



August 12, 2014

Capitala Finance Corp. Reports Second Quarter 2014 Results and Declares Dividend

CHARLOTTE, N.C., Aug. 12, 2014 (GLOBE NEWSWIRE) -- Capitala Finance Corp. (Nasdaq:CPTA) (the "Company") today announced its financial results for the second quarter ended June 30, 2014 and announced its quarterly dividend.

Second Quarter Highlights

- Total investment portfolio as of June 30, 2014 at fair value: \$405.6 million
- Yield on debt portfolio at quarter end was 13.4%
- Originated \$22.6 million of investments during the quarter in 2 new and 4 existing portfolio companies, received \$9.4 million in repayments, for net deployments of \$13.2 million
- Total net assets as of June 30, 2014: \$263.9 million
- Total investment income of \$12.5 million
- Net investment income of \$5.6 million, or \$0.43 per common share
- Realized gains of \$0.5 million, or \$0.04 per common share
- Net increase in net assets resulting from operations of \$6.2 million, or \$0.48 per common share
- Paid quarterly dividend of \$0.47 per share on June 26, 2014
- Successful completion of notes offering with net proceeds of \$109.2 million

Management Commentary

In describing the Company's second quarter activities, Joseph B. Alala, III, Chairman and Chief Executive Officer, stated, "We are pleased to report solid results for the second quarter of 2014. Net investment income was \$5.6 million, or \$0.43 per share. During the quarter, we originated \$22.6 million of investments and received repayments of \$9.4 million, for net quarterly deployments of \$13.2 million. In addition, we have originated \$42.2 million of investments during the third quarter of 2014. These investments were a blend of attractively priced investments in lower middle market companies and middle market loans, and our platform continues to benefit from a strong pipeline of attractively priced investment opportunities. In support of that, we are pleased to have completed a notes offering during the second quarter, providing us with net proceeds of \$109.2 million."

Second Quarter 2014 Financial Results

During the second quarter of 2014, the Company originated \$22.6 million of new investments (2 new portfolio companies and 4 existing portfolio companies). In addition, the Company received \$9.4 million from investment realizations, which resulted in net deployments of \$13.2 million.

Total investment income was \$12.5 million for the second quarter of 2014, compared to \$8.2 million for the same period in 2013. Net investment income for the second quarter of 2014 was \$5.6 million, compared to \$4.7 million for the same period in 2013. Increases in total investment income and net investment income are attributed to growth in total investments, and \$3.3 million of dividend income for the second quarter of 2014, versus \$0.4 million for the same period in 2013.

Total expenses for the second quarter of 2014 were \$6.9 million, compared to \$3.6 million for the comparable period in 2013. The increase is primarily attributed to an increase in the incentive fee of \$1.4 million, an increase in management fees of \$1.0 million, along with an increase in certain allocated and direct expenses of \$0.8 million.

Total realized gains were \$0.5 million for the second quarter of 2014, compared to \$0.4 million for the same period in 2013. The net change in unrealized appreciation for the second quarter of 2014 was an increase of \$0.1 million, compared to an increase of \$6.6 million for the same period in 2013. The change in unrealized appreciation for the second quarter of 2013 was primarily related to significant appreciation on two equity investments.

Net increase in net assets resulting from operations was \$6.2 million for the second quarter of 2014, compared to \$11.6 million for the same period in 2013. On a per share basis, the net increase in net assets resulting from operations was \$0.48 for the second quarter of 2014, and is not comparable to the same period in 2013.

Net assets at June 30, 2014 were \$263.9 million, or \$20.34 per share, compared to \$268.7 million, or \$20.71 per share, at

December 31, 2013. Comparisons to prior periods are not meaningful as a result of the Formation Transactions described in the Company's Form 10-Q filed on August 12, 2014.

Investment Portfolio

As of June 30, 2014, our portfolio consists of 45 companies with a fair market value of \$405.6 million and a cost basis of \$347.7 million. Senior secured debt investments represent 31.8% of the portfolio, senior subordinated debt investments represent 37.4% of the portfolio, and equity/warrant investments represent 30.8% of the portfolio. On a cost basis, equity investments comprise 18.5% of the portfolio.

We currently have four debt investments on non-accrual status. The combined fair market value of these debt investments at June 30, 2014 was \$5.6 million, or 1.4% of the portfolio. The investments are being carried at approximately 64.3% of cost as of June 30, 2014. At December 31, 2013, we had four investments on non-accrual status with a fair market value of \$6.5 million.

Liquidity and Capital Resources

At June 30, 2014, the Company had \$166.5 million in cash and cash equivalents and SBA debentures outstanding totaling \$192.2 million with a weighted average annual interest rate of 3.51%. Cash and cash equivalents as of June 30, 2014 include net proceeds of \$109.2 million from a note offering completed in June 2014.

Subsequent Events

On July 15, 2014, the Company invested \$7.2 million in the junior subordinated debt (12% cash interest), \$5.0 million in the senior subordinated debt (14% cash interest), and \$1.8 million in the common equity of Burgaflex Holdings, LLC.

On July 17, 2014, the Company invested \$12.5 million in the senior secured debt (12% cash interest, 4% PIK) of Sequoia Healthcare Management, LLC.

On July 25, 2014, the Company invested \$3.0 million in the second lien term loan facility (LIBOR plus 9.00%/1.00% floor) of Meritas Schools Holdings, LLC.

On August 1, 2014, the Company invested \$5.3 million in senior revolving debt (current contractual rate of LIBOR plus 6.75% cash interest, 0.25% floor) and \$3.4 million in senior term debt (current contractual rate of LIBOR plus 7.75% cash interest, 0.25% floor) of Impresa Aerospace Holdings, LLC, an existing portfolio company.

On August 5, 2014, the Company invested \$4.0 million in the senior secured debt (12% cash interest, 2% PIK) of Sparus Holdings, Inc., an existing portfolio company.

Dividend and Distribution Information

On August 7, 2014, the Company's board of directors declared a quarterly cash dividend of \$0.47 per common share. The dividend will be paid on September 26, 2014 to shareholders of record as of September 12, 2014.

The Company has adopted a dividend reinvestment plan ("DRIP") that provides for reinvestment of dividends on behalf of its shareholders, unless a shareholder elects to receive cash. As a result, when the Company declares a cash dividend, shareholders who have not opted out of the DRIP will have their cash dividends automatically reinvested in additional shares of the Company's common stock, rather than receiving cash.

Second Quarter 2014 Financial Results Conference Call

Management will host a conference call to discuss the operating and financial results at 8:30 a.m. on Wednesday August 13, 2014. 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 smaller and lower middle-market companies. The Company is managed by Capitala Investment Advisors, LLC.

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.

Capitala Finance Corp.

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

| | As of | |
|--|-------------------|----------------------|
| | June 30, 2014 | December 31, 2013 |
| | (unaudited) | |
| ASSETS | | |
| Investments at fair value | | |
| Non-control/non-affiliate investments (amortized cost of \$116,776 and \$84,138, respectively) | \$ 133,176 | \$ 99,140 |
| Affiliate investments (amortized cost of \$163,896 and \$159,104, respectively) | 190,892 | 189,098 |
| Control investments (amortized cost of \$67,074 and \$58,057, respectively) | 81,491 | 76,481 |
| Total investments at fair value (amortized cost of \$347,746 and \$301,299, respectively) | 405,559 | 364,719 |
| Cash and cash equivalents | 166,503 | 101,622 |
| Interest and dividend receivable | 2,934 | 2,917 |
| Due from related parties | 541 | 1,645 |
| Deferred financing fees (net of accumulated amortization of \$2,585 and \$2,216, respectively) | 8,703 | 4,871 |
| Prepaid expenses | 229 | 654 |
| Total assets | <u>\$ 584,469</u> | <u>\$ 476,428</u> |
| LIABILITIES | | |
| SBA debentures payable | \$ 192,200 | \$ 202,200 |
| Notes payable | 113,438 | -- |
| Due to related parties | 474 | 1,153 |
| Incentive fee payable | 1,408 | 1,525 |
| Interest payable | 2,875 | 2,723 |
| Trade settlement payable | 9,959 | -- |
| Accounts payable and accrued expenses | 211 | 157 |
| Total liabilities | <u>\$ 320,565</u> | <u>\$ 207,758</u> |
| NET ASSETS | | |
| Common stock, par value \$.01, 100,000,000 common shares authorized, 12,974,420 common shares issued and outstanding | \$ 130 | \$ 130 |
| Additional paid in capital | 188,408 | 188,408 |
| Accumulated undistributed net investment income | 15,919 | 16,760 |
| Accumulated undistributed net realized gain (loss) from investments | 1,634 | (48) |
| Net unrealized appreciation on investments | 57,813 | 63,420 |
| Total net assets | <u>263,904</u> | <u>268,670</u> |
| Total liabilities and net assets | <u>\$ 584,469</u> | <u>\$ 476,428</u> |

Net asset value per share

\$ 20.34

\$ 20.71

Capitala Finance Corp.

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|--|--------------|--------------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (combined) | | (combined) | |
| INVESTMENT INCOME | | | | |
| Interest and fee income: | | | | |
| Non-control/Non-affiliate investments | \$ 3,125 | \$ 2,314 | \$ 6,066 | \$ 4,405 |
| Affiliate investments | 3,884 | 3,385 | 7,625 | 5,829 |
| Control investments | 1,504 | 862 | 2,837 | 1,631 |
| Total interest and fee income | 8,513 | 6,561 | 16,528 | 11,865 |
| Payment-in-kind interest and dividend income: | | | | |
| Non-control/Non-affiliate investments | 251 | 44 | 424 | 86 |
| Affiliate investments | 330 | 102 | 623 | 154 |
| Control investments | 163 | 229 | 287 | 428 |
| Total payment-in-kind interest and dividend income | 744 | 375 | 1,334 | 668 |
| Dividend income: | | | | |
| Non-control/Non-affiliate investments | 1,351 | -- | 1,514 | -- |
| Affiliate investments | 687 | 29 | 716 | 58 |
| Control investments | 1,225 | 414 | 4,795 | 459 |
| Total dividend income | 3,263 | 443 | 7,025 | 517 |
| Other income | -- | 789 | -- | 1,361 |
| Interest income from cash and cash equivalents | 6 | 48 | 14 | 76 |
| Total investment income | 12,526 | 8,216 | 24,901 | 14,487 |
| EXPENSES | | | | |
| Interest expense and amortization of deferred financing fees | 2,401 | 2,226 | 4,601 | 4,291 |
| Management fees | 2,276 | 1,230 | 4,294 | 2,014 |
| Incentive fees | 1,408 | -- | 2,838 | -- |
| General and administrative expenses | 883 | 102 | 2,013 | 234 |
| Expenses before management fee waiver | 6,968 | 3,558 | 13,746 | 6,539 |
| Management fee waiver | (76) | -- | (200) | -- |
| Total expenses net of management fee waiver | 6,892 | 3,558 | 13,546 | 6,539 |
| NET INVESTMENT INCOME | 5,634 | 4,658 | 11,355 | 7,948 |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | | | |
| Net realized gain from investments: | | | | |
| Non-control/Non-affiliate investments | -- | -- | 1,158 | -- |
| Affiliate investments | 351 | -- | 351 | -- |

| | | | | |
|---|---------------------|----------------------|---------------------|----------------------|
| Control investments | <u>111</u> | <u>365</u> | <u>173</u> | <u>365</u> |
| Total realized gain from investments | 462 | 365 | 1,682 | 365 |
| Net unrealized appreciation (depreciation) on investments | <u>116</u> | <u>6,560</u> | <u>(5,607)</u> | <u>5,839</u> |
| Net gain/(loss) on investments | <u>578</u> | <u>6,925</u> | <u>(3,925)</u> | <u>6,204</u> |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ 6,212</u> | <u>\$ 11,583</u> | <u>\$ 7,430</u> | <u>\$ 14,152</u> |
| NET INCREASE IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS - BASIC AND DILUTED | \$ 0.48 | N/A | \$ 0.57 | N/A |
| WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED | 12,974,420 | N/A | 12,974,420 | N/A |

N/A - Not Applicable

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