

Main Street Capital CORP
Form N-2/A
June 22, 2007

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As filed with the Securities and Exchange Commission on June 22, 2007

Securities Act File No. 333-142879

**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. 1

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)

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Approximate date of proposed public offering: As soon as practicable 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. o

It is proposed that this filing will become effective (check appropriate box): 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⁽¹⁾	Amount of Registration Fee
Common Stock, \$0.01 par value per share	\$115,000,000	\$3,531 ⁽²⁾

⁽¹⁾ Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee. Includes shares subject to the underwriters over-allotment option.

⁽²⁾ 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 preliminary 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 preliminary 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 JUNE , 2007

PRELIMINARY PROSPECTUS

6,666,667 Shares

**Main Street Capital Corporation
Common Stock**

We are a specialty investment company 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-related investments. Upon completion of this offering, we will be 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.

Upon completion of the formation transactions described in this prospectus, we will acquire (i) Main Street Mezzanine Fund, LP, which is licensed as a Small Business Investment Company, or SBIC, by the United States Small Business Administration and (ii) Main Street Mezzanine Management, LLC, the general partner of Main Street Mezzanine Fund, LP. In addition, as part of the formation transactions, we will acquire Main Street Capital Partners, LLC, which is the manager and investment adviser to two SBICs, including Main Street Mezzanine Fund, LP.

We are offering 6,666,667 shares of our common stock. This is our initial public offering, and no public market currently exists for our shares. We have applied to have our common stock approved for quotation on the Nasdaq Global Market under the symbol MAIN.

Investing in our common stock involves risks, including the risk of leverage, and should be considered speculative. See Risk Factors beginning on page 15. Shares of closed-end investment companies have in the past frequently traded at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this offering. Assuming an initial public offering price of \$15.00 per share, purchasers in this offering will experience immediate dilution in net asset values of approximately \$1.55 per share. See Dilution for more information.

This prospectus contains important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus before investing and keep it for future reference. Upon completion of this offering, we will file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information will be available free of charge by contacting us at 1300 Post

Oak Boulevard, Suite 800, Houston, TX 77056 or by telephone at (713) 350-6000 or on our website at www.mainstreethouston.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.

	Per Share	Total
Public offering price ⁽¹⁾	\$ 15.00	\$ 100,000,000
Underwriting discount (sales load)	\$ 1.05	\$ 7,000,000
Proceeds to us, before expenses ⁽²⁾	\$ 13.95	\$ 93,000,000

⁽¹⁾ In addition, we will issue 4,525,674 shares in exchange for the aggregate consideration of \$59.5 million in connection with the formation transactions described herein.

⁽²⁾ We estimate that we will incur approximately \$2 million of expenses in connection with this offering.

We have granted the underwriters a 30-day option to purchase up to an additional 1,000,000 shares of our common stock at the public offering price, less the underwriting discount (sales load), solely to cover over-allotments, if any. If the over-allotment option is exercised in full, the total public offering price would be \$115,000,000, the total underwriting discount (sales load) would be \$8,050,000, and the proceeds to us, before expenses, would be \$106,950,000.

The underwriters expect to deliver the shares on or about _____, 2007.

Morgan Keegan & Company, Inc.

**SMH Capital Inc.
Incorporated**

**BB&T Capital Markets
A Division of Scott & Stringfellow, Inc.
Ferris, Baker Watts**

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus. The information contained in this prospectus is complete and accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or sale of our common stock. However, if any material change occurs while this prospectus is required by law to be delivered, this prospectus will be amended or supplemented accordingly.

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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 carefully, including the section entitled Risk Factors.

Since commencing investment operations in 2002, Main Street Mezzanine Fund, LP has invested primarily in secured debt instruments, equity investments, warrants and other securities of lower middle market, privately-held companies based in the United States. Main Street Mezzanine Fund is licensed as a Small Business Investment Company, or SBIC, by the United States Small Business Administration, or SBA. Main Street Mezzanine Management, LLC, or the General Partner, has been the general partner of Main Street Mezzanine Fund since its inception, and Main Street Capital Partners, LLC, or the Investment Adviser, has acted as Main Street Mezzanine Fund's manager and investment adviser. The Investment Adviser also acts as the manager and investment adviser to Main Street Capital II, LP, a separate affiliated SBIC which commenced its investment operations in January 2006. The Investment Adviser receives management fees pursuant to separate management services agreements with both Main Street Mezzanine Fund and Main Street Capital II. Simultaneously with the consummation of this offering, in what we sometimes refer to in this prospectus as the formation transactions, Main Street Capital Corporation will acquire all of the outstanding equity interests of Main Street Mezzanine Fund, the General Partner and the Investment Adviser through a series of transactions described in this prospectus under the caption Formation; Business Development Company and Regulated Investment Company Elections. We will not acquire any equity interest in Main Street Capital II in connection with the formation transactions but the Investment Adviser will continue to act as the manager and investment adviser to Main Street Capital II and receive a management fee pursuant to the management services agreement with Main Street Capital II subsequent to such transactions.

Unless otherwise noted, the terms we, us, our and Main Street refer to Main Street Mezzanine Fund, the General Partner and the Investment Adviser prior to consummation of the formation transactions, and to Main Street Capital Corporation, Main Street Mezzanine Fund, the General Partner and the Investment Adviser after that time.

Main Street

We are a specialty investment company focused on providing customized financing solutions to lower middle market companies, which we define as companies with annual revenues between \$10.0 million and \$100.0 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-related investments. Our investments generally range in size from \$2.0 million to \$15.0 million. For larger investments in this range, we have generally secured co-investments from other institutional investors due to our historical regulatory size limits. Since our wholly owned subsidiary, Main Street Mezzanine Fund, was formed in 2002, it has funded over \$100 million in debt and equity investments. 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.

We typically seek to partner 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) taking first priority liens on assets; and (iii) providing 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. In that regard, based upon information provided to us by our portfolio companies (which we have not independently verified), our portfolio had a total net debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) ratio of approximately 3.5 to 1.0 and a total EBITDA to interest expense ratio of 2.2 to 1.0. In calculating these ratios, we included all portfolio company debt, EBITDA and interest expense as of March 31, 2007, including debt junior to our debt investments but

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excluding amounts related to one portfolio company with less than one year of operations. If we also excluded debt junior to our debt investments in calculating these ratios, the ratios would be 3.0 to 1.0 and 2.4 to 1.0, respectively. In addition, approximately 90% of our total investments at cost are debt investments and over 85.0% of such debt investments at cost were secured by first priority liens on the assets of our portfolio companies as of March 31, 2007. At March 31, 2007, our average fully diluted ownership in portfolio companies where we have an equity warrant and/or direct equity investment was approximately 23%.

As of March 31, 2007, we had debt and equity investments in 24 portfolio companies with an aggregate fair market value of \$77.4 million and the weighted average effective yield on all of our debt investments was approximately 14.9%. Weighted average effective yields are computed using the effective interest rates for all debt investments at March 31, 2007, including amortization of deferred debt origination fees and original issue discount. As of March 31, 2007, the weighted average effective yield on all of our outstanding debt investments was 14.0%, excluding the impact of the deferred debt origination fee amortization.

The following table sets forth certain unaudited information as of March 31, 2007, for each portfolio company in which we had an investment:

Company	Nature of Principal Business	Cost of Investment⁽¹⁾⁽²⁾	Fair Value of Investment⁽³⁾
		<i>(dollars in thousands)</i>	
Advantage Millwork Company, Inc.	Manufacturer/distributor of wood doors	\$ 2,480	\$ 2,480
All Hose & Specialty, LLC	Distributes commercial/industrial hoses	2,680	4,600
American Sensor Technologies, Inc.	Manufactures commercial/industrial sensors	3,350	3,875
Café Brazil, LLC	Operates casual restaurant chain	2,992	3,975
Carlton Global Resources, LLC	Produces and processes industrial minerals	4,000	4,000
CBT Nuggets, LLC	Produces and sells IT certification training videos	2,904	3,430
East Teak Fine Hardwoods, Inc.	Distributes hardwood products	4,583	4,868
Hawthorne Customs & Dispatch Services, LLC	Provides one stop logistics services	2,062	2,750
Hayden Acquisition, LLC	Manufactures utility structures	2,120	2,120
Houston Plating & Coatings, LLC	Provides plating and industrial coating services	310	1,960
Jensen Jewelers of Idaho, LLC	Sells retail jewelry	2,599	2,599
KBK Industries, LLC	Manufactures oilfield and industrial products	4,490	5,614
Laurus Healthcare, LP	Develops and manages healthcare facilities	3,115	3,115
Magna Card, Inc.	Distributes wholesale/consumer magnetic products	2,116	2,016
National Trench Safety, LLC	Rents and sells trench and traffic safety equipment	1,792	1,792
Pulse Systems, LLC	Manufactures components for medical devices	2,721	2,952
Quest Design & Production, LLC	Designs and fabricates custom displays	3,940	3,940
TA Acquisition Group, LP	Produces and processes construction aggregates	3,135	7,975
Technical Innovations, LLC	Manufactures specialty cutting tools and punches	2,165	3,205

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Transportation General, Inc.	Provides taxi cab/transportation services	3,770	4,140
Turbine Air Systems, Ltd.	Manufactures commercial/industrial chilling systems	1,097	1,097
Wicks N More, LLC	Manufactures high-end candles	4,290	3,720
WorldCall, Inc.	Provides telecommunication/information services	1,064	1,150
Other Investments ⁽⁴⁾	Various	150	
	Total	\$ 63,925	\$ 77,373

(1) Net of prepayments but before accumulated unearned income allocations.

(2) Aggregates the cost of all of our investments in each of our portfolio companies.

(3) Aggregates the fair value of all of our investments in each of our portfolio companies.

(4) Includes our investment in Barton Springs Grill LP, which was an insignificant investment as of March 31, 2007.

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Recent Developments

In April 2007, Main Street Mezzanine Fund made an additional \$0.8 million secured debt investment in Carlton Global Resources, LLC. This additional investment was made on the same terms as its original secured debt investment.

In June 2007, Main Street Mezzanine Fund made a \$3.8 million secured debt investment and \$0.4 million direct equity investment in Vision Interests, a leading designer, manufacturer, and installation and service provider for exterior and interior signage. In addition to its direct equity investment, Main Street Mezzanine Fund received warrants in connection with its debt investment and maintain a combined fully diluted equity position of approximately 20%.

In June 2007, Main Street Mezzanine Fund made a \$1.7 million secured debt investment in Support Systems Homes, Inc., a behavioral health company that manages substance abuse treatment centers which provide both inpatient and outpatient services.

In June 2007, East Teak Fine Hardwoods Inc. made a prepayment of approximately \$3.0 million on its secured debt investment.

Subsequent to December 31, 2006, Main Street Mezzanine Fund has continued to make regular quarterly cash distributions to its partners from accumulated net investment income. On January 2, 2007 and April 2, 2007, Main Street Mezzanine Fund made regular quarterly cash distributions to its partners totaling \$0.9 million and \$1.0 million, respectively. Main Street Mezzanine Fund intends to make an additional regular cash distribution to its partners on July 2, 2007 of approximately \$1.1 million.

In addition, Main Street Mezzanine Fund periodically distributes special cash distributions to its partners from the net proceeds of realized gains on investments. On January 5, 2007 and January 31, 2007, Main Street Mezzanine Fund made special cash distributions to its partners of \$1.7 million and \$1.0 million, respectively, relating to realized gains on its investments.

As of June 11, 2007, we have executed non-binding term sheets for approximately \$10.6 million of investment commitments in three prospective portfolio companies. These proposed investments are subject to the completion of our due diligence and approval process as well as negotiation of definitive agreements with the prospective portfolio companies and, as a result, may not result in completed investments.

Why We Are Going Public

In 2002, Main Street Mezzanine Fund raised its initial capital, obtained its license to operate as an SBIC and began investing its capital. While we intend to continue to operate Main Street Mezzanine Fund as an SBIC, subject to SBA approval, and to utilize lower cost capital we can access through the SBA's SBIC Debenture Program, which we refer to as SBA leverage, to partially fund our investment portfolio, we believe that being a public company will offer certain key advantages for our business that would not be available to us if we continue to operate as a private SBIC. These key advantages include:

Permanent Capital Base and Longer Investment Horizon. Unlike traditional private investment vehicles such as SBICs, which typically are finite-life limited partnerships with a limited investment horizon, we will operate as a corporation with a perpetual life and no requirement to return capital to investors. We believe raising separate pools of capital with finite investment terms unreasonably diverts management's time from its basic

investment activities. We believe that our new structure will allow us to make investments with a longer investment horizon and to better control the timing and method of exiting our investments, which we believe will enhance our returns.

Investment Efficiency. SBICs are subject to a number of regulatory restrictions on their investment activities, including limits on the size of individual investments and the size and types of companies in which they are permitted to invest. Subsequent to the consummation of this offering, we may make investments through Main Street Capital Corporation without these restrictions, allowing us to pursue certain attractive investment opportunities that we previously were required to forgo. In addition, as a

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public company with more capital available, we will not be required to secure co-investments from non-affiliated investors for investments exceeding our historical regulatory size limits.

Greater Access to Capital. As a public company, we expect to have access to greater amounts and types of capital that we can use to grow our investment portfolio. In addition, we should be able to obtain additional capital in a more efficient and cost effective manner than if we were to remain a private entity. We will also have the ability to spread our overhead and operating costs over a larger capital base.

Key Personnel Retention. Retaining and providing proper incentives to key personnel over longer periods of time is critical to the success of our operations. As a public company, we will have the ability to provide competitive rates of compensation, including equity incentives to current and future employees, to further align their economic interests with our stockholders.

Market Opportunity

Our business is to provide customized financing solutions to lower middle market companies, which we define as companies with annual revenues between \$10.0 million and \$100.0 million. Based on a search of the Dun and Bradstreet database completed on June 20, 2007, we believe there are approximately 68,000 companies in the United States with revenues between \$10.0 million and \$100.0 million. We believe many lower middle market companies are unable to obtain sufficient financing from traditional financing sources. Due to evolving market trends, traditional lenders and other sources of private investment capital have focused their efforts on larger companies and transactions. We believe this dynamic is attributable to several factors, including the consolidation of commercial banks and the aggregation of private investment funds into larger pools of capital that are focused on larger investments. In addition, many current funding sources do not have relevant experience in dealing with some of the unique business issues facing lower middle market companies. Consequently, we believe that the market for lower middle market investments, particularly those investments of less than \$10.0 million, is currently underserved and less competitive. This market situation creates the opportunity for us to meet the financing requirements of lower middle market companies while also negotiating favorable transaction terms and equity participations.

Business Strategy

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-related investments. 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 over 35 years of combined 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 five certified public accountants and one chartered financial analyst. The expertise of our investment team in

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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.

Maintaining Portfolio Diversification. We seek to maintain a portfolio of investments that is appropriately diversified among various companies, industries, geographic regions and end markets. This portfolio diversity 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 developed over the last ten years. Since our wholly-owned subsidiary, Main Street Mezzanine Fund, was formed in 2002, it has originated and been the lead investor in over 25 principal investment transactions and has developed a reputation in our marketplace as a responsive, efficient and reliable source of financing, which has created a growing proprietary deal flow for us.

Benefiting from Lower Cost of Capital. Main Street Mezzanine Fund's SBIC license has allowed it and, subject to SBA approval, will allow us to issue SBA-guaranteed debentures. SBA-guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and public debt. Because lower cost SBA leverage is, and will continue to be, a significant part of our capital base, our relative cost of debt capital should be lower than many of our competitors.

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 greater than \$1.0 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

Main Street Capital Corporation is a newly organized Maryland corporation, formed on March 9, 2007, for the purpose of acquiring Main Street Mezzanine Fund, the General Partner and the Investment Adviser,

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raising capital in this offering and thereafter operating as an internally-managed business development company under the Investment Company Act of 1940, or the 1940 Act.

At the time of closing this offering, we will consummate the following formation transactions to create an internally-managed operating structure which we believe will align the interests of management and stockholders and also enhance our net investment income, net cash flow from operations and dividend paying potential:

Pursuant to a merger agreement that has received the approval of the General Partner and over 95% of the limited partners of Main Street Mezzanine Fund, or the Limited Partners, we will acquire 100.0% of the limited partnership interests in Main Street Mezzanine Fund for \$40.9 million (which represents the audited net asset value of Main Street Mezzanine Fund as of December 31, 2006, less cash distributed to partners in January 2007 related to realized gains). We will issue to the Limited Partners shares of common stock valued at \$40.9 million in exchange for their limited partnership interests. The \$40.9 million valuation represents a 54.4% premium over the total capital contributions made by the Limited Partners to Main Street Mezzanine Fund as a result of Main Street Mezzanine Fund's cumulative retained earnings as well as the net unrealized appreciation recorded in the value of the investments held by Main Street Mezzanine Fund. The aggregate number of shares issuable to the Limited Partners will be determined by dividing \$40.9 million by the initial public offering price per share. The shares issuable to the Limited Partners will be allocated among the Limited Partners in proportion to the respective limited partnership interests held by the Limited Partners. In determining the fair value of the investments held by Main Street Mezzanine Fund at December 31, 2006, we utilized independent valuation assistance provided by Duff & Phelps, LLC, an independent third-party valuation firm, which consisted of agreed upon procedures that we identified and asked them to perform.

We will acquire from the members of the General Partner 100.0% of their equity interests in the General Partner and, consequently, 100.0% of the general partnership interest in Main Street Mezzanine Fund for \$9.0 million. We will issue to the members of the General Partner shares of common stock valued at \$9.0 million in exchange for their equity interests in the General Partner. The aggregate number of shares issuable to the members of the General Partner will be determined by dividing \$9.0 million by the initial public offering price per share. Under the current agreement of limited partnership, or partnership agreement, of Main Street Mezzanine Fund, the General Partner is entitled to 20.0% of Main Street Mezzanine Fund's profits and distributions. We refer to the General Partner's right to receive such profits and distributions as carried interest. The consideration being received by the members of the General Partner is based largely on the estimated present value of the 20.0% carried interest in Main Street Mezzanine Fund and comparable public market transactions, and was determined using industry standard valuation methodologies that we believe are reasonable and supportable. We also received valuation assistance from Duff & Phelps, LLC, an independent third party valuation firm, which consisted of agreed upon procedures that we identified and asked them to perform.

In addition to serving as the general partner of Main Street Mezzanine Fund, the General Partner holds partnership interests in Main Street Mezzanine Fund equaling 0.7% of the total partnership interests.

We will acquire from the members of the Investment Adviser 100.0% of their equity interests in the Investment Adviser for \$18.0 million. We will issue to the members of the Investment Adviser shares of common stock valued at \$18.0 million in exchange for their equity interests in the Investment Adviser. The aggregate number of shares issuable to the members of the Investment Adviser will be determined by dividing \$18.0 million by the initial public offering price per share. The consideration payable to the members of the Investment Adviser is based on the estimated present value of net distributable income related to the management fees to which the Investment Adviser is entitled to receive pursuant to certain agreements and comparable public market transactions, and was determined using industry standard valuation methodologies that we believe are

reasonable and supportable. We also received valuation assistance provided by Duff & Phelps, LLC, an independent third party valuation firm, which consisted of agreed upon procedures that we identified and asked them to perform.

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Under two separate management services agreements with Main Street Mezzanine Fund and Main Street Capital II, the Investment Adviser receives management fees from both Main Street Mezzanine Fund and Main Street Capital II. Until September 30, 2007, the Investment Adviser is entitled to receive a quarterly management fee, paid in advance, from Main Street Mezzanine Fund equal to 0.625% (2.5% annualized) of the sum of (i) the amount of qualifying private capital contributed or committed to Main Street Mezzanine Fund, (ii) any SBA permitted return of capital distributions made by Main Street Mezzanine Fund to its Limited Partners and (iii) an amount equal to two times qualifying private capital, representing the SBIC leverage available to Main Street Mezzanine Fund. After September 30, 2007, the Investment Adviser is entitled to receive a quarterly management fee from Main Street Mezzanine Fund equal to 0.625% (2.5% annualized) of the sum of (i) the amount of private capital contributed to Main Street Mezzanine Fund and (ii) the actual outstanding SBIC leverage of Main Street Mezzanine Fund.

From January 1, 2006 until December 31, 2010 (or an earlier date if Main Street Capital II receives 80.0% or greater of its combined private funding and SBIC leverage), the Investment Adviser is entitled to receive a quarterly management fee, paid in advance, from Main Street Capital II equal to 0.5% (2.0% annualized) of the sum of (i) the amount of qualifying private capital contributed or committed to Main Street Capital II, (ii) any SBA permitted return of capital distributions made by Main Street Capital II to its limited partners, and (iii) an amount equal to two times qualifying private capital, representing the SBIC leverage available to Main Street Capital II. Thereafter, the Investment Adviser is entitled to receive a quarterly management fee, paid in advance, from Main Street Capital II equal to 0.5% (2.0% annualized) of the total cost of all active portfolio investments of Main Street Capital II.

Pursuant to the applicable management fee provisions as discussed above and the existing capital committed to both funds, the Investment Adviser is entitled to receive management fees of approximately \$2 million and \$3 million from Main Street Mezzanine Fund and Main Street Capital II, respectively, for the year ending December 31, 2007.

Prior to the closing of the formation transactions, the Investment Advisor will compensate its personnel and its members consistent with past practices, including paying bonus compensation of substantially all accumulated net earnings. After the closing of the formation transactions, the personnel of the Investment Advisor will be compensated as determined by the management of the Company and the Compensation Committee of its Board of Directors pursuant to its internally-managed operating structure.

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- (1) Based on 11,192,341 shares of common stock to be outstanding after this offering and completion of the formation transactions described elsewhere in this prospectus. Does not include 1,000,000 shares of common stock issuable pursuant to the underwriters' over-allotment option.

After completion of this offering, we will be a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the 1940 Act. We will be internally managed by our executive officers under the supervision of our board of directors (Board of Directors). As a result, we will not pay any external investment advisory fees, but instead we will incur the operating costs associated with employing investment and portfolio management professionals.

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As a business development company, we will be required to comply with numerous regulatory requirements. We will be permitted to, and expect to, finance our investments using debt and equity. However, our ability to use debt will be limited in certain significant respects. See Regulations. We intend to elect to be treated for federal income tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, or the Code. See Material U.S. Federal Income Tax Considerations. As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, asset diversification and other requirements.

Corporate Information

Our principal executive offices are located at 1300 Post Oak Boulevard, Suite 800, Houston, Texas 77056. We maintain a website on the Internet at www.mainstreethouston.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.

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. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

Upon completion of this offering, we will file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934. 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 <http://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.

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Common stock offered by us	6,666,667 shares ⁽¹⁾
Common stock issued in formation transactions	4,525,674 shares
Common stock to be outstanding after this offering	11,192,341 shares ⁽¹⁾
Use of proceeds	Our net proceeds from this offering will be approximately \$91 million, assuming an initial public offering price of \$15.00 per share. We intend to use all of the net proceeds from this offering to make investments in lower middle market companies in accordance with our investment objective and strategies described in this prospectus, pay our operating expenses and dividends to our stockholders and for general corporate purposes. Pending such use, we will invest the net proceeds primarily in short-term securities consistent with our business development company election and our election to be taxed as a RIC. See Use of Proceeds.
Proposed Nasdaq Global Market symbol	MAIN
Dividends	We intend to pay quarterly dividends to our stockholders out of assets legally available for distribution. Our dividends, if any, will be determined by our Board of Directors.
Taxation	We intend to elect, effective as of the date of our formation, to be treated as a RIC for federal income tax purposes. 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. To obtain and maintain 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. 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

See Risk Factors beginning on page 15 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

- ⁽¹⁾ Does not include 1,000,000 shares of common stock issuable pursuant to the over-allotment option granted by us to the underwriters.

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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)	7.0% ⁽¹⁾
Offering and formation transaction expenses (as a percentage of offering price)	2.0% ⁽²⁾
Dividend reinvestment plan expenses	⁽³⁾
Total stockholder transaction expenses (as a percentage of offering price)	9.0%

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

Operating expenses	1.8% ⁽⁴⁾
Acquired fund fees and expenses	2.2% ⁽⁵⁾
Interest payments on borrowed funds	0%
Total annual expenses	4.0% ⁽⁷⁾

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, and that you would pay a sales load of 7.0% (the underwriting discount to be paid by us with respect to common stock sold by us in this offering).

	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	\$ 130	\$ 210	\$ 292	\$ 505

- (1) The underwriting discount with respect to shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering and formation transaction expenses of approximately \$2 million to be paid by us.
- (3) The expenses of administering our dividend reinvestment plan are included in operating expenses.

- (4) Operating expenses represent our estimated annual operating expenses, excluding overhead incurred by the Investment Adviser related to its investment management responsibilities for Main Street Mezzanine Fund and Main Street Capital II. Upon consummation of the formation transactions, the Investment Adviser will be reflected as an investment in affiliated operating company as it does not conduct substantially all of its investment management activities for Main Street Mezzanine Fund. Operating expenses also exclude interest payments on borrowed funds, which is presented separately above.
- (5) Acquired fund fees and expenses are not fees and expenses to be incurred by Main Street Capital Corporation directly, but rather are expenses directly incurred by Main Street Mezzanine Fund which will be a wholly-owned subsidiary of Main Street Capital Corporation upon consummation of the formation transactions and the offering. These fees and expenses principally consist of approximately \$3.2 million of annual interest payments on funds borrowed directly by Main Street Mezzanine Fund. As discussed elsewhere in this prospectus, Main Street Mezzanine Fund currently has \$55.0 million of outstanding indebtedness guaranteed by the SBA. You will incur these fees and expenses indirectly through Main Street Capital Corporation's 100% ownership of Main Street Mezzanine Fund.
- (6) There are no interest payments on borrowed funds as Main Street Capital Corporation has not directly issued any indebtedness. You will indirectly incur interest payments on the \$55.0 million of outstanding indebtedness of Main Street Mezzanine Fund, as a wholly-owned subsidiary of Main Street Capital Corporation. However, the interest payments to be made by Main Street Mezzanine Fund are reflected in the Acquired fund fees and expense line item above.
- (7) The total annual expenses are the sum of operating expenses, acquired fund fees and expenses and interest payments on borrowed funds. In the future we may borrow money to leverage our net assets and increase our total assets.

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The example and the expenses in the tables 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 the market price per share of our common stock at the close of trading on the dividend payment date, which may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

Table of Contents**SUMMARY FINANCIAL AND OTHER DATA**

The summary financial and other data below reflects the combined operations of Main Street Mezzanine Fund and the General Partner. The summary financial data for the years ended December 31, 2004, 2005 and 2006, and as of December 31, 2006, have been derived from combined financial statements that have been audited by Grant Thornton LLP, an independent registered public accounting firm. The summary financial and other data for the three months ended March 31, 2006 and March 31, 2007, and as of March 31, 2007, have been derived from unaudited financial data but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim periods. Interim results as of and for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. You should read this summary financial and other data in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto.

	Year Ended December 31,			Three Months Ended	
	2004	2005	2006	March 31,	2007
				2006	2007
				(Unaudited)	
	<i>(dollars in thousands)</i>				
Income statement data:					
Investment income:					
Total interest, fee and dividend income	\$ 4,452	\$ 7,338	\$ 9,013	\$ 2,095	\$ 2,254
Interest from idle funds and other	9	222	749	202	159
Total investment income	4,461	7,560	9,762	2,297	2,413
Expenses:					
Management fees to affiliate	1,916	1,929	1,942	483	500
Interest	869	2,064	2,717	672	707
General and administrative	184	197	198	31	36
Total expenses	2,969	4,190	4,857	1,186	1,243
Net investment income	1,492	3,370	4,905	1,111	1,170
Total net realized gain (loss) from investments	1,171	1,488	2,430	6	747
Net realized income	2,663	4,858	7,335	1,117	1,917
Total net change in unrealized appreciation (depreciation) from investments	1,764	3,032	8,488	2,598	(138)
Net increase (decrease) in members' equity and partners' capital resulting from operations	\$ 4,427	\$ 7,890	\$ 15,823	\$ 3,715	\$ 1,779
Other data:					
Weighted average effective yield on debt investments ⁽¹⁾	15.3%	15.3%	15.0%	15.2%	14.9%

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Number of portfolio companies	14	19	24	22	24
Expense ratios (as percentage of average net assets):					
Operating expenses	13.7%	9.0%	5.5%	1.5%	1.3%
Interest expense	5.7%	8.8%	7.0%	2.0%	1.7%

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	As of December 31, 2006	As of March 31, 2007 (Unaudited)
	<i>(dollars in thousands)</i>	
Balance sheet data:		
Assets:		
Total investments at fair value	\$ 76,209	\$ 77,373
Accumulated unearned income	(2,498)	(2,421)
Total investments net of accumulated unearned income	73,711	74,952
Cash and cash equivalents	13,769	19,841
Deferred financing costs, net of accumulated amortization	1,333	1,531
Interest receivable and other assets	630	568
Total assets	\$ 89,443	\$ 96,892
Liabilities, members' equity and partners' capital:		
SBIC debentures	\$ 45,100	\$ 55,000
Interest payable	855	224
Accounts payable and other liabilities	216	178
Total liabilities	46,171	55,402
Total members' equity and partners' capital	43,272	41,490
Total liabilities, members' equity and partners' capital	\$ 89,443	\$ 96,892

- (1) Weighted average effective yield is calculated based upon our debt investments at the end of each period and includes amortization of deferred debt origination fees.

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RISK FACTORS

Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus, 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 Our Business and Structure

A significant portion of our investment portfolio is and will continue to be recorded at fair value as determined in good faith by our Board of Directors 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 our Board of Directors. 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 will value these securities quarterly at fair value as determined in good faith by our Board of Directors.

Certain factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flow and other relevant factors. 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 upon 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 will depend 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-related investments will depend on our ability to effectively manage and deploy capital raised in this offering, which will depend, 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. We cannot assure you that we will achieve our investment objective.

Accomplishing our investment objective on a cost-effective basis will be 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 may also be called upon to provide managerial assistance to 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 in a manner commensurate with the increased capital available to us as a result of this offering, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects.

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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 in this prospectus, it could negatively impact our ability to pay dividends and cause you to lose all or part of your investment.

We may face increasing competition for investment opportunities.

We compete for investments with other business development companies and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Moreover, alternative investment vehicles, such as hedge funds, have begun to invest in areas they have not traditionally invested in, including making investments in lower middle market companies. As a result of these new entrants, competition for investment opportunities in lower middle market companies may intensify. 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. 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 will impose on us as a business development company.

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, 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 intend to enter into employment agreements with these individuals, 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.

Additionally, the increase in available capital for investment resulting from this offering will require that we retain new investment and administrative personnel. We believe our future success will depend, in part, on our ability to identify, attract and retain sufficient numbers of highly skilled employees. If we do not succeed in identifying, attracting and retaining these personnel, we may not be able to operate our business as we expect.

We have no operating history as a business development company or as a regulated investment company, which may impair your ability to assess our prospects.

Main Street Mezzanine Fund was formed in 2002 by certain members of our management team. Prior to this offering, however, we have not operated, and our management team has no experience operating, as a business development company under the 1940 Act or as a RIC under Subchapter M of the Code. As a result, we have no operating results under these regulatory frameworks that can demonstrate to you either their effect on our business or our ability to

manage our business under these frameworks. If we fail to operate our business so as to maintain our status as a business development company or a RIC, our operating flexibility will be significantly reduced.

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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 intend to use leverage to partially finance our investments, you will experience increased risks of investing in our common stock. We, through Main Street Mezzanine 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 Main Street Mezzanine Fund that are superior to the claims of our common stockholders. We may also borrow from banks and other lenders in the future. If the value of our assets also increases, 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. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net 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.

On March 31, 2007, we, through Main Street Mezzanine Fund, had \$55.0 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 Main Street Mezzanine 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	(31.0)%	(19.4)%	(7.7)%	4.0%	15.7%

⁽¹⁾ Assumes \$96.9 million in total assets, \$55.0 million in debt outstanding, \$41.5 million in members' equity and partners' capital, and an average cost of funds of 5.8%. Actual interest payments may be different.

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, or by borrowing from banks or insurance companies, and there can be no assurance that such additional leverage can in fact be achieved.

SBA 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 SBA 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 \$127.2 million (which amount is subject to increase on an annual basis based on cost of living increases). Because of our and our investment team's affiliations with Main Street Capital II, a separate SBIC which commenced investment operations in January 2006, Main Street Mezzanine Fund and Main Street Capital II may be deemed to be a group of SBICs under common control. Thus, the dollar amount of SBA-guaranteed debentures that can be issued collectively by Main Street Mezzanine Fund and Main Street Capital II may be limited to \$127.2 million, absent relief from the SBA. Currently, we, through Main Street Mezzanine Fund, do not intend to issue SBA-guaranteed debentures in excess of \$55.0 million based upon Main Street Mezzanine Fund's existing equity capital.

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Main Street Mezzanine 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 Main Street Mezzanine Fund continuing to be in compliance with SBA 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 Main Street Mezzanine Fund.

Our ability to enter into and exit investment transactions with our affiliates will be restricted.

Except in those instances where we have received prior exemptive relief from the SEC, we will be prohibited under the 1940 Act from knowingly participating in certain investment transactions with our affiliates. Since January 2006, Main Street Mezzanine Fund has co-invested with Main Street Capital II in a number of lower middle market companies. Each co-investment was made at the same time and on the same terms. In connection with our election to be regulated as a business development company, neither we nor Main Street Mezzanine Fund will be permitted to co-invest with Main Street Capital II in certain types of negotiated investment transactions unless we receive an order from the SEC permitting us to do so. Moreover, we may be limited in our ability to make follow-on investments or liquidate our existing equity investments in such companies. Although we have applied to the SEC for exemptive relief to permit such co-investment and liquidity transactions, subject to certain conditions, we cannot be certain that our application for such relief will be granted or what conditions will be placed on such relief.

There are significant potential conflicts of interest which could impact our investment returns.

The members of our investment team serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Messrs. Foster, Reppert, Hartman, Hyzak and Magdol, each of whom are members of our investment team, are and, following this offering, will continue to have responsibilities for and an economic interest in Main Street Capital II, a separate SBIC which commenced investment operations in January 2006. Importantly, Main Street Capital II has overlapping investment objectives with those of Main Street and, accordingly, makes loans to, and invests in, companies similar to those targeted by Main Street. As a result of their responsibilities for and economic interest in Main Street Capital II, the members of our investment team will face conflicts in the allocation of investment opportunities to Main Street Capital II. Although the members of our investment team will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by Main Street Capital II. Pending receipt of exemptive relief from the SEC to permit co-investment as described above, the members of our investment team will be forced to choose whether we or Main Street Capital II should make the investment when they identify an investment opportunity.

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 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

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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. Moreover, we will have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from this offering in ways with which investors may not agree or for purposes other than those contemplated at the time of this offering.

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 obtain and maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source 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 90.0% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. We will be subject to a 4.0% nondeductible federal excise tax, however, to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar-year basis. See Material U.S. Federal Income Tax Considerations. Because we use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act 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 income source requirement will be satisfied if we obtain at least 90.0% of our income for each year from distributions, interest, gains from the sale of stock or securities or similar sources.

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 50.0% 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 25.0% 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 qualify for or 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, and our dividends may not grow over time.

We intend to pay quarterly 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 make a specified level of cash dividends 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 in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a business development company can limit our ability to pay dividends. All dividends will be paid at the discretion of our Board of Directors and will depend on our e