

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

FORM 8-K

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

Date of Report (Date of earliest event reported):

March 7, 2017 (March 7, 2017)

CAPITALA FINANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation)

814-01022
(Commission File Number)

90-0945675
(I.R.S. Employer Identification No.)

4201 Congress St., Suite 360
Charlotte, NC 28209
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(704) 376-5502**

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition

On March 7, 2017, Capitala Finance Corp. issued a press release announcing its financial results for the quarter and year ended December 31, 2016, the text of which is attached hereto as Exhibit 99.1.

The information disclosed under this Item 2.02, including Exhibit 99.1 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|-----------------------------------|
| 99.1 | Press release dated March 7, 2017 |

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 hereunto duly authorized.

Date: March 7, 2017

CAPITALA FINANCE CORP.

By: /s/ Stephen A. Arnall
Stephen A. Arnall
Chief Financial Officer



Capitala Finance Corp. Reports Fourth Quarter and Full Year 2016 Results

Distribution coverage, NAV per share expansion, and investment activity highlight quarter

CHARLOTTE, NC, March 7, 2017--Capitala Finance Corp. (Nasdaq:CPTA) ("Capitala", the "Company", "we", "us", or "our") today announced its financial results for the fourth quarter and full year ended December 31, 2016.

Fourth Quarter Highlights

- Net investment income of \$6.7 million, or \$0.43 per share, covered distributions paid for the sixth consecutive quarter
- Net asset value per share of \$15.79 at December 31, 2016, compared to \$15.68 at September 30, 2016
- Originated \$66.9 million of investments (72% first lien secured) during the quarter with a weighted average yield on debt investments of 13.2%
- Successful wind down of Capitala Senior Liquid Loan Fund I, LLC at par

Full Year Highlights

- Net investment income of \$29.0 million, or \$1.84 per share
- Paid distributions of \$28.5 million, or \$1.80 per share
- Originated \$120.8 million of new/add-on investments
- Reduced energy concentration to 3.6% of portfolio, based on December 31, 2016 fair values, down from 8.8% at December 31, 2015
- Successful first close on Capitala Private Credit Fund V, LP, providing co-investment opportunities for the Company

Management Commentary

In describing the Company's fourth quarter and full year activities, Joseph B. Alala, III, Chairman and Chief Executive Officer, stated, "We are pleased to report strong fourth quarter results, including dividend coverage for the sixth consecutive quarter, and an increase in NAV per share. Our direct origination platform continues to generate quality investment opportunities as evidenced by new investments made during the quarter. The investment advisor continues to enhance its staff to support underwriting of new investment opportunities and monitoring of existing investments."

Fourth Quarter 2016 Financial Results

During the fourth quarter of 2016, the Company originated approximately \$66.9 million of new investments, and received approximately \$35.0 million of repayments. The weighted average annualized yield on the debt investments was 13.2%. 72% of investments originated during the fourth quarter were first lien secured debt investments.

Total investment income was \$16.5 million for the fourth quarter of each of 2016 and 2015. Interest, fee and PIK income collectively were \$0.6 million higher in the fourth quarter of 2016 compared to 2015. All other income, including dividend income, decreased by \$0.6 million for the comparable period.

Total expenses for the fourth quarter of 2016 were \$9.8 million, compared to \$9.1 million for the comparable period in 2015. The increase of \$0.7 million is attributable to (1) a decrease in interest and financing expenses of \$0.2 million, (2) a decrease of \$0.3 million in management fees, and (3) an increase of \$1.2 million in incentive fees.

Net investment income for the fourth quarter of 2016 was \$6.7 million, or \$0.43 per share, compared to \$7.4 million, or \$0.47 per share, for the same period in 2015.

Net realized gains totaled \$2.1 million, or \$0.13 per share, for the fourth quarter of 2016, compared to net losses of \$3.7 million, or \$0.23 per share, for the same period in 2015. During the quarter, the Company realized a \$1.5 million gain related to V12 Holdings, Inc. and \$0.6 million in net gains on the remaining portfolio.

Net unrealized depreciation totaled \$0.8 million, or \$0.05 per share, for the fourth quarter of 2016, compared to depreciation of \$12.6 million for the fourth quarter of 2015.

The net increase in net assets resulting from operations was \$8.1 million for the fourth quarter of 2016, or \$0.51 per share, compared to a net decrease of \$8.9 million, or \$0.57 per share, for the same period in 2015.

Full Year 2016 Financial Results

Total investment income was \$68.3 million for the year ended December 31, 2016, compared to \$64.0 million for the same period in 2015. Interest, fee and PIK income increased by \$3.8 million, while all other income increased collectively by \$0.5 million.

Total expenses for the year ended December 31, 2016 were \$39.3 million, \$0.6 million higher than 2015, with no significant variances.

Net investment income for the year ended December 31, 2016 was \$29.0 million, or \$1.84 per share, compared to \$25.3 million, or \$1.67 per share, for the same period in 2015.

Net realized losses totaled \$22.8 million, or \$1.44 per share, for the year ended December 31, 2016, compared to gains of \$5.4 million, or \$0.36 per share, for the same period in 2015.

Net unrealized appreciation totaled \$2.9 million, or \$0.18 per share, for the year ended December 31, 2016, compared to net unrealized depreciation of \$16.9 million, or \$1.11 per share, in 2015.

The net increase in net assets resulting from operations was \$9.2 million, or \$0.58 per share, for the year ended December 31, 2016, compared to a net increase in net assets resulting from operations of \$13.9 million, or \$0.91 per share, for the same period in 2015.

Net assets at December 31, 2016 were \$250.6 million, or \$15.79 per share, compared to \$268.8 million, or \$17.04 per share, at December 31, 2015.

Investment Portfolio

As of December 31, 2016, our portfolio consisted of 53 companies with a fair market value of \$541.6 million and a cost basis of \$513.8 million. First lien debt investments represented 41.8% of the portfolio, second lien debt investments represented 13.2% of the portfolio, subordinated debt investments represented 27.8% of the portfolio, and equity/warrant investments represented 17.2% of the portfolio, based on fair values at December 31, 2016. On a cost basis, equity investments comprised 8.9% of the portfolio at December 31, 2016.

At December 31, 2016, we had debt investments in three portfolio companies on non-accrual status with a fair value and cost basis of \$17.4 million and \$29.5 million, respectively. Non-accrual loans, on a fair value and cost basis, represent 3.2% and 5.7%, respectively, of the portfolio at December 31, 2016. At December 31, 2015, the fair value of the non-accrual investments was \$28.0, with a cost basis of \$47.1 million.

Liquidity and Capital Resources

At December 31, 2016, the Company had \$36.3 million in cash and cash equivalents. In addition, the Company had SBA debentures outstanding totaling \$170.7 million with an annual weighted average interest rate of 3.45%, and \$113.4 million of fixed rate notes bearing an interest rate of 7.125%. At December 31, 2016, the Company had \$44.0 million outstanding and \$76.0 million available under its senior secured revolving credit facility, which is priced at LIBOR plus 3.0% and matures on October 17, 2018.

Subsequent Events

On January 3, 2017, the Company exited its investment in Medical Depot, Inc., receiving \$14.7 million for its subordinated debt investment at par and \$6.3 million in cash related to its equity investment. The equity realization resulted in a \$5.0 realized gain.

On January 9, 2017, the Company received \$5.0 million in cash repayment for its second lien debt investment in Emerging Markets Communications, LLC, repaid at par.

On January 20, 2017, the Company invested \$16.0 million in the first lien debt and \$2.0 million in membership units of Currency Capital, LLC. The debt investment has a yield of LIBOR + 11.0% with a 0.5% floor.

On February 2, 2017, the Company restructured its investment in US Well Services, LLC, exchanging its \$15.3 million first lien debt investment for an \$8.5 million first lien debt investment, yielding LIBOR + 9.0% or LIBOR + 11.0% if paid in kind, and an initial 4.9% equity ownership in USWS Holdings, LLC. In addition, the Company committed \$2.1 million in a first lien revolving credit facility to US Well Services, LLC, yielding LIBOR + 6.0% and an initial .4% equity ownership in USWS Holdings, LLC.

On February 21, the Company received \$4.8 million in cash repayment for its second lien debt investment in Brock Holdings III, Inc.

Fourth Quarter 2016 Financial Results Conference Call

Management will host a conference call to discuss the operating and financial results at 8:30 a.m. on Wednesday March 8, 2017. To participate in the conference call, please dial 1-877-312-5507 approximately 10 minutes prior to the call. A live webcast of the conference will be available at <http://investor.CapitalaGroup.com>.

About Capitala Finance Corp.

Capitala Finance Corp. is a business development company that invests primarily in traditional mezzanine, senior subordinated and unitranche debt, as well as senior and second-lien loans and, to lesser extent, equity securities issued by lower and traditional middle-market companies. The Company is managed by Capitala Investment Advisors, LLC. For more information on Capitala, or to automatically receive email notifications of Company financial information, press releases, stock alerts, or other corporate filings, please visit the [Investor Relations](#) section of our website.

About Capitala Group

Capitala Group is a leading provider of capital to lower and traditional middle market companies, through its family of credit focused funds. Since 1998, Capitala Group's managed funds have participated in over 138 transactions, representing over \$1.3 billion of investments in a variety of industries throughout North America. Capitala Group manages both public capital (Capitala Finance Corp.) (Nasdaq:CPTA) and private capital (Capitala Private Credit Fund V, L.P. and CapitalSouth SBIC Fund IV, L.P.) for institutional and individual investors, and seeks to partner with strong management teams to create value and serve as long term partners. For more information, please visit www.CapitalaGroup.com.

Forward-Looking Statements

This press release contains certain forward-looking statements. Words such as “believes,” “intends,” “expects,” “projects,” “anticipates,” and “future” or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in the Company’s filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

SOURCE: Capitala Finance Corp.

Capitala Finance Corp.
Stephen Arnall, Chief Financial Officer
704-376-5502
sarnall@capitalagroup.com

Capitala Finance Corp.
Consolidated Statements of Assets and Liabilities
(in thousands, except share and per share data)

| | As of | |
|---|----------------------|----------------------|
| | December 31, 2016 | December 31, 2015 |
| ASSETS | | |
| Investments at fair value | | |
| Non-control/non-affiliate investments (amortized cost of \$391,706 and \$391,031, respectively) | \$ 393,525 | \$ 404,513 |
| Affiliate investments (amortized cost of \$39,279 and \$99,290, respectively) | 61,464 | 117,350 |
| Control investments (amortized cost of \$82,791 and \$79,866, respectively) | 86,650 | 70,593 |
| Total investments at fair value (amortized cost of \$513,776 and \$570,187, respectively) | 541,639 | 592,456 |
| Cash and cash equivalents | 36,281 | 34,105 |
| Interest and dividend receivable | 5,735 | 5,390 |
| Due from related parties | 182 | 256 |
| Prepaid expenses | 506 | 503 |
| Other assets | 72 | 108 |
| Total assets | \$ 584,415 | \$ 632,818 |
| LIABILITIES | | |
| SBA debentures (net of deferred financing costs of \$2,911 and \$3,537, respectively) | 167,789 | 180,663 |
| Notes (net of deferred financing costs of \$3,025 and \$3,583, respectively) | 110,413 | 109,855 |
| Credit Facility (net of deferred financing costs of \$759 and \$1,649, respectively) | 43,241 | 68,351 |
| Due to related parties | 35 | 6 |
| Management and incentive fee payable | 6,426 | 1,687 |
| Interest payable | 2,657 | 2,987 |
| Accounts payable and accrued expenses | 536 | 467 |
| Written call option at fair value (proceeds of \$20 and \$0, respectively) | 2,736 | - |
| Total liabilities | 333,833 | 364,016 |
| NET ASSETS | | |
| Common stock, par value \$.01, 100,000,000 common shares authorized, 15,868,045 and 15,777,345 common shares issued and outstanding, respectively | 159 | 158 |
| Additional paid in capital | 240,184 | 239,104 |
| Accumulated undistributed net investment income | 22,973 | 8,570 |
| Accumulated undistributed net realized gain (loss) from investments | (37,881) | (1,299) |
| Net unrealized appreciation on investments | 27,863 | 22,269 |
| Net unrealized depreciation on written call option | (2,716) | - |
| Total net assets | 250,582 | 268,802 |
| Total liabilities and net assets | \$ 584,415 | \$ 632,818 |
| Net asset value per share | \$ 15.79 | \$ 17.04 |

Derived from audited financial statements

Capitala Finance Corp.
Consolidated Statements of Operations
(in thousands, except share and per share data)

| | For the three months ended December 31, | | For the year ended December 31, | |
|---|--|-------------------|------------------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Investment Income | | | | |
| Interest and fee income | | | | |
| Non-control/Non-affiliate investments | \$ 10,797 | \$ 10,395 | \$ 42,667 | \$ 39,535 |
| Affiliate investments | 969 | 2,243 | 5,723 | 11,589 |
| Control investments | 2,036 | 1,396 | 10,718 | 5,406 |
| Total interest and fee income | <u>13,802</u> | <u>14,034</u> | <u>59,108</u> | <u>56,530</u> |
| Payment-in-kind interest and dividend income: | | | | |
| Non-control/Non-affiliate investments | 1,999 | 1,197 | 4,965 | 2,644 |
| Affiliate investments | 90 | 101 | 383 | 1,363 |
| Control investments | 246 | 229 | 952 | 1,077 |
| Total payment-in-kind interest income | <u>2,335</u> | <u>1,527</u> | <u>6,300</u> | <u>5,084</u> |
| Dividend income: | | | | |
| Non-control/Non-affiliate investments | 57 | 155 | 263 | 617 |
| Affiliate investments | 29 | 29 | 115 | 115 |
| Control investments | 279 | 545 | 2,414 | 1,369 |
| Total dividend income | <u>365</u> | <u>729</u> | <u>2,792</u> | <u>2,101</u> |
| Other Income | | | | |
| Interest income from cash and cash equivalents | 12 | 1 | 27 | 5 |
| Total investment income | <u>16,514</u> | <u>16,547</u> | <u>68,312</u> | <u>63,976</u> |
| Expenses | | | | |
| Interest and financing expenses | 4,722 | 4,896 | 19,711 | 19,022 |
| Base management fee | 2,539 | 2,812 | 10,588 | 10,590 |
| Incentive fees | 1,687 | 1,587 | 6,842 | 6,043 |
| General and administrative expenses | 819 | 903 | 3,804 | 4,052 |
| Expenses before fee waivers | <u>9,767</u> | <u>10,198</u> | <u>40,945</u> | <u>39,707</u> |
| Incentive fee waiver | - | (1,058) | (1,673) | (1,058) |
| Total expenses net of fee waivers | <u>9,767</u> | <u>9,140</u> | <u>39,272</u> | <u>38,649</u> |
| Net Investment Income | <u>6,747</u> | <u>7,407</u> | <u>29,040</u> | <u>25,327</u> |
| Realized and unrealized gain (loss) on investments and written call option: | | | | |
| Net realized gain (loss) from investments | | | | |
| Non-control/non-affiliate investments | - | (546) | 1,261 | 8,758 |
| Affiliate investments | 2,132 | (3,359) | (24,172) | (9,109) |
| Control investments | - | 200 | 145 | 5,787 |
| Total realized gain (loss) from investments | <u>2,132</u> | <u>(3,705)</u> | <u>(22,766)</u> | <u>5,436</u> |
| Net unrealized appreciation (depreciation) on investments | 1,036 | (12,620) | 5,594 | (16,913) |
| Net unrealized depreciation on written call option | (1,818) | - | (2,716) | - |
| Net gain (loss) on investments | <u>1,350</u> | <u>(16,325)</u> | <u>(19,888)</u> | <u>(11,477)</u> |
| Net increase (decrease) in net assets resulting from operations | <u>\$ 8,097</u> | <u>\$ (8,918)</u> | <u>\$ 9,152</u> | <u>\$ 13,850</u> |
| Net increase (decrease) in net assets per share resulting from operations-basic and diluted | <u>\$ 0.51</u> | <u>\$ (0.57)</u> | <u>\$ 0.58</u> | <u>\$ 0.91</u> |
| Weighted average common stock outstanding-basic and diluted | 15,853,047 | 15,780,433 | 15,819,175 | 15,210,577 |
| Distributions paid per share | <u>\$ 0.39</u> | <u>\$ 0.47</u> | <u>\$ 1.80</u> | <u>\$ 2.38</u> |

Derived from audited financial statements