

Main Street Capital CORP
Form 10-Q
August 09, 2013
Table of Contents

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, 2013

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

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(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 8, 2013 was 35,040,016.

Table of Contents

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

| | | |
|----------------|---|----|
| <u>Item 1.</u> | <u>Financial Statements</u> | |
| | <u>Consolidated Balance Sheets – June 30, 2013 (unaudited) and December 31, 2012</u> | 1 |
| | <u>Consolidated Statements of Operations (unaudited) – Three and six months ended June 30, 2013 and 2012</u> | 2 |
| | <u>Consolidated Statements of Changes in Net Assets (unaudited) – Six months ended June 30, 2013 and 2012</u> | 3 |
| | <u>Consolidated Statements of Cash Flows (unaudited) – Six months ended June 30, 2013 and 2012</u> | 4 |
| | <u>Consolidated Schedule of Investments (unaudited) – June 30, 2013</u> | 5 |
| | <u>Consolidated Schedule of Investments – December 31, 2012</u> | 19 |
| | <u>Notes to Consolidated Financial Statements (unaudited)</u> | 32 |
| <u>Item 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 59 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 79 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 79 |

PART II
OTHER INFORMATION

| | | |
|-----------------|--|----|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 79 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 79 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 79 |
| <u>Item 5.</u> | <u>Other Information</u> | 79 |
| <u>Item 6.</u> | <u>Exhibits</u> | 79 |
| | <u>Signatures</u> | 81 |

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MAIN STREET CAPITAL CORPORATION****Consolidated Balance Sheets****(in thousands, except shares and per share amounts)**

| | June 30, 2013 | December 31, 2012 |
|---|----------------------|--------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Portfolio investments at fair value: | | |
| Control investments (cost: \$235,029 and \$217,483 as of June 30, 2013 and December 31, 2012, respectively) | \$ 302,558 | \$ 278,475 |
| Affiliate investments (cost: \$187,622 and \$142,607 as of June 30, 2013 and December 31, 2012, respectively) | 230,293 | 178,413 |
| Non-Control/Non-Affiliate investments (cost: \$567,997 and \$456,975 as of June 30, 2013 and December 31, 2012, respectively) | 581,244 | 467,543 |
| Investment in affiliated Investment Manager (cost: \$2,668 as of December 31, 2012) | | |
| Total portfolio investments (cost: \$990,648 and \$819,733 as of June 30, 2013 and December 31, 2012, respectively) | 1,114,095 | 924,431 |
| Marketable securities and idle funds investments (cost: \$22,502 and \$28,469 as of June 30, 2013 and December 31, 2012, respectively) | 21,759 | 28,535 |
| Total investments (cost: \$1,013,150 and \$848,202 as of June 30, 2013 and December 31, 2012, respectively) | 1,135,854 | 952,966 |
| Cash and cash equivalents | 41,220 | 63,517 |
| Interest receivable and other assets | 12,168 | 14,580 |
| Receivable for securities sold | 31,213 | |
| Deferred financing costs (net of accumulated amortization of \$3,430 and \$3,203 as of June 30, 2013 and December 31, 2012, respectively) | 7,994 | 5,162 |
| Total assets | \$ 1,228,449 | \$ 1,036,225 |
| LIABILITIES | | |
| SBIC debentures (par: \$225,000 as of June 30, 2013 and December 31, 2012, par of \$100,000 is recorded at a fair value of \$87,123 and \$86,467 as of June 30, 2013 and December 31, 2012, respectively) | \$ 212,123 | \$ 211,467 |
| Credit facility | 215,000 | 132,000 |
| Notes payable | 92,000 | |
| Payable for securities purchased | 26,605 | 20,661 |
| Deferred tax liability, net | 11,006 | 11,778 |
| Accounts payable and other liabilities | 5,782 | 4,527 |

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| | | |
|--|---------------------|---------------------|
| Interest payable | 5,626 | 3,562 |
| Dividend payable | 4,924 | 5,188 |
| Payable to affiliated Investment Manager | | 4,066 |
| Total liabilities | 573,066 | 393,249 |
| Commitments and contingencies (Note M) | | |
| NET ASSETS | | |
| Common stock, \$0.01 par value per share (150,000,000 shares authorized; 35,014,302 and 34,589,484 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively) | 350 | 346 |
| Additional paid-in capital | 553,011 | 544,136 |
| Accumulated net investment income, net of cumulative dividends of \$159,506 and \$115,401 as of June 30, 2013 and December 31, 2012, respectively | 26,879 | 35,869 |
| Accumulated net realized gain from investments (accumulated net realized gain from investments of of \$10,241 before cumulative dividends of \$28,993 as of June 30, 2013 and accumulated net realized gain from investments of \$9,838 before cumulative dividends of \$28,993 as of December 31, 2012) | (18,752) | (19,155) |
| Net unrealized appreciation, net of income taxes | 93,895 | 81,780 |
| Total net assets | 655,383 | 642,976 |
| Total liabilities and net assets | \$ 1,228,449 | \$ 1,036,225 |
| NET ASSET VALUE PER SHARE | \$ 18.72 | \$ 18.59 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|---------------|----------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| INVESTMENT INCOME: | | | | |
| Interest, fee and dividend income: | | | | |
| Control investments | \$ 8,169 | \$ 6,083 | \$ 14,703 | \$ 11,850 |
| Affiliate investments | 5,399 | 4,141 | 11,060 | 9,814 |
| Non-Control/Non-Affiliate investments | 13,862 | 10,101 | 27,000 | 18,248 |
| Interest, fee and dividend income | 27,430 | 20,325 | 52,763 | 39,912 |
| Interest and dividends from marketable securities, idle funds and other | 370 | 517 | 681 | 1,489 |
| Total investment income | 27,800 | 20,842 | 53,444 | 41,401 |
| EXPENSES: | | | | |
| Interest | (5,542) | (4,180) | (9,424) | (8,044) |
| Compensation | (2,574) | | (2,574) | |
| General and administrative | (1,249) | (554) | (1,937) | (1,162) |
| Expenses reimbursed to affiliated Investment Manager | | (2,702) | (3,189) | (5,359) |
| Share-based compensation | (602) | (580) | (1,205) | (1,161) |
| Total expenses | (9,967) | (8,016) | (18,329) | (15,726) |
| NET INVESTMENT INCOME | 17,833 | 12,826 | 35,115 | 25,675 |
| NET REALIZED GAIN (LOSS) FROM INVESTMENTS: | | | | |
| Control investments | | (96) | | (2,061) |
| Affiliate investments | | (3,732) | | 5,500 |
| Non-Control/Non-Affiliate investments | 483 | 174 | 140 | 337 |
| Marketable securities and idle funds investments | 322 | 325 | 263 | 1,033 |
| Total net realized gain (loss) from investments | 805 | (3,329) | 403 | 4,809 |
| NET REALIZED INCOME | 18,638 | 9,497 | 35,518 | 30,484 |
| NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION): | | | | |
| Portfolio investments | 6,337 | 17,515 | 16,415 | 22,023 |
| Marketable securities and idle funds investments | (743) | (55) | (810) | (84) |
| SBIC debentures | 555 | (1,808) | (657) | (1,508) |
| Investment in affiliated Investment Manager | | | | (51) |
| Total net change in unrealized appreciation | 6,149 | 15,652 | 14,948 | 20,380 |
| INCOME TAXES: | | | | |
| Federal and state income, excise, and other taxes | (752) | (601) | (1,422) | (1,270) |
| Deferred taxes | (31) | (395) | (1,411) | (1,602) |
| Income tax provision | (783) | (996) | (2,833) | (2,872) |
| | 24,004 | 24,153 | 47,633 | 47,992 |

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| | | | | | |
|--|----|------------|----|------------|-----------------------|
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | | | | | |
| Noncontrolling interest | | | | | (54) |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK | | | | | |
| | \$ | 24,004 | \$ | 24,153 | \$ 47,633 \$ 47,938 |
| NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED | | | | | |
| | \$ | 0.51 | \$ | 0.47 | \$ 1.01 \$ 0.94 |
| NET REALIZED INCOME PER SHARE - BASIC AND DILUTED | | | | | |
| | \$ | 0.54 | \$ | 0.35 | \$ 1.02 \$ 1.12 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK PER SHARE - BASIC AND DILUTED | | | | | |
| | \$ | 0.69 | \$ | 0.88 | \$ 1.37 \$ 1.77 |
| DIVIDENDS PAID PER SHARE: | | | | | |
| Regular monthly dividends | \$ | 0.47 | \$ | 0.42 | \$ 0.92 \$ 0.83 |
| Supplemental dividends | | | | | 0.35 |
| Total | \$ | 0.47 | \$ | 0.42 | \$ 1.27 \$ 0.83 |
| WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED | | | | | |
| | | 34,803,729 | | 27,365,758 | 34,751,905 27,118,421 |

The accompanying notes are an integral part of these financial statements

Table of Contents

MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Changes in Net Assets

(in thousands, except shares)

(Unaudited)

| | Common Stock Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Net Investment Income, Net of Dividends | Accumulated Net Realized Gain From Investments, Net of Dividends | Net Unrealized Appreciation from Investments, Net of Income Taxes | Total Net Asset Value | Noncontrolling Interest | Total Net Assets Including Noncontrolling Interest |
|--|-------------------------------------|--------------|----------------------------------|--|--|---|--------------------------|----------------------------|--|
| Balances at December 31, 2011 | 26,714,384 | \$ 267 | \$ 360,164 | \$ 12,531 | \$ (20,445) | \$ 53,194 | \$ 405,711 | \$ 5,477 | \$ 411,188 |
| Public offering of common stock, net of offering costs | 4,312,500 | 43 | 92,913 | | | | 92,956 | | 92,956 |
| MSC II noncontrolling interest acquisition | 229,634 | 2 | 5,328 | | | | 5,330 | (5,417) | (87) |
| Adjustment to investment in Investment Manager related to MSC II noncontrolling interest acquisition | | | (1,616) | | | | (1,616) | | (1,616) |
| Share-based compensation | | | 1,161 | | | | 1,161 | | 1,161 |
| Purchase of vested stock for employee payroll tax withholding | (7,858) | | (199) | | | | (199) | | (199) |
| Dividend reinvestment | 200,961 | 2 | 4,712 | | | | 4,714 | | 4,714 |
| Issuance of restricted stock | 139,033 | 1 | (1) | | | | | | |
| Distributions to noncontrolling interest | | | | | | | | (114) | (114) |
| Dividends to stockholders | | | | (9,068) | (13,523) | | (22,591) | | (22,591) |
| Net increase resulting from operations | | | | 25,675 | 4,809 | 17,508 | 47,992 | | 47,992 |
| Noncontrolling interest | | | | | | (54) | (54) | 54 | |
| Balances at June 30, 2012 | 31,588,654 | \$ 315 | \$ 462,462 | \$ 29,138 | \$ (29,159) | \$ 70,648 | \$ 533,404 | \$ | \$ 533,404 |
| Balances at December 31, 2012 | 34,589,484 | \$ 346 | \$ 544,136 | \$ 35,869 | \$ (19,155) | \$ 81,780 | \$ 642,976 | \$ | \$ 642,976 |
| Share-based compensation | | | 1,205 | | | | 1,205 | | 1,205 |
| Purchase of vested stock for employee payroll tax withholding | (19,460) | | (523) | | | | (523) | | (523) |
| Dividend reinvestment | 173,926 | 2 | 5,580 | | | | 5,582 | | 5,582 |
| Issuance of restricted stock | 252,227 | 2 | (2) | | | | | | |
| Consolidation of Investment Manager | | | 2,037 | | | | 2,037 | | 2,037 |
| Issuances of common stock | 18,125 | | 578 | | | | 578 | | 578 |
| Dividends to stockholders | | | | (44,105) | | | (44,105) | | (44,105) |
| Net increase resulting from operations | | | | 35,115 | 403 | 12,115 | 47,633 | | 47,633 |
| Balances at June 30, 2013 | 35,014,302 | \$ 350 | \$ 553,011 | \$ 26,879 | \$ (18,752) | \$ 93,895 | \$ 655,383 | \$ | \$ 655,383 |

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The accompanying notes are an integral part of these financial statements

Table of Contents

MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net increase in net assets resulting from operations | \$ 47,633 | \$ 47,992 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: | | |
| Investments in portfolio companies | (353,620) | (261,019) |
| Proceeds from sales and repayments of debt investments | 178,750 | 131,852 |
| Proceeds from sale of equity investments in portfolio companies | | 26,547 |
| Investments in marketable securities and idle funds investments | (52,503) | (7,596) |
| Proceeds from marketable securities and idle funds investments | 42,469 | 27,212 |
| Net change in unrealized appreciation | (14,948) | (20,380) |
| Net realized (gain) loss from investments | (403) | (4,809) |
| Accretion of unearned income | (5,079) | (6,405) |
| Payment-in-kind interest | (2,368) | (1,529) |
| Cumulative dividends | (467) | (133) |
| Share-based compensation expense | 1,205 | 1,161 |
| Amortization of deferred financing costs | 538 | 467 |
| Deferred taxes | 1,411 | 1,622 |
| Changes in other assets and liabilities: | | |
| Interest receivable and other assets | 2,913 | (346) |
| Interest payable | 2,064 | (100) |
| Payable to affiliated Investment Manager | (3,960) | (2,071) |
| Accounts payable and other liabilities | (330) | 553 |
| Deferred fees and other | 1,500 | 623 |
| Net cash provided by (used in) operating activities | (155,195) | (66,359) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from public offering of common stock, net of offering costs | | 92,956 |
| Proceeds from public offering of 6.125% Notes | 92,000 | |
| Dividends paid to stockholders | (38,787) | (17,528) |
| Proceeds from credit facility | 250,000 | 114,000 |
| Repayments on credit facility | (167,000) | (133,000) |
| Payment of deferred loan costs and SBIC debenture fees | (3,370) | (292) |
| Other | 55 | (451) |
| Net cash provided by (used in) financing activities | 132,898 | 55,685 |
| Net increase (decrease) in cash and cash equivalents | (22,297) | (10,674) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 63,517 | 42,650 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 41,220 | \$ 31,976 |
| Supplemental cash flow disclosures: | | |
| Interest Paid | \$ 6,827 | \$ 7,677 |
| Taxes paid | \$ 4,466 | \$ 473 |

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Non-cash financing activities:

| | | | | |
|------------------------------------|----|-------|----|-------|
| Shares issued pursuant to the DRIP | \$ | 5,580 | \$ | 4,714 |
|------------------------------------|----|-------|----|-------|

The accompanying notes are an integral part of these financial statements

Table of Contents

MAIN STREET CAPITAL CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2013

(in thousands)

(Unaudited)

| Portfolio Company (1) | Business Description | Type of Investment (2) (3) | Principal (4) | Cost (4) | Fair Value |
|---|---|---|---------------|----------|------------|
| <u>Control Investments (5)</u> | | | | | |
| Bond-Coat, Inc. | Casing and Tubing Coating Services | 12% Secured Debt (Maturity - December 28, 2017) | 14,750 | 14,565 | 14,565 |
| | | Common Stock (Fully diluted 43.4%) | | 6,350 | 7,150 |
| | | | | 20,915 | 21,715 |
| Café Brazil, LLC | Casual Restaurant Group | Member Units (Fully diluted 69.0%) (8) | | 1,742 | 6,770 |
| California Healthcare Medical Billing, Inc. | Outsourced Billing and Revenue Cycle Management | 12% Secured Debt (Maturity - October 17, 2015) | 8,103 | 7,942 | 8,094 |
| | | Warrants (Fully diluted 21.3%) | | 1,193 | 3,380 |
| | | Common Stock (Fully diluted 9.8%) | | 1,177 | 1,560 |
| | | | | 10,312 | 13,034 |
| CBT Nuggets, LLC | Produces and Sells IT Training Certification Videos | Member Units (Fully diluted 41.6%) (8) | | 1,300 | 9,650 |
| Ceres Management, LLC (Lamb's Tire & Automotive) | Aftermarket Automotive Services Chain | 14% Secured Debt (Maturity - May 31, 2018) | 4,000 | 4,000 | 4,000 |
| | | Class B Member Units (12% cumulative) (8) | | 3,100 | 3,100 |
| | | Member Units (Fully diluted 100.0%) | | 5,273 | 510 |
| | | 9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity - October 1, 2025) | 1,041 | 1,041 | 1,041 |
| | | Member Units (Lamb's Real Estate Investment I, LLC) (Fully diluted 100%) | | 625 | 730 |
| | | | | 14,039 | 9,381 |
| Condit Exhibits, LLC | Tradeshaw Exhibits / Custom Displays | 13% Current / 5% PIK Secured Debt (Maturity - July 1, 2013) | 4,661 | 4,661 | 4,661 |
| | | Warrants (Fully diluted 47.9%) | | 320 | 1,400 |

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| | | | |
|---------------------------------|--|-------|--------|
| | | 4,981 | 6,061 |
| Gulf Manufacturing, LLC | Manufacturer of Specialty Fabricated Industrial Piping Products | | |
| | 9% PIK Secured Debt (Ashland Capital IX, LLC) (Maturity - June 30, 2017) | 919 | 919 |
| | Member Units (Fully diluted 34.2%) (8) | 2,980 | 12,660 |
| | | 3,899 | 13,579 |
| Harrison Hydra-Gen, Ltd. | Manufacturer of Hydraulic Generators | | |