

Main Street Capital CORP
Form 10-Q
August 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from: to

Commission File Number: 001-33723

Main Street Capital Corporation

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

41-2230745

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

**1300 Post Oak Boulevard, Suite 800
Houston, TX**

(Address of principal executive offices)

77056

(Zip Code)

(713) 350-6000

(Registrant's telephone number including area code)

n/a

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

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

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

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Operations

(Unaudited)

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

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NET REALIZED INCOME PER SHARE - BASIC AND DILUTED								
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK								
PER SHARE - BASIC AND DILUTED	\$	0.77	\$	0.59	\$	1.32	\$	1.22
DIVIDENDS PAID PER SHARE	\$	0.39	\$	0.38	\$	0.77	\$	0.75
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED								
		23,015,718		15,147,091		21,128,360		14,754,121

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Changes in Net Assets

(Unaudited)

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

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Net increase
resulting from
operations
Noncontrolling
interest

(157,600) (157,600) 157,600

Balances at June

30, 2011 23,182,600 \$ 231,826 \$ 300,130,851 \$ 7,435,312 \$ (20,499,798)\$ 42,833,531 \$ 330,131,722 \$ 4,495,770 \$ 334,627,492

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(Unaudited)

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

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2011

(Unaudited)

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

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

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MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2011

(Unaudited)

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

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