

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2019

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number	Exact name of registrant as specified in its charter, address of principal executive office, telephone number and state or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number
814-01022	<b>Capitala Finance Corp.</b> 4201 Congress St., Suite 360 Charlotte, North Carolina 28209 Telephone: (704) 376-5502 State of Incorporation: Maryland	90-0945675

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.

Capitala Finance Corp.                      Yes                       No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Capitala Finance Corp.                      Yes                       No

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

Capitala Finance Corp.	Large accelerated filer <input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Capitala Finance Corp.                      Yes                       No

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	CPTA	NASDAQ Global Select Market
5.75% Convertible Notes due 2022	CPTAG	NASDAQ Capital Market
6.00% Notes due 2022	CPTAL	NASDAQ Global Select Market

The number of shares of Capitala Finance Corp.'s common stock, \$0.01 par value, outstanding as of May 3, 2019 was 16,095,622.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

**Capitala Finance Corp.**

**Consolidated Statements of Assets and Liabilities**  
**(in thousands, except share and per share data)**

	<b>As of</b>	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$271,596 and \$280,114, respectively)	\$ 284,364	\$ 286,843
Affiliate investments (amortized cost of \$82,413 and \$72,300, respectively)	102,784	92,939
Control investments (amortized cost of \$70,929 and \$67,556, respectively)	68,242	69,145
Total investments at fair value (amortized cost of \$424,938 and \$419,970, respectively)	455,390	448,927
Cash and cash equivalents	28,470	39,295
Interest and dividend receivable	3,458	3,778
Prepaid expenses	376	454
Deferred tax asset, net	694	628
Other assets	90	83
Total assets	\$ 488,478	\$ 493,165
<b>LIABILITIES</b>		
SBA debentures (net of deferred financing cost of \$1,404 and \$1,688, respectively)	\$ 148,596	\$ 164,012
2022 Notes (net of deferred financing cost of \$1,855 and \$1,987, respectively)	73,145	73,013
2022 Convertible Notes (net of deferred financing cost of \$1,175 and \$1,259, respectively)	50,913	50,829
Credit Facility (net of deferred financing cost of \$949 and \$983, respectively)	24,051	9,017
Management and incentive fees payable	3,488	2,487
Interest and financing fees payable	1,423	3,063
Accounts payable and accrued expenses	128	100
Total liabilities	\$ 301,744	\$ 302,521
Commitments and contingencies (Note 2)		
<b>NET ASSETS</b>		
Common stock, par value \$.01, 100,000,000 common shares authorized, 16,084,143 and 16,051,547 common shares issued and outstanding, respectively	\$ 161	\$ 161
Additional paid in capital	242,012	241,757
Total distributable loss	(55,439)	(51,274)
Total net assets	\$ 186,734	\$ 190,644
Total liabilities and net assets	\$ 488,478	\$ 493,165
Net asset value per share	\$ 11.61	\$ 11.88

See accompanying notes to consolidated financial statements.

Capitala Finance Corp.

Consolidated Statements of Operations  
(in thousands, except share and per share data)  
(unaudited)

	For the Three Months Ended March 31,	
	2019	2018
<b>INVESTMENT INCOME</b>		
Interest and fee income:		
Non-control/non-affiliate investments	\$ 7,285	\$ 7,356
Affiliate investments	2,399	1,941
Control investments	724	1,849
Total interest and fee income	<u>10,408</u>	<u>11,146</u>
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	442	705
Affiliate investments	149	486
Control investments	328	166
Total payment-in-kind interest and dividend income	<u>919</u>	<u>1,357</u>
Dividend income:		
Non-control/non-affiliate investments	1,281	-
Affiliate investments	-	29
Control investments	25	25
Total dividend income	<u>1,306</u>	<u>54</u>
Interest income from cash and cash equivalents	51	15
Total investment income	<u>12,684</u>	<u>12,572</u>
<b>EXPENSES</b>		
Interest and financing expenses	4,413	4,364
Base management fee	2,118	2,303
Incentive fees	1,034	244
General and administrative expenses	984	1,223
Total expenses	<u>8,549</u>	<u>8,134</u>
<b>NET INVESTMENT INCOME</b>	<u>4,135</u>	<u>4,438</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net realized gain (loss) on investments:		
Non-control/non-affiliate investments	(3,909)	(4,579)
Affiliate investments	(111)	724
Control investments	(1,827)	-
Net realized loss on investments	<u>(5,847)</u>	<u>(3,855)</u>
Net unrealized appreciation (depreciation) on investments:		
Non-control/non-affiliate investments	6,039	2,134
Affiliate investments	(268)	(776)
Control investments	(4,276)	(1,750)
Net unrealized appreciation (depreciation) on investments	<u>1,495</u>	<u>(392)</u>
Net realized and unrealized loss on investments	<u>(4,352)</u>	<u>(4,247)</u>
Tax benefit (provision)	66	(50)
Total net realized and unrealized loss on investments, net of taxes	<u>(4,286)</u>	<u>(4,297)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$ (151)</u>	<u>\$ 141</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS – BASIC AND DILUTED</b>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>
<b>WEIGHTED AVERAGE COMMON STOCK OUTSTANDING – BASIC AND DILUTED</b>	16,062,906	15,959,215
<b>DISTRIBUTIONS PAID PER SHARE</b>	<u>\$ 0.25</u>	<u>\$ 0.25</u>

See accompanying notes to consolidated financial statements.

Capitala Finance Corp.

Consolidated Statements of Changes in Net Assets  
(in thousands, except share data)  
(unaudited)

	Common Stock		Additional Paid in Capital	Total Distributable Earnings (Loss)	Total
	Number of Shares	Par Value			
BALANCE, December 31, 2017	15,951,231	\$ 160	\$ 241,027	\$ (19,300)	\$ 221,887
Net investment income	-	-	-	4,438	4,438
Net realized loss on investments	-	-	-	(3,855)	(3,855)
Net unrealized depreciation on investments	-	-	-	(392)	(392)
Tax provision	-	-	-	(50)	(50)
Distributions to Shareholders:					
Stock issued under dividend reinvestment plan	22,987	-	164	-	164
Distributions declared	-	-	-	(3,988)	(3,988)
BALANCE, March 31, 2018	<u>15,974,218</u>	<u>\$ 160</u>	<u>\$ 241,191</u>	<u>\$ (23,147)</u>	<u>\$ 218,204</u>
BALANCE, December 31, 2018	16,051,547	\$ 161	\$ 241,757	\$ (51,274)	\$ 190,644
Net investment income	-	-	-	4,135	4,135
Net realized loss on investments	-	-	-	(5,847)	(5,847)
Net unrealized appreciation on investments	-	-	-	1,495	1,495
Tax benefit	-	-	-	66	66
Distributions to Shareholders:					
Stock issued under dividend reinvestment plan	32,596	-	255	-	255
Distributions declared	-	-	-	(4,014)	(4,014)
BALANCE, March 31, 2019	<u>16,084,143</u>	<u>\$ 161</u>	<u>\$ 242,012</u>	<u>\$ (55,439)</u>	<u>\$ 186,734</u>

See accompanying notes to consolidated financial statements.

Capitala Finance Corp.

Consolidated Statements of Cash Flows  
(in thousands)  
(unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase (decrease) in net assets resulting from operations	\$ (151)	\$ 141
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(21,128)	(27,800)
Repayments and sales of investments	11,492	21,400
Net realized loss on investments	5,847	3,855
Net unrealized (appreciation) depreciation on investments	(1,495)	392
Payment-in-kind interest and dividends	(919)	(1,357)
Accretion of original issue discount on investments	(260)	(273)
Amortization of deferred financing fees	616	465
Tax provision (benefit)	(66)	50
Changes in assets and liabilities:		
Interest and dividend receivable	320	(114)
Due from related parties	-	95
Prepaid expenses	78	34
Other assets	(7)	(2)
Management and incentive fees payable	1,001	274
Interest and financing fees payable	(1,640)	(1,662)
Accounts payable and accrued expenses	28	-
Trade settlement payable	-	(175)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(6,284)</b>	<b>(4,677)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Paydowns on SBA debentures	(15,700)	-
Proceeds from Credit Facility	15,000	16,000
Payments to Credit Facility	-	(13,000)
Distributions paid to shareholders	(3,759)	(3,824)
Deferred financing fees paid	(82)	-
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(4,541)</b>	<b>(824)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,825)</b>	<b>(5,501)</b>
CASH AND CASH EQUIVALENTS, beginning of period	39,295	31,221
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 28,470</u>	<u>\$ 25,720</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 5,059	\$ 5,196
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS</b>		
Distributions paid through dividend reinvestment plan share issuances	\$ 255	\$ 164

See accompanying notes to consolidated financial statements.

Capitala Finance Corp.

Consolidated Schedule of Investments  
(in thousands, except for units/shares)  
March 31, 2019  
(unaudited)

Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
<b>Non-control/non-affiliated investments - 152.3%</b>						
<b>Non-control/non-affiliated investments - United States</b>						
3 Bridge Solutions, LLC	IT Consulting	First Lien Debt (11.5% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 12/4/22)	\$ 13,954	\$ 13,954	\$ 13,954	7.5%
3 Bridge Solutions, LLC	IT Consulting	Preferred Units (965 units, 8.0% PIK) <sup>(6)</sup>		1,070	1,070	0.5%
3 Bridge Solutions, LLC	IT Consulting	Membership Units (39,000 units)		10	160	0.1%
				15,034	15,184	8.1%
Alternative Biomedical Solutions, LLC	Healthcare	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/18/22)	118	118	118	0.1%
Alternative Biomedical Solutions, LLC	Healthcare	First Lien Debt (12.5% Cash, Due 12/18/22) <sup>(7)</sup>	13,000	13,000	10,589	5.6%
Alternative Biomedical Solutions, LLC	Healthcare	Membership Units (20,092 units)		800	-	0.0%
				13,918	10,707	5.7%
American Clinical Solutions, LLC	Healthcare	First Lien Debt (10.5% Cash, 2.0% PIK, Due 6/11/20) <sup>(8)</sup>	9,340	8,918	6,520	3.5%
				8,918	6,520	3.5%
AmeriMark Direct, LLC	Consumer Products	First Lien Debt (12.8% Cash, Due 9/8/21)	18,050	17,808	17,994	9.6%
				17,808	17,994	9.6%
BigMouth, Inc.	Consumer Products	First Lien Debt (14.5% Cash, Due 11/14/21) <sup>(7)</sup>	8,920	8,920	8,920	4.8%
BigMouth, Inc.	Consumer Products	Series A Preferred Stock (350,000 shares)		411	218	0.1%
				9,331	9,138	4.9%
Bluestem Brands, Inc.	Online Merchandise Retailer	First Lien Debt (10.0% Cash (1 month LIBOR + 7.5%, 1.0% Floor), Due 11/7/20)	3,717	3,710	3,467	1.9%
				3,710	3,467	1.9%
Burke America Parts Group, LLC	Home Repair Parts Manufacturer	Membership Units (14 units)		5	2,287	1.2%
				5	2,287	1.2%
California Pizza Kitchen, Inc.	Restaurant	Second Lien Debt (12.5% Cash (1 month LIBOR + 10.0%, 1.0% Floor), Due 8/23/23)	5,000	4,908	4,800	2.6%
				4,908	4,800	2.6%
Chicken Soup for the Soul, LLC	Multi-platform Media and Consumer Products	First Lien Debt (11.0% Cash (1 month LIBOR + 8.5%, 1.5% Floor), Due 12/13/20)	13,000	13,000	13,000	7.0%
				13,000	13,000	7.0%

Capitala Finance Corp.

Consolidated Schedule of Investments  
(in thousands, except for units/shares)  
March 31, 2019  
(unaudited)

Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
CIS Secure Computing, Inc.	Government Services	First Lien Debt (11.0% Cash (1 month LIBOR + 8.5%, 1.0% Floor), 1.0% PIK, Due 9/14/22)	\$ 10,454	\$ 10,454	\$ 10,454	5.6%
CIS Secure Computing, Inc.	Government Services	Common Stock (46,163 shares)		1,000	1,643	0.9%
				11,454	12,097	6.5%
Corporate Visions, Inc.	Sales & Marketing Services	Subordinated Debt (9.0% Cash, 2.0% PIK, Due 11/29/21)	19,036	19,036	18,805	10.1%
Corporate Visions, Inc.	Sales & Marketing Services	Common Stock (15,750 shares)		1,575	818	0.4%
				20,611	19,623	10.5%
Currency Capital, LLC	Financial Services	First Lien Debt (14.5% Cash (1 month LIBOR + 12.0%, 0.5% Floor), 2.0% PIK, Due 1/2/20) <sup>(9)</sup>	16,659	16,659	16,659	8.9%
Currency Capital, LLC	Financial Services	Class A Preferred Units (2,000,000 units) <sup>(9)</sup>		2,000	2,000	1.1%
				18,659	18,659	10.0%
Flavors Holdings, Inc.	Food Product Manufacturer	First Lien Debt (8.4% Cash (3 month LIBOR + 5.8%, 1.0% Floor), Due 4/3/20)	6,200	6,153	6,015	3.2%
Flavors Holdings, Inc.	Food Product Manufacturer	Second Lien Debt (12.6% Cash (3 month LIBOR + 10.0%, 1.0% Floor), Due 10/3/21)	12,000	11,826	11,313	6.1%
				17,979	17,328	9.3%
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (9.2% Cash, Due 12/20/23) <sup>(7)(10)</sup>	5,985	5,985	5,985	3.2%
Freedom Electronics, LLC	Electronic Machine Repair	Membership Units (181,818 units)		182	175	0.1%
				6,167	6,160	3.3%
Installs, LLC	Logistics	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.8% Floor), Due 6/20/23)	2,984	2,984	2,984	1.6%
				2,984	2,984	1.6%
MC Sign Lessor Corp.	Advertising & Marketing Services	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/22/22) <sup>(11)</sup>	-	-	-	0.0%
MC Sign Lessor Corp.	Advertising & Marketing Services	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/22/22)	4,179	4,179	4,179	2.2%
				4,179	4,179	2.2%
Nth Degree, Inc.	Business Services	First Lien Debt (14.0% Cash (1 month LIBOR + 11.5%, 1.0% Floor), 2.0% PIK, Due 3/29/23) <sup>(12)</sup>	7,236	7,236	7,236	3.9%
Nth Degree, Inc.	Business Services	Preferred Stock (2,400 Units, 10.0% PIK dividend) <sup>(6)</sup>		3,324	18,468	9.9%
				10,560	25,704	13.8%



Capitala Finance Corp.

Consolidated Schedule of Investments  
(in thousands, except for units/shares)  
March 31, 2019  
(unaudited)

Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
Seitel, Inc.	Data Services	First Lien Debt (10.9% Cash (3 month LIBOR + 8.3%, 1.0% Floor), Due 3/15/23)	\$ 5,000	\$ 5,000	\$ 5,000	2.7%
				5,000	5,000	2.7%
Sequoia Healthcare Management, LLC	Healthcare Management	First Lien Debt (13.0% Cash (1 month LIBOR + 10.5%, 1.8% Floor), Due 8/21/23)	13,485	13,485	13,424	7.2%
				13,485	13,424	7.2%
Sunset Digital Holdings, LLC	Telecommunications	First Lien Debt (9.7% Cash (1 month LIBOR + 7.3%, 1.5% Floor), Due 8/2/19)	18,000	18,000	18,000	9.6%
				18,000	18,000	9.6%
Sur La Table, Inc.	Retail	First Lien Debt (12.0% Cash, Due 7/28/20)	15,000	15,000	14,853	8.0%
				15,000	14,853	8.0%
Taylor Precision Products, Inc.	Household Product Manufacturer	Series C Preferred Stock (379 shares)		758	758	0.4%
				758	758	0.4%
U.S. BioTek Laboratories, LLC	Testing laboratories	First Lien Debt (9.9% Cash, Due 12/14/23) <sup>(7)(13)</sup>	6,983	6,983	6,983	3.7%
U.S. BioTek Laboratories, LLC	Testing laboratories	Class A Preferred Units (500 Units, 10.0% PIK) <sup>(6)</sup>		514	509	0.3%
U.S. BioTek Laboratories, LLC	Testing laboratories	Class C Units (500 Units)		1	-	0.0%
				7,498	7,492	4.0%
U.S. Well Services, Inc.	Oil & Gas Services	Class A Common Stock (77,073 shares) <sup>(9)(14)</sup>		771	615	0.3%
U.S. Well Services, Inc.	Oil & Gas Services	Class B Common Stock (1,125,426 shares) <sup>(9)(14)</sup>		6,701	8,981	4.8%
				7,472	9,596	5.1%
Vology, Inc.	Information Technology	Subordinated Debt (15.0% Cash (1 month LIBOR + 14.0%, 1.0% Ceiling), 4.0% PIK, Due 6/30/20)	8,808	8,808	8,730	4.7%
				8,808	8,730	4.7%
Xirgo Technologies, LLC	Information Technology	Subordinated Debt (11.5% Cash, Due 3/1/22)	15,750	15,750	15,750	8.4%
Xirgo Technologies, LLC	Information Technology	Membership Units (600,000 units)		600	930	0.5%
				16,350	16,680	8.9%
<b>Sub Total Non-control/non-affiliated investments - United States</b>				<b>271,596</b>	<b>284,364</b>	<b>152.3%</b>

Capitala Finance Corp.

Consolidated Schedule of Investments  
(in thousands, except for units/shares)  
March 31, 2019  
(unaudited)

Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
<b>Affiliate Investments - 55.0%</b>						
<b>Affiliate investments - United States</b>						
Burgaflex Holdings, LLC	Automobile Part Manufacturer	First Lien Debt (12.0% Cash, 1.0% PIK, Due 3/23/21)	\$ 14,838	\$ 14,838	\$ 14,467	7.7%
Burgaflex Holdings, LLC	Automobile Part Manufacturer	Common Stock Class A (1,253,198 shares)		1,504	-	0.0%
Burgaflex Holdings, LLC	Automobile Part Manufacturer	Common Stock Class B (900,000 shares)		300	-	0.0%
				16,642	14,467	7.7%
City Gear, LLC	Footwear Retail	Membership Unit Warrants (11.4% fully diluted) <sup>(15)</sup>		-	3,184	1.7%
				-	3,184	1.7%
Eastport Holdings, LLC	Business Services	Subordinated Debt (15.6% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/29/20)	16,500	15,683	16,500	8.8%
Eastport Holdings, LLC	Business Services	Membership Units (22.9% ownership)		3,263	16,393	8.8%
				18,946	32,893	17.6%
GA Communications, Inc.	Advertising & Marketing Services	Series A-1 Preferred Stock (1,998 shares, 8.0% PIK Dividend) <sup>(6)</sup>		3,250	3,549	1.9%
GA Communications, Inc.	Advertising & Marketing Services	Series B-1 Common Stock (200,000 shares)		2	1,291	0.7%
				3,252	4,840	2.6%
J&J Produce Holdings, Inc.	Produce Distribution	Subordinated Debt (13.0% Cash, Due 6/16/19) <sup>(12)</sup>	6,406	6,406	6,338	3.4%
J&J Produce Holdings, Inc.	Produce Distribution	Common Stock (8,182 shares)		818	-	0.0%
J&J Produce Holdings, Inc.	Produce Distribution	Common Stock Warrants (6,369 shares)		-	-	0.0%
				7,224	6,338	3.4%
LJS Partners, LLC	QSR Franchisor	Common Stock (1,852,824 shares)		1,268	2,442	1.3%
				1,268	2,442	1.3%

Capitala Finance Corp.

Consolidated Schedule of Investments  
(in thousands, except for units/shares)  
March 31, 2019  
(unaudited)

Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
MMI Holdings, LLC	Medical Device Distributor	First Lien Debt (12.0% Cash, Due 1/31/20) <sup>(12)</sup>	\$ 2,600	\$ 2,600	\$ 2,600	1.4%
MMI Holdings, LLC	Medical Device Distributor	Subordinated Debt (6.0% Cash, Due 1/31/20) <sup>(12)</sup>	400	388	400	0.2%
MMI Holdings, LLC	Medical Device Distributor	Preferred Units (1,000 units, 6.0% PIK Dividend) <sup>(6)</sup>		1,498	1,636	0.9%
MMI Holdings, LLC	Medical Device Distributor	Common Membership Units (45 units)		-	191	0.1%
				4,486	4,827	2.6%
RAM Payment, LLC	Financial Services	First Lien Debt (11.2% Cash, Due 1/4/24) <sup>(7)(16)</sup>	9,150	9,150	9,150	4.9%
RAM Payment, LLC	Financial Services	Preferred Units (86,000 units, 8.0% PIK) <sup>(6)</sup>		876	876	0.5%
				10,026	10,026	5.4%
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	Common Stock (15,068,000 shares)		6,958	6,629	3.5%
				6,958	6,629	3.5%
US Bath Group, LLC	Building Products	First Lien Debt (11.5% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 1/2/23)	12,438	12,438	12,438	6.7%
US Bath Group, LLC	Building Products	Membership Units (500,000 units)		500	3,958	2.1%
				12,938	16,396	8.8%
V12 Holdings, Inc.	Data Processing & Digital Marketing	Subordinated Debt <sup>(17)</sup>	-	673	742	0.4%
				673	742	0.4%
<b>Sub Total Affiliate investments - United States</b>				<b>\$ 82,413</b>	<b>\$ 102,784</b>	<b>55.0%</b>
<b>Control Investments - 36.6%</b>						
<b>Control investments - United States</b>						
AAE Acquisition, LLC	Industrial Equipment Rental	Second Lien Debt (6.0% PIK, Due 8/24/19) <sup>(12)</sup>	\$ 20,411	\$ 20,411	\$ 17,260	9.2%
AAE Acquisition, LLC	Industrial Equipment Rental	Membership Units (2.2% fully diluted)		17	-	0.0%
AAE Acquisition, LLC	Industrial Equipment Rental	Warrants (37.8% fully diluted)		-	-	0.0%
				20,428	17,260	9.2%

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Portfolio Company, Country <sup>(1), (2), (3), (4), (5)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
CableOrganizer Acquisition, LLC	Computer Supply Retail	First Lien Debt (8.0% Cash, Due 6/30/21) <sup>(12)(18)</sup>	\$ -	\$ -	\$ -	0.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	First Lien Debt (8.0% Cash, Due 6/30/21) <sup>(12)</sup>	3,689	3,689	3,689	2.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Preferred Units - Series A1 (7,200,000 units)		5,373	5,373	2.9%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Preferred Units - Series A (4,000,000 units)		2,354	-	0.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Common Stock (14.9% fully diluted)		1,394	-	0.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Common Stock Warrants (40.0% fully diluted )		-	-	0.0%
				<u>12,810</u>	<u>9,062</u>	<u>4.9%</u>
Capitala Senior Loan Fund II, LLC	Investment Funds	Membership Units (80.0% ownership) <sup>(9)(19)</sup>		13,600	13,930	7.5%
				<u>13,600</u>	<u>13,930</u>	<u>7.5%</u>
Micro Precision, LLC	Conglomerate	Subordinated Debt (10.0% Cash, Due 1/1/19) <sup>(12)</sup>	1,862	1,862	1,862	1.0%
Micro Precision, LLC	Conglomerate	Subordinated Debt (14.0% Cash, 4.0% PIK, Due 1/1/19) <sup>(12)</sup>	4,369	4,369	4,369	2.4%
Micro Precision, LLC	Conglomerate	Series A Preferred Units (47 units)		1,629	2,857	1.5%
				<u>7,860</u>	<u>9,088</u>	<u>4.9%</u>
Navis Holdings, Inc.	Textile Equipment Manufacturer	First Lien Debt (15.0% Cash, Due 10/30/20) <sup>(12)</sup>	7,500	7,500	7,500	4.0%
Navis Holdings, Inc.	Textile Equipment Manufacturer	Class A Preferred Stock (1,000 shares, 10.0% Cash Dividend) <sup>(6)</sup>		1,000	1,000	0.5%
Navis Holdings, Inc.	Textile Equipment Manufacturer	Common Stock (300,000 shares)		1	3,533	1.9%
				<u>8,501</u>	<u>12,033</u>	<u>6.4%</u>
Portrait Studio, LLC	Professional and Personal Digital Imaging	First Lien Debt (9.0% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 2.0% Ceiling), Due 12/31/22) <sup>(20)</sup>	780	780	780	0.4%
Portrait Studio, LLC	Professional and Personal Digital Imaging	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 5.0% Ceiling), Due 12/31/22)	4,500	4,500	4,500	2.4%
Portrait Studio, LLC	Professional and Personal Digital Imaging	Preferred Units (4,350,000 Units)		2,450	1,589	0.9%
Portrait Studio, LLC	Professional and Personal Digital Imaging	Membership Units (150,000 Units)		-	-	0.0%
				<u>7,730</u>	<u>6,869</u>	<u>3.7%</u>
<b>Sub Total Control investments - United States</b>				<u>\$ 70,929</u>	<u>\$ 68,242</u>	<u>36.6%</u>
<b>TOTAL INVESTMENTS - 243.9%</b>				<u>\$ 424,938</u>	<u>\$ 455,390</u>	<u>243.9%</u>

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- (1) All investments valued using unobservable inputs (Level 3), unless otherwise noted.
- (2) All investments valued by the Board of Directors.
- (3) All debt investments are income producing, unless otherwise noted. Equity and warrant investments are non-income producing, unless otherwise noted.
- (4) Percentages are based on net assets of \$186,734 as of March 31, 2019.
- (5) Capitala Finance Corp. generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.
- (6) The equity investment is income producing, based on rate disclosed.
- (7) The cash rate equals the approximate current yield on our last-out portion of the unitranche facility.
- (8) Non-accrual investment.
- (9) Indicates assets that the Company believes do not represent "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets. As of March 31, 2019, 8.6% of the Company's total assets were non-qualifying assets.
- (10) The investment has a \$1.0 million unfunded commitment.
- (11) The investment has a \$0.5 million unfunded commitment.
- (12) The maturity date of the original investment has been extended.
- (13) The investment has a \$1.0 million unfunded commitment.
- (14) Investment is valued using observable inputs (Level 1). The stock of the company is traded on the NASDAQ Capital Market under the ticker "USWS."
- (15) The investment has been exited. The residual value reflects estimated earnout to be settled post-closing.
- (16) The investment has a \$0.3 million unfunded commitment.
- (17) The investment has been exited. The residual value reflects estimated escrow and earnout to be settled post-closing.
- (18) The investment has a \$1.0 million unfunded commitment.
- (19) The investment has a \$6.4 million unfunded commitment.
- (20) The investment has a \$4.2 million unfunded commitment.

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Portfolio Company, Country <sup>(1), (2), (3), (4), (19)</sup>	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
<b>Non-control/non-affiliated investments - 150.4%</b>						
<b>Non-control/non-affiliated investments - United States</b>						
3 Bridge Solutions, LLC	IT Consulting	First Lien Debt (11.3% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 12/4/22)	\$ 13,954	\$ 13,954	\$ 13,954	7.3%
3 Bridge Solutions, LLC	IT Consulting	Preferred Units (965 units, 8.0% PIK) <sup>(5)</sup>		1,049	1,049	0.6%
3 Bridge Solutions, LLC	IT Consulting	Membership Units (39,000 units)		10	230	0.1%
				15,013	15,233	8.0%
Alternative Biomedical Solutions, LLC	Healthcare	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/18/22)	118	118	118	0.1%
Alternative Biomedical Solutions, LLC	Healthcare	First Lien Debt (12.4% Cash, Due 12/18/22) <sup>(6)</sup>	13,000	13,000	10,370	5.4%
Alternative Biomedical Solutions, LLC	Healthcare	Membership Units (20,092 units)		800	-	0.0%
				13,918	10,488	5.5%
American Clinical Solutions, LLC	Healthcare	First Lien Debt (10.5% Cash, 2.0% PIK, Due 6/11/20) <sup>(7)</sup>	9,293	8,918	6,484	3.4%
				8,918	6,484	3.4%
AmeriMark Direct, LLC	Consumer Products	First Lien Debt (12.8% Cash, Due 9/8/21)	18,300	18,029	18,300	9.6%
				18,029	18,300	9.6%
B&W Quality Growers, LLC	Farming	Membership Unit Warrants (91,739 Units)		-	5,880	3.1%
				-	5,880	3.1%
BigMouth, Inc.	Consumer Products	First Lien Debt (14.3% Cash, Due 11/14/21) <sup>(6)</sup>	9,094	9,094	9,094	4.8%
BigMouth, Inc.	Consumer Products	Series A Preferred Stock (350,000 shares, 8.0% PIK) <sup>(5)</sup>		411	352	0.2%
				9,505	9,446	5.0%
Bluestem Brands, Inc.	Online Merchandise Retailer	First Lien Debt (10.0% Cash (1 month LIBOR + 7.5%, 1.0% Floor), Due 11/7/20)	3,779	3,762	3,499	1.8%
				3,762	3,499	1.8%
Burke America Parts Group, LLC	Home Repair Parts Manufacturer	Membership Units (14 units)		5	1,722	0.9%
				5	1,722	0.9%

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Portfolio Company, Country (1), (2), (3), (4), (19)	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
California Pizza Kitchen, Inc.	Restaurant	Second Lien Debt (12.5% Cash (1 month LIBOR + 10.0%, 1.0% Floor), Due 8/23/23)	\$ 5,000	\$ 4,903	\$ 4,903	2.6%
				4,903	4,903	2.6%
Cedar Ultimate Parent, LLC	Consumer Electronics	Series C Preferred Stock (4,759,250 units)		958	-	0.0%
Cedar Ultimate Parent, LLC	Consumer Electronics	Series D Preferred Stock (16,562,190 units)		-	-	0.0%
Cedar Ultimate Parent, LLC	Consumer Electronics	Series E Common Units (190,370 units)		-	-	0.0%
				958	-	0.0%
Chicken Soup for the Soul, LLC	Multi-platform Media and Consumer Products	First Lien Debt (10.9% Cash (1 month LIBOR + 8.5%, 1.5% Floor), Due 12/13/20)	13,000	13,000	13,000	6.8%
				13,000	13,000	6.8%
CIS Secure Computing, Inc.	Government Services	First Lien Debt (10.8% Cash (1 month LIBOR + 8.5%, 1.0% Floor), 1.0% PIK, Due 9/14/22)	10,428	10,428	10,428	5.5%
CIS Secure Computing, Inc.	Government Services	Common Stock (46,163 shares)		1,000	1,681	0.9%
				11,428	12,109	6.4%
Corporate Visions, Inc.	Sales & Marketing Services	Subordinated Debt (9.0% Cash, 2.0% PIK, Due 11/29/21)	18,940	18,940	18,679	9.8%
Corporate Visions, Inc.	Sales & Marketing Services	Common Stock (15,750 shares)		1,575	817	0.4%
				20,515	19,496	10.2%
Currency Capital, LLC	Financial Services	First Lien Debt (13.4% Cash (1 month LIBOR + 11.0%, 0.5% Floor), Due 1/2/20) <sup>(8)</sup>	16,788	16,788	16,788	8.8%
Currency Capital, LLC	Financial Services	Class A Preferred Units (2,000,000 units) <sup>(8)</sup>		2,000	2,000	1.0%
				18,788	18,788	9.8%
Flavors Holdings, Inc.	Food Product Manufacturer	First Lien Debt (8.6% Cash (3 month LIBOR + 5.8%, 1.0% Floor), Due 4/3/20)	6,300	6,241	6,070	3.2%
Flavors Holdings, Inc.	Food Product Manufacturer	Second Lien Debt (12.8% Cash (3 month LIBOR + 10.0%, 1.0% Floor), Due 10/3/21)	12,000	11,809	11,265	5.9%
				18,050	17,335	9.1%

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Portfolio Company, Country (1), (2), (3), (4), (19)	Industry	Type of Investment	Principal Amount	Cost	Fair Value	% of Net Assets
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (8.7% Cash (1 month LIBOR + 6.25%, 2.0% Floor), Due 12/20/23) <sup>(9)</sup>	\$ 250	\$ 250	\$ 250	0.1%
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (9.1% Cash, Due 12/20/23) <sup>(6)</sup>	6,000	6,000	6,000	3.1%
Freedom Electronics, LLC	Electronic Machine Repair	Membership Units (181,818 units)		182	182	0.1%
				6,432	6,432	3.3%
Installs, LLC	Logistics	First Lien Debt (9.3% Cash (1 month LIBOR + 7.0%, 1.8% Floor), Due 6/20/23)	2,984	2,984	2,984	1.6%
				2,984	2,984	1.6%
MC Sign Lessor Corp.	Advertising & Marketing Services	First Lien Debt (9.3% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/22/22) <sup>(10)</sup>	-	-	-	0.0%
MC Sign Lessor Corp.	Advertising & Marketing Services	First Lien Debt (9.3% Cash (1 month LIBOR + 7.0%, 1.0% Floor), Due 12/22/22) <sup>(11)</sup>	3,905	3,905	3,905	2.0%
				3,905	3,905	2.0%
Nth Degree, Inc.	Business Services	First Lien Debt (13.9% Cash (1 month LIBOR + 11.5%, 1.0% Floor), 2.0% PIK, Due 3/29/23) <sup>(12)</sup>	7,346	7,346	7,346	3.9%
Nth Degree, Inc.	Business Services	Preferred Stock (2,400 Units, 10.0% PIK dividend) <sup>(5)</sup>		3,244	16,490	8.6%
				10,590	23,836	12.5%
Sequoia Healthcare Management, LLC	Healthcare Management	First Lien Debt (10.8% Cash (1 month LIBOR + 8.5%, 1.8% Floor), Due 8/21/23)	13,792	13,792	13,792	7.2%
				13,792	13,792	7.2%
Sunset Digital Holdings, LLC	Telecommunications	First Lien Debt (9.6% Cash (1 month LIBOR + 7.3%, 1.5% Floor), Due 8/2/19)	18,000	18,000	18,000	9.4%
				18,000	18,000	9.4%
Sur La Table, Inc.	Retail	First Lien Debt (12.0% Cash, Due 7/28/20)	15,000	15,000	14,979	7.9%
				15,000	14,979	7.9%
Taylor Precision Products, Inc.	Household Product Manufacturer	Series C Preferred Stock (379 shares)		758	758	0.4%
				758	758	0.4%
U.S. BioTek Laboratories, LLC	Testing laboratories	First Lien Debt (10.1% Cash, Due 12/14/23) <sup>(6)</sup> <sup>(13)</sup>	7,000	7,000	7,000	3.7%
U.S. BioTek Laboratories, LLC	Testing laboratories	Class A Preferred Units (500 Units, 10.0% PIK) <sup>(5)</sup>		502	502	0.3%
U.S. BioTek Laboratories, LLC	Testing laboratories	Class C Units (500 Units)		1	1	0.0%
				7,503	7,503	4.0%



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U.S. Well Services, Inc.	Oil & Gas Services	Class A Common Stock (77,073 shares) <sup>(8)</sup>	\$	\$ 771	\$ 632	0.3%
U.S. Well Services, Inc.	Oil & Gas Services	Class B Common Stock (1,125,426 shares) <sup>(8)</sup>		6,701	9,229	4.9%
				7,472	9,861	5.2%
Vology, Inc.	Information Technology	Subordinated Debt (15.0% Cash (1 month LIBOR + 14.0%, 1.0% Ceiling), 4.0% PIK Due 6/30/20)	8,720	8,720	8,645	4.5%
				8,720	8,645	4.5%
Xirgo Technologies, LLC	Information Technology	Subordinated Debt (11.5% Cash, Due 3/1/22)	15,750	15,750	15,750	8.3%
Xirgo Technologies, LLC	Information Technology	Membership Units (600,000 units)		600	837	0.4%
				16,350	16,587	8.7%
<b>Sub Total Non-control/non-affiliated investments - United States</b>				<b>268,298</b>	<b>283,965</b>	<b>148.9%</b>
<b>Non-control/non-affiliated investments - Brazil</b>						
Velum Global Credit Management, LLC	Financial Services	First Lien Debt (15.0% PIK, Due 12/31/17) <sup>(7)</sup> <sup>(8)</sup> (12)	14,277	11,816	2,878	1.5%
				11,816	2,878	1.5%
<b>Sub Total Non-control/non-affiliated investments - Brazil</b>				<b>11,816</b>	<b>2,878</b>	<b>1.5%</b>
<b>Sub Total Non-control/non-affiliated investments</b>				<b>\$ 280,114</b>	<b>\$ 286,843</b>	<b>150.4%</b>
<b>Affiliate Investments - 48.8%</b>						
<b>Affiliate investments - United States</b>						
Burgaflex Holdings, LLC	Automobile Part Manufacturer	First Lien Debt (12.0% Cash, 1.0% PIK, Due 3/23/21)	\$ 14,801	\$ 14,801	\$ 14,384	7.5%
Burgaflex Holdings, LLC	Automobile Part Manufacturer	Common Stock Class A (1,253,198 shares)		1,504	-	0.0%
Burgaflex Holdings, LLC	Automobile Part Manufacturer	Common Stock Class B (900,000 shares)		300	-	0.0%
				16,605	14,384	7.5%

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City Gear, LLC	Footwear Retail	Membership Unit Warrants (11.4% fully diluted) (14)	\$	\$ -	\$ 3,184	1.7%
				-	3,184	1.7%
Eastport Holdings, LLC	Business Services	Subordinated Debt (15.8% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/29/20)	16,500	15,496	16,500	8.7%
Eastport Holdings, LLC	Business Services	Membership Units (22.9% ownership)		3,263	17,610	9.2%
				18,759	34,110	17.9%
GA Communications, Inc.	Advertising & Marketing Services	Series A-1 Preferred Stock (1,998 shares, 8.0% PIK Dividend) (5)		3,179	3,482	1.8%
GA Communications, Inc.	Advertising & Marketing Services	Series B-1 Common Stock (200,000 shares)		2	1,325	0.7%
				3,181	4,807	2.5%
J&J Produce Holdings, Inc.	Produce Distribution	Subordinated Debt (13.0% Cash, Due 6/16/19) (12)	6,406	6,406	6,210	3.3%
J&J Produce Holdings, Inc.	Produce Distribution	Common Stock (8,182 shares)		818	-	0.0%
J&J Produce Holdings, Inc.	Produce Distribution	Common Stock Warrants (6,369 shares)		-	-	0.0%
				7,224	6,210	3.3%
LJS Partners, LLC	QSR Franchisor	Common Stock (1,587,848 shares)		1,188	3,018	1.6%
				1,188	3,018	1.6%
MMI Holdings, LLC	Medical Device Distributor	First Lien Debt (12.0% Cash, Due 1/31/20) (12)	2,600	2,600	2,600	1.4%
MMI Holdings, LLC	Medical Device Distributor	Subordinated Debt (6.0% Cash, Due 1/31/20) (12)	400	388	400	0.2%
MMI Holdings, LLC	Medical Device Distributor	Preferred Units (1,000 units, 6.0% PIK Dividend) (5)		1,474	1,612	0.8%
MMI Holdings, LLC	Medical Device Distributor	Common Membership Units (45 units)		-	185	0.1%
				4,462	4,797	2.5%
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	Common Stock (15,068,000 shares)		6,958	6,854	3.6%
				6,958	6,854	3.6%

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US Bath Group, LLC	Building Products	First Lien Debt (11.4% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 1/2/23)	\$ 12,750	\$ 12,750	\$ 12,750	6.7%
US Bath Group, LLC	Building Products	Membership Units (500,000 units)		500	2,083	1.1%
				13,250	14,833	7.8%
V12 Holdings, Inc.	Data Processing & Digital Marketing	Subordinated Debt <sup>(15)</sup>	-	673	742	0.4%
				673	742	0.4%
<b>Sub Total Affiliate investments - United States</b>				<b>\$ 72,300</b>	<b>\$ 92,939</b>	<b>48.8%</b>
<b>Control Investments - 36.3%</b>						
<b>Control investments - United States</b>						
AAE Acquisition, LLC	Industrial Equipment Rental	Second Lien Debt (6.0% Cash, Due 8/24/19) <sup>(12)</sup>	\$ 16,327	\$ 16,327	\$ 16,327	8.6%
AAE Acquisition, LLC	Industrial Equipment Rental	Membership Units (2.2% fully diluted)		17	-	0.0%
AAE Acquisition, LLC	Industrial Equipment Rental	Warrants (37.8% fully diluted)		-	-	0.0%
				16,344	16,327	8.6%
CableOrganizer Acquisition, LLC	Computer Supply Retail	First Lien Debt (10.0% Cash, Due 5/24/19) <sup>(16)</sup>	1,708	1,708	1,708	0.9%
CableOrganizer Acquisition, LLC	Computer Supply Retail	First Lien Debt (12.0% Cash, 4.0% PIK, Due 6/30/19) <sup>(12)</sup>	8,889	8,889	8,889	4.6%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Preferred Units (4,000,000 units)		2,354	-	0.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Common Stock (21.3% fully diluted)		1,394	-	0.0%
CableOrganizer Acquisition, LLC	Computer Supply Retail	Common Stock Warrants (10.0% fully diluted )		-	-	0.0%
				14,345	10,597	5.5%
Capitala Senior Loan Fund II, LLC	Investment Funds	Membership Units (80.0% ownership) <sup>(8)(17)</sup>		13,600	13,695	7.2%
				13,600	13,695	7.2%

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<b>Portfolio Company, Country (1), (2), (3), (4), (19)</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Micro Precision, LLC	Conglomerate	Subordinated Debt (10.0% Cash, Due 1/1/19) <sup>(12)</sup>	\$ 1,862	\$ 1,862	\$ 1,862	1.0%
Micro Precision, LLC	Conglomerate	Subordinated Debt (14.0% Cash, 4.0% PIK, Due 1/1/19) <sup>(12)</sup>	4,325	4,325	4,325	2.3%
Micro Precision, LLC	Conglomerate	Series A Preferred Units (47 units)		1,629	2,817	1.5%
				<u>7,816</u>	<u>9,004</u>	<u>4.8%</u>
Navis Holdings, Inc.	Textile Equipment Manufacturer	First Lien Debt (15.0% Cash, Due 10/30/20) <sup>(12)</sup>	7,500	7,500	7,500	3.9%
Navis Holdings, Inc.	Textile Equipment Manufacturer	Class A Preferred Stock (1,000 shares, 10.0% Cash Dividend) <sup>(5)</sup>		1,000	1,000	0.5%
Navis Holdings, Inc.	Textile Equipment Manufacturer	Common Stock (300,000 shares)		1	4,348	2.3%
				<u>8,501</u>	<u>12,848</u>	<u>6.7%</u>
Portrait Studio, LLC	Professional and Personal Digital Imaging	First Lien Debt (9.0% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 2.0% Ceiling), Due 12/31/22) <sup>(18)</sup>	-	-	-	0.0%
Portrait Studio, LLC	Professional and Personal Digital Imaging	First Lien Debt (9.4% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 5.0% Ceiling), Due 12/31/22)	4,500	4,500	4,500	2.4%
Portrait Studio, LLC	Professional and Personal Digital Imaging	Preferred Units (4,350,000 Units)		2,450	2,174	1.1%
Portrait Studio, LLC	Professional and Personal Digital Imaging	Membership Units (150,000 Units)		-	-	0.0%
				<u>6,950</u>	<u>6,674</u>	<u>3.5%</u>
<b>Sub Total Control investments - United States</b>				<u>\$ 67,556</u>	<u>\$ 69,145</u>	<u>36.3%</u>
<b>TOTAL INVESTMENTS - 235.5%</b>				<u>\$ 419,970</u>	<u>\$ 448,927</u>	<u>235.5%</u>

(1) All investments valued using unobservable inputs (Level 3).

(2) All investments valued by the Board of Directors.

(3) All debt investments are income producing, unless otherwise noted. Equity and warrant investments are non-income producing, unless otherwise noted.

(4) Percentages are based on net assets of \$190,644 as of December 31, 2018.

(5) The equity investment is income producing, based on rate disclosed.

(6) The cash rate equals the approximate current yield on our last-out portion of the unitranche facility.

(7) Non-accrual investment.

(8) Indicates assets that the Company believes do not represent "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets. As of December 31, 2018, 9.2% of the Company's total assets were non-qualifying assets.

(9) The investment has a \$0.8 million unfunded commitment.

(10) The investment has a \$0.5 million unfunded commitment.

(11) The investment has a \$0.6 million unfunded commitment.

(12) The maturity date of the original investment has been extended.

(13) The investment has a \$1.0 million unfunded commitment.

(14) The investment has been exited. The residual value reflects estimated earnout to be settled post-closing.

(15) The investment has been exited. The residual value reflects estimated escrow and earnout to be settled post-closing.

(16) The investment has a \$0.3 million unfunded commitment.

(17) The investment has a \$6.4 million unfunded commitment.

(18) The investment has a \$5.0 million unfunded commitment.

(19) Capitala Finance Corp. generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.

See accompanying notes to consolidated financial statements.

## CAPITALA FINANCE CORP.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

#### Note 1. Organization

Capitala Finance Corp. (the “Company”, “we”, “us”, and “our”) is an externally managed non-diversified closed-end management investment company incorporated in Maryland that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company commenced operations on May 24, 2013 and completed its initial public offering (“IPO”) on September 30, 2013. The Company is managed by Capitala Investment Advisors, LLC (the “Investment Advisor”), an investment adviser that is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and Capitala Advisors Corp. (the “Administrator”) provides the administrative services necessary for the Company to operate. For United States (“U.S.”) federal income tax purposes, the Company has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. Both directly and through our subsidiary that is licensed by the U.S. Small Business Administration (“SBA”) under the Small Business Investment Company (“SBIC”) Act, the Company offers customized financing to business owners, management teams, and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion, and other growth initiatives. The Company invests in first lien loans, second lien loans, subordinated loans, and, to a lesser extent, equity securities issued by lower middle-market companies and traditional middle-market companies.

The Company was formed for the purpose of: (i) acquiring, through a series of transactions, an investment portfolio from the following entities: CapitalSouth Partners Fund I Limited Partnership (“Fund I”); CapitalSouth Partners Fund II Limited Partnership (“Fund II”); CapitalSouth Partners Fund III, L.P. (“Fund III Parent”); CapitalSouth Partners SBIC Fund III, L.P. (“Fund III”); and CapitalSouth Partners Florida Sidecar Fund I, L.P. (“Florida Sidecar” and, collectively with Fund I, Fund II, Fund III, and Fund III Parent, the “Legacy Funds”); (ii) raising capital in the IPO and (iii) continuing and expanding the business of the Legacy Funds by making additional debt and equity investments in lower middle-market and traditional middle-market companies.

On September 24, 2013, the Company acquired 100% of the limited partnership interests in Fund II, Fund III, and Florida Sidecar and each of their respective general partners, as well as certain assets from Fund I and Fund III Parent, in exchange for an aggregate of 8,974,420 shares of the Company’s common stock (the “Formation Transactions”). Fund II, Fund III, and Florida Sidecar became the Company’s wholly owned subsidiaries. Fund II and Fund III retained their SBIC licenses, continued to hold their existing investments at the time of the IPO and have continued to make new investments. The IPO consisted of the sale of 4,000,000 shares of the Company’s common stock at a price of \$20.00 per share, resulting in net proceeds to the Company of \$74.25 million, after deducting underwriting fees and commissions totaling \$4.0 million and offering expenses totaling \$1.75 million. The other costs of the IPO were borne by the limited partners of the Legacy Funds. During the fourth quarter of 2017, Florida Sidecar transferred all of its assets to the Company and was legally dissolved as a standalone partnership. On March 1, 2019, Fund II repaid its outstanding SBA debentures and relinquished its SBIC license.

The Company has formed and expects to continue to form certain consolidated taxable subsidiaries (the “Taxable Subsidiaries”), which are taxed as corporations for income tax purposes. The Taxable Subsidiaries allow the Company to make equity investments in companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

## **Note 2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The Company is considered an investment company as defined in Accounting Standards Codification (“ASC”) Topic 946 — *Financial Services — Investment Companies* (“ASC 946”). The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying our annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, including Fund II, Fund III, and the Taxable Subsidiaries.

The Company’s financial statements as of March 31, 2019 and December 31, 2018 and for the periods ended March 31, 2019 and March 31, 2018 are presented on a consolidated basis. The effects of all intercompany transactions between the Company and its subsidiaries (Fund II, Fund III, and the Taxable Subsidiaries) have been eliminated in consolidation. All financial data and information included in these consolidated financial statements have been presented on the basis described above. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial results as of and for the periods presented.

The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Additionally, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission (“SEC”) on March 4, 2019.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates under different assumptions and conditions. The most significant estimates in the preparation of the consolidated financial statements are investment valuation, revenue recognition, and income taxes.

### **Consolidation**

As provided under ASC 946, the Company will generally not consolidate its investment in a company other than a substantially wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company’s wholly owned investment company subsidiaries (Fund II, Fund III, and the Taxable Subsidiaries) in its consolidated financial statements. The Company does not consolidate its interest in Capitala Senior Loan Fund II, LLC (“CSLF II”) because the investment is not considered a substantially wholly owned investment company subsidiary. Further, CSLF II is a joint venture for which shared power exists relating to the decisions that most significantly impact the economic performance of the entity. See Note 4 to the consolidated financial statements for a description of the Company’s investment in CSLF II.

### **Segments**

In accordance with ASC Topic 280 — *Segment Reporting* (“ASC 280”), the Company has determined that it has a single reporting segment and operating unit structure. While the Company invests in several industries and geographic locations, all investments share similar business and economic risks. As such, all investment activities have been aggregated into a single segment.

## Cash and Cash Equivalents

The Company considers cash equivalents to be highly liquid investments with original maturities of three months or less at the date of purchase. The Company deposits its cash in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits.

## Investment Classification

In accordance with the provisions of the 1940 Act, the Company classifies its investments by level of control. As defined in the 1940 Act, "Control Investments" are investments in those companies that the Company is deemed to "Control." "Affiliate Investments" are investments in those companies that are "Affiliated Companies" of the Company, as defined in the 1940 Act, other than Control Investments. "Non-Control/Non-Affiliate Investments" are those investments that are neither Control Investments nor Affiliate Investments. Generally, under the 1940 Act, the Company is deemed to control a company in which it has invested if the Company owns more than 25% of the voting securities of such company and/or has greater than 50% representation on its board or has the power to exercise control over management or policies of such portfolio company. The Company is deemed to be an affiliate of a company in which the Company has invested if it owns between 5% and 25% of the voting securities of such company.

## Valuation of Investments

The Company applies fair value accounting to all of its financial instruments in accordance with the 1940 Act and ASC Topic 820 — *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements. In accordance with ASC 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy, as discussed in Note 4.

In determining fair value, the Company's board of directors (the "Board") uses various valuation approaches, and engages a third-party valuation firm, which provides an independent valuation of certain investments it reviews. In accordance with U.S. GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Board. Unobservable inputs reflect the Board's assumptions about the inputs market participants would use in pricing the asset or liability developed based upon the best information available in the circumstances.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a market for the securities existed. Accordingly, the degree of judgment exercised by the Board in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

In estimating the fair value of portfolio investments, the Company starts with the cost basis of the investment, which includes original issue discount and payment-in-kind ("PIK") income, if any. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected fair values.

As a practical expedient, the Company uses net asset value ("NAV") as the fair value for its equity investment in CSLF II. CSLF II records its underlying investments at fair value on a quarterly basis in accordance with the 1940 Act and ASC 820.

The valuation methodologies summarized below are utilized by the Company in estimating fair value.

#### *Enterprise Value Waterfall Approach*

The enterprise value waterfall approach determines an enterprise value based on earnings before interest, tax, depreciation, and amortization ("EBITDA") multiples of publicly traded companies that are considered similar to the subject portfolio company. The Company considers a variety of items in determining a reasonable pricing multiple, including, but not limited to, operating results, budgeted projections, growth, size, risk, profitability, leverage, management depth, diversification, market position, supplier or customer dependence, asset utilization, liquidity metrics, and access to capital markets. EBITDA of the portfolio company is adjusted for non-recurring items in order to reflect a normalized level of earnings that is representative of future earnings. In certain instances, the Company may also utilize revenue multiples to determine enterprise value. When available, the Company may assign a pricing multiple or value its investments based on the value of recent investment transactions in the subject portfolio company or offers to purchase the portfolio company. The enterprise value is adjusted for financial instruments with seniority to the Company's ownership and for the effect of any instrument which may dilute the Company's investment in the portfolio company. The adjusted enterprise value is then apportioned based on the seniority and privileges of the Company's investments within the portfolio company.

The enterprise value waterfall approach is primarily utilized to value the Company's equity securities, including warrants. However, the Company may utilize the enterprise value waterfall approach to value certain debt securities.

#### *Income Approach*

The income approach utilizes a discounted cash flow methodology in which the Company estimates fair value based on the present value of expected cash flows discounted at a market rate of interest. The determination of a discount rate, or required rate of return, takes into account the portfolio company's fundamentals and perceived credit risk. Because the majority of the Company's portfolio companies do not have a public credit rating, determining a discount rate often involves assigning an implied credit rating based on the portfolio company's operating metrics compared to average metrics of similar publicly rated debt. Operating metrics include, but are not limited to, EBITDA, interest coverage, leverage ratios, return on capital, and debt to equity ratios. The implied credit rating is used to assign a base discount rate range based on publicly available yields on similarly rated debt securities. The Company may apply a premium to the discount rate utilized in determining fair value when performance metrics and other qualitative information indicate that there is an additional level of uncertainty about collectability of cash flows.



## Asset Approach

The asset approach values an investment based on the value of the underlying collateral securing the investment. This approach is used when the Company has reason to believe that it will not collect all principal and interest in accordance with the contractual terms of the debt agreement.

## Revenue Recognition

The Company's revenue recognition policies are as follows:

*Interest income and paid-in-kind interest income:* Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company has loans in the portfolio that contain a payment-in-kind interest ("PIK interest") provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at maturity, is recorded on an accrual basis to the extent that such amounts are expected to be collected. PIK interest is not accrued if the Company does not expect the issuer to be able to pay all principal and interest when due.

*Non-accrual investments:* Management reviews all loans that become 90 days or more past due, or when there is reasonable doubt that principal or interest will be collected, for possible placement on non-accrual status. When the Company otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the loan on non-accrual status and will generally cease recognizing interest income and PIK interest on that loan for financial reporting purposes. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. The Company writes off any previously accrued and uncollected interest when it is determined that interest is no longer considered collectible. The Company may elect to cease accruing PIK interest and continue accruing interest income in cases where a loan is currently paying its interest income but, in management's judgment, there is a reasonable likelihood of principal loss on the loan. Non-accrual loans are returned to accrual status when the borrower's financial condition improves such that management believes current interest and principal payments are expected to be collected.

*Gains and losses on investment sales and paydowns:* Realized gains and losses on investments are recognized using the specific identification method.

*Dividend income and paid-in-kind dividends:* Dividend income is recognized on the date dividends are declared. The Company holds preferred equity investments in the portfolio that contain a payment-in-kind dividend ("PIK dividends") provision. PIK dividends, which represent contractually deferred dividends added to the equity balance, are recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company will typically cease accrual of PIK dividends when the fair value of the equity investment is less than the cost basis of the investment or when it is otherwise determined by management that PIK dividends are unlikely to be collected. If management determines that a decline in fair value is temporary in nature and the PIK dividends are more likely than not to be collected, management may elect to continue accruing PIK dividends.

*Original issue discount:* Discounts received to par on loans purchased are capitalized and accreted into income over the life of the loan. Any remaining discount is accreted into income upon prepayment of the loan.

*Other income:* Origination fees (to the extent services are performed to earn such income), amendment fees, consent fees, and other fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Prepayment penalties received by the Company for debt instruments repaid prior to maturity date are recorded as income upon receipt.

## Loan Sales

The Company follows the guidance in ASC Topic 860 — *Transfers and Servicing* ("ASC 860") when accounting for loan participations and partial loan sales as it relates to concluding on sales accounting treatment for such transactions. Based on the Company's analysis of all loan participations and partial sales completed, the Company believes that all such transactions meet the criterion required by ASC 860 to qualify for sales accounting treatment.

## Guarantees

The Company follows the guidance of ASC Topic 460 — *Guarantees* (“ASC 460”). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

## General and Administrative Expenses

General and administrative expenses are paid as incurred. The Company’s administrative expenses include personnel and overhead expenses allocable to the Company paid by and reimbursed to the Administrator under an administration agreement between the Company and the Administrator (the “Administration Agreement”). Other operating expenses such as legal and audit fees, director fees, and director and officer insurance are generally paid directly by the Company.

## Deferred Financing Fees

Costs incurred to issue the Company’s debt obligations are capitalized and are amortized over the term of the debt agreements under the effective interest method.

## Earnings per share

The Company’s earnings per share (“EPS”) amounts have been computed based on the weighted-average number of shares of common stock outstanding for the period. Basic EPS is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted average number of shares of common stock outstanding during the period of computation. Diluted EPS is computed by dividing net increase (decrease) in net assets resulting from operations, adjusted for the change in net assets resulting from the exercise of the dilutive shares, by the weighted average number of shares of common stock assuming all potentially dilutive shares had been issued. Diluted EPS reflects the potential dilution, using the as-if-converted method for convertible debt, which could occur if all potentially dilutive securities were exercised.

## Commitments and Contingencies

As of March 31, 2019, the Company had outstanding unfunded commitments related to debt and equity investments in existing portfolio companies of \$6.4 million (CSLF II), \$4.2 million (Portrait Studio, LLC), \$1.0 million (U.S. BioTek Laboratories, LLC), \$1.0 million (Freedom Electronics, LLC), \$1.0 million (CableOrganizer Acquisition, LLC), \$0.5 million (MC Sign Lessor, Corp), and \$0.3 million (RAM Payment, LLC). As of December 31, 2018, the Company had outstanding unfunded commitments related to debt and equity investments in existing portfolio companies of \$6.4 million (CSLF II), \$5.0 million (Portrait Studio, LLC), \$1.1 million (MC Sign Lessor, Corp), \$1.0 million (U.S. BioTek Laboratories, LLC), \$0.8 million (Freedom Electronics, LLC), and \$0.3 million (CableOrganizer Acquisition, LLC).

The Company may invest in the same unitranche facility as CSLF II, whereby CSLF II provides the first-out portion of the unitranche facility and the Company and other lenders provide the last-out portion of the unitranche facility. Under a guarantee agreement, the Company may be required to purchase its pro-rata portion of first-out loans from CSLF II upon certain triggering events, including acceleration upon payment default of the underlying borrower. As of March 31, 2019, the Company has evaluated the fair value of the guarantee under the guidance of ASC Topic 460 — *Guarantees* and determined that the fair value of the guarantee is immaterial as the risk of payment default for first-out loans in CSLF II is considered remote. The maximum exposure to credit risk as of March 31, 2019 is \$7.3 million and extends to the stated maturity of the underlying loans in CSLF II.

In the ordinary course of business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that could lead to the execution of these provisions against the Company. Based on its history and experience, management believes that the likelihood of such an event is remote.

On December 28, 2017, an alleged stockholder filed a putative class action lawsuit complaint, *Paskowitz v. Capitala Finance Corp., et al.*, in the United States District Court for the Central District of California (case number 2:17-cv-09251-MWF-AS) (the “Paskowitz Action”), against the Company and certain of its current officers on behalf of all persons who purchased or otherwise acquired the Company’s common stock between January 4, 2016 and August 7, 2017. On January 3, 2018, another alleged stockholder filed a putative class action complaint, *Sandifer v. Capitala Finance Corp., et al.*, in the United States District Court for the Central District of California (case number 2:18-cv-00052-MWF-AS) (the “Sandifer Action”), asserting substantially similar claims on behalf of the same putative class and against the same defendants. On February 2, 2018, the Sandifer Action was transferred, on stipulation of the parties, to the United States District Court for the Western District of North Carolina. The Sandifer Action was voluntarily dismissed on February 28, 2018. On March 1, 2018, the Paskowitz Action was transferred, on stipulation of the parties, to the United States District Court for the Western District of North Carolina (case number 3:18-cv-00096-RJC-DSC). On June 19, 2018, the plaintiffs in the Paskowitz Action filed their amended complaint. The complaint, as currently amended, alleges certain violations of the securities laws, including, *inter alia*, that the defendants made certain materially false and misleading statements and omissions regarding the Company’s business, operations, and prospects between January 4, 2016 and August 7, 2017. The plaintiffs in the Paskowitz Action seek compensatory damages and attorneys’ fees and costs, among other relief, but did not specify the amount of damages being sought. Defendants have moved to dismiss the amended complaint. While the Company intends to vigorously defend itself in this litigation, the outcome of these legal proceedings cannot be predicted with certainty.

Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, are in the early stages of the proceedings, and are subject to appeal. In addition, because most legal proceedings are resolved over extended periods of time, potential losses are subject to change due to, among other things, new developments, changes in legal strategy, the outcome of intermediate procedural and substantive rulings and other parties’ settlement posture and their evaluation of the strength or weakness of their case against us. For these reasons, we are currently unable to predict the ultimate timing or outcome of, or reasonably estimate the possible losses or a range of possible losses resulting from, the matters described above. Based on information currently available, the Company does not believe that any reasonably possible losses arising from the currently pending legal matters described above will be material to the Company’s results of operations or financial condition. However, in light of the inherent uncertainties involved in such matters, an adverse outcome in this litigation could materially and adversely affect the Company’s financial condition, results of operations, or cash flows in any particular reporting period.

In the ordinary course of business, the Company may directly or indirectly be a defendant or plaintiff in legal actions with respect to bankruptcy, insolvency, or other types of proceedings. Such lawsuits may involve claims that could adversely affect the value of certain financial instruments owned by the Company or result in direct losses to the Company. In management’s opinion, no direct losses with respect to litigation contingencies were probable as of March 31, 2019 and December 31, 2018. Management is of the opinion that the ultimate resolution of such claims, if any, will not materially affect the Company’s business, financial position, results of operations, or liquidity. Furthermore, in management’s opinion, it is not possible to estimate a range of reasonably possible losses with respect to litigation contingencies.

## **Income Taxes**

The Company has elected to be treated for U.S. federal income tax purposes and intends to comply with the requirements to qualify annually as a RIC under subchapter M of the Code and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from U.S. federal income taxes.

In order to qualify as a RIC, among other requirements, the Company is required to timely distribute to its stockholders at least 90.0% of its investment company taxable income, as defined by the Code, for each fiscal tax year. The Company will be subject to a nondeductible U.S. federal excise tax of 4.0% on undistributed income if it does not distribute at least 98.0% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31.

Depending on the level of taxable income earned in an excise tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next excise tax year and pay a 4.0% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. Since the Company's IPO, the Company has not accrued or paid excise tax.

The Company elected to amend its tax year end from August 31 to December 31 and has filed a tax return for the four months ended December 31, 2017. The tax periods ended December 31, 2018, December 31, 2017, August 31, 2017, and August 31, 2016 remain subject to examination by U.S. federal, state, and local tax authorities. No interest expense or penalties have been assessed for the three months ended March 31, 2019 and March 31, 2018. If the Company was required to recognize interest and penalties, if any, related to unrecognized tax benefits this would be recognized as income tax expense in the consolidated statements of operations.

For U.S. federal income tax purposes, as of March 31, 2019, the aggregate net unrealized appreciation for all securities was \$11.7 million. As of March 31, 2019, gross unrealized appreciation was \$31.1 million and gross unrealized depreciation was \$19.4 million. The aggregate cost of securities for U.S. federal income tax purposes was \$443.7 million as of March 31, 2019. For U.S. federal income tax purposes, as of December 31, 2018, the aggregate net unrealized appreciation for all securities was \$6.5 million. As of December 31, 2018, gross unrealized appreciation was \$31.9 million and gross unrealized depreciation was \$25.4 million. The aggregate cost of securities for U.S. federal income tax purposes was \$442.4 million as of December 31, 2018.

The Company's Taxable Subsidiaries record deferred tax assets or liabilities related to temporary book versus tax differences on the income or loss generated by the underlying equity investments held by the Taxable Subsidiaries. As of March 31, 2019 and December 31, 2018, the Company recorded a net deferred tax asset of \$0.7 million and \$0.6 million, respectively. For the three months ended March 31, 2019, the Company recorded a tax benefit of \$66 thousand. For the three months ended March 31, 2018, the Company recorded a tax provision of \$50 thousand.

In accordance with certain applicable U.S. Treasury regulations and guidance issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive its entire distribution in either cash or stock of the RIC, subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20.0% of the aggregate declared distribution. If too many stockholders elect to receive cash, the cash available for distribution must be allocated among the stockholders electing to receive cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive the lesser of (a) the portion of the distribution such stockholder has elected to receive in cash or (b) an amount equal to his or her entire distribution times the percentage limitation on cash available for distribution. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. For income tax purposes, the Company has paid distributions on its common stock from ordinary income in the amount of \$16.0 million, \$6.1 million, \$25.2 million, and \$24.5 million during the tax periods ended December 31, 2018, December 31, 2017, August 31, 2017, and August 31, 2016, respectively.

ASC Topic 740 — *Income Taxes* ("ASC 740"), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions deemed to meet a "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. As of March 31, 2019 and December 31, 2018, there were no uncertain tax positions.

The Company is required to determine whether a tax position of the Company is more likely-than-not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that could negatively impact the Company's net assets.

U.S. GAAP provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Tax Act"), which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, a move from a worldwide tax system to a territorial system, as well as other changes. The Taxable Subsidiaries' provisional tax is based on the new lower blended federal and state corporate tax rate of 24.86%. The implementation of the Tax Act did not have a material impact on the Company's financial position and results of operations.

## **Distributions**

Distributions to common stockholders are recorded as payable on the declaration date. The amount to be paid out as a dividend is determined by the Board. Net capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for reinvestment.

The Company has adopted an "opt out" dividend reinvestment plan ("DRIP") for the Company's common stockholders. As a result, if the Company declares a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of the Company's common stock unless a stockholder specifically "opts out" of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state, and local taxes in the same manner as cash distributions, stockholders participating in the Company's DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes.

## **Company Investment Risk, Concentration of Credit Risk, and Liquidity Risk**

The Investment Advisor has broad discretion in making investments for the Company. Investments will generally consist of debt and equity instruments that may be affected by business, financial market, or legal uncertainties. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Company's activities and the value of its investments. In addition, the value of the Company's portfolio may fluctuate as the general level of interest rates fluctuate.

The value of the Company's investments may be detrimentally affected to the extent, among other things, that a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan, observable secondary or primary market yields for similar instruments issued by comparable companies increase materially or risk premiums required in the market between smaller companies, such as our borrowers, and those for which market yields are observable increase materially.

The Investment Advisor may attempt to minimize this risk by maintaining low debt-to-liquidation values with each debt investment and the collateral underlying the debt investment.

The Company's assets may, at any time, include securities and other financial instruments or obligations that are illiquid or thinly traded, making purchase or sale of such securities and financial instruments at desired prices or in desired quantities difficult. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

### **Note 3. Recent Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2018-13, Disclosure Framework — Changes to the Disclosure Requirement for Fair Value Measurement. The FASB issued the amendments as part of the disclosure framework project which is intended to improve the effectiveness of fair value disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of the financial statements. The standard is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

In October 2018, the SEC adopted amendments (the “Amendments”) to certain disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded, in light of other SEC disclosure requirements, U.S. GAAP requirements, or changes in the information environment. In part, the Amendments require an investment company to present distributable earnings in total, rather than showing the three components of distributable earnings. The compliance date for the Amendments is for all filings on or after November 5, 2018. Management has adopted the Amendments and included the required disclosures in the Company’s consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASC Topic 606) (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements under ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance significantly enhances comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance became effective for the annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The Company completed its assessment in evaluating the potential impact on its consolidated financial statements and based on its assessment, determined that its financial contracts are excluded from the scope of ASU 2014-09. As a result of the scope exception for financial contracts, the Company’s management has determined that there were no material changes to the recognition, timing, and classification of revenues and expenses; additionally, the Company’s management determined that the adoption of ASU 2014-09 did not have a significant impact on its consolidated financial statement disclosures.

### **Note 4. Investments and Fair Value Measurements**

The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company offers customized financing to business owners, management teams, and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion, and other growth initiatives. The Company invests in first lien loans, second lien loans, subordinated loans, and, to a lesser extent, equity securities issued by lower middle-market companies and traditional middle-market companies. As of March 31, 2019, our portfolio consisted of investments in 43 portfolio companies with a fair value of approximately \$455.4 million.

Most of the Company’s debt investments are structured as first lien loans. First lien loans may contain some minimum amount of principal amortization, excess cash flow sweep feature, prepayment penalties, or any combination of the foregoing. First lien loans are secured by a first priority lien in existing and future assets of the borrower and may take the form of term loans or delayed draw facilities. Unitranche debt, a form of first lien loan, typically involves issuing one debt security that blends the risk and return profiles of both senior secured and subordinated debt in one debt security, bifurcating the loan into a first-out tranche and last-out tranche. As of March 31, 2019, 17.2% of the fair value of our first lien loans consisted of last-out loans. As of December 31, 2018, 13.7% of the fair value of our first lien loans consisted of last-out loans. In some cases, first lien loans may be subordinated, solely with respect to the payment of cash interest, to an asset based revolving credit facility.

The Company also invests in debt instruments structured as second lien loans. Second lien loans are loans which have a second priority security interest in all or substantially all of the borrower's assets, and which are not subject to the blockage of cash interest payments to the Company at the first lien lender's discretion.

In addition to first and second lien loans, the Company may also invest in subordinated loans. Subordinated loans typically have a second lien on all or substantially all of the borrower's assets, but unlike second lien loans, may be subject to the interruption of cash interest payments upon certain events of default, at the discretion of the first lien lender.

During the three months ended March 31, 2019, the Company made approximately \$21.1 million of investments and had approximately \$11.5 million in repayments and sales, resulting in net investments of approximately \$9.6 million for the period. During the three months ended March 31, 2018, the Company made approximately \$27.8 million of investments and had approximately \$21.4 million in repayments and sales, resulting in net investments of approximately \$6.4 million for the period.

During the three months ended March 31, 2019, the Company funded \$2.1 million of previously committed capital to existing portfolio companies. During the three months ended March 31, 2019, the Company funded \$19.0 million of investments in portfolio companies for which it was not previously committed to fund. During the three months ended March 31, 2018, the Company funded \$1.0 million of previously committed capital to existing portfolio companies. During the three months ended March 31, 2018, the Company funded \$26.8 million of investments in portfolio companies for which it was not previously committed to fund. During the three months ended March 31, 2019 and March 31, 2018, the Company did not lead any syndicates and did not assist any portfolio companies in obtaining indirect financing.

On August 31, 2016, the Company sold a portion of 14 securities across 10 portfolio companies to CapitalSouth Partners Florida Sidecar Fund II, L.P. ("FSC II"), including granting an option to acquire a portion of the Company's equity investment in Eastport Holdings, LLC (the "Written Call Option"), in exchange for 100% of the partnership interests in FSC II. Concurrent with the sale of these assets to FSC II, the Company received cash consideration of \$47.6 million from an affiliated third-party purchaser in exchange for 100% of the partnership interests of FSC II. These assets were sold to FSC II at their June 30, 2016 fair market values, resulting in a net realized gain of \$0.1 million. The Company's Board pre-approved this transaction pursuant to Section 57(f) of the 1940 Act.

The Company collected and will periodically collect principal and interest payments related to certain of the securities purchased by FSC II. Such principal and interest payments will be remitted timely to FSC II based on its proportionate share of the security. FSC II does not have any recourse to the Company related to the non-payment of principal or interest by the underlying issuers of the securities.

The composition of our investments as of March 31, 2019, at amortized cost and fair value was as follows (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Amortized Cost Percentage of Total Portfolio</b>	<b>Investments at Fair Value</b>	<b>Fair Value Percentage of Total Portfolio</b>
First Lien Debt	\$ 247,042	58.1%	\$ 241,458	53.0%
Second Lien Debt	37,147	8.7	33,373	7.3
Subordinated Debt	72,975	17.2	73,496	16.1
Equity and Warrants	54,174	12.8	93,133	20.5
Capitala Senior Loan Fund II, LLC	13,600	3.2	13,930	3.1
Total	<u>\$ 424,938</u>	<u>100.0%</u>	<u>\$ 455,390</u>	<u>100.0%</u>

The composition of our investments as of December 31, 2018, at amortized cost and fair value was as follows (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First Lien Debt	\$ 252,174	60.0%	\$ 237,570	52.9%
Second Lien Debt	33,040	7.9	32,495	7.2
Subordinated Debt	72,562	17.3	73,113	16.3
Equity and Warrants	48,594	11.6	92,054	20.5
Capitala Senior Loan Fund II, LLC	13,600	3.2	13,695	3.1
Total	<u>\$ 419,970</u>	<u>100.0%</u>	<u>\$ 448,927</u>	<u>100.0%</u>

As noted above, the Company values all investments in accordance with ASC 820. ASC 820 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide disclosures on fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the observability of the inputs used to determine fair values. Investments carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the Board that is consistent with ASC 820 (see Note 2). Consistent with the Company's valuation policy, the Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

In estimating fair value of portfolio investments, the Company starts with the cost basis of the investment, which includes amortized original issue discount and PIK income, if any. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected fair values.

The following table presents the fair value measurements of investments, by major class, as of March 31, 2019 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements <sup>(1)</sup>			
	Level 1	Level 2	Level 3	Total
First Lien Debt	\$ —	\$ —	\$ 241,458	\$ 241,458
Second Lien Debt	—	—	33,373	33,373
Subordinated Debt	—	—	73,496	73,496
Equity and Warrants	9,596	—	83,537	93,133
Total	<u>\$ 9,596</u>	<u>\$ —</u>	<u>\$ 431,864</u>	<u>\$ 441,460</u>

(1) Excludes the Company's \$13.9 million investment in CSLF II, measured at NAV.



The following table presents fair value measurements of investments, by major class, as of December 31, 2018 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements <sup>(1)</sup>			
	Level 1	Level 2	Level 3	Total
First Lien Debt	\$ —	\$ —	\$ 237,570	\$ 237,570
Second Lien Debt	—	—	32,495	32,495
Subordinated Debt	—	—	73,113	73,113
Equity and Warrants	—	—	92,054	92,054
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 435,232</b>	<b>\$ 435,232</b>

(1) Excludes the Company's \$13.7 million investment in CSLF II, measured at NAV.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the three months ended March 31, 2019 (dollars in thousands):

	First Lien Debt	Second Lien Debt	Subordinated Debt	Equity and Warrants	Total <sup>(1)</sup>
Balance as of January 1, 2019	\$ 237,570	\$ 32,495	\$ 73,113	\$ 92,054	\$ 435,232
Reclassifications	(5,374)	—	—	5,374	—
Repayments/sales	(5,592)	—	—	(5,900)	(11,492)
Purchases	16,277	3,800	—	1,051	21,128
Payment in-kind interest and dividends accrued	183	284	227	225	919
Accretion of original issue discount	51	23	186	—	260
Realized gain (loss) on investments	(10,678)	—	—	4,831	(5,847)
Net unrealized appreciation (depreciation) on investments	9,021	(3,229)	(30)	(4,237)	1,525
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	(9,861)	(9,861)
<b>Balance as of March 31, 2019</b>	<b>\$ 241,458</b>	<b>\$ 33,373</b>	<b>\$ 73,496</b>	<b>\$ 83,537</b>	<b>\$ 431,864</b>

(1) Excludes the Company's \$13.9 million investment in CSLF II, measured at NAV.

(2) The Company's investment in U.S. Well Services, Inc. is traded on the NASDAQ Capital Market under the ticker USWS. Because the Company's investment is now traded in an active market, the Company has reclassified its investment in U.S. Well Services, Inc. from Level 3 to Level 1 of the fair value hierarchy. Transfers between levels, if any, are recognized at the beginning of the period in which transfers occur. The unrealized depreciation on the Company's investment in U.S. Well Services, Inc. for the three months ended March 31, 2019 was \$(0.3) million.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the three months ended March 31, 2018 (dollars in thousands):

	<b>First Lien Debt</b>	<b>Second Lien Debt</b>	<b>Subordinated Debt</b>	<b>Equity and Warrants</b>	<b>Total</b>
Balance as of January 1, 2018	\$ 243,489	\$ 30,794	\$ 103,385	\$ 122,271	\$ 499,939
Reclassifications	8,828	—	(8,828)	—	—
Repayments/sales	(20,676)	—	—	(724)	(21,400)
Purchases	27,000	—	—	800	27,800
Payment in-kind interest and dividends accrued	722	159	255	221	1,357
Accretion of original issue discount	64	23	186	—	273
Realized gain (loss) on investments	(4,579)	—	—	724	(3,855)
Net unrealized appreciation (depreciation) on investments	1,746	785	(2,218)	(705)	(392)
Balance as of March 31, 2018	<u>\$ 256,594</u>	<u>\$ 31,761</u>	<u>\$ 92,780</u>	<u>\$ 122,587</u>	<u>\$ 503,722</u>

The following table provides a reconciliation of the beginning and ending balances for the Written Call Option that uses Level 3 inputs for the three months ended March 31, 2018 (dollars in thousands):

	<b>Written Call Option</b>
Balance as of January 1, 2018	\$ (6,815)
Net unrealized depreciation on Written Call Option	—
Balance as of March 31, 2018	<u>\$ (6,815)</u>

The net change in unrealized depreciation on investments held as of March 31, 2019 and March 31, 2018, was \$(2.5) million and \$(4.1) million, respectively, and is included in net unrealized depreciation on investments in the consolidated statements of operations.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of March 31, 2019 were as follows:

	<b>Fair Value<sup>(2)</sup> (in millions)</b>	<b>Valuation Approach</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
First lien debt	\$ 207.8	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	9.1% – 16.5% (12.6%) 1.2x – 5.3x (3.4x) \$1.4 million – \$118.7 million (\$17.8 million)
First lien debt	\$ 33.7	Enterprise Value Waterfall	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	0.6x – 5.0x (4.2x) \$0.1 million – \$3.2 million (\$2.4 million) 1.0x – 1.0x (1.0x) \$12.9 million – \$12.9 million (\$12.9 million)
Second lien debt	\$ 16.1	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	14.6% – 16.5% (15.9%) 4.6x – 5.0x (4.8x) \$67.0 million – \$79.2 million (\$75.6 million)
Second lien debt	\$ 17.3	Enterprise Value Waterfall	EBITDA Multiple Adjusted EBITDA	6.3x – 6.3x (6.3x) \$7.0 million – \$7.0 million (\$7.0 million)
Subordinated debt	\$ 49.6	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	11.5% – 22.0% (14.7%) 2.8x – 9.2x (5.3x) \$3.5 million – \$16.7 million (\$10.8 million)
Subordinated debt	\$ 23.9	Enterprise Value Waterfall and Asset <sup>(1)</sup>	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	6.0x – 8.0x (7.9x) \$1.8 million – \$2.9 million (\$2.8 million) 0.4x – 0.4x (0.4x) \$572.9 million – \$572.9 million (\$572.9 million)
Equity and warrants	\$ 83.5	Enterprise Value Waterfall	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	4.0x – 14.0x (7.0x) \$1.8 million – \$22.1 million (\$12.7 million) 0.4x – 0.6x (0.4x) \$17.0 million – \$572.9 million (\$372.0 million)

(1) \$0.7 million in subordinated debt was valued using the asset approach.

(2) Excludes the Company's \$13.9 million investment in CSLF II, measured at NAV.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of December 31, 2018 were as follows:

	<b>Fair Value<sup>(2)</sup> (in millions)</b>	<b>Valuation Approach</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
First lien debt	\$ 195.1	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	9.2% – 16.0% (12.1%) 1.0x – 13.5x (4.3x) \$1.7 million – \$118.7 million (\$17.6 million)
First lien debt	\$ 42.5	Enterprise Value Waterfall and Asset <sup>(1)</sup>	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	4.0x – 6.0x (5.3x) \$0.6 million – \$3.7 million (\$2.3 million) 0.9x – 0.9x (0.9x) \$13.0 million – \$13.0 million (\$13.0 million)
Second lien debt	\$ 16.2	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	12.5% – 15.5% (14.6%) 4.6x – 5.0x (4.8x) \$67.0 million – \$79.2 million (\$75.5 million)
Second lien debt	\$ 16.3	Enterprise Value Waterfall	EBITDA Multiple Adjusted EBITDA	5.6x – 5.6x (5.6x) \$9.2 million – \$9.2 million (\$9.2 million)
Subordinated debt	\$ 49.3	Income	Required Rate of Return Leverage Ratio Adjusted EBITDA	11.5% – 20.0% (14.1%) 3.1x – 9.1x (5.7x) \$1.7 million – \$15.8 million (\$10.5 million)
Subordinated debt	\$ 23.8	Enterprise Value Waterfall and Asset <sup>(1)</sup>	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	6.0x – 8.0x (7.9x) \$1.7 million – \$3.1 million (\$3.0 million) 0.4x – 0.4x (0.4x) \$568.2 million – \$568.2 million (\$568.2 million)
Equity and warrants	\$ 92.1	Enterprise Value Waterfall	EBITDA Multiple Adjusted EBITDA Revenue Multiple Revenue	3.3x – 14.0x (6.5x) \$1.7 million – \$112.3 million (\$27.8 million) 0.4x – 0.4x (0.4x) \$164.6 million – \$568.2 million (\$455.1 million)

(1) \$0.7 million in subordinated debt and \$2.9 million in first lien debt were valued using the asset approach.

(2) Excludes the Company's \$13.7 million investment in CSLF II, measured at NAV.

The significant unobservable inputs used in the valuation of the Company's investments are required rate of return, adjusted EBITDA, EBITDA multiples, revenue, revenue multiples, and leverage ratios. Changes in any of these unobservable inputs could have a significant impact on the Company's estimate of fair value. An increase (decrease) in the required rate of return or leverage will result in a lower (higher) estimate of fair value while an increase (decrease) in adjusted EBITDA, EBITDA multiples, revenue, or revenue multiples will result in a higher (lower) estimate of fair value.

#### **Capitala Senior Loan Fund II, LLC**

On December 20, 2018, Capitala and Trinity Universal Insurance Company ("Trinity"), a subsidiary of Kemper Corporation, entered into a limited liability company agreement (the "LLC Agreement") to co-manage CSLF II. The purpose and design of the joint venture is to invest primarily in senior secured first-out loans. Capitala and Trinity have committed to provide \$25.0 million of equity to CSLF II, with Capitala providing \$20.0 million and Trinity providing \$5.0 million. Capitala and Trinity each appointed two members to CSLF II's four-person board of directors and investment committee. All material decisions with respect to CSLF II, including those involving its investment portfolio, require approval of a member on the board of directors and investment committee of at least one member representing Capitala and Trinity, respectively.

As of March 31, 2019, \$13.6 million and \$3.4 million in equity capital had been contributed by Capitala and Trinity, respectively. As of March 31, 2019, the Company and Trinity had \$6.4 million and \$1.6 million of unfunded equity capital commitments outstanding, respectively. As of December 31, 2018, \$13.6 million and \$3.4 million in equity capital had been contributed by Capitala and Trinity, respectively. As of December 31, 2018, the Company and Trinity had \$6.4 million and \$1.6 million of unfunded equity capital commitments outstanding, respectively. The Company's equity investment in CSLF II is not redeemable.

Below is a summary of CSLF II's portfolio as of March 31, 2019 and December 31, 2018 (dollars in thousands):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
First lien loans <sup>(1)</sup>	\$ 16,725	\$ 10,000
Weighted average current interest rate on first lien loans	7.5%	7.6%
Number of portfolio companies in CSLF II	3	2
Largest portfolio company investment <sup>(1)</sup>	\$ 6,750	\$ 5,550
Total of five largest portfolio company investments <sup>(1)(2)</sup>	\$ 16,725	\$ 10,000

(1) Based on principal amount outstanding at period end.

(2) Only three investments and two investments outstanding as of March 31, 2019 and December 31, 2018, respectively.

Below is CSLF II's schedule of investments as of March 31, 2019:

**Capitala Senior Loan Fund II, LLC**  
**Schedule of Investments**  
**March 31, 2019**  
**(in thousands)**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Type of Investment</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Investments at Fair Value</b>					
U.S. BioTek Laboratories, LLC	Testing Laboratories	First Lien Debt (7.6% Cash (3 month LIBOR + 5.0%, 2.0% Floor), Due 12/14/23)	\$ 4,489	\$ 4,489	\$ 4,489
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 2.0% Floor), Due 12/20/23)	5,486	5,486	5,486
RAM Payment, LLC	Financial Services	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 1.5% Floor), Due 1/4/24)	6,750	6,750	6,750
<b>TOTAL INVESTMENTS</b>			<b>\$ 16,725</b>	<b>\$ 16,725</b>	<b>\$ 16,725</b>

Below is CSLF II's schedule of investments as of December 31, 2018:

**Capitala Senior Loan Fund II, LLC**  
**Schedule of Investments**  
**December 31, 2018**  
(in thousands)

Portfolio Company	Industry	Type of Investment	Principal Amount	Cost	Fair Value
<b>Investments at Fair Value</b>					
U.S. BioTek Laboratories, LLC	Testing Laboratories	First Lien Debt (7.8% Cash (3 month LIBOR + 5.0%, 2.0% Floor), Due 12/14/23)	\$ 4,500	\$ 4,500	\$ 4,500
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 2.0% Floor), Due 12/20/23)	5,500	5,500	5,500
<b>TOTAL INVESTMENTS</b>			<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

Below is the financial information for CSLF II:

**Capitala Senior Loan Fund II, LLC**  
**Statements of Assets and Liabilities**  
(in thousands)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Investments at fair value (amortized cost of \$16,725 and \$10,000, respectively)	\$ 16,725	\$ 10,000
Cash and cash equivalents	665	7,100
Interest receivable	109	31
<b>Total assets</b>	<u>\$ 17,499</u>	<u>\$ 17,131</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 87	\$ 12
<b>Total liabilities</b>	<u>\$ 87</u>	<u>\$ 12</u>
<b>NET ASSETS</b>		
Partners' capital	\$ 17,412	\$ 17,119
<b>Total net assets</b>	<u>\$ 17,412</u>	<u>\$ 17,119</u>

**Capitala Senior Loan Fund II, LLC**  
**Statements of Operations**  
**(in thousands)**

	<b>For the three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>INVESTMENT INCOME</b>		
Interest income	\$ 312	\$ —
Fee income	68	—
Total investment income	\$ 380	\$ —
<b>EXPENSES</b>		
General and administrative expenses	\$ 87	\$ —
Total expenses	\$ 87	\$ —
NET INVESTMENT INCOME	\$ 293	\$ —
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 293	\$ —

## Note 5. Transactions With Affiliated Companies

During the three months ended March 31, 2019, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows (dollars in thousands):

Company <sup>(4)</sup>	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income <sup>(1)</sup>	December 31, 2018 Fair Value	Gross Additions <sup>(2)</sup>	Gross Reductions <sup>(3)</sup>	Realized Gain/(Loss)	Unrealized Gain/(Loss)	March 31, 2019 Fair Value
<b><u>Affiliate investments</u></b>									
Burgaflex Holdings, LLC	First Lien Debt (12.0% Cash, 1.0% PIK, Due 3/23/21)	\$ 14,838	\$ 444	\$ 14,384	\$ 37	\$ -	\$ -	\$ 46	\$ 14,467
Burgaflex Holdings, LLC	Common Stock Class A (1,253,198 shares)	-	-	-	-	-	-	-	-
Burgaflex Holdings, LLC	Common Stock Class B (900,000 shares)	-	-	-	-	-	-	-	-
			444	14,384	37	-	-	46	14,467
City Gear, LLC	Membership Unit Warrants (11.4% fully diluted)	-	-	3,184	111	-	(111)	-	3,184
			-	3,184	111	-	(111)	-	3,184
Eastport Holdings, LLC	Subordinated Debt (15.6% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/29/20)	16,500	835	16,500	187	-	-	(187)	16,500
Eastport Holdings, LLC	Membership Units (22.9% ownership)	-	-	17,610	-	-	-	(1,217)	16,393
			835	34,110	187	-	-	(1,404)	32,893
GA Communications, Inc. <sup>(5)</sup>	Series A-1 Preferred Stock (1,998 shares, 8.0% PIK Dividend)	-	-	3,482	72	-	-	(5)	3,549
GA Communications, Inc.	Series B-1 Common Stock (200,000 shares)	-	-	1,325	-	-	-	(34)	1,291
			-	4,807	72	-	-	(39)	4,840
J&J Produce Holdings, Inc.	Subordinated Debt (13.0% Cash, Due 6/16/19)	6,406	208	6,210	-	-	-	128	6,338
J&J Produce Holdings, Inc.	Common Stock (8,182 shares)	-	-	-	-	-	-	-	-
J&J Produce Holdings, Inc.	Common Stock Warrants (6,369 shares)	-	-	-	-	-	-	-	-
			208	6,210	-	-	-	128	6,338
LJS Partners, LLC	Common Stock (1,852,824 shares)	-	-	3,018	79	-	-	(655)	2,442
			-	3,018	79	-	-	(655)	2,442
MMI Holdings, LLC	First Lien Debt (12.0% Cash, Due 1/31/20)	2,600	79	2,600	-	-	-	-	2,600
MMI Holdings, LLC	Subordinated Debt (6.0% Cash, Due 1/31/20)	400	6	400	-	-	-	-	400
MMI Holdings, LLC <sup>(5)</sup>	Preferred Units (1,000 units, 6.0% PIK Dividend)	-	-	1,612	24	-	-	-	1,636
MMI Holdings, LLC	Common Membership Units (45 units)	-	-	185	-	-	-	6	191
			85	4,797	24	-	-	6	4,827
RAM Payment, LLC	First Lien Debt (11.2% Cash, Due 1/4/24)	9,150	460	-	9,150	-	-	-	9,150
RAM Payment, LLC <sup>(5)</sup>	Preferred Equity (86,000 Units, 8.0% PIK)	-	-	-	876	-	-	-	876
			460	-	10,026	-	-	-	10,026
Sierra Hamilton Holdings Corporation	Common Stock (15,068,000 shares)	-	-	6,854	-	-	-	(225)	6,629
			-	6,854	-	-	-	(225)	6,629
US Bath Group, LLC	First Lien Debt (11.5% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 1/2/23)	12,438	367	12,750	-	(312)	-	-	12,438
US Bath Group, LLC	Membership Units (500,000 units)	-	-	2,083	-	-	-	1,875	3,958
			367	14,833	-	(312)	-	1,875	16,396
V12 Holdings, Inc.	Subordinated Debt	-	-	742	-	-	-	-	742
			-	742	-	-	-	-	742
<b><u>Total Affiliate investments</u></b>		<b>\$ 2,399</b>	<b>\$ 2,399</b>	<b>\$ 92,939</b>	<b>\$ 10,536</b>	<b>\$ (312)</b>	<b>\$ (111)</b>	<b>\$ (268)</b>	<b>\$ 102,784</b>



Company <sup>(4)</sup>	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income <sup>(1)</sup>	December 31, 2018 Fair Value	Gross Additions <sup>(2)</sup>	Gross Reductions <sup>(3)</sup>	Realized Gain/(Loss)	Unrealized Gain/(Loss)	March 31, 2019 Fair Value
<b><u>Control investments</u></b>									
AAE Acquisition, LLC	Second Lien Debt (6.0% PIK, Due 8/24/19)	\$ 20,411	\$ -	\$ 16,327	\$ 4,084	\$ -	\$ -	\$ (3,151)	\$ 17,260
AAE Acquisition, LLC	Membership Units (2.2% fully diluted)	-	-	-	-	-	-	-	-
AAE Acquisition, LLC	Warrants (37.8% fully diluted)	-	-	-	-	-	-	-	-
				16,327	4,084	-	-	(3,151)	17,260
CableOrganizer Acquisition, LLC	First Lien Debt (8.0% Cash, Due 6/30/21)	-	46	1,708	292	(2,000)	-	-	-
CableOrganizer Acquisition, LLC	First Lien Debt (8.0% Cash, Due 6/30/21)	3,689	74	8,889	-	(3,373)	(1,827)	-	3,689
CableOrganizer Acquisition, LLC	Preferred Units - Series A1 (7,200,000 units)	-	-	-	5,373	-	-	-	5,373
CableOrganizer Acquisition, LLC	Preferred Units - Series A (4,000,000 units)	-	-	-	-	-	-	-	-
CableOrganizer Acquisition, LLC	Common Stock (14.9% fully diluted)	-	-	-	-	-	-	-	-
CableOrganizer Acquisition, LLC	Common Stock Warrants (40.0% fully diluted )	-	-	-	-	-	-	-	-
			120	10,597	5,665	(5,373)	(1,827)	-	9,062
Capitala Senior Loan Fund II, LLC	Membership Units (80.0% ownership)	-	-	13,695	-	-	-	235	13,930
				13,695	-	-	-	235	13,930
Micro Precision, LLC	Subordinated Debt (10.0% Cash, Due 1/1/19)	1,862	46	1,862	-	-	-	-	1,862
Micro Precision, LLC	Subordinated Debt (14.0% Cash, 4.0% PIK, Due 1/1/19)	4,369	152	4,325	44	-	-	-	4,369
Micro Precision, LLC	Series A Preferred Units (47 units)	-	-	2,817	-	-	-	40	2,857
			198	9,004	44	-	-	40	9,088
Navis Holdings, Inc.	First Lien Debt (15.0% Cash, Due 10/30/20)	7,500	281	7,500	-	-	-	-	7,500
Navis Holdings, Inc. <sup>(5)</sup>	Class A Preferred Stock (1,000 shares, 10.0% Cash Dividend)	-	25	1,000	-	-	-	-	1,000
Navis Holdings, Inc.	Common Stock (300,000 shares)	-	-	4,348	-	-	-	(815)	3,533
			306	12,848	-	-	-	(815)	12,033
Portrait Studio, LLC	First Lien Debt (9.0% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 2.0% Ceiling), Due 12/31/22)	780	18	-	1,260	(480)	-	-	780
Portrait Studio, LLC	First Lien Debt (9.5% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 5.0% Ceiling), Due 12/31/22)	4,500	107	4,500	-	-	-	-	4,500
Portrait Studio, LLC	Preferred Units (4,350,000 Units)	-	-	2,174	-	-	-	(585)	1,589
Portrait Studio, LLC	Membership Units (150,000 Units)	-	-	-	-	-	-	-	-
			125	6,674	1,260	(480)	-	(585)	6,869
<b><u>Total Control investments</u></b>			<b>\$ 749</b>	<b>\$ 69,145</b>	<b>\$ 11,053</b>	<b>\$ (5,853)</b>	<b>\$ (1,827)</b>	<b>\$ (4,276)</b>	<b>\$ 68,242</b>

(1) Represents the total amount of interest, original issue discount, fees, and dividends credited to income for the portion of the period an investment was included in Affiliate or Control categories, respectively.

(2) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on investments, accrued PIK and accretion of original issue discount. Gross additions also include transfers into Affiliate or Control classification.

(3) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales. Gross reductions also includes transfers out of Affiliate or Control classification.

(4) All debt investments are income producing. Equity and warrant investments are non-income producing, unless otherwise noted.

(5) The equity investment is income producing, based on rate disclosed.

During the year ended December 31, 2018, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows (dollars in thousands):

Company <sup>(4)</sup>	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income <sup>(1)</sup>	December 31, 2017 Fair Value	Gross Additions <sup>(2)</sup>	Gross Reductions <sup>(3)</sup>	Realized Gain/(Loss)	Unrealized Gain/(Loss)	December 31, 2018 Fair Value
<b>Affiliate investments</b>									
AAE Acquisition, LLC	Second Lien Debt (6.0% Cash, Due 8/24/19)	\$ -	\$ 479	\$ 15,603	\$ 320	\$ (16,165)	\$ -	\$ 242	\$ -
AAE Acquisition, LLC	Membership Units (2.2% fully diluted)	-	-	-	-	(17)	-	17	-
AAE Acquisition, LLC	Warrants (37.8% fully diluted)	-	-	-	-	-	-	-	-
			479	15,603	320	(16,182)	-	259	-
Burgaflex Holdings, LLC	First Lien Debt (12.0% Cash, 1.0% PIK, Due 3/23/21)	14,801	1,390	-	14,801	-	-	(417)	14,384
Burgaflex Holdings, LLC	Subordinated Debt (14.0% Cash, Due 8/9/19)	-	116	3,000	-	(3,000)	-	-	-
Burgaflex Holdings, LLC	Subordinated Debt (12.0% Cash, Due 8/9/19)	-	199	5,828	-	(5,828)	-	-	-
Burgaflex Holdings, LLC	Common Stock Class A (1,253,198 shares)	-	-	457	-	-	-	(457)	-
Burgaflex Holdings, LLC	Common Stock Class B (900,000 shares)	-	-	-	300	-	-	(300)	-
			1,705	9,285	15,101	(8,828)	-	(1,174)	14,384
Chef'n Corporation	Series A Preferred Stock (1,000,000 shares)	-	-	-	-	(644)	644	-	-
			-	-	-	(644)	644	-	-
City Gear, LLC	Subordinated Debt (13.0% Cash, Due 10/20/19)	-	918	8,231	-	(8,231)	-	-	-
City Gear, LLC <sup>(5)</sup>	Preferred Membership Units (2.8% fully diluted, 9.0% Cash Dividend)	-	117	1,269	-	(1,269)	-	-	-
City Gear, LLC	Membership Unit Warrants (11.4% fully diluted)	-	-	8,248	-	(1,908)	1,908	(5,064)	3,184
			1,035	17,748	-	(11,408)	1,908	(5,064)	3,184
Eastport Holdings, LLC	Subordinated Debt (15.8% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/29/20)	16,500	1,168	-	15,496	-	-	1,004	16,500
Eastport Holdings, LLC	Membership Units (22.9% ownership)	-	-	-	4,733	(1,470)	-	14,347	17,610
			1,168	-	20,229	(1,470)	-	15,351	34,110
GA Communications, Inc. <sup>(5)</sup>	Series A-1 Preferred Stock (1,998 shares, 8.0% PIK Dividend)	-	-	3,225	276	-	-	(19)	3,482
GA Communications, Inc.	Series B-1 Common Stock (200,000 shares)	-	-	1,932	-	-	-	(607)	1,325
			-	5,157	276	-	-	(626)	4,807
J&J Produce Holdings, Inc.	Subordinated Debt (13.0% Cash, Due 6/16/19)	6,406	805	6,170	38	-	-	2	6,210
J&J Produce Holdings, Inc.	Common Stock (8,182 shares)	-	-	-	-	-	-	-	-
J&J Produce Holdings, Inc.	Common Stock Warrants (6,369 shares)	-	-	-	-	-	-	-	-
			805	6,170	38	-	-	2	6,210
LJS Partners, LLC	Common Stock (1,587,848 shares)	-	-	7,650	293	-	-	(4,925)	3,018
			-	7,650	293	-	-	(4,925)	3,018
MJC Holdings, LLC	Series A Preferred Units (2,000,000 units)	-	-	-	-	(28)	28	-	-
			-	-	-	(28)	28	-	-
MMI Holdings, LLC	First Lien Debt (12.0% Cash, Due 1/31/20)	2,600	317	2,600	-	-	-	-	2,600
MMI Holdings, LLC	Subordinated Debt (6.0% Cash, Due 1/31/20)	400	24	400	-	-	-	-	400
MMI Holdings, LLC <sup>(5)</sup>	Preferred Units (1,000 units, 6.0% PIK Dividend)	-	-	1,520	92	-	-	-	1,612
MMI Holdings, LLC	Common Membership Units (45 units)	-	-	193	-	-	-	(8)	185
			341	4,713	92	-	-	(8)	4,797
MTI Holdings, LLC	Membership Units (2,000,000 units)	-	-	100	-	(139)	139	(100)	-
			-	100	-	(139)	139	(100)	-
Sierra Hamilton Holdings Corporation	Common Stock (15,068,000 shares)	-	-	8,528	-	-	-	(1,674)	6,854
			-	8,528	-	-	-	(1,674)	6,854
Source Capital Penray, LLC	Membership Units (11.3% ownership)	-	121	101	-	-	-	(101)	-

		121	101	-	-	-	(101)	-
STX Healthcare Management Services, Inc.	Common Stock (1,200,000 shares)	-	93	-	(108)	108	(93)	-
		-	93	-	(108)	108	(93)	-
US Bath Group, LLC	First Lien Debt (11.4% Cash (1 month LIBOR + 9.0%, 1.0% Floor), Due 1/2/23)	12,750	1,806	-	15,000	(2,250)	-	12,750
US Bath Group, LLC	Membership Units (500,000 units)	-	-	500	-	-	1,583	2,083
		1,806	-	15,500	(2,250)	-	1,583	14,833
U.S. Well Services, LLC	First Lien Debt (8.3% Cash (1 month LIBOR + 6.0%, 1.0% Floor), Due 2/2/22)	-	156	2,299	-	(2,299)	-	-
U.S. Well Services, LLC	First Lien Debt (13.3% PIK (1 month LIBOR + 11.0%, 1.0% Floor), Due 2/2/22)	-	567	9,516	409	(9,925)	-	-
U.S. Well Services, LLC	Class A Units (5,680,688 Units)	-	-	15,004	-	(6,260)	-	(8,744)
U.S. Well Services, LLC	Class B Units (2,076,298 Units)	-	-	955	-	(441)	-	(514)
		723	27,774	409	(18,925)	-	(9,258)	-
V12 Holdings, Inc.	Subordinated Debt	-	-	1,035	-	(232)	93	742
		-	1,035	-	(232)	93	(154)	742
<b>Total Affiliate investments</b>		<b>\$ 8,183</b>	<b>\$ 103,957</b>	<b>\$ 52,258</b>	<b>\$ (60,214)</b>	<b>\$ 2,920</b>	<b>\$ (5,982)</b>	<b>\$ 92,939</b>

Company <sup>(4)</sup>	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income <sup>(1)</sup>	December 31, 2017 Fair Value	Gross Additions <sup>(2)</sup>	Gross Reductions <sup>(3)</sup>	Realized Gain/(Loss)	Unrealized Gain/(Loss)	December 31, 2018 Fair Value
<b>Control investments</b>									
AAE Acquisition, LLC	Second Lien Debt (6.0% Cash, Due 8/24/19)	\$ 16,327	\$ 488	\$ -	\$ 16,327	\$ -	\$ -	\$ -	\$ 16,327
AAE Acquisition, LLC	Membership Units (2.2% fully diluted)	-	-	-	17	-	-	(17)	-
AAE Acquisition, LLC	Warrants (37.8% fully diluted)	-	-	-	-	-	-	-	-
			488	-	16,344	-	-	(17)	16,327
CableOrganizer Acquisition, LLC	First Lien Debt (10.0% Cash, Due 5/24/19)	1,708	121	-	1,708	-	-	-	1,708
CableOrganizer Acquisition, LLC	First Lien Debt (12.0% Cash, 4.0% PIK, Due 6/30/19)	8,889	1,173	12,373	515	(2,354)	(1,646)	1	8,889
CableOrganizer Acquisition, LLC	Preferred Units (4,000,000 units)	-	-	-	2,354	-	-	(2,354)	-
CableOrganizer Acquisition, LLC	Common Stock (21.3% fully diluted)	-	-	118	-	-	-	(118)	-
CableOrganizer Acquisition, LLC	Common Stock Warrants (10.0% fully diluted )	-	-	60	-	-	-	(60)	-
			1,294	12,551	4,577	(2,354)	(1,646)	(2,531)	10,597
Capitala Senior Loan Fund II, LLC	Membership Units (80.0% ownership)	-	-	-	13,600	-	-	95	13,695
			-	-	13,600	-	-	95	13,695
Eastport Holdings, LLC	Subordinated Debt (15.8% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/29/20)	-	2,144	16,500	493	(15,231)	-	(1,762)	-
Eastport Holdings, LLC	Membership Units (22.9% ownership)	-	-	26,449	-	(4,733)	-	(21,716)	-
			2,144	42,949	493	(19,964)	-	(23,478)	-
Kelle's Transport Service, LLC	First Lien Debt (4.0% Cash, Due 2/15/20)	-	82	2,000	1,300	(3,300)	-	-	-
Kelle's Transport Service, LLC	First Lien Debt (2.2% Cash, Due 2/15/20)	-	126	9,560	-	(10,000)	(3,669)	4,109	-
Kelle's Transport Service, LLC	Membership Units (27.5% fully diluted)	-	-	-	-	-	-	-	-
			208	11,560	1,300	(13,300)	(3,669)	4,109	-
Micro Precision, LLC	Subordinated Debt (10.0% Cash, Due 1/1/19)	1,862	186	1,862	-	-	-	-	1,862
Micro Precision, LLC	Subordinated Debt (14.0% Cash, 4.0% PIK, Due 1/1/19)	4,325	601	4,154	171	-	-	-	4,325
Micro Precision, LLC	Series A Preferred Units (47 units)	-	-	1,629	-	-	-	1,188	2,817
			787	7,645	171	-	-	1,188	9,004
Navis Holdings, Inc.	First Lien Debt (15.0% Cash, Due 10/30/20)	7,500	1,149	6,500	1,000	-	-	-	7,500
Navis Holdings, Inc. <sup>(5)</sup>	Class A Preferred Stock (1,000 shares, 10.0% Cash Dividend)	-	100	1,000	-	-	-	-	1,000
Navis Holdings, Inc.	Common Stock (300,000 shares)	-	-	5,005	-	-	-	(657)	4,348
			1,249	12,505	1,000	-	-	(657)	12,848
On-Site Fuel Service, Inc.	First Lien Debt (18.0% Cash, Due 12/19/18)	-	30	-	11,020	-	(11,020)	-	-
On-Site Fuel Service, Inc.	Subordinated Debt (18.0% Cash, Due 12/19/18)	-	-	11,588	-	(11,020)	-	(568)	-
On-Site Fuel Service, Inc.	Series A Preferred Stock (32,782 shares)	-	-	-	-	-	(3,278)	3,278	-
On-Site Fuel Service, Inc.	Series B Preferred Stock (23,648 shares)	-	-	-	-	-	(2,364)	2,364	-
On-Site Fuel Service, Inc.	Common Stock (33,058 shares)	-	-	-	-	-	(33)	33	-
			30	11,588	11,020	(11,020)	(16,695)	5,107	-
Portrait Studio, LLC	First Lien Debt (9.0% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 2.0% Ceiling), Due 12/31/22)	-	167	1,860	2,400	(4,260)	-	-	-
Portrait Studio, LLC	First Lien Debt (9.4% Cash (1 month LIBOR + 7.0%, 1.0% Floor, 5.0% Ceiling), Due 12/31/22)	4,500	435	4,500	-	-	-	-	4,500
Portrait Studio, LLC	Preferred Units (4,350,000 Units)	-	-	2,450	-	-	-	(276)	2,174
Portrait Studio, LLC	Membership Units (150,000 Units)	-	-	-	-	-	-	-	-
			602	8,810	2,400	(4,260)	-	(276)	6,674
<b>Total Control investments</b>		<b>\$ 6,802</b>	<b>\$ 107,608</b>	<b>\$ 107,608</b>	<b>\$ 50,905</b>	<b>\$ (50,898)</b>	<b>\$ (22,010)</b>	<b>\$ (16,460)</b>	<b>\$ 69,145</b>

(1) Represents the total amount of interest, original issue discount, fees and dividends credited to income for the portion of the year an investment was included in Affiliate or Control categories, respectively.

(2) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on investments, accrued PIK and

accretion of original issue discount. Gross additions also include transfers into Affiliate or Control classification.

- (3) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales. Gross reductions also includes transfers out of Affiliate or Control classification.
- (4) All debt investments are income producing. Equity and warrant investments are non-income producing, unless otherwise noted.
- (5) The equity investment is income producing, based on rate disclosed.

## Note 6. Agreements

On September 24, 2013, the Company entered into an investment advisory agreement (the “Investment Advisory Agreement”) with our Investment Advisor, which was initially approved by the Board on June 10, 2013. Unless earlier terminated in accordance with its terms, the Investment Advisory Agreement will remain in effect if approved annually by the Board or by a majority of our outstanding voting securities, including, in either case, by a majority of our non-interested directors. The Investment Advisory Agreement was most recently re-approved by the Board, including a majority of our non-interested directors, at an in-person meeting on July 26, 2018. Subject to the overall supervision of the Board, the Investment Advisor manages our day-to-day operations and provides investment advisory and management services to us. Under the terms of the Investment Advisory Agreement, the Investment Advisor:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio, and the manner of implementing such changes;
- identifies, evaluates, and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- provides us with other investment advisory, research, and related services as we may from time to time require.

The Investment Advisor’s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired.

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith, or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, the Investment Advisor and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with it are entitled to indemnification from the Company for any damages, liabilities, costs, and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of our Investment Advisor’s services under the Investment Advisory Agreement or otherwise as Investment Advisor for the Company.

Pursuant to the Investment Advisory Agreement, the Company has agreed to pay the Investment Advisor a fee for investment advisory and management services consisting of two components — a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.75% of the gross assets, which are the total assets reflected on the consolidated statements of assets and liabilities and includes any borrowings for investment purposes. Although the Company does not anticipate making significant investments in derivative financial instruments, the fair value of any such investments, which will not necessarily equal their notional value, will be included in the calculation of gross assets. For services rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of the gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The incentive fee consists of the following two parts:

The first part of the incentive fee is calculated and payable quarterly in arrears based on the pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income, and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence, and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement to our Administrator, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 2.0% per quarter (8.0% annualized). The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 1.75% base management fee. The Company pays the Investment Advisor an incentive fee with respect to the pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle of 2.0%;

- 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.5% in any calendar quarter (10.0% annualized). The Company refers to this portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.5%) as the “catch-up.” The “catch-up” is meant to provide the Investment Advisor with 20% of the pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

- 20% of the amount of the pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Advisor (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to the Investment Advisor).

The Investment Advisor has voluntarily agreed to waive all, or such portion of the quarterly incentive fees earned by the Investment Advisor that would otherwise cause the Company’s quarterly net investment income to be less than the distribution payments declared by the Board. Quarterly incentive fees are earned by the Investment Advisor pursuant to the Investment Advisory Agreement. Incentive fees subject to the waiver cannot exceed the amount of incentive fees earned during the period, as calculated on a quarterly basis. The Investment Advisor will not be entitled to recoup any amount of incentive fees that it waives. The waiver was effective in the fourth quarter of 2015 and will continue unless otherwise publicly disclosed by the Company.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and will equal 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees with respect to each of the investments in our portfolio.

The Company will defer cash payment of the portion of any incentive fee otherwise earned by the Investment Advisor that would, when taken together with all other incentive fees paid to the Investment Advisor during the most recent 12 full calendar month period ending on or prior to the date such payment is to be made, exceed 20% of the sum of (a) the pre-incentive fee net investment income during such period, (b) the net unrealized appreciation or depreciation during such period and (c) the net realized capital gains or losses during such period. Any deferred incentive fees will be carried over for payment in subsequent calculation periods to the extent such payment is payable under the Investment Advisory Agreement. As of March 31, 2019 and December 31, 2018, the Company had incentive fees payable to the Investment Advisor of \$3.5 million and \$2.5 million, respectively.

For the three months ended March 31, 2019 and 2018, the Company incurred \$2.1 million and \$2.3 million in base management fees, respectively. The Company incurred \$1.0 million and \$0.2 million in incentive fees related to pre-incentive fee net investment income for the three months ended March 31, 2019 and 2018, respectively. For the three months ended March 31, 2019 and 2018, no incentive fees were waived by our Investment Advisor.

On September 24, 2013, the Company entered into the Administration Agreement, pursuant to which the Administrator has agreed to furnish the Company with office facilities, equipment and clerical, bookkeeping, and record keeping services at such facilities. The Administrator also performs or oversees the performance of the required administrative services, which include, among other things, being responsible for the financial records that the Company is required to maintain and preparing reports to our stockholders. In addition, the Administrator assists in determining and publishing the net asset value, oversees the preparation and filing of the tax returns and the printing and dissemination of reports to the stockholders, and generally oversees the payment of the expenses and the performance of administrative and professional services rendered to the Company by others.

Payments under the Administration Agreement are equal to an amount based upon the allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the allocable portion of the compensation of the chief financial officer, the chief compliance officer, the chief accounting officer, and their respective administrative support staff. Under the Administration Agreement, the Administrator will also provide, on the Company's behalf, managerial assistance to those portfolio companies that request such assistance. Unless terminated earlier in accordance with its terms, the Administration Agreement will remain in effect if approved annually by the Board. The Board most recently approved the renewal of the Administration Agreement on July 26, 2018. To the extent that the Administrator outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without any incremental profit to our Administrator. Stockholder approval is not required to amend the Administration Agreement.

For the three months ended March 31, 2019 and 2018, the Company paid the Administrator \$0.4 million and \$0.4 million, respectively, for the Company's allocable portion of the Administrator's overhead.

The Administration Agreement provides that, absent willful misfeasance, bad faith, or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, our Administrator and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with it are entitled to indemnification from the Company for any damages, liabilities, costs, and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of our Administrator's services under the Administration Agreement or otherwise as Administrator for the Company.

#### **Note 7. Related Party Transactions**

At March 31, 2019 and December 31, 2018, the Company had \$3.5 million and \$2.5 million, respectively, of management and incentive fees payable to the Investment Advisor.

On August 31, 2016, the Company sold assets to FSC II in exchange for 100% of the partnership interests in FSC II. Concurrent with the sale of these assets to FSC II, the Company received cash consideration of \$47.6 million from an affiliated third-party purchaser in exchange for 100% of the partnership interests of FSC II. The Company's Board pre-approved this transaction pursuant to Section 57(f) of the 1940 Act. The Administrator also serves as the administrator to FSC II. See Note 4 for a further description of this transaction.

The Company may invest in the same unitranche facility as CSLF II, whereby CSLF II provides the first-out portion of the unitranche facility and the Company and other lenders provide the last-out portion of the unitranche facility. Under a guarantee agreement, the Company may be required to purchase its pro-rata portion of first-out loans from CSLF II upon certain triggering events, including acceleration upon payment default of the underlying borrower. As of March 31, 2019, the Company has evaluated the fair value of the guarantee under the guidance of ASC Topic 460 — *Guarantees* and determined that the fair value of the guarantee is immaterial as the risk of payment default for first-out loans in CSLF II is considered remote. The maximum exposure to credit risk as of March 31, 2019 is \$7.3 million and extends to the stated maturity of the underlying loans in CSLF II.



## Note 8. Borrowings

### SBA Debentures

The Company, through its wholly owned subsidiary, uses debenture leverage provided through the SBA to fund a portion of its investment portfolio. As of March 31, 2019 and December 31, 2018, the Company had \$150.0 million and \$165.7 million, respectively, of SBA-guaranteed debentures outstanding. The Company has issued all SBA-guaranteed debentures that were permitted under each of the Legacy Funds' respective SBIC licenses (as applicable), and there are no unused SBA debenture commitments remaining. On March 1, 2019, Fund II repaid its outstanding SBA debentures and relinquished its SBIC license. SBA-guaranteed debentures are secured by a lien on all assets of Fund III and were secured by a lien on all assets of Fund II prior to March 1, 2019. As of March 31, 2019 Fund III had total assets of \$277.2 million. As of December 31, 2018, Fund II and Fund III had total assets of \$332.7 million. On June 10, 2014, the Company received an exemptive order from the SEC exempting the Company, Fund II, and Fund III from certain provisions of the 1940 Act (including an exemptive order granting relief from the asset coverage requirements for certain indebtedness issued by Fund II and Fund III as SBICs) and from certain reporting requirements mandated by the Securities Exchange Act of 1934, as amended, with respect to Fund II and Fund III. The Company intends to comply with the conditions of the order.

The following table summarizes the interest expense and annual charges, deferred financing costs, average balance outstanding, and average stated interest and annual charge rate on the SBA-guaranteed debentures for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Interest expense and annual charges	\$ 1,433	\$ 1,562
Deferred financing costs	285	154
Total interest and financing expenses	\$ 1,718	\$ 1,716
Average outstanding balance	\$ 160,292	\$ 170,700
Average stated interest and annual charge rate	3.62%	3.71%

As of March 31, 2019 and December 31, 2018, the Company's issued and outstanding SBA-guaranteed debentures mature as follows (dollars in thousands):

Fixed Maturity Date	Interest Rate	SBA Annual Charge	March 31, 2019	December 31, 2018
September 1, 2020	3.215%	0.285%	\$ 19,000	\$ 19,000
March 1, 2021	4.084%	0.515%	—	15,700
March 1, 2021	4.084%	0.285%	46,000	46,000
March 1, 2022	2.766%	0.285%	10,000	10,000
March 1, 2022	2.766%	0.515%	50,000	50,000
March 1, 2023	2.351%	0.515%	25,000	25,000
			\$ 150,000	\$ 165,700

### 2022 Notes

On May 16, 2017, the Company issued \$70.0 million in aggregate principal amount of 6.0% fixed-rate notes due May 31, 2022 (the "2022 Notes"). On May 25, 2017, the Company issued an additional \$5.0 million in aggregate principal amount of the 2022 Notes pursuant to a partial exercise of the underwriters' overallocation option. The 2022 Notes will mature on May 31, 2022 and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after May 31, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest was payable quarterly beginning August 31, 2017.

The following table summarizes the interest expense, deferred financing costs, average outstanding balance, and average stated interest rate on the 2022 Notes for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Interest expense	\$ 1,125	\$ 1,125
Deferred financing costs	132	124
Total interest and financing expenses	\$ 1,257	\$ 1,249
Average outstanding balance	\$ 75,000	\$ 75,000
Average stated interest rate	6.0%	6.0%

## 2022 Convertible Notes

On May 26, 2017, the Company issued \$50.0 million in aggregate principal amount of 5.75% fixed-rate convertible notes due May 31, 2022 (the “2022 Convertible Notes”). On June 26, 2017, the Company issued an additional \$2.1 million in aggregate principal amount of the 2022 Convertible Notes pursuant to a partial exercise of the underwriters’ overallotment option. Interest was payable quarterly beginning August 31, 2017.

The 2022 Convertible Notes are convertible, at the holder’s option, into shares of the Company’s common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date. The conversion rate for the 2022 Convertible Notes is initially 1.5913 shares per \$25.00 principal amount of 2022 Convertible Notes (equivalent to an initial conversion price of approximately \$15.71 per share of common stock). The initial conversion premium is approximately 14.0%. Upon conversion, the Company will deliver shares of its common stock (and cash in lieu of fractional shares). The conversion rate is subject to adjustment if certain events occur as outlined in the supplemental indenture relating to the 2022 Convertible Notes. The Company has determined that the embedded conversion option in the 2022 Convertible Notes is not required to be separately accounted for as a derivative under U.S. GAAP.

In addition, pursuant to a “fundamental change”, as defined in the supplemental indenture relating to the 2022 Convertible Notes, holders of the 2022 Convertible Notes may require the Company to repurchase for cash all or part of their 2022 Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the 2022 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date. The 2022 Convertible Notes are not redeemable prior to maturity and no “sinking fund” is provided for the 2022 Convertible Notes.

The following table summarizes the interest expense, deferred financing costs, average outstanding balance, and average stated interest rate on the 2022 Convertible Notes for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Interest expense	\$ 749	\$ 749
Deferred financing costs	84	79
Total interest and financing expenses	\$ 833	\$ 828
Average outstanding balance	\$ 52,088	\$ 52,088
Average stated interest rate	5.75%	5.75%

## Credit Facility

On October 17, 2014, the Company entered into a senior secured revolving credit agreement (the “Credit Facility”) with ING Capital, LLC, as administrative agent, arranger, and bookrunner, and the lenders party thereto. The Credit Facility was amended on May 22, 2015, June 16, 2017, July 19, 2018, and February 22, 2019 (the “Amendments”). The Amendments were affected, among other things, in order to increase the total borrowings allowed under the Credit Facility, allow for stock repurchases, extend the maturity date, reduce the minimum required interest coverage ratio, reduce the minimum required net asset value, and reduce the minimum required asset coverage ratio. The Credit Facility currently provides for borrowings up to \$114.5 million and may be increased up to \$200.0 million pursuant to its “accordion” feature. The Credit Facility matures on June 16, 2021.

Borrowings under the Credit Facility bear interest, at the Company's election, at a rate per annum equal to (i) the one, two, three, or six month LIBOR, as applicable, plus 3.00% or (ii) 2.00% plus the highest of (A) a prime rate, (B) the Federal Funds rate plus 0.5%, and (C) three month LIBOR plus 1.0%. The Company's ability to elect LIBOR indices with various tenors (e.g., one, two, three, or six month LIBOR) on which the interest rates for borrowings under the Credit Facility are based, provides the company with increased flexibility to manage interest rate risks as compared to a borrowing arrangement that does not provide for such optionality. Once a particular LIBOR has been selected, the interest rate on the applicable amount borrowed will reset after the applicable tenor period and be based on the then applicable selected LIBOR (e.g., borrowings for which the Company has elected the one month LIBOR will reset on the one month anniversary of the period based on the then selected LIBOR). For any given borrowing under the Credit Facility, the Company intends to elect what it believes to be an appropriate LIBOR taking into account the Company's needs at the time as well as the Company's view of future interest rate movements. The Credit Facility provides for the ability to step-down the pricing of the Credit Facility from LIBOR plus 3.00% to LIBOR plus 2.75% when certain conditions are met. The Company will also pay an unused commitment fee at a rate of 2.50% per annum on the amount (if positive) by which 40% of the aggregate commitments under the Credit Facility exceeds the outstanding amount of loans under the Credit Facility and 0.50% per annum on any remaining unused portion of the Credit Facility.

The following table summarizes the interest expense, deferred financing costs, unused commitment fees, average outstanding balance, and average stated interest rate on the Credit Facility for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Interest expense	\$ 216	\$ 189
Deferred financing costs	115	107
Unused commitment fees	274	275
Total interest and financing expenses	<u>\$ 605</u>	<u>\$ 571</u>
Average outstanding balance	<u>\$ 15,666</u>	<u>\$ 16,344</u>
Average stated interest rate	5.53%	4.63%

As of March 31, 2019 and December 31, 2018, the Company had \$25.0 million and \$10.0 million, respectively, outstanding under the Credit Facility. The Credit Facility is secured by investments and cash held by the Company, exclusive of assets pledged as collateral for the Company's SBA debentures. Assets pledged to secure the Credit Facility had a carrying value of \$210.8 million and \$158.9 million, respectively, at March 31, 2019 and December 31, 2018. As part of the terms of the Credit Facility, the Company may not make cash distributions with respect to any taxable year that exceed 110% (125% if the Company is not in default and our covered debt does not exceed 85% of the borrowing base) of the amounts required to be distributed to maintain eligibility as a RIC and to reduce our tax liability to zero for taxes imposed on our investment company taxable income and net capital gains.

#### *Financial Instruments Disclosed, But Not Carried, At Fair Value*

The following table presents the carrying value and fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of March 31, 2019, and the level of each financial liability within the fair value hierarchy (dollars in thousands):

	<b>Carrying Value <sup>(1)</sup></b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
SBA debentures	\$ 150,000	\$ 150,436	\$ —	\$ —	\$ 150,436
2022 Notes	75,000	75,443	75,443	—	—
2022 Convertible Notes	52,088	52,150	52,150	—	—
Credit Facility	25,000	25,068	—	—	25,068
<b>Total</b>	<u>\$ 302,088</u>	<u>\$ 303,097</u>	<u>\$ 127,593</u>	<u>\$ —</u>	<u>\$ 175,504</u>

(1) Carrying value equals the gross principal outstanding at period end.

The following table presents the carrying value and fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of December 31, 2018, and the level of each financial liability within the fair value hierarchy (dollars in thousands):

	Carrying Value <sup>(1)</sup>	Fair Value	Level 1	Level 2	Level 3
SBA debentures	\$ 165,700	\$ 165,436	\$ —	\$ —	\$ 165,436
2022 Notes	75,000	74,700	74,700	—	—
2022 Convertible Notes	52,088	49,546	49,546	—	—
Credit Facility	10,000	10,030	—	—	10,030
<b>Total</b>	<b>\$ 302,788</b>	<b>\$ 299,712</b>	<b>\$ 124,246</b>	<b>\$ —</b>	<b>\$ 175,466</b>

(1) Carrying value equals the gross principal outstanding at period end.

The estimated fair value of the Company's SBA debentures was based on future contractual cash payments discounted at market interest rates to borrow from the SBA as of the measurement date.

The estimated fair value of the 2022 Notes and 2022 Convertible Notes was based on their respective closing prices as of the measurement date as they are traded on the NASDAQ Global Select Market under the ticker "CPTAL" (2022 Notes) and on the NASDAQ Capital Market under the ticker "CPTAG" (2022 Convertible Notes).

The estimated fair value of the Credit Facility was based on future contractual cash payments discounted at estimated market interest rates for similar debt.

#### Note 9. Directors' Fees

Our independent directors receive an annual fee of \$50,000. They also receive \$5,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and \$5,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of \$10,000 and each chairman of any other committee receives an annual fee of \$5,000 for their additional services, if any, in these capacities. For the three months ended March 31, 2019 and 2018, the Company recognized directors' fees expense of \$0.1 million and \$0.1 million, respectively. No compensation is expected to be paid to directors who are "interested persons" of the Company, as such term is defined in Section 2(a)(19) of the 1940 Act.

#### Note 10. Summarized Financial Information of Our Unconsolidated Subsidiaries

The Company holds a control interest, as defined by the 1940 Act, in six portfolio companies that are considered significant subsidiaries under the guidance in Regulation S-X but are not consolidated in the Company's consolidated financial statements. Below is a brief description of each such portfolio company, along with summarized financial information as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and March 31, 2018.

##### *AAE Acquisition, LLC*

AAE Acquisition, LLC, formed on May 21, 2004 as a Delaware limited liability company, is an aerial equipment rental and services business primarily serving the Gulf Coast region. The income (loss) the Company generated from AAE Acquisition, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation), was \$(2.9) million and \$0.7 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

##### *CableOrganizer Acquisition, LLC*

CableOrganizer Acquisition, LLC, a Delaware limited liability company that began operations on April 23, 2013, is a leading online provider of cable and wire management products. The loss the Company generated from CableOrganizer Acquisition, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, realized loss, and unrealized appreciation (depreciation), was \$(1.7) million and \$(0.9) million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### **Micro Precision, LLC**

Micro Precision, LLC, formed on August 5, 2011 as a Delaware limited liability company, is a prime contractor supplying critical parts and mechanical assemblies to the U.S. Department of Defense as well as designer and manufacturer of locomotive air horns. The income (loss) the Company generated from Micro Precision, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation), was \$0.3 million and \$(0.2) million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### **Navis Holdings, Inc.**

Navis Holdings, Inc., incorporated in Delaware on December 21, 2010, designs and manufactures leading machinery for the global knit and woven finishing textile industries. The income (loss) the Company generated from Navis Holdings, Inc., which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation) was \$(0.5) million and \$0.5 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### **Portrait Studio, LLC**

Portrait Studio, LLC, formed on December 12, 2017 as a Delaware limited liability company, is a professional and personal imaging platform, operating retail studios throughout the U.S. and an ecommerce virtual studio web portal. The loss the Company generated from Portrait Studio, LLC, which includes all interest, dividends, PIK interest, and PIK dividends, fees, and unrealized depreciation, was \$(0.5) million and \$(0.3) million for the three months ended March 31, 2019 and March 31, 2018.

### **Eastport Holdings, LLC**

Eastport Holdings, LLC, an Ohio limited liability company organized on November 1, 2011, is a holding company consisting of marketing and advertising companies located across the U.S. The income (loss) the Company generated from Eastport Holdings, LLC, which includes all interest, dividends, PIK interest and dividends, fees, and unrealized appreciation (depreciation), was \$(0.6) million and \$0.6 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

The summarized unaudited financial information of our unconsolidated subsidiaries was as follows (dollars in thousands):

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets – AAE Acquisition, LLC</b>		
Current assets	\$ 7,195	\$ 7,277
Noncurrent assets	21,928	22,994
<b>Total assets</b>	<b>\$ 29,123</b>	<b>\$ 30,271</b>
Current liabilities	\$ 54,684	\$ 53,939
Noncurrent liabilities	1,726	2,122
<b>Total liabilities</b>	<b>\$ 56,410</b>	<b>\$ 56,061</b>
<b>Total deficit</b>	<b>\$ (27,287)</b>	<b>\$ (25,790)</b>

<b>Statements of Operations – AAE Acquisition, LLC</b>	<b>For the three months ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2019</b>	<b>2018</b>
Net sales	\$ 6,541	\$ 6,623
Cost of goods sold	5,001	4,855
Gross profit	\$ 1,540	\$ 1,768
Other expenses	\$ 3,034	\$ 3,116
Loss before income taxes	(1,494)	(1,348)
Income tax provision	—	—
Net loss	\$ (1,494)	\$ (1,348)

<b>Balance Sheets – CableOrganizer Acquisition, LLC</b>	<b>As of</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
Current assets	\$ 2,874	\$ 2,987
Noncurrent assets	7,067	8,459
Total assets	\$ 9,941	\$ 11,446
Current liabilities	\$ 3,013	\$ 13,094
Noncurrent liabilities	3,689	—
Total liabilities	\$ 6,702	\$ 13,094
Total equity (deficit)	\$ 3,239	\$ (1,648)

<b>Statements of Operations – CableOrganizer Acquisition, LLC</b>	<b>For the three months ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2019</b>	<b>2018</b>
Net sales	\$ 3,177	\$ 4,926
Cost of goods sold	2,229	3,411
Gross profit	\$ 948	\$ 1,515
Other expenses	\$ 1,909	\$ 2,015
Loss before income taxes	(961)	(500)
Income tax provision	—	—
Net loss	\$ (961)	\$ (500)

<b>Balance Sheets – Micro Precision, LLC</b>	<b>As of</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
Current assets	\$ 7,128	\$ 5,880
Noncurrent assets	19,399	19,436
Total assets	\$ 26,527	\$ 25,316
Current liabilities	\$ 19,932	\$ 18,712
Noncurrent liabilities	2,965	2,961
Total liabilities	\$ 22,897	\$ 21,673
Total equity	\$ 3,630	\$ 3,643

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Statements of Operations – Micro Precision, LLC</b>		
Net sales	\$ 2,908	\$ 2,367
Cost of goods sold	1,581	1,308
Gross profit	<u>\$ 1,327</u>	<u>\$ 1,059</u>
Other expenses	\$ 1,339	\$ 1,216
Loss before income taxes	(12)	(157)
Income tax provision	—	—
Net loss	<u>\$ (12)</u>	<u>\$ (157)</u>

	<b>As of</b>	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Balance Sheets – Navis Holdings, Inc.</b>		
Current assets	\$ 4,875	\$ 5,868
Noncurrent assets	4,723	5,145
Total assets	<u>\$ 9,598</u>	<u>\$ 11,013</u>
Current liabilities	\$ 4,096	\$ 5,542
Noncurrent liabilities	8,113	8,060
Total liabilities	<u>\$ 12,209</u>	<u>\$ 13,602</u>
Total deficit	<u>\$ (2,611)</u>	<u>\$ (2,589)</u>

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Statements of Operations – Navis Holdings, Inc.</b>		
Net sales	\$ 4,623	\$ 3,364
Cost of goods sold	2,645	2,025
Gross profit	<u>\$ 1,978</u>	<u>\$ 1,339</u>
Other expenses	\$ 1,673	\$ 1,336
Income before income taxes	305	3
Income tax provision	(70)	(2)
Net income	<u>\$ 235</u>	<u>\$ 1</u>

	<b>As of</b>	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Balance Sheets – Portrait Studio, LLC</b>		
Current assets	\$ 2,082	\$ 2,833
Noncurrent assets	3,765	4,324
Total assets	<u>\$ 5,847</u>	<u>\$ 7,157</u>
Current liabilities	\$ 4,088	\$ 4,236
Noncurrent liabilities	7,509	7,510
Total liabilities	<u>\$ 11,597</u>	<u>\$ 11,746</u>
Total deficit	<u>\$ (5,750)</u>	<u>\$ (4,589)</u>

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Statements of Operations – Portrait Studio, LLC</b>		
Net sales	\$ 8,497	\$ 10,589
Cost of goods sold	1,077	1,470
Gross profit	<u>\$ 7,420</u>	<u>\$ 9,119</u>
Other expenses	\$ 8,598	\$ 10,438
Loss before income taxes	(1,178)	(1,319)
Income tax provision	—	—
Net loss	<u>\$ (1,178)</u>	<u>\$ (1,319)</u>

	<b>As of</b>	
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Balance Sheets - Eastport Holdings, LLC</b>		
Current assets	\$ 96,859	\$ 81,232
Noncurrent assets	198,360	198,962
Total assets	<u>\$ 295,219</u>	<u>\$ 280,194</u>
Current liabilities	\$ 163,389	\$ 144,928
Noncurrent liabilities	55,493	56,951
Total liabilities	<u>\$ 218,882</u>	<u>\$ 201,879</u>
Total equity	<u>\$ 76,337</u>	<u>\$ 78,315</u>

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Statements of Operations - Eastport Holdings, LLC</b>		
Net sales	\$ 117,670	\$ 132,477
Cost of goods sold	79,857	93,021
Gross profit	<u>\$ 37,813</u>	<u>\$ 39,456</u>
Other expenses	\$ 39,561	\$ 38,495
Income (loss) before income taxes	(1,748)	961
Income tax (provision) benefit	58	(307)
Net Income (loss)	<u>\$ (1,690)</u>	<u>\$ 654</u>

#### Note 11. Earnings Per Share

In accordance with the provisions of ASC Topic 260 - *Earnings per Share* (“ASC 260”), basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share. For the three months ended March 31, 2019 and March 31, 2018, 3.3 million in convertible shares related to the 2022 Convertible Notes were considered anti-dilutive.

The following information sets forth the computation of the weighted average basic and diluted net increase (decrease) in net assets per share resulting from operations for the three months ended March 31, 2019 and March 31, 2018 (dollars in thousands, except share and per share data):

	<b>For the three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Basic and diluted</b>		
Net increase (decrease) in net assets resulting from operations	\$ (151)	\$ 141
Weighted average common stock outstanding – basic and diluted	16,062,906	15,959,215
Net increase (decrease) in net assets per share resulting from operations – basic and diluted	<u>\$ (0.01)</u>	<u>\$ 0.01</u>

#### Note 12. Distributions

The Company’s distributions are recorded on the record date. Stockholders have the option to receive payment of the distribution in cash, shares of common stock, or a combination of cash and common stock.

The following table summarizes the Company’s distribution declarations for the three months ended March 31, 2019 (dollars in thousands, except share and per share data):

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>	<b>Cash Distribution</b>	<b>DRIP Shares Issued</b>	<b>DRIP Share Value</b>
January 2, 2019	January 24, 2019	January 30, 2019	\$ 0.0833	\$ 1,256	10,270	\$ 81
January 2, 2019	February 20, 2019	February 27, 2019	0.0833	1,253	10,570	85
January 2, 2019	March 21, 2019	March 28, 2019	0.0833	1,250	11,756	89
Total Distributions Declared and Distributed			<u>\$ 0.25</u>	<u>\$ 3,759</u>	<u>32,596</u>	<u>\$ 255</u>





The following table summarizes the Company's distribution declarations for the three months ended March 31, 2018 (dollars in thousands, except share and per share data):

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
January 2, 2018	January 22, 2018	January 30, 2018	\$ 0.0833	\$ 1,275	7,280	\$ 54
January 2, 2018	February 20, 2018	February 27, 2018	0.0833	1,275	8,076	54
January 2, 2018	March 23, 2018	March 29, 2018	0.0833	1,274	7,631	56
Total Distributions Declared and Distributed			\$ 0.25	\$ 3,824	22,987	\$ 164

### Note 13. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2019 and 2018 (dollars in thousands, except share and per share data):

	For the three months ended	
	March 31, 2019	March 31, 2018
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 11.88	\$ 13.91
Net investment income <sup>(1)</sup>	0.26	0.28
Net realized loss on investments <sup>(1)</sup>	(0.36)	(0.24)
Net unrealized appreciation (depreciation) on investments <sup>(1)</sup>	0.09	(0.02)
Tax benefit (provision) <sup>(1)</sup>	—	(0.01)
Distributions declared from net investment income	(0.25)	(0.25)
Other <sup>(7)</sup>	(0.01)	(0.01)
Net asset value at end of period	\$ 11.61	\$ 13.66
Net assets at end of period	\$ 186,734	\$ 218,204
Shares outstanding at end of period	16,084,143	15,974,218
Per share market value at end of period	\$ 7.96	\$ 7.72
Total return based on market value <sup>(2)</sup>	14.60%	9.80%
<b>Ratio/Supplemental data:</b>		
Ratio of net investment income to average net assets <sup>(9)</sup>	10.56%	8.43%
Ratio of incentive fee to average net assets <sup>(6)(10)</sup>	0.55%	0.11%
Ratio of interest and financing expenses to average net assets <sup>(8)</sup>	9.48%	8.04%
Ratio of tax (benefit) provision to average net assets <sup>(8)</sup>	(0.14)%	0.09%
Ratio of other operating expenses to average net assets <sup>(8)</sup>	6.67%	6.51%
Ratio of total expenses including tax (benefit) provision to average net assets <sup>(6)(9)</sup>	16.56%	14.75%
Portfolio turnover rate <sup>(3)</sup>	2.54%	4.26%
Average debt outstanding <sup>(4)</sup>	\$ 303,046	\$ 314,132
Average debt outstanding per common share	\$ 18.84	\$ 19.66
Asset coverage ratio per unit <sup>(5)</sup>	\$ 2,228	\$ 2,569

(1) Based on daily weighted average balance of shares outstanding during the period.

(2) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's DRIP. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.

(3) Portfolio turnover rate is calculated using the lesser of year-to-date sales or year-to-date purchases over the average of the invested assets at fair value. Portfolio turnover rates that cover less than a full period are not annualized.

(4) Based on the daily weighted average balance of debt outstanding during the period.

- (5) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. We have excluded our SBA-guaranteed debentures from the asset coverage calculation as of March 31, 2019 and March 31, 2018 pursuant to the exemptive relief granted by the SEC in June 2014 that permits us to exclude such debentures from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.
- (6) The ratio of waived incentive fees to average net assets was 0.00% and 0.00%, respectively, for the three months ended March 31, 2019 and March 31, 2018.
- (7) Includes the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on weighted average shares outstanding during the period and certain per share data based on shares outstanding as of a period end or transaction date.
- (8) Ratios are annualized.
- (9) Ratios are annualized. Incentive fees included within the ratio are not annualized.
- (10) Ratio is not annualized.

**Note 14. Subsequent Events**

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would be required to be recognized in the consolidated financial statements as of March 31, 2019.

**Distributions**

On April 1, 2019, the Company's Board declared normal monthly distributions for April, May, and June of 2019 as set forth below:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distributions per Share</b>	
April 1, 2019	April 22, 2019	April 29, 2019	\$	0.0833
April 1, 2019	May 23, 2019	May 30, 2019	\$	0.0833
April 1, 2019	June 20, 2019	June 27, 2019	\$	0.0833

**Portfolio Activity**

On May 1, 2019, the Company invested \$10.6 million in first lien debt and \$0.4 million in equity of Family Quest Holdings, LLC.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q.

Except as otherwise specified, references to “we,” “us,” “our”, or the “Company”, refer to Capitala Finance Corp.

This Quarterly Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about the Company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements.

Some of the statements in the Quarterly Report on Form 10-Q constitute forward-looking statements, which relate to future events or our performance or financial condition. The forward-looking statements contained in this Quarterly Report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate or repay their borrowings, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we use leverage as part of our investment strategy; and
- the risks, uncertainties, and other factors we identify in “Risk Factors” and elsewhere in our Annual Report on Form 10-K and in this quarterly report on Form 10-Q.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability, and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and in this quarterly report on Form 10-Q. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise, unless required by law or U.S. Securities and Exchange Commission (“SEC”) rule or regulation.

## Overview

We are a Maryland corporation that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 as amended (the “1940 Act”). Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We are managed by Capitala Investment Advisors, LLC (the “Investment Advisor”), and Capitala Advisors Corp. (the “Administrator”) provides the administrative services necessary for us to operate.

We provide capital to lower and traditional middle-market companies in the United States (“U.S.”), with a non-exclusive emphasis on the Southeast, Southwest, and Mid-Atlantic regions. We invest primarily in companies with a history of earnings growth and positive cash flow, proven management teams, products or services with competitive advantages, and industry-appropriate margins. We primarily invest in companies with between \$4.5 million and \$30.0 million in trailing twelve-month earnings before interest, tax, depreciation, and amortization (“EBITDA”).

We invest in first lien loans, second lien loans, and subordinated loans, and, to a lesser extent, equity securities issued by lower middle-market companies and traditional middle-market companies.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally must invest at least 70% of our total assets in “qualifying assets,” including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities, and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150%, if certain requirements are met, after November 1, 2019) after such borrowing, with certain limited exceptions. On March 23, 2018, the Small Business Credit Availability Act (the “SBCA”) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150% (i.e. the amount of debt may not exceed 66.7% of the value of our total assets), if certain requirements are met. On November 1, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage. As a result, our asset coverage requirements for senior securities will be changed from 200% to 150%, effective November 1, 2019. To maintain our regulated investment company (“RIC”) status, we must meet specified source-of-income and asset diversification requirements. To maintain our RIC tax treatment under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”) for U.S. federal income tax purposes, we must distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, for the taxable year.

## Corporate History

We commenced operations on May 24, 2013 and completed our initial public offering (“IPO”) on September 30, 2013. The Company was formed for the purpose of (i) acquiring, through a series of transactions, an investment portfolio from the following entities: CapitalSouth Partners Fund I Limited Partnership (“Fund I”); CapitalSouth Partners Fund II Limited Partnership (“Fund II”); CapitalSouth Partners Fund III, L.P. (“Fund III Parent”); CapitalSouth Partners SBIC Fund III, L.P. (“Fund III”) and CapitalSouth Partners Florida Sidecar Fund I, L.P. (“Florida Sidecar”) and, collectively with Fund I, Fund II, Fund III, and Fund III Parent, the “Legacy Funds”); (ii) raising capital in the IPO and (iii) continuing and expanding the business of the Legacy Funds by making additional debt and equity investments in lower middle-market and traditional middle-market companies.

On September 24, 2013, the Company acquired 100% of the limited partnership interests in Fund II, Fund III, and Florida Sidecar and each of their respective general partners, as well as certain assets from Fund I and Fund III Parent, in exchange for an aggregate of 8,974,420 shares of the Company’s common stock (the “Formation Transactions”). Fund II, Fund III, and Florida Sidecar became the Company’s wholly owned subsidiaries. Fund II and Fund III retained their SBIC licenses and continued to hold their existing investments at the time of IPO and have continued to make new investments after the IPO. The IPO consisted of the sale of 4,000,000 shares of the Company’s common stock at a price of \$20.00 per share resulting in net proceeds to the Company of \$74.25 million, after deducting underwriting fees and commissions totaling \$4.0 million and offering expenses totaling \$1.75 million. The other costs of the IPO were borne by the limited partners of the Legacy Funds. During the fourth quarter of 2017, Florida Sidecar transferred all of its assets to the Company and was legally dissolved as a standalone partnership. On March 1, 2019, Fund II repaid its outstanding SBA debentures and relinquished its SBIC license.

At the time of the Formation Transactions, our portfolio consisted of: (1) approximately \$326.3 million in investments; (2) an aggregate of approximately \$67.1 million in cash, interest receivable and other assets; and (3) liabilities of approximately \$202.2 million of U.S. Small Business Administration (“SBA”) guaranteed debt payable. Fund III, our subsidiary, is licensed under the Small Business Investment Company (“SBIC”) Act and has elected to be regulated as a BDC under the 1940 Act. Fund II, our subsidiary, was licensed under the SBIC Act until March 1, 2019 and has elected to be regulated as a BDC under the 1940 Act.

The Company has formed and expects to continue to form certain consolidated taxable subsidiaries (the “Taxable Subsidiaries”), which are taxed as corporations for income tax purposes. The Taxable Subsidiaries allow the Company to make equity investments in companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

## Basis of Presentation

The Company is considered an investment company as defined in Accounting Standards Codification (“ASC”) Topic 946 — *Financial Services — Investment Companies* (“ASC 946”). The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying our annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries.

The Company’s financial statements as of March 31, 2019 and December 31, 2018 and for the periods ended March 31, 2019 and March 31, 2018 are presented on a consolidated basis. The effects of all intercompany transactions between the Company and its subsidiaries (Fund II, Fund III, and the Taxable Subsidiaries) have been eliminated in consolidation. All financial data and information included in these consolidated financial statements have been presented on the basis described above. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial results as of and for the periods presented.

## Consolidation

As provided under Regulation S-X and ASC 946, the Company will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly owned investment company subsidiaries (Fund II, Fund III, and the Taxable Subsidiaries) in its consolidated financial statements. The Company does not consolidate its interest in Capitala Senior Loan Fund II, LLC ("CSLF II") because the investment is not considered a substantially wholly owned investment company subsidiary. Further, CSLF II is a joint venture for which shared power exists relating to the decisions that most significantly impact the economic performance of the entity. See Note 4 to the consolidated financial statements for a description of the Company's investment in CSLF II.

## Revenues

We generate revenue primarily from the periodic cash interest we collect on our debt investments. In addition, most of our debt investments offer the opportunity to participate in a borrower's equity performance through warrant participation, direct equity ownership, or otherwise, which we expect to result in revenue in the form of dividends and/or capital gains. Further, we may generate revenue in the form of commitment, origination, amendment, structuring or diligence fees, monitoring fees, fees for providing managerial assistance and possibly consulting fees and performance-based fees. These fees will be recognized as they are earned.

## Expenses

Our primary operating expenses include the payment of investment advisory fees to our Investment Advisor, our allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under an administration agreement between us and the Administrator (the "Administration Agreement") and other operating expenses as detailed below. Our investment advisory fee will compensate our Investment Advisor for its work in identifying, evaluating, negotiating, closing, monitoring, and servicing our investments. We will bear all other expenses of our operations and transactions, including (without limitation):

- the cost of our organization;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of our shares and other securities;
- interest payable on debt, if any, to finance our investments;
- fees payable to third parties relating to, or associated with, making investments (such as legal, accounting, and travel expenses incurred in connection with making investments), including fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- costs associated with our reporting and compliance obligations under the 1940 Act, the Securities Exchange Act of 1934, as amended (the "1934 Act"), other applicable federal and state securities laws and ongoing stock exchange listing fees;
- federal, state, and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- costs of proxy statements, stockholders' reports and other communications with stockholders;
- fidelity bond, directors' and officers' liability insurance, errors and omissions liability insurance, and other insurance premiums;

- direct costs and expenses of administration, including printing, mailing, telephone, and staff;
- fees and expenses associated with independent audits and outside legal costs; and
- all other expenses incurred by either our Administrator or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of any costs of compensation and related expenses of our chief compliance officer, our chief financial officer, our chief accounting officer, and their respective administrative support staff.

### **Critical Accounting Policies and Use of Estimates**

In the preparation of our consolidated financial statements and related disclosures, we have adopted various accounting policies that govern the application of U.S. GAAP. Our significant accounting policies are described in Note 2 to the consolidated financial statements. While all of these policies are important to understanding our financial statements, certain accounting policies and estimates are considered critical due to their impact on the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods covered by such financial statements. We have identified investment valuation, revenue recognition, and income taxes as our most critical accounting estimates. We continuously evaluate our estimates, including those related to the matters described below. Because of the nature of the judgments and assumptions we make, actual results could materially differ from those estimates under different assumptions or conditions. A discussion of our critical accounting policies follows.

### **Valuation of Investments**

The Company applies fair value accounting to all of its financial instruments in accordance with the 1940 Act and ASC Topic 820 — *Fair Value Measurements and Disclosures* (“ASC 820”). ASC 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements. In accordance with ASC 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as discussed in Note 4 to our consolidated financial statements.

In determining fair value, our board of directors (the “Board”) uses various valuation approaches, and engages a third-party independent valuation firm, which provides positive assurance on the investments it reviews. In accordance with U.S. GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Board. Unobservable inputs reflect the Board’s assumptions about the inputs market participants would use in pricing the asset or liability developed based upon the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2** — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.



The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

In estimating the fair value of portfolio investments, the Company starts with the cost basis of the investment, which includes original issue discount and payment-in-kind income ("PIK income"), if any. The transaction price is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected fair values.

As a practical expedient, the Company uses net asset value ("NAV") as the fair value for its equity investment in CSLF II. CSLF II records its underlying investments at fair value on a quarterly basis in accordance with the 1940 Act and ASC 820.

## **Valuation Techniques**

### *Enterprise Value Waterfall Approach*

The enterprise value waterfall approach determines an enterprise value based on EBITDA multiples of publicly traded companies that are considered similar to the subject portfolio company. The Company considers a variety of items in determining a reasonable pricing multiple, including, but not limited to, operating results, budgeted projections, growth, size, risk, profitability, leverage, management depth, diversification, market position, supplier or customer dependence, asset utilization, liquidity metrics, and access to capital markets. EBITDA of the portfolio company is adjusted for non-recurring items in order to reflect a normalized level of earnings that is representative of future earnings. In certain instances, the Company may also utilize revenue multiples to determine enterprise value. When available, the Company may assign a pricing multiple or value its investments based on the value of recent investment transactions in the subject portfolio company or offers to purchase the portfolio company. The enterprise value is adjusted for financial instruments with seniority to the Company's ownership and for the effect of any instrument which may dilute the Company's investment in the portfolio company. The adjusted enterprise value is then apportioned based on the seniority and privileges of the Company's investments within the portfolio company.

The enterprise value waterfall approach is primarily utilized to value the Company's equity securities, including warrants. However, the Company may utilize the enterprise value waterfall approach to value certain debt securities.

### *Income Approach*

The income approach utilizes a discounted cash flow methodology in which the Company estimates fair value based on the present value of expected cash flows discounted at a market rate of interest. The determination of a discount rate, or required rate of return, takes into account the portfolio company's fundamentals and perceived credit risk. Because the majority of the Company's portfolio companies do not have a public credit rating, determining a discount rate often involves assigning an implied credit rating based on the portfolio company's operating metrics compared to average metrics of similar publicly rated debt. Operating metrics include, but are not limited to, EBITDA, interest coverage, leverage ratio, return on capital, and debt to equity ratios. The implied credit rating is used to assign a base discount rate range based on publicly available yields on similarly rated debt securities. The Company may apply a premium to the discount rate utilized in determining fair value when performance metrics and other qualitative information indicate that there is an additional level of uncertainty about collectability of cash flows.

### *Asset Approach*

The asset approach values an investment based on the value of the underlying collateral securing the investment. This approach is used when the Company has reason to believe that it will not collect all principal and interest in accordance with the contractual terms of the debt agreement.

### **Revenue Recognition**

The Company's revenue recognition policies are as follows:

*Interest income and paid-in-kind interest income:* Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company has loans in the portfolio that contain a payment-in-kind interest ("PIK interest") provision. The PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at maturity, is recorded on the accrual basis to the extent that such amounts are expected to be collected. PIK interest is not accrued if the Company does not expect the issuer to be able to pay all principal and interest when due.

*Non-accrual investments:* Management reviews all loans that become 90 days or more past due, or when there is reasonable doubt that principal or interest will be collected, for possible placement on non-accrual status. When the Company otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the loan on non-accrual status and will generally cease recognizing interest income and PIK interest on that loan for financial reporting purposes. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. The Company writes off any previously accrued and uncollected cash interest when it is determined that interest is no longer considered collectible. The Company may elect to cease accruing PIK interest and continue accruing interest income in cases where a loan is currently paying its interest income but, in management's judgment, there is a reasonable likelihood of principal loss on the loan. Non-accrual loans are returned to accrual status when the borrower's financial condition improves such that management believes current interest and principal payments are expected to be collected.

*Gains and losses on investment sales and paydowns:* Realized gains and losses on investments are recognized using the specific identification method.

*Dividend income and paid-in-kind dividends:* Dividend income is recognized on the date dividends are declared. The Company holds preferred equity investments in the portfolio that contain a payment-in-kind dividend ("PIK dividends") provision. PIK dividends, which represent contractually deferred dividends added to the equity balance, are recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company will typically cease accrual of PIK dividends when the fair value of the equity investment is less than the cost basis of the investment or when it is otherwise determined by management that PIK dividends are unlikely to be collected. If management determines that a decline in fair value is temporary in nature and the PIK dividends are more likely than not to be collected, management may elect to continue accruing PIK dividends.

*Original issue discount:* Discounts received to par on loans purchased are capitalized and accreted into income over the life of the loan. Any remaining discount is accreted into income upon prepayment of the loan.

*Other income:* Origination fees (to the extent services are performed to earn such income), amendment fees, consent fees, and other fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Prepayment penalties received by the Company for debt instruments repaid prior to the maturity date are recorded as income upon receipt.

## **Income Taxes**

Prior to the Formation Transactions, the Legacy Funds were treated as partnerships for U.S. federal, state, and local income tax purposes and, therefore, no provision has been made in the accompanying consolidated financial statements for federal, state, or local income taxes. In accordance with the partnership tax law requirements, each partner would include their respective components of the Legacy Funds' taxable profits or losses, as shown on their Schedule K-1 in their respective tax or information returns. The Legacy Funds are disregarded entities for tax purposes prior to and post the Formation Transactions.

The Company has elected to be treated for U.S. federal income tax purposes and intends to comply with the requirement to qualify annually as a RIC under subchapter M of the Code and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from U.S. federal income taxes.

In order to qualify as a RIC, among other requirements, the Company is required to timely distribute to its stockholders at least 90.0% of its investment company taxable income, as defined by the Code, for each fiscal tax year. The Company will be subject to a nondeductible U.S. federal excise tax of 4.0% on undistributed income if it does not distribute at least 98.0% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31.

Depending on the level of taxable income earned in an excise tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next excise tax year and pay a 4.0% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. Since the Company's IPO, the Company has not accrued or paid excise tax.

The Company elected to amend its tax year end from August 31 to December 31 and has filed a tax return for the four months ended December 31, 2017. The tax periods ended December 31, 2018, December 31, 2017, August 31, 2017, and August 31, 2016 remain subject to examination by U.S. federal, state, and local tax authorities. No interest expense or penalties have been assessed for the periods ended March 31, 2019 and March 31, 2018. If the Company was required to recognize interest and penalties, if any, related to unrecognized tax benefits this would be recognized as income tax expense in the consolidated statements of operations.

The Company's Taxable Subsidiaries record deferred tax assets or liabilities related to temporary book versus tax differences on the income or loss generated by the underlying equity investments held by the Taxable Subsidiaries. As of March 31, 2019 and December 31, 2018, the Company recorded a net deferred tax asset of \$0.7 million and \$0.6 million, respectively. For the three months ended March 31, 2019, the Company recorded a tax benefit of \$66 thousand. For the three months ended March 31, 2018, the Company recorded a tax provision of \$50 thousand.

In accordance with certain applicable U.S. treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive its entire distribution in either cash or stock of the RIC, subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20.0% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20.0% of its entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock.

ASC Topic 740 — *Income Taxes* (“ASC 740”), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet a “more-likely-than-not” threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. As of March 31, 2019 and December 31, 2018, there were no uncertain tax positions.

The Company is required to determine whether a tax position of the Company is more likely-than-not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that could negatively impact the Company’s net assets.

U.S. GAAP provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

The Company has concluded that it was not necessary to record a liability for any such tax positions as of March 31, 2019 and December 31, 2018. However, the Company’s conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of, and changes to, tax laws, regulations, and interpretations thereof.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the “Tax Act”), which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, a move from a worldwide tax system to a territorial system, as well as other changes. The Taxable Subsidiaries’ provisional tax is based on the new lower blended federal and state corporate tax rate of 24.86%. The implementation of the Tax Act did not have a material impact on the Company’s financial position and results of operations.

### **Portfolio and Investment Activity**

The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company offers customized financing to business owners, management teams, and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion, and other growth initiatives. The Company invests in first lien loans, second lien loans, and subordinated loans and, to a lesser extent, equity securities issued by lower middle-market companies and traditional middle-market companies. As of March 31, 2019, our portfolio consisted of investments in 43 portfolio companies with a fair value of approximately \$455.4 million.

Most of the Company’s debt investments are structured as first lien loans. First lien loans may contain some minimum amount of principal amortization, excess cash flow sweep feature, prepayment penalties, or any combination of the foregoing. First lien loans are secured by a first priority lien in existing and future assets of the borrower and may take the form of term loans or delayed draw facilities. Unitranche debt, a form of first lien loan, typically involves issuing one debt security that blends the risk and return profiles of both senior secured and subordinated debt in one debt security, bifurcating the loan into a first-out tranche and last-out tranche. As of March 31, 2019, 17.2% of the fair value of our first lien loans consisted of last-out loans. As of December 31, 2018, 13.7% of the fair value of our first lien loans consisted of last-out loans. In some cases, first lien loans may be subordinated, solely with respect to the payment of cash interest, to an asset based revolving credit facility.

The Company also invests in debt instruments structured as second lien loans. Second lien loans are loans which have a second priority security interest in all or substantially all of the borrower's assets, and which are not subject to the blockage of cash interest payments to the Company at the first lien lender's discretion.

In addition to first and second lien loans, the Company may also invest in subordinated loans. Subordinated loans typically have a second lien on all or substantially all of the borrower's assets, but unlike second lien loans, may be subject to the interruption of cash interest payments upon certain events of default, at the discretion of the first lien lender.

During the three months ended March 31, 2019, we made approximately \$21.1 million of investments and had approximately \$11.5 million in repayments and sales of investments, resulting in net investments of approximately \$9.6 million for the period. During the three months ended March 31, 2018, we made approximately \$27.8 million of investments and had approximately \$21.4 million in repayments and sales, resulting in net investments of approximately \$6.4 million for the period.

On August 31, 2016, we sold a portion of 14 securities across 10 portfolio companies to CapitalSouth Partners Florida Sidecar Fund II, L.P. ("FSC II"), including granting an option to acquire a portion of our equity investment in Eastport Holdings, LLC (the "Written Call Option"), in exchange for 100% of the partnership interests in FSC II. Concurrent with the sale of these assets to FSC II, we received cash consideration of \$47.6 million from an affiliated third-party purchaser in exchange for 100% of the partnership interests of FSC II. These assets were sold to FSC II at their June 30, 2016 fair market values, resulting in a net realized gain of \$0.1 million. Our Board pre-approved this transaction pursuant to Section 57(f) of the 1940 Act.

The Company collected and will periodically collect principal and interest payments related to certain of the securities purchased by FSC II. Such principal and interest payments will be remitted timely to FSC II based on its proportionate share of the security. FSC II does not have any recourse to the Company related to the non-payment of principal or interest by the underlying issuers of the securities.

As of March 31, 2019, our debt investment portfolio, which represented 76.5% of the fair value of our total portfolio, had a weighted average annualized yield of approximately 12.1%. As of March 31, 2019, 38.2% of the fair value of our debt investment portfolio was bearing a fixed rate of interest. As of December 31, 2018, our debt investment portfolio, which represented 76.4% of the fair value of our total portfolio, had a weighted average annualized yield of approximately 11.9%. As of December 31, 2018, 41.4% of the fair value of our debt investment portfolio was bearing a fixed rate of interest.

The weighted average annualized yield is calculated based on the effective interest rate as of period end, divided by the fair value of our debt investments. The weighted average annualized yield of our debt investments is not the same as a return on investment for our stockholders but, rather, relates to a portion of our investment portfolio and is calculated before the payment of all of our fees and expenses. There can be no assurance that the weighted average annualized yield will remain at its current level.

The following table summarizes the amortized cost and the fair value of investments and cash and cash equivalents as of March 31, 2019 (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Percentage of Total</b>	<b>Investments at Fair Value</b>	<b>Percentage of Total</b>
First Lien Debt	\$ 247,042	54.5%	\$ 241,458	49.9%
Second Lien Debt	37,147	8.2	33,373	6.9
Subordinated Debt	72,975	16.1	73,496	15.2
Equity and Warrants	54,174	11.9	93,133	19.2
Capitala Senior Loan Fund II, LLC	13,600	3.0	13,930	2.9
Cash and Cash Equivalents	28,470	6.3	28,470	5.9
<b>Total</b>	<b>\$ 453,408</b>	<b>100.0%</b>	<b>\$ 483,860</b>	<b>100.0%</b>

The following table summarizes the amortized cost and the fair value of investments and cash and cash equivalents as of December 31, 2018 (dollars in thousands):

	Investments at Amortized Cost	Percentage of Total	Investments at Fair Value	Percentage of Total
First Lien Debt	\$ 252,174	54.9%	\$ 237,570	48.7%
Second Lien Debt	33,040	7.2	32,495	6.7
Subordinated Debt	72,562	15.8	73,113	15.0
Equity and Warrants	48,594	10.6	92,054	18.9
Capitala Senior Loan Fund II, LLC	13,600	3.0	13,695	2.8
Cash and Cash Equivalents	39,295	8.5	39,295	7.9
<b>Total</b>	<b>\$ 459,265</b>	<b>100.0%</b>	<b>\$ 488,222</b>	<b>100.0%</b>

The following table shows the portfolio composition by industry grouping at fair value (dollars in thousands):

	March 31, 2019		December 31, 2018	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Business Services	\$ 58,597	12.9%	\$ 57,946	12.9%
Financial Services	28,685	6.3	21,666	4.8
Consumer Products	27,132	6.0	27,746	6.2
Information Technology	25,410	5.6	25,232	5.6
Sales & Marketing Services	19,623	4.3	19,496	4.3
Telecommunications	18,000	3.9	18,000	4.0
Food Product Manufacturer	17,328	3.8	17,335	3.9
Industrial Equipment Rental	17,260	3.8	16,327	3.6
Healthcare	17,227	3.8	16,972	3.8
Building Products	16,396	3.6	14,833	3.3
IT Consulting	15,184	3.3	15,233	3.4
Retail	14,853	3.3	14,979	3.3
Automobile Part Manufacturer	14,467	3.2	14,384	3.2
Investment Funds	13,930	3.1	13,695	3.0
Healthcare Management	13,424	2.9	13,792	3.1
Multi-Platform Media and Consumer Products	13,000	2.8	13,000	2.9
Government Services	12,097	2.7	12,109	2.7
Textile Equipment Manufacturer	12,033	2.6	12,848	2.8
Oil & Gas Services	9,596	2.1	9,861	2.2
Conglomerate	9,088	2.0	9,004	2.0
Computer Supply Retail	9,062	2.0	10,597	2.4
Advertising & Marketing Services	9,019	2.0	8,712	1.9
Testing Laboratories	7,492	1.6	7,503	1.7
Professional and Personal Digital Imaging	6,869	1.5	6,674	1.5
Oil & Gas Engineering and Consulting Services	6,629	1.5	6,854	1.5
Produce Distribution	6,338	1.4	6,210	1.4
Electronic Machine Repair	6,160	1.3	6,432	1.4
Data Services	5,000	1.1	—	—
Medical Device Distributor	4,827	1.1	4,797	1.1
Restaurant	4,800	1.0	4,903	1.1
Online Merchandise Retailer	3,467	0.8	3,499	0.8
Footwear Retail	3,184	0.7	3,184	0.7
Logistics	2,984	0.6	2,984	0.7
QSR Franchisor	2,442	0.5	3,018	0.7
Home Repair Parts Manufacturer	2,287	0.5	1,722	0.4
Household Product Manufacturer	758	0.2	758	0.2
Data Processing & Digital Marketing	742	0.2	742	0.2
Farming	—	—	5,880	1.3
<b>Total</b>	<b>\$ 455,390</b>	<b>100.0%</b>	<b>\$ 448,927</b>	<b>100.0%</b>

With the exception of the international investment holdings noted below, all investments made by the Company as of March 31, 2019 and December 31, 2018 were made in portfolio companies located in the U.S. The geographic composition is determined by the location of the corporate headquarters of the portfolio company, which may not be indicative of the primary source of the portfolio company's business. The following table shows the portfolio composition by geographic region at fair value as of March 31, 2019 and December 31, 2018 (dollars in thousands):

	March 31, 2019		December 31, 2018	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
South	\$ 232,847	51.1%	\$ 224,856	50.1%
Midwest	79,532	17.5	77,537	17.3
West	77,307	17.0	77,353	17.2
Northeast	65,704	14.4	66,303	14.8
International	—	—	2,878	0.6
Total	\$ 455,390	100.0%	\$ 448,927	100.0%

In addition to various risk management tools, our Investment Advisor uses an investment rating system to characterize and monitor our expected level of return on each investment in our portfolio.

As part of our valuation procedures, we risk rate all of our investments. In general, our investment rating system uses a scale of 1 to 5, with 1 being the lowest probability of default and principal loss. Our internal rating is not an exact system, but it is used internally to estimate the probability of: (i) default on our debt securities and (ii) loss of our debt principal, in the event of a default. In general, our internal rating system may also assist our valuation team in its determination of the estimated fair value of equity securities or equity-like securities. Our internal risk rating system generally encompasses both qualitative and quantitative aspects of our portfolio companies.

Our internal investment rating system incorporates the following five categories:

Investment Rating	Definition
1	In general, the investment may be performing above our internal expectations. Full return of principal and interest is expected. Capital gain is expected.
2	In general, the investment may be performing within our internal expectations, and potential risks to the applicable investment are considered to be neutral or favorable compared to any potential risks at the time of the original investment. All new investments are initially given this rating.
3	In general, the investment may be performing below our internal expectations and therefore, investments in this category may require closer internal monitoring; however, the valuation team believes that no loss of investment return (interest and/or dividends) or principal is expected. The investment also may be out of compliance with certain financial covenants.
4	In general, the investment may be performing below internal expectations and quantitative or qualitative risks may have increased substantially since the original investment. Loss of some or all principal is expected.
5	In general, the investment may be performing substantially below our internal expectations and a number of quantitative or qualitative risks may have increased substantially since the original investment. Loss of some or all principal is expected.

Our Investment Advisor will monitor and, when appropriate, change the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, our Investment Advisor will review these investment ratings on a quarterly basis. The investment rating of a particular investment should not, however, be deemed to be a guarantee of the investment’s future performance.

The following table shows the distribution of our investments on the 1 to 5 investment rating scale at fair value as of March 31, 2019 and December 31, 2018 (dollars in thousands):

Investment Rating	As of March 31, 2019		As of December 31, 2018	
	Investments at Fair Value	Percentage of Total Investments	Investments at Fair Value	Percentage of Total Investments
1	\$ 167,251	36.7%	\$ 171,829	38.3%
2	208,186	45.7	194,411	43.3
3	73,433	16.1	73,325	16.3
4	6,520	1.5	9,362	2.1
5	—	—	—	—
Total	\$ 455,390	100.0%	\$ 448,927	100.0%

As of March 31, 2019, we had one debt investment on non-accrual status with an amortized cost of \$8.9 million and a fair value of \$6.5 million, which represented 2.1% and 1.4% of the investment portfolio, respectively. As of December 31, 2018, we had debt investments in two portfolio companies on non-accrual status with an amortized cost of \$20.7 million and a fair value of \$9.4 million, which represented 4.9% and 2.1% of the investment portfolio, respectively.

#### **Capitala Senior Loan Fund II, LLC**

On December 20, 2018, Capitala and Trinity Universal Insurance Company (“Trinity”), a subsidiary of Kemper Corporation, entered into a limited liability company agreement (the “LLC Agreement”) to co-manage CSLF II. The purpose and design of the joint venture is to invest primarily in senior secured first-out loans. Capitala and Trinity have committed to provide \$25.0 million of equity to CSLF II, with Capitala providing \$20.0 million and Trinity providing \$5.0 million.

Capitala and Trinity each appointed two members to CSLF II’s four-person board of directors and investment committee. All material decisions with respect to CSLF II, including those involving its investment portfolio, require approval of a member on the board of directors and investment committee of at least one member representing Capitala and Trinity, respectively.

As of March 31, 2019, \$13.6 million and \$3.4 million in equity capital had been contributed by Capitala and Trinity, respectively. As of March 31, 2019, the Company and Trinity had \$6.4 million and \$1.6 million of unfunded equity capital commitments outstanding, respectively. As of December 31, 2018, \$13.6 million and \$3.4 million in equity capital had been contributed by Capitala and Trinity, respectively. As of December 31, 2018, the Company and Trinity had \$6.4 million and \$1.6 million of unfunded equity capital commitments outstanding, respectively. The Company’s equity investment in CSLF II is not redeemable.

Below is a summary of CSLF II’s portfolio as of March 31, 2019 and December 31, 2018 (dollars in thousands):

	March 31, 2019	December 31, 2018
First lien loans <sup>(1)</sup>	\$ 16,725	\$ 10,000
Weighted average current interest rate on first lien loans	7.5%	7.6%
Number of portfolio companies in CSLF II	3	2
Largest portfolio company investment <sup>(1)</sup>	\$ 6,750	\$ 5,550
Total of five largest portfolio company investments <sup>(1)(2)</sup>	\$ 16,725	\$ 10,000

(1) Based on principal amount outstanding at period end.

(2) Only three investments and two investments outstanding as of March 31, 2019 and December 31, 2018, respectively.



Below is CSLF II's schedule of investments as of March 31, 2019:

**Capitala Senior Loan Fund II, LLC**  
**Schedule of Investments**  
**March 31, 2019**  
**(in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Investments at Fair Value</b>					
U.S. BioTek Laboratories, LLC	Testing Laboratories	First Lien Debt (7.6% Cash (3 month LIBOR + 5.0%, 2.0% Floor), Due 12/14/23)	\$ 4,489	\$ 4,489	\$ 4,489
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 2.0% Floor), Due 12/20/23)	5,486	5,486	5,486
RAM Payment, LLC	Financial Services	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 1.5% Floor), Due 1/4/24)	6,750	6,750	6,750
<b>TOTAL INVESTMENTS</b>			<u>\$ 16,725</u>	<u>\$ 16,725</u>	<u>\$ 16,725</u>

Below is CSLF II's schedule of investments as of December 31, 2018:

**Capitala Senior Loan Fund II, LLC**  
**Schedule of Investments**  
**December 31, 2018**  
**(in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Investments at Fair Value</b>					
U.S. BioTek Laboratories, LLC	Testing Laboratories	First Lien Debt (7.8% Cash (3 month LIBOR + 5.0%, 2.0% Floor), Due 12/14/23)	\$ 4,500	\$ 4,500	\$ 4,500
Freedom Electronics, LLC	Electronic Machine Repair	First Lien Debt (7.5% Cash (1 month LIBOR + 5.0%, 2.0% Floor), Due 12/20/23)	5,500	5,500	5,500
<b>TOTAL INVESTMENTS</b>			<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

Below is the financial information for CSLF II:

**Capitala Senior Loan Fund II, LLC**  
**Statements of Assets and Liabilities**  
(in thousands)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
<b>ASSETS</b>		
Investments at fair value (amortized cost of \$16,725 and \$10,000, respectively)	\$ 16,725	\$ 10,000
Cash and cash equivalents	665	7,100
Interest receivable	109	31
<b>Total assets</b>	<u>\$ 17,499</u>	<u>\$ 17,131</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 87	\$ 12
<b>Total liabilities</b>	<u>\$ 87</u>	<u>\$ 12</u>
<b>NET ASSETS</b>		
Partners' capital	\$ 17,412	\$ 17,119
<b>Total net assets</b>	<u>\$ 17,412</u>	<u>\$ 17,119</u>

**Capitala Senior Loan Fund II, LLC**  
**Statements of Operations**  
(in thousands)

	<u>For the three months ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
<b>INVESTMENT INCOME</b>		
Interest income	\$ 312	\$ —
Fee income	68	—
<b>Total investment income</b>	<u>\$ 380</u>	<u>\$ —</u>
<b>EXPENSES</b>		
General and administrative expenses	\$ 87	\$ —
<b>Total expenses</b>	<u>\$ 87</u>	<u>\$ —</u>
<b>NET INVESTMENT INCOME</b>	<u>\$ 293</u>	<u>\$ —</u>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$ 293</u>	<u>\$ —</u>

## Results of Operations

Operating results for the three months ended March 31, 2019 and 2018 were as follows (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Total investment income	\$ 12,684	\$ 12,572
Total expenses	8,549	8,134
Net investment income	4,135	4,438
Net realized loss on investments	(5,847)	(3,855)
Net unrealized appreciation (depreciation) on investments	1,495	(392)
Tax benefit (provision)	66	(50)
Net increase (decrease) in net assets resulting from operations	\$ (151)	\$ 141

### Investment income

The composition of our investment income for the three months ended March 31, 2019 and 2018 was as follows (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Interest income	\$ 10,021	\$ 10,659
Fee income	387	487
Payment-in-kind interest and dividend income	919	1,357
Dividend income	1,306	54
Interest from cash and cash equivalents	51	15
Total investment income	\$ 12,684	\$ 12,572

The income reported as interest income and PIK interest and PIK dividend income is generally based on the stated rates as disclosed in our consolidated schedule of investments. Accretion of discounts received for purchased loans are included in interest income as an adjustment to yield. As a general rule, our interest income and PIK interest and PIK dividend income are recurring in nature.

We also generate fee income primarily through origination fees charged for new investments, and secondarily via amendment fees, consent fees, prepayment penalties, and other fees. While fee income is typically non-recurring for each investment, most of our new investments include an origination fee; as such, fee income is dependent upon our volume of directly originated investments and the fee structure associated with those investments.

We earn dividends on certain equity investments within our investment portfolio. As noted in our consolidated schedule of investments, some investments are scheduled to pay a periodic dividend, though these recurring dividends do not make up a significant portion of our total investment income. We may, and have received, more substantial one-time dividends from our equity investments.

For the three months ended March 31, 2019, total investment income increased by \$0.1 million, or 0.9%, compared to the three months ended March 31, 2018. Interest income decreased from \$10.7 million for the three months ended March 31, 2018 to \$10.0 million for the three months ended March 31, 2019. The decrease from the prior period is primarily related to lower average outstanding debt investments during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. PIK income declined from \$1.4 million for the three months ended March 31, 2018 to \$0.9 million for the three months ended March 31, 2019, primarily due to a decrease in investments with a contractual PIK rate. Fee income decreased from \$0.5 million for the three months ended March 31, 2018 to \$0.4 million for the three months ended March 31, 2019. For the three months ended March 31, 2019, we generated \$0.4 million in origination fees from new deployments. Comparatively, for the three months ended March 31, 2018, we generated \$0.3 million in origination fees from new deployments and \$0.2 million in non-origination fees. Dividend income increased from \$0.1 million for the three months ended March 31, 2018 to \$1.3 million for the three months ended March 31, 2019, driven by a one-time dividend of \$1.3 million received on our investment in Nth Degree, Inc.

## Operating expenses

The composition of our expenses for the three months ended March 31, 2019 and March 31, 2018 was as follows (dollars in thousands):

	For the three months ended	
	March 31, 2019	March 31, 2018
Interest and financing expenses	\$ 4,413	\$ 4,364
Base management fee	2,118	2,303
Incentive fees	1,034	244
General and administrative expenses	984	1,223
Total expenses	<u>\$ 8,549</u>	<u>\$ 8,134</u>

For the three months ended March 31, 2019, operating expenses increased \$0.4 million, or 5.1%, compared to the three months ended March 31, 2018. For the three months ended March 31, 2019, interest and financing expenses remained relatively flat compared to the three months ended March 31, 2018 with limited change in average debt outstanding and average interest rates. Management fees declined from \$2.3 million for the three months ended March 31, 2018 to \$2.1 million for the three months ended March 31, 2019, due to lower average assets under management. Incentive fees increased from \$0.2 million for the three months ended March 31, 2018 to \$1.0 million for the three months ended March 31, 2019, primarily due to higher pre-incentive fee net investment income. General and administrative expenses decreased from \$1.2 million for the three months ended March 31, 2018 to \$1.0 million for the three months ended March 31, 2019, primarily due to lower audit expense recognized during the period.

### Net realized gains (losses) on sales of investments

During the three months ended March 31, 2019 and March 31, 2018 we recognized \$(5.8) million and \$(3.9) million, respectively, of net realized losses on our portfolio investments.

### Net unrealized appreciation (depreciation) on investments

Net change in unrealized appreciation (depreciation) on investments reflects the net change in the fair value of our investment portfolio. For the three months ended March 31, 2019 and 2018 we had net unrealized appreciation (depreciation) of \$1.5 million and \$(0.4) million, respectively.

### Tax benefit (provision)

For the three months ended March 31, 2019 and 2018 we recorded a tax benefit of \$0.1 million and a tax provision of \$(0.1) million, respectively.

### Changes in net assets resulting from operations

For the three months ended March 31, 2019 and 2018 we recorded a net increase (decrease) in net assets resulting from operations of \$(0.2) million and \$0.1 million, respectively. Based on the weighted average shares of common stock outstanding for the three months ended March 31, 2019 and 2018 our per share net increase (decrease) in net assets resulting from operations was \$(0.01) and \$0.01, respectively.

## Summarized Financial Information of Our Unconsolidated Subsidiaries

The Company holds a control interest, as defined by the 1940 Act, in six portfolio companies that are considered significant subsidiaries under the guidance in Regulation S-X but are not consolidated in the Company's consolidated financial statements. Below is a brief description of each such portfolio company, along with summarized financial information as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and March 31, 2018.

### ***AAE Acquisition, LLC***

AAE Acquisition, LLC, formed on May 21, 2004 as a Delaware limited liability company, is an aerial equipment rental and services business primarily serving the Gulf Coast region. The income (loss) the Company generated from AAE Acquisition, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation), was \$(2.9) million and \$0.7 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### ***CableOrganizer Acquisition, LLC***

CableOrganizer Acquisition, LLC, a Delaware limited liability company that began operations on April 23, 2013, is a leading online provider of cable and wire management products. The loss the Company generated from CableOrganizer Acquisition, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, realized loss, and unrealized appreciation (depreciation), was \$(1.7) million and \$(0.9) million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### ***Micro Precision, LLC***

Micro Precision, LLC, formed on August 5, 2011 as a Delaware limited liability company, is a prime contractor supplying critical parts and mechanical assemblies to the U.S. Department of Defense as well as designer and manufacturer of locomotive air horns. The income (loss) the Company generated from Micro Precision, LLC, which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation), was \$0.3 million and \$(0.2) million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### ***Navis Holdings, Inc.***

Navis Holdings, Inc., incorporated in Delaware on December 21, 2010, designs and manufactures leading machinery for the global knit and woven finishing textile industries. The income (loss) the Company generated from Navis Holdings, Inc., which includes all interest, dividends, PIK interest and PIK dividends, fees, and unrealized appreciation (depreciation) was \$(0.5) million and \$0.5 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

### ***Portrait Studio, LLC***

Portrait Studio, LLC, formed on December 12, 2017 as a Delaware limited liability company, is a professional and personal imaging platform, operating retail studios throughout the U.S. and an ecommerce virtual studio web portal. The loss the Company generated from Portrait Studio, LLC, which includes all interest, dividends, PIK interest, and PIK dividends, fees, and unrealized depreciation, was \$(0.5) million and \$(0.3) million for the three months ended March 31, 2019 and March 31, 2018.

### ***Eastport Holdings, LLC***

Eastport Holdings, LLC, an Ohio limited liability company organized on November 1, 2011, is a holding company consisting of marketing and advertising companies located across the U.S. The income (loss) the Company generated from Eastport Holdings, LLC, which includes all interest, dividends, PIK interest and dividends, fees, and unrealized appreciation (depreciation), was \$(0.6) million and \$0.6 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

The summarized unaudited financial information of our unconsolidated subsidiaries was as follows (dollars in thousands):

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets – AAE Acquisition, LLC</b>		
Current assets	\$ 7,195	\$ 7,277
Noncurrent assets	21,928	22,994
Total assets	<u>\$ 29,123</u>	<u>\$ 30,271</u>
Current liabilities	\$ 54,684	\$ 53,939
Noncurrent liabilities	1,726	2,122
Total liabilities	<u>\$ 56,410</u>	<u>\$ 56,061</u>
Total deficit	<u>\$ (27,287)</u>	<u>\$ (25,790)</u>
<b>Statements of Operations – AAE Acquisition, LLC</b>		
	For the three months ended March 31, 2019	March 31, 2018
Net sales	\$ 6,541	\$ 6,623
Cost of goods sold	5,001	4,855
Gross profit	<u>\$ 1,540</u>	<u>\$ 1,768</u>
Other expenses	\$ 3,034	\$ 3,116
Loss before income taxes	(1,494)	(1,348)
Income tax provision	—	—
Net loss	<u>\$ (1,494)</u>	<u>\$ (1,348)</u>
<b>Balance Sheets – CableOrganizer Acquisition, LLC</b>		
	As of March 31, 2019	December 31, 2018
Current assets	\$ 2,874	\$ 2,987
Noncurrent assets	7,067	8,459
Total assets	<u>\$ 9,941</u>	<u>\$ 11,446</u>
Current liabilities	\$ 3,013	\$ 13,094
Noncurrent liabilities	3,689	—
Total liabilities	<u>\$ 6,702</u>	<u>\$ 13,094</u>
Total equity (deficit)	<u>\$ 3,239</u>	<u>\$ (1,648)</u>
<b>Statements of Operations – CableOrganizer Acquisition, LLC</b>		
	For the three months ended March 31, 2019	March 31, 2018
Net sales	\$ 3,177	\$ 4,926
Cost of goods sold	2,229	3,411
Gross profit	<u>\$ 948</u>	<u>\$ 1,515</u>
Other expenses	\$ 1,909	\$ 2,015
Loss before income taxes	(961)	(500)
Income tax provision	—	—
Net loss	<u>\$ (961)</u>	<u>\$ (500)</u>

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets – Micro Precision, LLC</b>		
Current assets	\$ 7,128	\$ 5,880
Noncurrent assets	19,399	19,436
Total assets	<u>\$ 26,527</u>	<u>\$ 25,316</u>
Current liabilities	\$ 19,932	\$ 18,712
Noncurrent liabilities	2,965	2,961
Total liabilities	<u>\$ 22,897</u>	<u>\$ 21,673</u>
Total equity	<u>\$ 3,630</u>	<u>\$ 3,643</u>

	For the three months ended	
	March 31, 2019	March 31, 2018
<b>Statements of Operations – Micro Precision, LLC</b>		
Net sales	\$ 2,908	\$ 2,367
Cost of goods sold	1,581	1,308
Gross profit	<u>\$ 1,327</u>	<u>\$ 1,059</u>
Other expenses	\$ 1,339	\$ 1,216
Loss before income taxes	(12)	(157)
Income tax provision	—	—
Net loss	<u>\$ (12)</u>	<u>\$ (157)</u>

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets – Navis Holdings, Inc.</b>		
Current assets	\$ 4,875	\$ 5,868
Noncurrent assets	4,723	5,145
Total assets	<u>\$ 9,598</u>	<u>\$ 11,013</u>
Current liabilities	\$ 4,096	\$ 5,542
Noncurrent liabilities	8,113	8,060
Total liabilities	<u>\$ 12,209</u>	<u>\$ 13,602</u>
Total deficit	<u>\$ (2,611)</u>	<u>\$ (2,589)</u>

	For the three months ended	
	March 31, 2019	March 31, 2018
<b>Statements of Operations – Navis Holdings, Inc.</b>		
Net sales	\$ 4,623	\$ 3,364
Cost of goods sold	2,645	2,025
Gross profit	<u>\$ 1,978</u>	<u>\$ 1,339</u>
Other expenses	\$ 1,673	\$ 1,336
Income before income taxes	305	3
Income tax provision	(70)	(2)
Net income	<u>\$ 235</u>	<u>\$ 1</u>

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets – Portrait Studio, LLC</b>		
Current assets	\$ 2,082	\$ 2,833
Noncurrent assets	3,765	4,324
Total assets	<u>\$ 5,847</u>	<u>\$ 7,157</u>
Current liabilities	\$ 4,088	\$ 4,236
Noncurrent liabilities	7,509	7,510
Total liabilities	<u>\$ 11,597</u>	<u>\$ 11,746</u>
Total deficit	<u>\$ (5,750)</u>	<u>\$ (4,589)</u>

	For the three months ended	
	March 31, 2019	March 31, 2018
<b>Statements of Operations – Portrait Studio, LLC</b>		
Net sales	\$ 8,497	\$ 10,589
Cost of goods sold	1,077	1,470
Gross profit	<u>\$ 7,420</u>	<u>\$ 9,119</u>
Other expenses	\$ 8,598	\$ 10,438
Loss before income taxes	(1,178)	(1,319)
Income tax provision	—	—
Net loss	<u>\$ (1,178)</u>	<u>\$ (1,319)</u>

	As of	
	March 31, 2019	December 31, 2018
<b>Balance Sheets - Eastport Holdings, LLC</b>		
Current assets	\$ 96,859	\$ 81,232
Noncurrent assets	198,360	198,962
Total assets	<u>\$ 295,219</u>	<u>\$ 280,194</u>
Current liabilities	\$ 163,389	\$ 144,928
Noncurrent liabilities	55,493	56,951
Total liabilities	<u>\$ 218,882</u>	<u>\$ 201,879</u>
Total equity	<u>\$ 76,337</u>	<u>\$ 78,315</u>

	For the three months ended	
	March 31, 2019	March 31, 2018
<b>Statements of Operations - Eastport Holdings, LLC</b>		
Net sales	\$ 117,670	\$ 132,477
Cost of goods sold	79,857	93,021
Gross profit	<u>\$ 37,813</u>	<u>\$ 39,456</u>
Other expenses	\$ 39,561	\$ 38,495
Income (loss) before income taxes	(1,748)	961
Income tax (provision) benefit	58	(307)
Net Income (loss)	<u>\$ (1,690)</u>	<u>\$ 654</u>

## Financial Condition, Liquidity and Capital Resources

We use and intend to use existing cash primarily to originate investments in new and existing portfolio companies, pay distributions to our stockholders, and repay indebtedness.

Since our IPO, we have raised approximately \$136.0 million in net proceeds from equity offerings through March 31, 2019.

On October 17, 2014, the Company entered into a senior secured revolving credit agreement (the “Credit Facility”) with ING Capital, LLC, as administrative agent, arranger, and bookrunner, and the lenders party thereto. The Credit Facility was amended on May 22, 2015, June 16, 2017, July 19, 2018, and February 22, 2019 (the “Amendments”). The Amendments were affected, among other things, in order to increase the total borrowings allowed under the Credit Facility, allow for stock repurchases, extend the maturity date, reduce the minimum required interest coverage ratio, reduce the minimum required net asset value, and reduce the minimum required asset coverage ratio. The Credit Facility currently provides for borrowings up to \$114.5 million and may be increased up to \$200.0 million pursuant to its “accordion” feature. The Credit Facility matures on June 16, 2021. As of March 31, 2019, we had \$25.0 million outstanding and \$89.5 million available under the Credit Facility.

On May 16, 2017, we issued \$70.0 million in aggregate principal amount of 6.0% fixed-rate notes due May 31, 2022 (the “2022 Notes”). On May 25, 2017, we issued an additional \$5.0 million in aggregate principal amount of the 2022 Notes pursuant to a partial exercise of the underwriters’ overallotment option. The 2022 Notes will mature on May 31, 2022 and may be redeemed in whole or in part at any time or from time to time at our option.



on or after May 31, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest is payable quarterly beginning August 31, 2017. The 2022 Notes are listed on the NASDAQ Global Select Market under the trading symbol "CPTAL" with a par value \$25.00 per share.

On May 26, 2017, we issued \$50.0 million in aggregate principal amount of 5.75% fixed-rate convertible notes due May 31, 2022 (the “2022 Convertible Notes”). On June 26, 2017, we issued an additional \$2.1 million in aggregate principal amount of the 2022 Convertible Notes pursuant to a partial exercise of the underwriters’ overallotment option. Interest is payable quarterly beginning August 31, 2017. The 2022 Convertible Notes are listed on the NASDAQ Capital Market under the trading symbol “CPTAG” with a par value \$25.00 per share.

As of March 31, 2019, Fund III had \$75.0 million in regulatory capital and \$150.0 million in SBA-guaranteed debentures outstanding. In addition to our existing SBA-guaranteed debentures, we may, if permitted by regulation, seek to issue additional SBA-guaranteed debentures as well as other forms of leverage and borrow funds to make investments. On June 10, 2014, we received an exemptive order from the SEC exempting us, Fund II and Fund III from certain provisions of the 1940 Act (including an exemptive order granting relief from the asset coverage requirements for certain indebtedness issued by Fund II and Fund III as SBICs) and from certain reporting requirements mandated by the 1934 Act, with respect to Fund II and Fund III. We intend to comply with the conditions of the order.

As of March 31, 2019, we had \$28.5 million in cash and cash equivalents, and our net assets totaled \$186.7 million.

### Contractual Obligations

We have entered into two contracts under which we have material future commitments: the Investment Advisory Agreement, pursuant to which the Investment Advisor serves as our investment adviser, and the Administration Agreement, pursuant to which our Administrator agrees to furnish us with certain administrative services necessary to conduct our day-to-day operations. Payments under the Investment Advisory Agreement in future periods will be equal to: (1) a percentage of the value of our gross assets; and (2) an incentive fee based on our performance. Payments under the Administration Agreement will occur on an ongoing basis as expenses are incurred on our behalf by our Administrator.

The Investment Advisory Agreement and the Administration Agreement are each terminable by either party without penalty upon 60 days’ written notice to the other. If either of these agreements is terminated, the costs we incur under new agreements may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under both our Investment Advisory Agreement and our Administration Agreement. Any new investment advisory agreement would also be subject to approval by our stockholders.

A summary of our significant contractual payment obligations as of March 31, 2019 are as follows (dollars in thousands):

	Contractual Obligations Payments Due by Period				Total
	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years	
SBA Debentures	\$ —	\$ 125,000	\$ 25,000	\$ —	\$ 150,000
2022 Notes	—	—	75,000	—	75,000
2022 Convertible Notes	—	—	52,088	—	52,088
Credit Facility	—	25,000	—	—	25,000
Total Contractual Obligations	\$ —	\$ 150,000	\$ 152,088	\$ —	\$ 302,088

### Distributions

In order to qualify as a RIC and to avoid corporate-level U.S. federal income tax on the income we distribute to our stockholders, we are required to distribute at least 90% of our net ordinary income and our net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute an amount at least equal to the sum of 98% of our net ordinary income (during the calendar year) plus 98.2% of our net capital gain income (during each 12-month period ending on October 31) plus any net ordinary income and capital gain net income for preceding years that were not distributed during such years and on which we paid no U.S. federal income tax to avoid a U.S. federal excise tax. We made quarterly distributions to our stockholders for the first four full quarters subsequent to our IPO. To the extent we have income available, we have made and intend to make monthly distributions thereafter. Our monthly stockholder distributions, if any, will be determined by our Board on a quarterly basis. Any distribution to our stockholders will be declared out of assets legally available for distribution.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time, and from time to time we may decrease the amount of our distributions. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a BDC under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our qualification as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying any stockholder distribution carefully and should not assume that the source of any distribution is our ordinary income or capital gains.

We have adopted an “opt out” dividend reinvestment plan (“DRIP”) for our common stockholders. As a result, if we declare a distribution, then stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically “opts out” of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state, and local taxes in the same manner as cash distributions, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes.

The following tables summarize our distributions declared from January 1, 2017 through March 31, 2019:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
January 2, 2019	January 24, 2019	January 30, 2019	\$ 0.0833
January 2, 2019	February 20, 2019	February 27, 2019	0.0833
January 2, 2019	March 21, 2019	March 28, 2019	0.0833
Total Distributions Declared and Distributed for 2019			<u>\$ 0.25</u>

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
January 2, 2018	January 22, 2018	January 30, 2018	\$ 0.0833
January 2, 2018	February 20, 2018	February 27, 2018	0.0833
January 2, 2018	March 23, 2018	March 29, 2018	0.0833
April 2, 2018	April 19, 2018	April 27, 2018	0.0833
April 2, 2018	May 22, 2018	May 30, 2018	0.0833
April 2, 2018	June 20, 2018	June 28, 2018	0.0833
July 2, 2018	July 23, 2018	July 30, 2018	0.0833
July 2, 2018	August 23, 2018	August 30, 2018	0.0833
July 2, 2018	September 20, 2018	September 27, 2018	0.0833
October 1, 2018	October 23, 2018	October 30, 2018	0.0833
October 1, 2018	November 21, 2018	November 29, 2018	0.0833
October 1, 2018	December 20, 2018	December 28, 2018	0.0833
<b>Total Distributions Declared and Distributed for 2018</b>			<b>\$ 1.00</b>

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
January 3, 2017	January 20, 2017	January 30, 2017	\$ 0.1300
January 3, 2017	February 20, 2017	February 27, 2017	0.1300
January 3, 2017	March 23, 2017	March 30, 2017	0.1300
April 3, 2017	April 19, 2017	April 27, 2017	0.1300
April 3, 2017	May 23, 2017	May 29, 2017	0.1300
April 3, 2017	June 24, 2017	June 29, 2017	0.1300
July 3, 2017	July 21, 2017	July 28, 2017	0.1300
July 3, 2017	August 23, 2017	August 30, 2017	0.1300
July 3, 2017	September 20, 2017	September 28, 2017	0.1300
October 2, 2017	October 23, 2017	October 30, 2017	0.0833
October 2, 2017	November 21, 2017	November 29, 2017	0.0833
October 2, 2017	December 20, 2017	December 28, 2017	0.0833
<b>Total Distributions Declared and Distributed for 2017</b>			<b>\$ 1.42</b>

## **Related Parties**

We have entered into the Investment Advisory Agreement with the Investment Advisor. Joseph B. Alala, our chief executive officer and chairman of our Board, is the managing partner and chief investment officer of the Investment Advisor, and M. Hunt Broyhill, a member of our Board, has an indirect controlling interest in the Investment Advisor.

In addition, an affiliate of the Investment Advisor also manages CapitalSouth Partners SBIC Fund IV, L.P. (“Fund IV”), a private investment limited partnership which provides financing solutions to smaller and lower middle-market companies that had its first closing in March 2013 and obtained SBA approval for its SBIC license in April 2013. In addition to Fund IV, affiliates of the Investment Advisor may manage several affiliated funds whereby institutional limited partners in Fund IV have the opportunity to co-invest with Fund IV in portfolio investments. An affiliate of the Investment Advisor also manages Capitala Private Credit Fund V, L.P. (“Fund V”), a private investment limited partnership, and a private investment vehicle (referred to herein as “Capitala Specialty Lending Corp” or “CSLC”), both of which provide financing solutions to lower middle-market and traditional middle-market companies. The Investment Advisor and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. To the extent permitted by the 1940 Act and interpretation of the SEC staff, the Investment Advisor and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Advisor or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Advisor’s allocation procedures. We expect to make, and have made, co-investments with Fund IV, Fund V, and/or CSLC to the extent their respective investment strategies align with ours.

On September 10, 2015, we, Fund II, Fund III, Fund V, and the Investment Advisor filed an application for exemptive relief with the SEC to permit an investment fund and one or more other affiliated investment funds, including future affiliated investment funds, to participate in the same investment opportunities through a proposed co-investment program where such participation would otherwise be prohibited under the 1940 Act. On June 1, 2016, the SEC issued an order (the “Order”) permitting this relief. Pursuant to the Order, we are permitted to co-invest in such investment opportunities with our affiliates if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including, but not limited to, that (1) the terms of the potential co-investment transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching in respect of us or our stockholders on the part of any person concerned, and (2) the potential co-investment transaction is consistent with the interests of our stockholders and is consistent with our then-current investment objective and strategies.

On August 31, 2016, the Company sold assets to FSC II in exchange for 100% of the partnership interests in FSC II. Concurrent with the sale of these assets to FSC II, the Company received cash consideration of \$47.6 million from an affiliated third-party purchaser in exchange for 100% of the partnership interests of FSC II. The Company’s Board pre-approved this transaction pursuant to Section 57(f) of the 1940 Act. Capitala Advisors Corp., the Company’s Administrator, also serves as the administrator to FSC II.

The Company may invest in the same unitranche facility as CSLF II, whereby CSLF II provides the first-out portion of the unitranche facility and the Company and other lenders provide the last-out portion of the unitranche facility. Under a guarantee agreement, the Company may be required to purchase its pro-rata portion of first-out loans from CSLF II upon certain triggering events, including acceleration upon payment default of the underlying borrower. As of March 31, 2019, the Company has evaluated the fair value of the guarantee under the guidance of ASC Topic 460 — *Guarantees* and determined that the fair value of the guarantee is immaterial as the risk of payment default for first-out loans in CSLF II is considered remote. The maximum exposure to credit risk as of March 31, 2019 is \$7.3 million and extends to the stated maturity of the underlying loans in CSLF II.

We have entered into a license agreement with the Investment Advisor, pursuant to which the Investment Advisor has agreed to grant us a non-exclusive, royalty-free license to use the name “Capitala.”

We have entered into the Administration Agreement with our Administrator. Pursuant to the terms of the Administration Agreement, our Administrator provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. Mr. Alala, our chief executive officer, and chairman of our Board, is the chief executive officer, president and a director of our Administrator.

#### **Off-Balance Sheet Arrangements**

As of March 31, 2019, the Company had outstanding unfunded commitments related to debt and equity investments in existing portfolio companies of \$6.4 million (CSLF II), \$4.2 million (Portrait Studio, LLC), \$1.0 million (U.S. BioTek Laboratories, LLC), \$1.0 million (Freedom Electronics, LLC), \$1.0 million (CableOrganizer Acquisition, LLC), \$0.5 million (MC Sign Lessor, Corp), and \$0.3 million (RAM Payment, LLC). As of December 31, 2018, the Company had outstanding unfunded commitments related to debt and equity investments in existing portfolio companies of \$6.4 million (CSLF II), \$5.0 million (Portrait Studio, LLC), \$1.1 million (MC Sign Lessor, Corp), \$1.0 million (U.S. BioTek Laboratories, LLC), \$0.8 million (Freedom Electronics, LLC), and \$0.3 million (CableOrganizer Acquisition, LLC).

We have no other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Recent Developments**

**Distributions**

On April 1, 2019 our Board declared the following distributions:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distributions per Share</b>	
April 1, 2019	April 22, 2019	April 29, 2019	\$	0.0833
April 1, 2019	May 23, 2019	May 30, 2019	\$	0.0833
April 1, 2019	June 20, 2019	June 27, 2019	\$	0.0833

**Portfolio Activity**

On May 1, 2019, the Company invested \$10.6 million in first lien debt and \$0.4 million in equity of Family Quest Holdings, LLC.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments and cash and cash equivalents. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts subject to the requirements of the 1940 Act. For the three months ended March 31, 2019, we did not engage in hedging activities.

As of March 31, 2019, we held 26 securities bearing a variable rate of interest. Our variable rate investments represent approximately 61.8% of the fair value of total debt investments. As of March 31, 2019, 4.4% of variable rate securities were yielding interest at a rate equal to the established interest rate floor or interest rate ceiling and 95.6% of variable rate securities were yielding interest at a rate above its interest rate floor or were not subject to an interest rate floor. As of March 31, 2019, we had \$25.0 million outstanding on our Credit Facility, which has a variable rate of interest at one-month LIBOR + 3.0%. As of March 31, 2019, all of our other interest paying liabilities, consisting of \$150.0 million in SBA-guaranteed debentures, \$75.0 million in 2022 Notes, and \$52.1 million in 2022 Convertible Notes, were bearing interest at a fixed rate.

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

Based on our March 31, 2019 consolidated statements of assets and liabilities, the following table shows the annual impact on net income (excluding the potential related incentive fee impact) of base rate changes in interest rates (considering interest rate floors for variable rate securities) assuming no changes in our investment and borrowing structure (dollars in thousands):

<b>Basis Point Change</b>	<b>Increase (decrease) in interest income</b>	<b>(Increase) decrease in interest expense</b>	<b>Increase (decrease) in net income</b>
Up 300 basis points	\$ 6,528	\$ (750)	\$ 5,778
Up 200 basis points	\$ 4,367	\$ (500)	\$ 3,867
Up 100 basis points	\$ 2,184	\$ (250)	\$ 1,934
Down 100 basis points	\$ (1,608)	\$ 250	\$ (1,358)
Down 200 basis points	\$ (2,896)	\$ 500	\$ (2,396)
Down 300 basis points	\$ (2,913)	\$ 624	\$ (2,289)

#### **Item 4. Controls and Procedures**

##### ***(a) Evaluation of Disclosure Controls and Procedures***

As of March 31, 2019 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

##### ***(b) Changes in Internal Controls Over Financial Reporting***

Management has not identified any change in the Company's internal control over financial reporting that occurred during the first quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Other than as described below, we and our subsidiaries are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or our subsidiaries. From time to time, we, or our subsidiaries may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings, if any, cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

On December 28, 2017, an alleged stockholder filed a putative class action lawsuit complaint, *Paskowitz v. Capitala Finance Corp., et al.*, in the United States District Court for the Central District of California (case number 2:17-cv-09251-MWF-AS) (the “Paskowitz Action”), against the Company and certain of its current officers on behalf of all persons who purchased or otherwise acquired the Company’s common stock between January 4, 2016 and August 7, 2017. On January 3, 2018, another alleged stockholder filed a putative class action complaint, *Sandifer v. Capitala Finance Corp., et al.*, in the United States District Court for the Central District of California (case number 2:18-cv-00052-MWF-AS) (the “Sandifer Action”), asserting substantially similar claims on behalf of the same putative class and against the same defendants. On February 2, 2018, the Sandifer Action was transferred, on stipulation of the parties, to the United States District Court for the Western District of North Carolina. The Sandifer Action was voluntarily dismissed on February 28, 2018. On March 1, 2018, the Paskowitz Action was transferred, on stipulation of the parties, to the United States District Court for the Western District of North Carolina (case number 3:18-cv-00096-RJC-DSC). On June 19, 2018, the plaintiffs in the Paskowitz Action filed their amended complaint. The complaint, as currently amended, alleges certain violations of the securities laws, including, inter alia, that the defendants made certain materially false and misleading statements and omissions regarding the Company’s business, operations, and prospects between January 4, 2016 and August 7, 2017. The plaintiffs in the Paskowitz Action seek compensatory damages and attorneys’ fees and costs, among other relief, but did not specify the amount of damages being sought. Defendants have moved to dismiss the amended complaint. While the Company intends to vigorously defend itself in this litigation, the outcome of these legal proceedings cannot be predicted with certainty.

Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, are in the early stages of the proceedings, and are subject to appeal. In addition, because most legal proceedings are resolved over extended periods of time, potential losses are subject to change due to, among other things, new developments, changes in legal strategy, the outcome of intermediate procedural and substantive rulings, and other parties’ settlement posture and their evaluation of the strength or weakness of their case against us. For these reasons, we are currently unable to predict the ultimate timing or outcome of, or reasonably estimate the possible losses or a range of possible losses resulting from, the matters described above. Based on information currently available, the Company does not believe that any reasonably possible losses arising from the currently pending legal matters described above will be material to the Company’s results of operations or financial condition. However, in light of the inherent uncertainties involved in such matters, an adverse outcome in this litigation could materially adversely affect the Company’s financial condition, results of operations or cash flows in any particular reporting period.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results, including the Risk Factor titled “Recent legislation may allow us to incur additional leverage”. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. During the three months ended March 31, 2019, there have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the quarter ended March 31, 2019, we issued 32,596 shares of common stock under our DRIP. The issuances were not subject to the registration requirements under the Securities Act of 1933, as amended. The cash paid for shares of common stock issued under our DRIP during the quarter ended March 31, 2019 was approximately \$0.3 million. Other than the shares issued under our DRIP during the quarter ended March 31, 2019, we did not sell any unregistered equity securities.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

## Item 6. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

<b>Exhibit Number</b>	<b>Description of Document</b>
<a href="#">3.1</a>	<a href="#">Articles of Amendment and Restatement</a> <sup>(1)</sup>
<a href="#">3.2</a>	<a href="#">Certificate of Limited Partnership of CapitalSouth Partners Fund II Limited Partnership</a> <sup>(2)</sup>
<a href="#">3.3</a>	<a href="#">Certificate of Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P.</a> <sup>(2)</sup>
<a href="#">3.4</a>	<a href="#">Bylaws</a> <sup>(1)</sup>
<a href="#">3.5</a>	<a href="#">Form of Amended and Restated Limited Partnership Agreement of CapitalSouth Partners Fund II Limited Partnership</a> <sup>(3)</sup>
<a href="#">3.6</a>	<a href="#">Form of Amended and Restated Agreement of Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P.</a> <sup>(3)</sup>
<a href="#">4.1</a>	<a href="#">Form of Common Stock Certificate</a> <sup>(1)</sup>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
<a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
(1)	Previously filed in connection with the Pre-Effective Amendment No. 1 to Capitala Finance Corp.'s registration statement on Form N-2 (File No. 333-188956) filed on September 9, 2013.
(2)	Previously filed in connection with Pre-Effective Amendment No. 2 to Capitala Finance Corp.'s registration statement on Form N-2 (File No. 333-188956) filed on September 16, 2013.
(3)	Previously filed in connection with Pre-Effective Amendment No. 5 to Capitala Finance Corp.'s registration statement on Form N-2 (File No. 333-188956) filed on September 24, 2013.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 6, 2019

By /s/ Joseph B. Alala III  
Joseph B. Alala III  
Chief Executive Officer  
*(Principal Executive Officer)*  
Capitala Finance Corp.

Date: May 6, 2019

By /s/ Stephen A. Arnall  
Stephen A. Arnall  
Chief Financial Officer  
*(Principal Financial Officer)*  
Capitala Finance Corp.

Date: May 6, 2019

By /s/ Kevin A. Koonts  
Kevin A. Koonts  
Chief Accounting Officer  
*(Principal Accounting Officer)*  
Capitala Finance Corp.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph B. Alala III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Capitala Finance Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2019

/s/ Joseph B. Alala III  
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Joseph B. Alala III  
Chief Executive Officer  
(Principal Executive Officer)  
Capitala Finance Corp.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen A. Arnall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Capitala Finance Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2019

/s/ Stephen A. Arnall  
\_\_\_\_\_  
Stephen A. Arnall  
Chief Financial Officer  
(Principal Financial Officer)  
Capitala Finance Corp.

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph B. Alala III, Chief Executive Officer, in connection with the Quarterly Report of Capitala Finance Corp. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Quarterly Report"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2019

/s/ Joseph B. Alala III  
\_\_\_\_\_  
Joseph B. Alala III  
Chief Executive Officer  
(Principal Executive Officer)  
Capitala Finance Corp.

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen A. Arnall, Chief Financial Officer, in connection with the Quarterly Report of Capitala Finance Corp. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Quarterly Report"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2019

/s/ Stephen A. Arnall

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Stephen A. Arnall

Chief Financial Officer

*(Principal Financial Officer)*

Capitala Finance Corp.

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