

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-28265; 812-13438]

Main Street Capital Corporation, et al.; Notice of Application

May 8, 2008

Agency: Securities and Exchange Commission (“Commission”).

Action: Notice of application for an order under section 57(i) of the Investment Company Act of 1940 (the “Act”) and rule 17d-1 under the Act to permit certain joint transactions otherwise prohibited by section 57(a)(4) of the Act and under section 17(d) of the Act and rule 17d-1 under the Act authorizing certain joint transactions.

Summary of Application: Applicants request an order to permit a business development company (“BDC”) and its wholly-owned small business investment company (“SBIC”) to co-invest with certain affiliates in portfolio companies.

Applicants: Main Street Capital Corporation (the “Company”), Main Street Mezzanine Fund, LP (“MSMF”), Main Street Capital II, LP (“MSC”) and Main Street Capital Partners, LLC (the “Investment Adviser”).

Filing Dates: The application was filed on October 12, 2007 and amended on April 28, 2008.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on June 2, 2008, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for

the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

Addresses: Secretary, U.S. Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-1520. Applicants: c/o Mr. Vincent D. Foster, Main Street Capital Corporation, 1300 Post Oak Boulevard, Suite 800, Houston, TX 77056.

For Further Information Contact: Jean E. Minarick, Senior Counsel, at (202) 551-6811, or Nadya B. Roytblat, Assistant Director, at (202) 551-6821 (Office of Investment Company Regulation, Division of Investment Management).

Supplementary Information: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 100 F St., NE, Washington, DC, 20549-1520 (tel. 202-551-5850).

Applicants' Representations:

1. The Company is an internally managed, non-diversified, closed-end management investment company that has elected to be regulated as a BDC under the Act.¹ The Company's investment objective is to maximize total return by generating current income from debt investments and realizing capital appreciation from equity-related investments. The Company's investments are managed by an investment committee ("Investment Committee"). The Company has a six-member board of directors ("Board") of which four members are not interested persons of the Company within the meaning of section 2(a)(19) of the Act ("Independent Directors").

2. MSMF is organized as a limited partnership that operates as an SBIC, and is excluded from the definition of investment company by section 3(c)(7) of the Act. MSMF is a wholly owned subsidiary of the Company. MSMF has the same investment objective and strategies

¹ Section 2(a)(48) defines a BDC to be any closed-end investment company that operates for the purpose of making investments in securities described in sections 55(a)(1) through 55(a)(3) of the Act and makes available

as the Company. Main Street Mezzanine Management, LLC is the general partner of MSMF and a wholly-owned subsidiary of the Company. The Investment Adviser, a wholly owned subsidiary of the Company, acts as MSMF's manager and investment adviser.

3. MSC is a limited partnership that operates as an SBIC, and is excluded from the definition of investment company by section 3(c)(7) of the Act. MSC has the same investment objective and strategies as the Company and MSMF. The general partner of MSC is Main Street Capital II GP, LLC ("MSIIGP"). Certain individuals who comprise the management of the Company are also members of MSIIGP. Since its inception MSC has, and it will continue to have, the same investment objective and strategies as MSMF and the Company. As a result, prior to the Company's election to be regulated as a BDC, MSC and MSMF, as a general practice, invested jointly in portfolio companies (the "Existing Co-Investments"). As of December 31, 2007, MSC had debt and equity investments in 17 portfolio companies with an aggregate fair market value of \$67 million. In addition, MSC had \$40 million of outstanding indebtedness guaranteed by the Small Business Administration, which had a weighted average annualized interest cost of 6.4% (exclusive of deferred financing costs) as of September 30, 2007. MSMF is also invested in 13 of the 17 portfolio companies in which MSC is invested.² The Investment Adviser manages the investment activities of MSC.

4. The Investment Adviser is a wholly owned subsidiary of the Company and is exempt from registration under the Investment Advisers Act of 1940. The management of the Investment Adviser is comprised of the same individuals who comprise the Investment Committee of the Company. The Investment Adviser may in the future advise other entities that are affiliated persons of the Company as defined in sections 2(a)(3)(C) and (D) of the Act (the "Future Co-Investment

significant managerial assistance with respect to the issuers of such securities.

² The one time that MSMF and MSC did not co-invest is during a period when MSMF was fully invested,

Affiliates,” and together with MSMF, MSC and the Company, the “Co-Investment Affiliates”).³ Applicants request relief permitting the Co-Investment Affiliates to co-invest in portfolio companies (the “Co-Investment Program” and each investment, a “Co-Investment Transaction”). Under the Co-Investment Program, co-investment between the Company, MSMF and MSC would be the norm, rather than the exception. In selecting investments for the Company, the Investment Committee will consider only the investment objective, investment policies, investment position, capital available for investment, and other pertinent factors applicable to the Company. Under the Co-Investment Program, each co-investment would be allocated among the Company and MSMF, on the one hand, and MSC, on the other hand, based upon the relative total capital of each group (total capital being equal to raised equity plus available debt). These relative allocation percentages (“Relative Allocation Percentages”) would be approved each quarter or, as necessary or appropriate, between quarters by both the full Board and the required majority (within the meaning of Section 57(o)) (the “Required Majority”).⁴ Because MSMF and MSC are subject to SBIC regulation while the Company is not, some deviation from the Relative Allocation Percentages may be necessary (the “SBIC Exceptions”). For example, if the Investment Committee has selected an investment for the Company and that investment does not qualify under SBIC regulations, only the Company would pursue the investment. The Co-Investment Program as a whole has been approved by both the full Board and the Required Majority. The Relative Allocation Percentages will be approved by both the full Board and the Required Majority prior to the implementation of the Co-Investment Program, and any deviations from the Relative Allocation Percentages for any investment, by any

excluding a reasonable cash cushion.

³ Sections 2(a)(3)(C) and 2(a)(3)(D) define an “affiliated person” of another person as: (C) any person directly or indirectly controlling, controlled by, or under common control with, such other person; (D) any officer, director, partner, copartner, or employee of such other person.

⁴ The term “Required Majority,” when used with respect to the approval of a proposed transaction, plan, or arrangement, means both a majority of a BDC’s directors or general partners who have no financial interest in such transaction, plan, or arrangement and a majority of such directors or general partners who are not interested persons of

of the Company, MSMF, or MSC, except for the SBIC Exception, would require prior approval by both the full Board and the Required Majority.

Applicants' Legal Analysis:

1. Section 57(a)(4) of the Act prohibits certain affiliated persons of a BDC from participating in a joint transaction with the BDC in contravention of rules as prescribed by the Commission. In addition, under section 57(b)(2) of the Act, any person who is directly or indirectly controlling, controlled by or under common control with a BDC is subject to section 57(a)(4). Because certain individuals who are the members of MSIIGP also comprise the Investment Committee and are the principals of the Investment Adviser, and collectively own approximately 18% of the outstanding voting securities of the Company, the Company, MSMF and MSC are affiliated persons within the meaning of section 2(a)(3) by reason of common control. Thus, MSC could be deemed to be a person related to the Company in a manner described by section 57(b) and therefore, is prohibited by section 57(a)(4) and rule 17d-1 under the Act from participating in the Co-Investment Program. Section 57(i) of the Act provides that, until the Commission prescribes rules under section 57(a)(4), the Commission's rules under section 17(d) of the Act applicable to registered closed-end investment companies will be deemed to apply. Because the Commission has not adopted any rules under section 57(a)(4), rule 17d-1 applies.

2. Section 17(d) of the Act and rule 17d-1 under the Act prohibit affiliated persons of a registered investment company from participating in joint transactions with the company unless the Commission has granted an order permitting such transactions. Rule 17d-1, as made applicable to BDCs by section 57(i), prohibits any person who is related to a BDC in a manner described in section 57(b), as modified by rule 57b-1, acting as principal, from participating in, or effecting any transaction in connection with, any joint enterprise or other joint arrangement or profit-sharing plan

such company.

in which the BDC is a participant, absent an order from the Commission. In passing upon applications under rule 17d-1, the Commission considers whether the company's participation in the joint transaction is consistent with the provisions, policies, and purposes of the Act and the extent to which such participation is on a basis different from or less advantageous than that of other participants.

3. Applicants state that allowing co-investment in portfolio companies by the Company, MSMF and MSC will increase favorable investment opportunities for the Company and MSMF. The Co-Investment Program has been approved by the Board and the Required Majority on the basis that it would be mutually advantageous for the Company and MSMF to have the additional capital from MSC available to meet the funding requirements of attractive investments in portfolio companies.

4. Applicants state that the formulae for the allocation of co-investment opportunities among the Company and MSMF on the one hand and MSC on the other, and the protective conditions set forth below will ensure that the Company will be treated fairly. Applicants state that the proposed relief is consistent with rule 17d-1 in that the participation of the Company and MSMF will not be on a basis different from or less advantageous than that of MSC.

Applicants' Conditions:

Applicants agree that any order granting the requested relief will be subject to the following conditions:

1. Each time the Investment Adviser considers an investment for MSC, the Investment Committee, for the Company, and the Investment Adviser, for MSMF, will make an independent determination of the appropriateness of the investment for the Company and MSMF.

2. (a) If the Investment Committee, for the Company, and the Investment Adviser, for MSMF, deem that each entity's participation in the investment is appropriate, then such investment will be made pursuant to the Relative Allocation Percentages, unless either the Investment Committee or the Investment Adviser determines that investment pursuant to the Relative Allocation Percentages is not appropriate for that investment. The Relative Allocation Percentages will be determined by both the full Board and the Required Majority in advance and will be based upon the relative total capital of the Company and MSMF, on the one hand, and MSC, on the other hand (total capital being equal to raised equity plus available debt). The Relative Allocation Percentages will be approved each quarter, or as necessary or appropriate, between quarters, by both the full Board and the Required Majority, and may be adjusted, for subsequent transactions, in their sole discretion for any reason, including, among other things, changes in the relative aggregate capital of the Company and MSMF vis-à-vis the capital of MSC.

(b) If the Investment Committee, for the Company, and the Investment Adviser, for MSMF, deem that each entity's participation in the Co-Investment Transaction is appropriate, but that investment pursuant to the Relative Allocation Percentages is not appropriate, then the Investment Committee, for the Company, and the Investment Adviser, for MSMF, will recommend an appropriate level of investment for each entity. If the aggregate amount recommended by the Investment Committee, for the Company, and the Investment Adviser, for MSMF, to be invested in such Co-Investment Transaction, together with the amount proposed to be invested by MSC in the same transaction, exceeds the amount of the investment opportunity, the amount proposed to be invested by each such party will be allocated among them pro rata based on the ratio of the Company's and MSMF's total assets, on one hand, and MSC's total assets, on the other hand, to the aggregated total assets of the three parties, up to the amount proposed to be invested by each. The

Investment Adviser will provide the Required Majority with information concerning MSC's total assets to assist the Required Majority with their review of the Company's and MSMF's investments for compliance with these allocation procedures. After making the determinations required in this paragraph (b), the Investment Committee and the Investment Adviser will distribute written information concerning the Co-Investment Transaction, including the amount proposed to be invested by MSC, to the Independent Directors for their consideration. Outside of the Relative Allocation Percentages, the Company and MSMF will co-invest with MSC only if, prior to the Company's and MSC's participation in the Co-Investment Transaction, a Required Majority concludes that:

(i) the terms of the transaction, including the consideration to be paid, are reasonable and fair and do not involve overreaching of the Company or its stockholders or MSMF on the part of any person concerned;

(ii) the transaction is consistent with

- (A) the interests of the stockholders of the Company; and
- (B) the Company's investment objectives and strategies (as described in the Company's registration statements on Form N-2 and other filings made with the Commission by the Company under the Securities Act of 1933, as amended ("Securities Act"), reports filed by the Company with the Commission under the Securities Exchange Act of 1934, as amended, and the Company's reports to stockholders);

(iii) the investment by MSC would not disadvantage the Company or MSMF, and participation by the Company and MSMF is not on a basis different from or less advantageous than that of MSC; provided, that if MSC, but not the Company or MSMF, gains the right to nominate a director for election to a portfolio company's board of directors or the right to have a board observer or any similar right to participate in the governance or management of the

portfolio company, such event shall not be interpreted to prohibit the Required Majority from reaching the conclusions required by this condition (2)(b)(iii), if

(A) the Required Majority shall have the right to ratify the selection of such director or board observer, if any, and

(B) the Investment Adviser agrees to, and does, provide, periodic reports to the Company's Board with respect to the actions of such director or the information received by such board observer or obtained through the exercise of any similar right to participate in the governance or management of the portfolio company; and;

(iv) the proposed investment by the Company and MSMF will not benefit the Investment Adviser or MSC or any affiliated person of either of them (other than the Company, MSMF, and MSC), except to the extent permitted under sections 17(e) and 57(k) of the Act.

3. The Company and MSMF have the right to decline to participate in any Co-Investment Transaction or to invest less than the amount proposed.

4. Except for follow-on investments made pursuant to condition 7 below, the Company and MSC will not invest in any portfolio company in which MSC or any affiliated person of MSC is an investor.

5. The Company and MSMF will not participate in any Co-Investment Transaction unless the terms, conditions, price, class of securities to be purchased, settlement date, and registration rights will be the same for the Company and MSMF as for MSC. The grant to MSC, but not the Company or MSMF, of the right to nominate a director for election to a portfolio company's board of directors, the right to have an observer on the board of directors or similar rights to participate in the governance or management of the portfolio company will not be interpreted so as to violate this condition 5, if conditions 2(c)(iii)(A) and (B) are met.

6. Any sale, exchange, or other disposition by the Company, MSMF, or MSC of an interest in a security that was acquired in a Co-Investment Transaction or that is an Existing Co-Investment will be accomplished pro rata based on the original investment of each participant unless the Investment Adviser and/or the Investment Committee formulate a recommendation for participation in a disposition on a non-pro rata basis and such recommendation is approved by the Required Majority on the basis that such non-pro rata disposition is in the best interest of the Company and MSMF. The Company, MSMF, and MSC will each bear its own expenses in connection with any disposition, and the terms and conditions of any disposition will apply equally to all participants.

7. Any “follow-on investment” (i.e., an additional investment in the same entity) by the Company, MSMF, or MSC, or any exercising of warrants or other rights to purchase securities of the issuer in a portfolio company whose securities were acquired as an Existing Co-Investment or in a Co-Investment Transaction will be accomplished pro rata based on the original investment of each participant unless the Investment Adviser and/or the Investment Committee formulate a recommendation for participation in the proposed transaction on a non-pro rata basis and such recommendation is approved by the Required Majority on the basis that such non-pro rata participation is in the best interest of the Company and MSMF. The acquisition of follow-on investments as permitted by this condition will be subject to the other conditions set forth in the application.

8. The Independent Directors will be provided quarterly for review all information concerning (1) all investments made by MSC during the preceding quarter and (2) Co-Investment Transactions during the preceding quarter, including investments made by MSC which the Company and/or MSMF considered but declined to participate in, so that the Independent Directors

may determine whether the conditions of the order have been met. In addition, the Independent Directors will consider at least annually the continued appropriateness of the standards established for co-investments by the Company and MSMF, including whether the use of the standards continues to be in the best interests of the Company and its shareholders and does not involve overreaching on the part of any person concerned.

9. The Company and MSMF will maintain the records required by section 57(f)(3) of the Act as if each of the investments permitted under these conditions were approved by the Independent Directors under section 57(f).

10. No Independent Directors will also be a director, general partner or principal, or otherwise an “affiliated person” (as defined in the Act) of, MSC.

11. The expenses, if any, associated with acquiring, holding or disposing of any securities acquired in a Co-Investment Transaction (including, without limitation, the expenses of the distribution of any such securities registered for sale under the Securities Act) shall, to the extent not payable by the Investment Adviser under its investment advisory agreements with MSMF and MSC, be shared by the Company, MSMF, and MSC in proportion to the relative amounts of their securities to be acquired or disposed of, as the case may be.

12. Any transaction fee (including break-up or commitment fees but excluding broker's fees contemplated by section 17(e)(2) of the Act) received in connection with a Co-Investment Transaction will be distributed to the Company, MSMF, and MSC on a pro rata basis based on the amount they invested or committed, as the case may be, in such Co-Investment Transaction. MSC or any affiliated person of the Company will not receive additional compensation or remuneration of any kind (other than (i) the pro rata transaction fees described above and (ii) investment advisory

fees paid in accordance with investment advisory agreements with MSMF and MSC) as a result of or in connection with a Co-Investment Transaction.

For the Commission, by the Division of Investment Management, under delegated authority.

Florence E. Harmon
Deputy Secretary