

Main Street Capital CORP
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from: to

Commission File Number: 001-33723

Main Street Capital Corporation

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

41-2230745

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

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

(Address of principal executive offices)

77056

(Zip Code)

(713) 350-6000

(Registrant's telephone number including area code)

n/a

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock as of November 7, 2012 was 31,657,264.

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	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Portfolio investments at fair value:		
Control investments (cost: \$184,526 and \$206,787 as of September 30, 2012 and December 31, 2011, respectively)	\$ 239,917	\$ 238,924
Affiliate investments (cost: \$111,143 and \$110,157 as of September 30, 2012 and December 31, 2011, respectively)	154,972	146,405
Non-Control/Non-Affiliate investments (cost: \$431,991 and \$275,061 as of September 30, 2012 and December 31, 2011, respectively)	439,501	270,895
Investment in affiliated Investment Manager (cost: \$2,668 and \$4,284 as of September 30, 2012 and December 31, 2011, respectively)	202	1,869
Total portfolio investments (cost: \$730,328 and \$596,289 as of September 30, 2012 and December 31, 2011, respectively)	834,592	658,093
Marketable securities and idle funds investments (cost: \$1,965 and \$25,935 as of September 30, 2012 and December 31, 2011, respectively)	2,038	26,242
Total investments (cost: \$732,293 and \$622,224 as of September 30, 2012 and December 31, 2011, respectively)	836,630	684,335
Cash and cash equivalents	19,584	42,650
Interest receivable and other assets	11,818	6,539
Deferred financing costs (net of accumulated amortization of \$2,968 and \$2,167 as of September 30, 2012 and December 31, 2011, respectively)	3,766	4,168
Total assets	\$ 871,798	\$ 737,692
LIABILITIES		
SBIC debentures (par: \$209,000 and \$220,000 as of September 30, 2012 and December 31, 2011, respectively; par of \$100,000 and \$95,000 is recorded at a fair value of \$85,083 and \$76,887 as of September 30, 2012 and December 31, 2011, respectively)	\$ 194,083	\$ 201,887
Credit facility	103,000	107,000
Interest payable	1,197	3,984
Dividend payable	4,743	2,856
Deferred tax liability, net	9,426	3,776

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Payable to affiliated Investment Manager	3,342	4,831
Accounts payable and other liabilities	2,853	2,170
Total liabilities	318,644	326,504
Commitments and contingencies		
NET ASSETS		
Common stock, \$0.01 par value per share (150,000,000 shares authorized; 31,619,333 and 26,714,384 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively)	316	267
Additional paid-in capital	464,141	360,164
Accumulated net investment income, net of cumulative dividends of \$101,853 and \$79,414 as of September 30, 2012 and December 31, 2011, respectively	31,289	12,531
Accumulated net realized loss from investments, net of cumulative dividends of \$27,852 and \$13,804 as of September 30, 2012 and December 31, 2011, respectively	(29,158)	(20,445)
Net unrealized appreciation, net of income taxes	86,566	53,194
Total Net Asset Value	553,154	405,711
Noncontrolling interest		5,477
Total net assets including noncontrolling interests	553,154	411,188
Total liabilities and net assets	\$ 871,798	\$ 737,692
NET ASSET VALUE PER SHARE	\$ 17.49	\$ 15.19

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Operations

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
INVESTMENT INCOME:				
Interest, fee and dividend income:				
Control investments	\$ 5,991	\$ 6,286	\$ 17,841	\$ 18,577
Affiliate investments	4,838	3,162	14,652	8,468
Non-Control/Non-Affiliate investments	12,015	7,200	30,263	18,716
Total interest, fee and dividend income	22,844	16,648	62,756	45,761
Interest from marketable securities, idle funds and other	110	438	1,599	829
Total investment income	22,954	17,086	64,355	46,590
EXPENSES:				
Interest	(3,923)	(3,716)	(11,967)	(9,882)
General and administrative	(595)	(479)	(1,757)	(1,585)
Expenses reimbursed to affiliated Investment Manager	(2,215)	(1,950)	(7,574)	(6,287)
Share-based compensation	(699)	(580)	(1,860)	(1,466)
Total expenses	(7,432)	(6,725)	(23,158)	(19,220)
NET INVESTMENT INCOME	15,522	10,361	41,197	27,370
NET REALIZED GAIN (LOSS) FROM INVESTMENTS:				
Control investments	122	407	(1,940)	407
Affiliate investments			5,500	
Non-Control/Non-Affiliate investments	128	794	478	775
Marketable securities and idle funds investments	277	247	1,297	515
Total net realized gain from investments	527	1,448	5,335	1,697
NET REALIZED INCOME	16,049	11,809	46,532	29,067
NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION):				
Portfolio investments	22,096	8,162	44,120	23,653
Marketable securities and idle funds investments	(151)	(1,712)	(235)	(1,025)
SBIC debentures	(1,858)	(3,636)	(3,367)	(5,715)
Investment in affiliated Investment Manager		(48)	(51)	(135)
Total net change in unrealized appreciation	20,087	2,766	40,467	16,778
Income tax provision	(4,169)	(139)	(7,041)	(3,302)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	31,967	14,436	79,958	42,543
Noncontrolling interest			(54)	(158)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK	\$ 31,967	\$ 14,436	\$ 79,904	\$ 42,385

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NET INVESTMENT INCOME PER SHARE - BASIC AND DILUTED	\$	0.49	\$	0.44	\$	1.44	\$	1.23
NET REALIZED INCOME PER SHARE - BASIC AND DILUTED	\$	0.51	\$	0.50	\$	1.62	\$	1.30
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCK PER SHARE - BASIC AND DILUTED	\$	1.01	\$	0.62	\$	2.79	\$	1.94
DIVIDENDS PAID PER SHARE	\$	0.44	\$	0.39	\$	1.26	\$	1.16
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED		31,578,742		23,194,896		28,615,877		21,824,775

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Changes in Net Assets

(in thousands, except shares)

(Unaudited)

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Net Investment Income, Net of Dividends	Accumulated Net Realized Loss 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, 2010	18,797,444	\$ 188	\$ 224,485	\$ 9,262	\$ (20,542)	\$ 32,142	\$ 245,535	\$ 4,448	\$ 249,983
Public offering of common stock, net of offering costs	4,025,000	40	70,274				70,314		70,314
Share-based compensation			1,466				1,466		1,466
Purchase of vested stock for employee payroll tax withholding	(32,725)		(674)				(674)		(674)
Dividend reinvestment	303,659	3	5,719				5,722		5,722
Issuance of restricted stock	125,970	1	(1)						
Distributions to noncontrolling interest								(110)	(110)
Dividends to stockholders				(27,406)	(802)		(28,208)		(28,208)
Net increase resulting from operations				27,370	1,697	13,476	42,543		42,543
Noncontrolling interest						(158)	(158)	158	
Balances at September 30, 2011	23,219,348	\$ 232	\$ 301,269	\$ 9,226	\$ (19,647)	\$ 45,460	\$ 336,540	\$ 4,496	\$ 341,036
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	92,950				92,993		92,993
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			1,860				1,860		1,860
Purchase of vested stock for employee payroll tax withholding	(40,549)		(1,012)				(1,012)		(1,012)

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Dividend reinvestment	264,331	3	6,468		6,471	6,471	
Issuance of restricted stock	139,033	1	(1)				
Distributions to noncontrolling interest					(114)	(114)	
Dividends to stockholders			(22,439)	(14,048)	(36,487)	(36,487)	
Net increase resulting from operations			41,197	5,335	33,426	79,958	
Noncontrolling interest					(54)	54	
Balances at September 30, 2012	31,619,333	\$ 316	\$ 464,141	\$ 31,289	\$ (29,158)	\$ 86,566	\$ 553,154

The accompanying notes are an integral part of these financial statements

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MAIN STREET CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	\$ 79,958	\$ 42,543
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net change in unrealized appreciation	(40,467)	(16,778)
Net realized gain from investments	(5,335)	(1,697)
Accretion of unearned income	(9,263)	(4,041)
Net payment-in-kind interest	(2,405)	(1,752)
Cumulative dividends	1,745	(1,246)
Share-based compensation expense	1,860	1,466
Amortization of deferred financing costs	802	480
Deferred taxes	5,650	3,002
Changes in other assets and liabilities:		
Interest receivable and other assets	(1,160)	(1,273)
Interest payable	(2,787)	(2,274)
Payable to affiliated Investment Manager	(1,489)	3,090
Accounts payable and other liabilities	316	269
Deferred fees and other	1,428	1,238
Net cash provided by operating activities	28,853	23,027
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in portfolio companies	(397,912)	(266,247)
Principal payments received on loans and debt securities in portfolio companies	246,138	97,043
Proceeds from sale of equity investments and related notes in portfolio companies	25,869	886
Investments in marketable securities and idle funds investments	(7,596)	(20,021)
Proceeds from marketable securities and idle funds investments	33,502	4,651
Net cash used in investing activities	(99,999)	(183,688)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from public offering of common stock, net of offering costs	92,993	70,314
Distributions to noncontrolling interest	(114)	(110)
Dividends paid to stockholders	(28,879)	(19,350)
Proceeds from issuance of SBIC debentures	5,000	40,000
Repayments of SBIC debentures	(16,000)	
Proceeds from credit facility	170,000	144,000
Repayments on credit facility	(174,000)	(69,000)
Purchase of vested stock for employee payroll tax withholding	(1,012)	(675)
Payment of deferred loan costs and SBIC debenture fees	(571)	(1,726)
Other	663	
Net cash provided by financing activities	48,080	163,453
Net increase (decrease) in cash and cash equivalents	(23,066)	2,792
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	42,650	22,334

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	19,584	\$	25,126
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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(in thousands)

(Unaudited)

Control Investments (5)

California Healthcare Medical Billing, Inc.	Outsourced Billing and Revenue Cycle Management	12% Secured Debt (Maturity - October 17, 2015) Warrants (Fully diluted 21.3%) Common Stock (Fully diluted 9.8%)	8,103	7,900 1,193 1,177 10,270	8,013 3,380 1,560 12,953
Ceres Management, LLC (Lambs)	Aftermarket Automotive Services Chain	14% Secured Debt (Maturity - May 31, 2013) Preferred Stock (12% cumulative) Member Units (Fully diluted 79.0%) 9.5% Secured Debt (Lamb's Real Estate Investment I, LLC) (Maturity - October 1, 2025) Member Units (Lamb's Real Estate Investment I, LLC) (Fully diluted 100%)	4,000 1,078	3,990 3,000 5,273 1,078 625 13,966	3,990 3,000 1,078 800 8,868

Gulf Manufacturing, LLC	Manufacturer of Specialty Fabricated Industrial Piping Products	9% PIK Secured Debt (Ashland Capital IX, LLC) (Maturity - June 30, 2017)	919	919	919
		Member Units (Fully diluted 34.2%) (8)		2,980	12,660
				3,899	13,579

Hawthorne Customs and Dispatch Services, LLC	Facilitator of Import Logistics, Brokerage, and Warehousing	Member Units (Fully diluted 37.1%) (8)		589	1,610
		Member Units (Wallisville Real Estate, LLC) (Fully diluted 59.1%) (8)		1,215	1,215
				1,804	2,825

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Indianapolis Aviation Partners, LLC	Fixed Base Operator	12% Secured Debt (Maturity - September 15, 2014)	4,275	4,081	4,124
		Warrants (Fully diluted 30.1%)		1,129	1,650
				5,210	5,774
Lighting Unlimited, LLC	Commercial and Residential Lighting Products and Design Services	8% Secured Debt (Maturity - August 22, 2014)	1,946	1,946	1,946
		Preferred Stock (non-voting)		502	502
		Warrants (Fully diluted 7.1%)		54	20
		Common Stock (Fully diluted 70.0%)			
		(8)		100	200
				2,602	2,668
NAPCO Precast, LLC	Precast Concrete Manufacturing	Prime Plus 2%, Current Coupon 9%, Secured Debt (Maturity - February 1, 2013) (9)	3,385	3,382	3,382
		18% Secured Debt (Maturity - February 1, 2013)	5,173	5,163	5,163
		Member Units (Fully diluted 44.0%)		2,975	4,195
				11,520	12,740
NRP Jones, LLC					

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	Manufacturer of Hoses, Fittings and Assemblies	12% Secured Debt (Maturity - December 22, 2016)	12,100	11,158	11,890
		Warrants (Fully diluted 12.2%)		817	1,420
		Member Units (Fully diluted 43.2%) (8)		2,900	5,030
				14,875	18,340
Pegasus Research Group, LLC (Televerde)	Telemarketing and Data Services	13% Current / 5% PIK Secured Debt (Maturity - January 6, 2016)	5,191	5,141	5,191
		Member Units (Fully diluted 43.7%) (8)		1,250	1,880
				6,391	7,071
Principle Environmental, LLC	Noise Abatement Services	12% Secured Debt (Maturity - February 1, 2016)	4,750	3,897	4,750

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		12% Current / 2% PIK Secured Debt (Maturity - February 1, 2016)	3,576	3,518	3,576
		Warrants (Fully diluted 14.6%)		1,200	3,860
		Member Units (Fully diluted 22.6%)		1,863	6,150
				10,478	18,336
The MPI Group, LLC	Manufacturer of Custom Hollow Metal Doors, Frames and Accessories	4.5% Current / 4.5% PIK Secured Debt (Maturity - October 2, 2013)	1,079	1,077	1,077
		6% Current / 6% PIK Secured Debt (Maturity - October 2, 2013)	5,639	5,572	5,572
		Warrants (Fully diluted 52.3%)		896	
		Member Units (Non-voting)		200	
				7,745	6,649
Uvalco Supply, LLC	Farm and Ranch Supply Store	Member Units (Fully diluted 42.8%) (8)		1,113	2,840

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Vision Interests, Inc.	Manufacturer / Installer of Commercial Signage	6.5% Current /6.5% PIK Secured Debt (Maturity - December 23, 2016)	3,152	3,092	3,092
		Series A Preferred Stock (Fully diluted 50.9%)		3,000	3,280
		Common Stock (Fully diluted 19.1%)		3,706	100
				9,798	6,472
Subtotal Control Investments (28.7% of total investments at fair value)				184,526	239,917

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(in thousands)

(Unaudited)

Affiliate Investments (6)

Bridge Capital Solutions Corporation	Financial Services and Cash Flow Solutions	13% Secured Debt (Maturity - April 17, 2017) Warrants (Fully diluted 7.5%)	5,000	4,744 200 4,944	4,744 200 4,944
Daseke, Inc.	Specialty Transportation Provider	Common Stock (Fully diluted 12.6%)		1,427	6,620
Gault Financial, LLC (RMB Capital, LLC)	Purchases and Manages Liquidation of Distressed Assets				

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14% Secured Debt (Maturity - November 21, 2016)	10,000	9,489	9,489
Warrants (Fully diluted 22.5%)		400	400
		9,889	9,889

Indianhead Pipeline Services, LLC

Pipeline Support Services

12% Secured Debt (Maturity - February 6, 2017)	9,950	9,313	9,313
Preferred Equity (Fully diluted 8.0%) (8)		1,638	1,638
Warrants (Fully diluted 10.6%)		459	459
Member Units (Fully diluted 4.1%)		1	1
		11,411	11,411

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IRTH Holdings, LLC	Damage Prevention Technology Information Services	12% Secured Debt (Maturity - December 29, 2015) Member Units (Fully diluted 22.3%)	3,755	3,706 850 4,556	3,755 4,110 7,865
Laurus Healthcare, LP	Management of Outpatient Cardiac Cath Labs	Class A and C Units (Fully diluted 13.1%) (8)		80	12,400
OnAsset Intelligence, Inc.	Transportation Monitoring / Tracking Services	12% Secured Debt (Maturity - October 18, 2012) Preferred Stock (7% cumulative) (Fully diluted 5.75%) (8) Warrants (Fully diluted 4.0%)	1,500	1,425 1,662 830 3,917	1,425 1,662 640 3,727
Radial Drilling Services Inc.	Oil and Gas Technology	12% Secured Debt (Maturity - November 23, 2016) Warrants (Fully diluted 24.0%)	4,200	3,454 758 4,212	3,454 758 4,212

Spectrio LLC	Audio Messaging Services	8% Secured Debt (Maturity - June 16, 2016)	280	280	280
		12% Secured Debt (Maturity - June 16, 2016)	14,595	14,169	14,595
		Warrants (Fully diluted 9.8%)		887	3,040
				15,336	17,915
Subtotal Affiliate Investments (18.5% of total investments at fair value)				111,143	154,972

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MAIN STREET CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(in thousands)

(Unaudited)

Non-Control/Non-Affiliate Investments (7)