from investments | 1,397,494 | 4,692,209 | 2,429,923 |
| **NET REALIZED INCOME** | 11,712,630 | 11,213,908 | 7,334,483 |
| **NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) FROM INVESTMENTS:** | | | |
| Control investments | (217,717) | (3,075,392) | 6,631,698 |
| Affiliate investments | (1,735,573) | (2,340,933) | 2,831,649 |
| Non-Control/Non-Affiliate investments | (1,058,428) | 384,832 | (974,833) |
| Investment in affiliated Investment Manager | (949,374) | (375,000) | |
| Total net change in unrealized appreciation (depreciation) from investments | (3,961,092) | (5,406,493) | 8,488,514 |
| Income tax benefit (provision) | 3,182,401 | (3,262,539) | |

| | | |
|---|---|---|---|
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | $ 10,933,939 | $ 2,544,876 | $ 15,822,997 |
| **NET INVESTMENT INCOME PER SHARE BASIC AND DILUTED** | $ 1.15 | $ 0.76 | N/A |
| **NET REALIZED INCOME PER SHARE BASIC AND DILUTED** | $ 1.31 | $ 1.31 | N/A |
| **DIVIDENDS/DISTRIBUTIONS PAID PER SHARE BASIC AND DILUTED** | $ 1.43 | $ 1.10 | N/A |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE BASIC AND DILUTED** | $ 1.22 | $ 0.30 | N/A |
| **WEIGHTED AVERAGE SHARES OUTSTANDING BASIC** | 8,967,383 | 8,587,701 | N/A |
| **DILUTED** | 8,971,064 | 8,587,701 | N/A |

The accompanying notes are an integral part of these financial statements

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## MAIN STREET CAPITAL CORPORATION

### Statements of Changes in Net Assets

| | Members Equity (General Partner) | Limited Partners Capital | Common Stock Number of Shares | Common Stock Par Value | Additional Paid-In Capital | Undistributed Net Realized Income | Net Unrealized Appreciation from Investments, net of Income Taxes | Treasry Sto[ck] Number of Shares | Treasry Sto[ck] V[alue] |
|---|---|---|---|---|---|---|---|---|---|
| | $ 179,942 | $ 25,415,978 | | $ | $ | $ 2,575,857 | $ 5,096,965 | | $ |
| | 1,828 | 353,261 | | | | | | | |
| | | (530,000) | | | | (5,644,297) | | | |
| | | | | | | 7,334,483 | 8,488,514 | | |
| | 181,770 | 25,239,239 | | | | 4,266,043 | 13,585,479 | | |
| | | 300,081 | | | | | | | |
| | | | | | | (6,500,000) | | | |
| | (181,770) | (25,539,320) | 4,525,726 | 45,257 | 43,675,833 | | | | |
| | | | 1,000 | 10 | 990 | | | | |
| | | | 4,300,000 | 43,000 | 60,139,997 | | | | |
| | | | | | (1,642,573) | | | | |
| | | | | | | (2,912,820) | | | |
| | | | 132,992 | 1,330 | 1,901,786 | | | | |
| | | | | | | 11,213,908 | (8,669,032) | | |
| | | | 8,959,718 | 89,597 | 104,076,033 | 6,067,131 | 4,916,447 | | |
| | | | 265,645 | 2,657 | (2,657) | | | | |
| d | | | | | | | | | |
| | | | 15,820 | 158 | 213,571 | | | | |
| | | | | | | | | (34,700) | (3 |
| | | | | | 511,452 | | | | |
| | | | | | | (14,121,266) | | | |
| | | | | | | 11,712,630 | (778,691) | | |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | $ | 9,241,183 | $ | 92,412 | $ | 104,798,399 | $ | 3,658,495 | $ | 4,137,756 | (34,700) | $ | (3 |

The accompanying notes are an integral part of these financial statements

**MAIN STREET CAPITAL CORPORATION**

**Statements of Cash Flows**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2008 (Consolidated) | 2007 (Consolidated) | 2006 (Combined) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net increase in net assets resulting from operations: | $ 10,933,939 | $ 2,544,876 | $ 15,822,997 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: | | | |
| Accretion of unearned income | (1,062,452) | (998,069) | (1,380,351) |
| Net payment-in-kind interest accrual | (216,505) | (260,806) | (216,805) |
| Share-based compensation | 511,452 | | |
| Amortization of deferred financing costs | 426,084 | 186,106 | 157,850 |
| Net change in unrealized (appreciation) depreciation from investments | 3,961,092 | 5,406,493 | (8,488,514) |
| Net realized gain from investments | (1,397,494) | (4,692,209) | (2,429,923) |
| Deferred taxes | (4,147,353) | 3,025,672 | |
| Changes in other assets and liabilities: | | | |
| Other assets | 418,166 | (876,945) | (91,373) |
| Interest payable | 45,521 | 207,731 | 83,459 |
| Accounts payable and other liabilities | 828,098 | 394,510 | 76,543 |
| Deferred debt origination fees received | 612,143 | 467,558 | 709,980 |
| Net cash provided by operating activities | 10,912,691 | 5,404,917 | 4,243,863 |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | | |
| Investments in portfolio companies | (47,698,567) | (29,479,023) | (28,088,005) |
| Investments in idle funds | (4,218,704) | (24,063,261) | |
| Principal payments received on loans and debt securities | 16,300,750 | 9,614,338 | 12,199,956 |
| Proceeds from sale of equity securities and related notes | 8,029,339 | 5,934,420 | 5,021,313 |
| Proceeds from idle funds investments | 24,063,261 | | |
| Net cash used in investment activities | (3,523,921) | (37,993,526) | (10,866,736) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from initial public offering/capitalization | | 60,183,997 | |
| Proceeds from capital contributions | | 300,081 | 355,089 |
| Purchase of treasury stock | (331,006) | | |
| Payment of distributions to members and partners | | (6,500,000) | (6,174,297) |
| Payment of dividends to stockholders | (13,181,074) | (1,009,704) | |
| Proceeds from issuance of SBIC debentures | | 9,900,000 | |
| Payment of initial public offering costs | | (1,642,573) | |
| Payment of deferred loan costs and SBIC debenture fees | (391,188) | (522,587) | (50,000) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash provided by (used in) financing activities | | (13,903,268) | | 60,709,214 | | (5,869,208) |
| Net increase (decrease) in cash and cash equivalents | | (6,514,498) | | 28,120,605 | | (12,492,081) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | 41,889,324 | | 13,768,719 | | 26,260,800 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ | 35,374,826 | $ | 41,889,324 | $ | 13,768,719 |

The accompanying notes are an integral part of these financial statements

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**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**December 31, 2008**

| Portfolio Company/Type of Investment(1)(2) | Industry | Principal(6) | Cost(6) | Fair Value |
|---|---|---|---|---|
| **Control Investments**(3) | | | | |
| **Café Brazil, LLC** | | | | |
| 12% Secured Debt (Maturity April 20, 2011) | Casual Restaurant Group | $ 2,750,000 | $ 2,728,113 | $ 2,750,000 |
| Member Units(7) (Fully diluted 42.3%) | | | 41,837 | 1,000,000 |
| | | | 2,769,950 | 3,750,000 |
| **CBT Nuggets, LLC** | Produces and Sells | | | |
| 14% Secured Debt (Maturity June 1, 2011) | IT Certification | 1,680,000 | 1,642,518 | 1,680,000 |
| 10% Secured Debt (Maturity December 31, 2009) | Training Videos | 150,000 | 150,000 | 150,000 |
| Member Units(7) (Fully diluted 29.1%) | | | 432,000 | 1,625,000 |
| Warrants (Fully diluted 10.5%) | | | 72,000 | 500,000 |
| | | | 2,296,518 | 3,955,000 |
| **Ceres Management, LLC (Lambs)** | Aftermarket Automotive | | | |
| 14% Secured Debt (Maturity May 31, 2013) | Services Chain | 2,400,000 | 2,372,601 | 2,372,601 |
| Member Units (Fully diluted 42.0%) | | | 1,200,000 | 1,300,000 |
| | | | 3,572,601 | 3,672,601 |
| **Condit Exhibits, LLC** | Tradeshow Exhibits/ | | | |
| 13% current / 5% PIK Secured Debt (Maturity July 1, 2013) | Custom Displays | 2,308,073 | 2,273,194 | 2,273,194 |
| Warrants (Fully diluted 28.1%) | | | 300,000 | 300,000 |
| | | | 2,573,194 | 2,573,194 |
| **Gulf Manufacturing, LLC** | Industrial Metal | | | |
| Prime plus 1% Secured Debt (Maturity August 31, 2012) | Fabrication | 1,200,000 | 1,190,764 | 1,200,000 |
| 13% Secured Debt (Maturity August 31, 2012) | | 1,900,000 | 1,747,777 | 1,880,000 |
| Member Units(7) (Fully diluted 18.6%) | | | 472,000 | 1,100,000 |
| Warrants (Fully diluted 8.4%) | | | 160,000 | 550,000 |
| | | | 3,570,541 | 4,730,000 |
| **Hawthorne Customs & Dispatch Services, LLC** | Transportation/ | | | |
| 13% Secured Debt (Maturity January 31, 2011) | Logistics | 1,200,000 | 1,171,988 | 1,171,988 |
| Member Units(7) (Fully diluted 27.8%) | | | 375,000 | 435,000 |
| Warrants (Fully diluted 16.5%) | | | 37,500 | 230,000 |
| | | | 1,584,488 | 1,836,988 |
| **Hydratec Holdings, LLC** | Agricultural Services | | | |

| | | | | |
|---|---|---|---|---|
| 12.5% Secured Debt (Maturity October 31, 2012) | | 5,400,000 | 5,311,329 | 5,311,329 |
| Prime plus 1% Secured Debt (Maturity October 31, 2012) | | 1,595,244 | 1,579,911 | 1,579,911 |
| Member Units (Fully diluted 60%) | | | 1,800,000 | 2,050,000 |
| | | | 8,691,240 | 8,941,240 |
| **Jensen Jewelers of Idaho, LLC** | Retail Jewelry | | | |
| Prime Plus 2% Secured Debt (Maturity November 14, 2011) | | 1,044,000 | 1,030,957 | 1,044,000 |
| 13% current / 6% PIK Secured Debt (Maturity November 14, 2011) | | 1,004,591 | 986,980 | 1,004,591 |
| Member Units(7) (Fully diluted 24.3%) | | | 376,000 | 380,000 |
| | | | 2,393,937 | 2,428,591 |
| **NAPCO Precast, LLC** | Precast Concrete | | | |
| 18% Secured Debt (Maturity February 1, 2013) | Manufacturing | 6,461,538 | 6,348,011 | 6,461,538 |
| Prime Plus 2% Secured Debt (Maturity February 1, 2013)(8) | | 3,692,308 | 3,660,945 | 3,692,308 |
| Member Units(7) (Fully diluted 36.1%) | | | 2,000,000 | 5,100,000 |
| | | | 12,008,956 | 15,253,846 |
| **OMi Holdings, Inc.** | Manufacturer of | | | |
| 12% Secured Debt (Maturity April 1, 2013) | Overhead Cranes | 6,660,000 | 6,603,400 | 6,603,400 |
| Common Stock (Fully diluted 28.8%) | | | 900,000 | 570,000 |
| | | | 7,503,400 | 7,173,400 |

**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**December 31, 2008**

| Portfolio Company/Type of Investment(1)(2) | Industry | Principal(6) | Cost(6) | Fair Value |
|---|---|---|---|---|
| **Quest Design & Production, LLC** | Design and Fabrication of Custom Display Systems | | | |
| 10% Secured Debt (Maturity June 30, 2013) | | 600,000 | 465,060 | 600,000 |
| 0% Secured Debt (Maturity June 30, 2013) | | 2,000,000 | 2,000,000 | 1,400,000 |
| Warrants (Fully diluted 40.0%) | | | 1,595,858 | |
| Warrants (Fully diluted 20.0%) | | | 40,000 | |
| | | | 4,100,918 | 2,000,000 |
| **Universal Scaffolding & Equipment, LLC** | Manufacturer of Scaffolding and Shoring Equipment | | | |
| Prime plus 1% Secured Debt (Maturity August 17, 2012)(8) | | 881,833 | 875,072 | 875,072 |
| 13% current / 5% PIK Secured Debt (Maturity August 17, 2012) | | 3,362,698 | 3,311,508 | 3,160,000 |
| Member Units (Fully diluted 18.4%) | | | 992,063 | |
| | | | 5,178,643 | 4,035,072 |
| **Uvalco Supply, LLC** | Farm and Ranch Supply | | | |
| Member Units (Fully diluted 39.6%) | | | 905,743 | 1,575,000 |
| **Ziegler s NYPD, LLC** | Restaurant | | | |
| Prime plus 2% Secured Debt (Maturity October 1, 2013)(8) | | 600,000 | 594,239 | 594,239 |
| 13% current / 5% PIK Secured Debt (Maturity October 1, 2013) | | 2,704,262 | 2,663,437 | 2,663,437 |
| Warrants (Fully diluted 28.6%) | | | 360,000 | 360,000 |
| | | | 3,617,676 | 3,617,676 |
| **Subtotal Control Investments** | | | 60,767,805 | 65,542,608 |

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**MAIN STREET CAPITAL CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**December 31, 2008**

| Portfolio Company/Type of Investment(1)(2) | Industry | Principal(6) | Cost(6) | Fair Value |
|---|---|---|---|---|
| **Affiliate Investments**(4) | | | | |
| **Advantage Millwork Company, Inc.** | Manufacturer/Distributor of Wood Doors | | | |
| 12% Secured Debt (Maturity February 5, 2012) | | 3,066,667 | 2,955,442 | 2,955,442 |
| Warrants (Fully diluted 12.2%) | | | 97,808 | |
| | | | 3,053,250 | 2,955,442 |
| **American Sensor Technologies, Inc.** | Manufacturer of Commercial/ Industrial Sensors | | | |
| Prime plus 0.5% Secured Debt (Maturity May 31, 2010)(8) | | 3,800,000 | 3,800,000 | 3,800,000 |
| Warrants (Fully diluted 20.0%) | | | 50,000 | 250,000 |
| | | | 3,850,000 | 4,050,000 |
| **Carlton Global Resources, LLC** | Processor of Industrial Minerals | | | |
| 13% PIK Secured Debt (Maturity November 15, 2011) | | 4,791,944 | 4,655,836 | |
| Member Units (Fully diluted 8.5%) | | | 400,000 | |
| | | | 5,055,836 | |
| **California Healthcare Medical Billing, Inc.** | Healthcare Services | | | |
| 12% Secured Debt (Maturity October 17, 2013) | | 1,410,000 | 1,141,706 | 1,141,706 |
| Common Stock (Fully diluted 6%) | | | 390,000 | 390,000 |
| Warrants (Fully diluted 12%) | | | 240,000 | 240,000 |
| | | | 1,771,706 | 1,771,706 |
| **Houston Plating & Coatings, LLC** | Plating & Industrial Coating Services | | | |
| Prime plus 2% Secured Debt (Maturity July 18, 2013) | | 300,000 | 300,000 | 300,000 |
| Member Units(7) (Fully diluted 11.1%) | | | 210,000 | 2,750,000 |
| | | | 510,000 | 3,050,000 |
| **KBK Industries, LLC** | Specialty Manufacturer of Oilfield and Industrial Products | | | |
| 14% Secured Debt (Maturity January 23, 2011) | | 3,937,500 | 3,787,758 | 3,937,500 |
| 8% Secured Debt (Maturity March 1, 2010) | | 468,750 | 468,750 | 468,750 |
| 8% Secured Debt (Maturity March 31, 2009) | | 450,000 | 450,000 | 450,000 |
| Member Units(7) (Fully diluted 14.5%) | | | 187,500 | 775,000 |
| | | | 4,894,008 | 5,631,250 |
| **Laurus Healthcare, LP** | Healthcare Facilities | | | |
| 13% Secured Debt (Maturity May 7, 2009) | | 2,275,000 | 2,259,664 | 2,275,000 |

| | | | | |
|---|---|---|---|---|
| Warrants (Fully diluted 17.5%) | | | 105,000 | 2,500,000 |
| | | | 2,364,664 | 4,775,000 |
| **National Trench Safety, LLC** | Trench & Traffic | | | |
| 10% PIK Debt (Maturity April 16, 2014) | Safety Equipment | 404,256 | 404,256 | 404,256 |
| Member Units (Fully diluted 11.7%) | | | 1,792,308 | 1,792,308 |
| | | | 2,196,564 | 2,196,564 |
| **Pulse Systems, LLC** | Manufacturer of | | | |
| 14% Secured Debt (Maturity June 1, 2009) | Components for | 1,831,274 | 1,819,464 | 1,831,274 |
| Warrants (Fully diluted 7.4%) | Medical Devices | | 132,856 | 450,000 |
| | | | 1,952,320 | 2,281,274 |