As filed with the Securities and Exchange Commission on September 24, 2013

Securities Act File No. 333-188956
Securities Act File No. 333-191292
Securities Act File No. 333-191293

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933 ☑
(Check appropriate box or boxes)
Pre-Effective Amendment No. 5
Post-Effective Amendment No.

CAPITALA FINANCE CORP.

(Exact name of Registrant as specified in charter)

Form N-5

REGISTRATION STATEMENT OF SMALL BUSINESS INVESTMENT COMPANY
UNDER
THE SECURITIES ACT OF 1933 ☑
(Check appropriate box or boxes)
Pre-Effective Amendment No. 5
Post-Effective Amendment No.

CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

(Exact name of Registrants as specified in charters)

4201 Congress St., Suite 360
Charlotte, NC 28209
(Address of Principal Executive Offices)

Registrants' telephone number, including Area Code: (704) 376-5502
Joseph B. Alala, III
Chief Executive Officer and President
Capitala Finance Corp.
4201 Congress St., Suite 360
Charlotte, NC 28209
(Name and address of agent for service)

COPIES TO:

Steven B. Boehm
John J. Mahon
Sutherland Asbill & Brennan LLP
700 Sixth Street NW, Suite 700
Washington, DC 20001
(202) 383-0100
Fax: (202) 637-3593

James R. Tanenbaum
Anna T. Pinedo
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104
(212) 468-8000
Fax: (212) 468-7900

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. ☐

It is proposed that this filing will become effective (check appropriate box):
☐ when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price[(1)]	Amount of Registration Fee
Common Stock, $0.01 par value per share	$92,000,000	$12,548.80[(3)]
Partnership Interests of CapitalSouth Partners Fund II Limited Partnership(2)		
Partnership Interests of CapitalSouth Partners SBIC Fund III, L.P.(2)		

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee.
(2) Pursuant to Rule 140 under the Securities Act of 1933, Capitala Finance Corp. may be deemed to be an issuer of the partnership interests for consideration equal to the proposed maximum aggregate offering price of its common stock sold in this offering. No additional offering price will result from any such deemed issuance; accordingly, no additional registration fee is owed on account of any such deemed offering.
(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

The purpose of this Amendment No. 5 to the Registration Statement on Form N-2 is solely to file certain exhibits to the Registration Statement as set forth in Item 25(2) of Part C.

PART C — OTHER INFORMATION

ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS

1. Financial Statements

The following financial statements are included in Part A, "Information Required to be in the Prospectus" of the Registration Statement.

INDEX TO FINANCIAL STATEMENTS

2. Exhibits

Exhibit Number	Description
a.1	Articles of Amendment and Restatement(1)
a.2	Certificateof Limited Partnership of CapitalSouth Partners Fund II Limited Partnership(2)
a.3	Certificateof Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P.(2)
b.1	Bylaws(1)
b.2	Form of Amended and Restated Limited Partnership Agreement of CapitalSouth Partners Fund II Limited Partnership
b.3	Form of Amended and Restated Agreement of Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P.
d.1	Form of Common Stock Certificate(1)
e.	Form of Dividend Reinvestment Plan(1)
g.	Form of Investment Advisory Agreement by and between Registrant and Capitala Investment Advisors, LLC(1)
h.	Form of Underwriting Agreement
j.	Form of Custodian Agreement(1)
k.1	Form of Administration Agreement by and between Registrant and Capitala Advisors Corp.(1)
k.2	Form of Indemnification Agreement by and between Registrant and each of its directors(1)
k.3	Form of Trademark License Agreement by and between Registrant and Capitala Investment Advisors, LLC(1)
k.4	Form of Purchase and Sale Agreement by and among Registrant, CapitalSouth Partners Fund III, L.P., CapitalSouth Partners SBIC Fund III, L.P. and CapitalSouth Partners SBIC F-III, LLC
k.5	Form of Purchase and Sale Agreement by and among Registrant, Atlas Powers Investments, LLC, Markham Hunt Broyhill and John F. McGlinn
k.6	Form of Purchase and Sale Agreement by and among Registrant, CapitalSouth Partners F-II, LLC, Atlas Powers Investments, LLC, Markham Hunt Broyhill, John F. McGlinn, Capitala Transaction Corp., Joseph B. Alala, III and Chris Norton
k.7	Form of Agreement and Plan of Merger by and between Registrant, CS F-II Acquisition Sub, LLC, CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners F-II, LLC
k.8	Form of Purchase Agreement by and between Registrant, CapitalSouth Partners Fund III, L.P. and CapitalSouth Partners F-III, LLC
k.9	Form of Purchase and Sale Agreement by and among Registrant, CapitalSouth Partners Florida Sidecar Fund I, L.P., Florida Growth Fund, LLC and CSP-Florida Mezzanine Fund I, LLC
k.10	Form of Purchase Agreement by and among Registrant, CapitalSouth Partners Fund I, Limited Partnership and CapitalSouth Partners, LLC
k.11	Form of Purchase and Sale Agreement by and between Registrant and CapitalSouth Corporation
l.	Opinion of Sutherland Asbill & Brennan LLP
n.1	Consent of Sutherland Asbill & Brennan LLP (Incorporated by reference to exhibit l hereto)
n.2	Consent of Ernst & Young LLP(3)
n.3	Consent of Dixon Hughes Goodman LLP(3)
n.4	Report of Dixon Hughes Goodman LLP(1)
n.5	Consent of Dixon Hughes Goodman LLP(3)
n.6	Report of Dixon Hughes Goodman LLP(1)

Exhibit Number	Description
n.7	License from the Small Business Administration allowing CapitalSouth Partners Fund II Limited Partnership to operate as a Small Business Investment Company(2)
n.8	Letter from the Small Business Administration approving CapitalSouth Partners SBIC Fund III, L.P.'s application to operate as a Small Business Investment Company(2)
r.	Code of Ethics of Registrant, CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners SBIC Fund III, L.P.(2)
99.1	Code of Business Conduct of Registrant(1)

* To be filed by amendment.

(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. 4 to Capitala Finance Corp.'s registration statement on Form N-2 (File No. 333-188956) filed on September 20, 2013.

ITEM 26. MARKETING ARRANGEMENTS

The information contained under the heading "Underwriting" on this Registration Statement is incorporated herein by reference.

ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

SEC registration fee	$ 12,549
FINRA filing fee	$ 14,300
NASDAQ Global Select Market	$ 5,000
Printing and postage	$ 250,000
Legal fees and expenses	$ 900,000
Accounting fees and expenses	$ 107,600
Miscellaneous	$ 460,551
Total	$ 1,750,000

Note: All listed amounts are estimates except for the SEC registration fee and FINRA filing fee.

ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

Immediately prior to the pricing of this offering and completion of the Formation Transactions (as described in this Registration Statement), Capitala Investment Advisors, LLC will own 100% of the outstanding common stock of Capitala Finance Corp. Following the completion of this offering, Capitala Investment Advisors, LLC's share ownership is expected to represent less than 1% of Capitala Finance Corp.'s outstanding common stock.

See "Management," "Certain Relationships and Transactions" and "Control Persons and Principal Stockholders" in the Prospectus contained herein.

ITEM 29. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the number of record holders of the Registrant's common stock at September 23, 2013:

Title of Class	Number of Record Holders
Common Stock, par value $0.01 per share	1

ITEM 30. INDEMNIFICATION

Directors and Officers

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant's charter and Article XI of the Registrant's bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant's charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the "1940 Act").

The Registrant's charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant's bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant's employees or agents or any employees or agents of the Registrant's predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant's charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Adviser and Administrator

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

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

The law also provides for comparable indemnification for corporate officers and agents. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant has entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Registrant's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Registrant shall indemnify the director who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Registrant.

ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

A description of any other business, profession, vocation, or employment of a substantial nature in which the investment adviser, and each managing director, director or executive officer of the investment adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections titled "Management — Board of Directors," "Investment Advisory Agreement" and "Portfolio Management — Investment Personnel." Additional information regarding the investment adviser and its officers and directors is set forth in its Form ADV, as filed with the SEC(SEC File No. 801-77467), under the Investment Advisers Act of 1940, as amended, and is incorporated herein by reference.

ITEM 32. LOCATION OF ACCOUNTS AND RECORDS

All accounts, books, and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

(1) the Registrant, Capitala Finance Corp., 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209;

(2) the Transfer Agent, American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, New York 11219;

(3) the Custodian, U.S. Bank National Association, 615 East Michigan Street, Milwaukee, Wisconsin 53202; and

(4) the investment adviser, Capitala Investment Advisors, LLC, 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

ITEM 33. MANAGEMENT SERVICES

Not applicable.

ITEM 34. UNDERTAKINGS

(1) Registrant undertakes to suspend the offering of the shares of common stock covered hereby until it amends its prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value per share of common stock declines more than 10% from its net asset value per share of common stock as of the effective date of this Registration Statement, or (b) its net asset value per share of common stock increases to an amount greater than its net proceeds as stated in the prospectus contained herein.

(2) Not applicable.

(3) Not applicable.

(4) Not applicable.

(5) Registrant undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of the Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(b) For purposes of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to a new registration statement relating to the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, in the State of North Carolina, on the 24th day of September, 2013.

CAPITALA FINANCE CORP.

By: /s/ Joseph B. Alala, III
Joseph B. Alala, III
Chief Executive Officer, President and
Chairman of the Board of Directors

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 has been signed by the following persons on behalf of the Registrant, and in the capacities indicated, on the 24th day of September, 2013.

Signature	Title
/s/ Joseph B. Alala, III Joseph B. Alala, III	Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
* John F. McGlinn	Chief Operating Officer, Secretary and Treasurer
/s/ Stephen A. Arnall Stephen A. Arnall	Chief Financial Officer (Principal Financial Officer)
* M. Hunt Broyhill	Director
* H. Paul Chapman	Director
* Larry W. Carroll	Director
* R. Charles Moyer	Director

*By: /s/ Joseph B. Alala, III
Joseph B. Alala, III
Attorney-in-fact

PART III OF FORM N-5
INFORMATION NOT REQUIRED IN PROSPECTUS
EXPLANATORY NOTE

The purpose of this Amendment No. 5 to the Registration Statement on Form N-5 is solely to file certain exhibits to the Registration Statement as set forth in Item 35(b) of Part III.

Item 29. Marketing Arrangements.

The information contained under the heading “Underwriting” in this Registration Statement is incorporated herein by reference.

Item 30. Other Expenses of Issuance and Distribution.

Incorporated by reference from Part C, Item 27 of Capitala Finance Corp.’s Registration Statement on Form N-2 (No. 333-188956).

Item 31. Relationship with Registrant of Experts Named in Registration Statement.

Not Applicable.

Item 32. Recent Sales of Unregistered Securities.

Not Applicable.

Item 33. Treatment of Proceeds from Stock Being Registered.

Not Applicable.

Item 34. Undertaking.

Subject to the terms and conditions of section 15(d) of the Securities Exchange Act of 1934, the undersigned registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that section.

Item 35. Financial Statements and Exhibits.

(a) Financial Statements

The following financial statements of CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners SBIC Fund III, L.P. are included in Part I of this Registration Statement:

(b) Exhibits

1.a Certificate of Limited Partnership of CapitalSouth Partners Fund II Limited Partnership (Incorporated by reference to Exhibit a.2 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(2)

1.b Certificate of Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P. (Incorporated by reference to Exhibit a.3 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(2)

2.a	Form of Amended and Restated Limited Partnership Agreement of CapitalSouth Partners Fund II Limited Partnership (Incorporated by reference to Exhibit b.2 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
2.b	Form of Amended and Restated Agreement of Limited Partnership of CapitalSouth Partners SBIC Fund III, L.P. (Incorporated by reference to Exhibit b.3 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
3.	Not applicable
4.	Form of Custodian Agreement (Incorporated by reference to Exhibit j of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(1)
5.	Form of Indemnification Agreement (Incorporated by reference to Exhibit k.2 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(1)
6.	Not applicable
7.	Not applicable
8.a	License from the Small Business Administration allowing CapitalSouth Partners Fund II Limited Partnership to operate as a Small Business Investment Company (Incorporated by reference to Exhibit n.7 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(2)
8.b	Letter from the Small Business Administration approving CapitalSouth Partners SBIC Fund III, L.P.'s application to operate as an Small Business Investment Company (Incorporated by reference to Exhibit n.8 of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(2)
9.a	Form of Purchase and Sale Agreement by and among Capitala Finance Corp., CapitalSouth Partners Fund III, L.P., CapitalSouth Partners SBIC Fund III, L.P. and CapitalSouth Partners SBIC F-III, LLC (Incorporated by reference to Exhibit k.4. of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
9.b	Form of Agreement and Plan of Merger by and between Capitala Finance Corp., CS F-II Acquisition Sub, LLC, CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners F-II, LLC (Incorporated by reference to Exhibit k.7. of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
10.	Form of Underwriting Agreement (Incorporated by reference to Exhibit h of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
11.	Opinion of Sutherland Asbill & Brennan LLP (Incorporated by reference to Exhibit l of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)
12.	Not Applicable
13.	Code of Ethics of Capitala Finance Corp., CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners SBIC Fund III, L.P. (Incorporated by reference to Exhibit r of Capitala Finance Corp.'s Registration Statement on Form N-2, File No. 333-188956)(2)

(1) Previously filed in connection with Pre-Effective Amendment No. 1 to the 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.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Pre-Effective Amendment No. 5 to this Registration Statement on Form N-5 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, in the State of North Carolina, on the 24th day of September, 2013.

CAPITALSOUTH PARTNERS FUND II
LIMITED PARTNERSHIP

By: CapitalSouth Partners F-II, LLC, its General Partner

By: /s/ Joseph B. Alala, III
Joseph B. Alala, III
Managing Member, President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Joseph B. Alala, III and John F. McGlinn as a true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Registration Statement (including post-effective amendments, or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) and otherwise), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC granting unto each said attorney-in-fact and agent the full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as to all intents and purposes as either of them might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 5 to this Registration Statement on Form N-5 has been signed by the following persons on behalf of the Registrant, and in the capacities indicated, on the 24th day of September, 2013.

Signature	Title
/s/ Joseph B. Alala, III Joseph B. Alala, III	Managing Member, President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer) of the General Partner and Chairman of the Board of Directors
/s/ John F. McGlinn John F. McGlinn	Managing Member of the General Partner
/s/ M. Hunt Broyhill M. Hunt Broyhill	Managing Member of the General Partner and Director
/s/ H. Paul Chapman H. Paul Chapman	Director
/s/ Larry W. Carroll Larry W. Carroll	Director
/s/ R. Charles Moyer R. Charles Moyer	Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Pre-Effective Amendment No. 5 to this Registration Statement on Form N-5 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, in the State of North Carolina, on the 24th day of September, 2013.

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

By: CapitalSouth Partners F-III, LLC, its General Partner

By: /s/ Joseph B. Alala, III
Joseph B. Alala, III
Managing Member, President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Joseph B. Alala, III and John F. McGlinn as a true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Registration Statement (including post-effective amendments, or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) and otherwise), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC granting unto each said attorney-in-fact and agent the full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as to all intents and purposes as either of them might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 5 to this Registration Statement on Form N-5 has been signed by the following persons on behalf of the Registrant, and in the capacities indicated, on the 24th day of September, 2013.

Signature	Title
/s/ Joseph B. Alala, III Joseph B. Alala, III	Managing Member, President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer) of the General Partner and Chairman of the Board of Directors
/s/ John F. McGlinn John F. McGlinn	Managing Member of the General Partner
/s/ M. Hunt Broyhill M. Hunt Broyhill	Managing Member of the General Partner and Director
/s/ H. Paul Chapman H. Paul Chapman	Director
/s/ Larry W. Carroll Larry W. Carroll	Director
/s/ R. Charles Moyer R. Charles Moyer	Director

Exhibit b.2

[FORM OF AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT]

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT

CapitalSouth Partners Fund II Limited Partnership
(A North Carolina Limited Partnership)

September 24, 2013

The limited partnership interests of this fund have not been registered under the Securities Act of 1933, as amended, and unless so registered may not be offered or sold except pursuant to an exemption from such act. In addition, the limited partnership interests of this fund are subject to further restrictions on transfer as provided in this agreement.

CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP

Amended and Restated Limited Partnership Agreement

Table of Contents

Schedules and Exhibits

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF
CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP

This Amended and Restated Limited Partnership Agreement (this "Agreement") of CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership, is made and entered into as of the 24th day of September, 2013, by and among CapitalSouth Partners F-II, LLC, a North Carolina limited liability company (the "General Partner"), and those individuals, companies, firms, corporations and other entities listed on **Schedule I** (or any substitute thereto as described herein) who execute a counterpart of this Agreement as Limited Partners.

ARTICLE I

DEFINED TERMS

For purposes of this Agreement, the following terms have the meanings set forth below (such meanings to be equally applicable to both singular and plural forms of the terms so defined). Additional defined terms are set forth in the Sections of this Agreement to which they relate.

"Additional Capital Contribution" has the meaning set forth in **Section 3.3**.

"Advisory Board" has the meaning set forth set forth in **Section 7.9**.

"Affiliate" means, with respect to the Person to which it refers, a Person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such subject Person. Ownership, directly or indirectly, of twenty percent (20%) or more of the voting power or the value of another Person shall be deemed to constitute "control" for purposes of this definition unless a non-Affiliate owns more than fifty percent (50%) of such Person. Notwithstanding the foregoing, in respect of the SBIC Act, "Affiliate" has the meaning set forth in the SBIC Act.

"Agreement" means this Amended and Restated Limited Partnership Agreement of CapitalSouth Partners Fund II Limited Partnership, as amended from time to time in accordance herewith and shall be deemed to include all provisions incorporated in this Agreement by reference.

"Allocable Share of Fund Expenses" means the product obtained by multiplying (a) all Fund Expenses paid by the Fund out of Capital Contributions since the Fund's inception through the relevant date of determination, by (b) the fraction obtained by dividing (i) the Fund's aggregate Cost Basis in all Sold Investments by (ii) until the aggregate of Unfunded Commitments equals zero, the Partners' aggregate Commitments, and thereafter, the Fund's aggregate Cost Basis in all of the Fund's existing and former Investments.

"Articles of Limited Partnership" means the articles of limited partnership of the Fund filed with the North Carolina Secretary of State in accordance with the North Carolina Act.

"Assets" means and includes common and preferred stock (including warrants, rights and other options relating thereto or any combination thereof), notes, bonds, debentures, trust receipts and other obligations, instruments or evidences of indebtedness, and other properties or interests commonly regarded as Securities, and in addition, interests in real property, whether improved or unimproved, and interests in personal property of all kinds, tangible or intangible, chooses in action, and cash, bank deposits and so-called "money market instruments."

"Assets Under Management" means, as of any specified date, the value of all Assets owned by the Fund (such value to be determined as provided in this Agreement), including contributions requested and due from Partners and Unfunded Commitments, less the amount of any liabilities of the Fund determined in accordance with generally accepted accounting principles.

"Associate" has the meaning set forth in the SBIC Act.

"Assumed SBA Leverage" means the product of (i) two, multiplied by (ii) Unreduced Regulatory Capital of the Fund.

"Bankruptcy" means, with reference to any Person, any of the following events in respect of such Person: (i) an assignment for the benefit of creditors; (ii) a voluntary petition in bankruptcy; (iii) being adjudged a bankrupt or insolvent; (iv) a petition or answer being filed by such Person seeking a reorganization, arrangement, composition, readjustment liquidation, dissolution or similar relief under any statute, law or regulation; (v) such Person seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of all or any substantial part of such Person's properties; (vi) one hundred twenty (120) days after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment liquidation, dissolution or similar relief under any statute, law or regulation, and such proceeding has not been dismissed during such time period; (vii) ninety (90) days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or all or any substantial part of such Persons properties, which appointment is not vacated or stayed or within ninety (90) days after the expiration of any such stay, the appointment is not vacated; (viii) in the case of a natural Person, his death or the entry by court of competent jurisdiction adjudicating such person to be incompetent to manage his or her person or property; (ix) in the case of a Person being a trustee or a trust, the termination of the trust (but not merely the substitution of a new trustee); (x) in the case of a Person that is a partnership, the dissolution and commencement of winding up of such partnership; (xi) in the case of a Person that is a corporation, the filing of articles of dissolution or its equivalent for the corporation or the revocation of its charter and expiration of ninety (90) days after the date of notice to the corporation of revocation without reinstatement of its charter; (xii) in the case of a Person that is an estate, the distribution by the fiduciary of the estate's entire interest in the Fund; and (xiii) in the case of a Person who is not an individual, partnership, corporation, trust or estate, the termination of such Person.

"Board of Directors" has the meaning set forth in Section **7.1(a).**

"Capital Account" has the meaning set forth in **Section 8.2**.

"Capital Contribution" means such capital as is contributed to the Fund by a Partner in accordance with the provisions of **Article III** or **Article IV**.

"Capitala" means Capitala Investment Corp.

"CapitalSouth Fund" means any investment fund, the general partner, manager, or principal owner or officer of which is the General Partner or one or more General Partner Affiliates.

"Carried Interest" means the General Partner's twenty percent (20%) interest in the Fund's Net Profits and Net Losses allocated to the General Partner pursuant to **Sections 8.7(e)(ii)** and **8.8(a)(ii)** and the General Partner's one hundred percent (100%) interest in the Fund's Net Profits and Net Losses allocated to the General Partner pursuant to **Sections 8.7(d)** and **8.8(b)**.

"Carry Distributions" means the distributions to the General Partner pursuant to **Sections 9.4(d)** and **9.4(e)(ii)**, plus (without duplication) Tax Distributions relating to its Carried Interest.

"Cash Equivalents" means permitted investments of idle funds as set forth in Section 107.530 of the SBIC Act and any successor provision thereto.

"Code" means the Internal Revenue Code of 1986 and (unless the context otherwise requires) the rules and regulations promulgated thereunder, as amended from time to time, or any successor statute thereto.

"Commitment" means, with respect to any Limited Partner, the total amount that such Partner has agreed to contribute to the Fund as set forth on **Schedule A** opposite such Partner's name under the heading "Commitments," and, with respect to the General Partner, means the total amount the General Partner has agreed to contribute to the Fund as set forth in **Section 3.1**; provided; however, that any Commitment by a Limited Partner shall not include any amount under any agreement by the SBA to provide Leverage to the Fund in respect any Commitment. The amounts and terms of the Commitments of the Partners shall be as defined in this Agreement.

"Contributions Account" has the meaning set forth in **Section 8.1**.

"Control Person" has the meaning set forth in the SBIC Act.

"Cost Basis" means, with respect to any Fund asset, the Fund's adjusted tax basis in that asset as determined for federal income tax purposes; provided, however, that if the Fund has made an election under Section 754 of the Code, such tax basis shall be determined after giving effect to adjustments made under Section 734 of the Code but (except as provided in Treasury Regulations Section 1.734-2(b)(1)) without regard to adjustments made under Section 743 of the Code.

"Debentures" has the meaning set forth in the SBIC Act.

"Defaulting Partner" has the meaning set forth in **Section 3.5**.

"ERISA" means the Employee Retirement Income Security Act of 1974, the related provisions of the Code, and the respective rules and regulations promulgated thereunder, in each case as amended from time to time, and administrative or judicial rulings and interpretations thereof.

"ERISA Partner" means any Limited Partner that is (a) an "employee benefit plan" within the meaning of Section 3(3) of ERISA and subject to Part 4 of Title I of ERISA, (b) a "plan", as defined in Section 4975(e)(1) of the Code, to which the provisions of Section 4975 of the Code are applicable, or (c) any other Person, any of the assets of which, or held by which, constitute, under applicable law, assets of an employee benefit plan subject to the provisions of Part 4 of Title I of ERISA or of a plan subject to the provisions of Section 4975 of the Code.

"Expense Contribution" means that portion of any Capital Contribution made to fund or reimburse Fund Expenses.

"Fair Market Value" means, with respect to any Security, the fair market value of such Security determined in accordance with the Fund's valuation guidelines adopted in accordance with **Section 12.6**.

"Fund" means CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership.

"Fund Expenses" means all Ordinary Expenses and Organizational Expenses.

"General Partner" means CapitalSouth Partners F-II, LLC, a North Carolina limited liability company, or any successor general partner to the Fund under this Agreement.

"General Partner Affiliates" means the Principals, the Management Company, the owners of the Management Company, and any other Affiliate of the General Partner.

"Incompetency" means, with reference to any member of the General Partner or any Limited Partner who is an individual, the adjudication of such Person as incompetent to manage his person or property by a decree of a court of competent jurisdiction.

"Initial Capital Contribution" has the meaning set forth in **Section 3.3**.

"Initial Closing" has the meaning set forth in **Section 2.7**.

"Initial Closing Date" has the meaning set forth in **Section 2.7**.

"Initial Fee Period" means the period commencing on the earliest of (a) the date the Partnership obtains its license to operate as an SBIC, (b) the date of the Fund's first investment in a Portfolio Company, or (c) the first date any Management Expense begins to accrue or is paid pursuant to **Section 7.5**; and ending on the earlier of (x) the date five years from the start of the Initial Fee Period or (ii) the date at which total private capital of the Fund called to date plus total Leverage issued by the Fund equals or exceeds 80% of the sum of Unreduced Regulatory Capital plus Assumed SBA Leverage.

"Institutional Investor" has the meaning set forth in the SBIC Act.

"Investment" means an investment by the Fund in a Portfolio Company.

"Investment Advisor/Manager" has the meaning set forth in the SBIC Act.

"Investment Company Act" means the Investment Company Act of 1940, as amended, and the regulations and interpretations thereof promulgated by the Securities and Exchange Commission.

"Joint Commitment" means those certain Dual Commitment Forms executed by the qualified individual Institutional Investors set forth on **Schedule B** and as contemplated by **Section 6.3(c)(iv)** relating to Unfunded Commitments from the indicated nonqualified entity Institutional Investors.

"Leverage" has the meaning set forth in the SBIC Act.

"Limited Partner Majority" means those Limited Partners whose aggregate Commitments exceed fifty percent (50%) of the total Commitments of all Limited Partners.

"Limited Partner Super-Majority" means those Limited Partners whose aggregate Commitments equal at least sixty-six and two-thirds percent (66-2/3%) of the aggregate Commitments of all Limited Partners.

"Limited Partners" means those individuals, firms, trusts, corporations, and other entities listed in **Schedule A** as limited partners (or in any substitute **Schedule A** as described herein), together with any additional or substituted limited partners admitted to the Fund after the date hereof.

"Liquidator" has the meaning set forth in **Section 11.3**.

"Management Company" has the meaning set forth in **Section 7.5**.

"Management Expenses" has the meaning set forth in **Section 7.6**.

"Management Fee Base" means (i) during the Initial Fee Period, the sum of Unreduced Regulatory Capital and Assumed SBA Leverage; and (ii) thereafter, the cost of loans and investments for all Portfolio Companies of the Fund, as of the time of determination, that the Fund has not written off and which remains an ongoing concern.

"Management Fee Rate" means:

(i) If the Management Fee Base is less than or equal to $60 million, 2.5%;

(ii) If the Management Fee Base is greater than $60 million and less than $120 million, 2.5% minus the product of (i) 0.5% multiplied by (ii) the amount by which the Management Fee Base exceeds $60 million; and

(iii) If the Management Fee Base is greater than or equal to $120 million, 2%.

"Marketability"; "Marketable"; "Marketable Securities" refers to or means all Securities that are "freely tradable." For purposes of this Agreement, a Security shall be deemed to be "freely tradable" if (a) in the hands of the Limited Partners, such Security can be immediately sold to the general public without the necessity of any federal, state or local government consent, approval or filing (other than any notice filings of the type required pursuant to Rule 144(h) under the Securities Act of 1933), and (b) such Securities are Publicly Traded and Marketable.

"Nasdaq National Market System" means the National Association of Securities Dealers, Inc. Automated Quotation System.

"Net Fund Proceeds" means, with respect to any period, the sum of all proceeds received by the Fund (whether cash or other property) in respect of its Cash Equivalents and Investments (including dividends, interest, fees and other ordinary income received on, and proceeds received upon the Sale of, Investments), less all Fund Expenses with respect to such period, and (a) in the case of the Sale of an Investment, net of all reserves (until such reserves are deemed no longer necessary and are released), expenses, fees, and taxes incurred by or for the account of the Fund in connection with such Sale, and (b) in any case, net of reserves established pursuant to **Sections 9.5** and **11.3**.

"Net Profit or Net Loss" means, with respect to any fiscal year, the sum of the Fund's: (a) net gain or loss from the Sale, exchange, or other disposition of the Fund's capital assets during such fiscal year, including for this purpose any gain or loss deemed to have been realized by the Fund, pursuant to **Section 8.3**, on a distribution in kind of its assets during such fiscal year to the extent not previously allocated to the Partners; (b) the aggregate amount of the Fund's gross income (including interest, dividends and fees) for such fiscal period attributable to its Investments; (c) Short-Term Investment Income; and (d) any other items of income, gain, loss, deduction and expense for such fiscal year, including any income that is exempt from federal income tax, any Write-Down Amounts and Write-Down

Recovery Amounts, all Fund losses and all expenses properly chargeable to the Fund, whether deductible or nondeductible and whether described in Section 705(a)(2)(B) of the Code, treated as so described pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i), or otherwise, but (d) specifically excluding all items of Fund income, gain, loss, deduction or expense for such fiscal year allocated pursuant to **Section 8.9** (relating to Regulatory Allocations).

"Newly Admitted Partner" has the meaning set forth in **Section 4.1**.

"North Carolina Act" means the North Carolina Revised Uniform Limited Partnership Act, North Carolina General Statutes, Chapter 59, Article 5, as amended from time to time, or any successor statutes thereto.

"Ordinary Expenses" means all costs and expenses relating to the Fund's activities, Investments and business (to the extent not borne or reimbursed by a Portfolio Company), including without limitation, (i) all costs and expenses attributable to acquiring, holding and disposing of the Fund's Investments (including without limitation interest on money borrowed (to the extent permitted hereunder) by the Fund, the General Partner or the Management Company on behalf of the Fund, registration expenses and brokerage, custodial and other fees), (ii) legal, accounting, auditing, consulting and other fees and expenses (including without limitation expenses associated with the preparation of Fund financial statements, tax returns and forms K-1), (iii) expenses of the Advisory Board incurred in accordance with **Article VII**, (iv) costs, expenses and liabilities of the Fund (including without limitation litigation and indemnification costs and expenses, judgments and settlements), (v) all out-of-pocket fees and expenses incurred by the Fund, the General Partner, the Management Company or the General Partner's or the Management Company's respective members, managers, partners, officers and employees relating to Investment and disposition opportunities for the Fund not consummated (including without limitation legal, accounting, auditing, consulting and other fees and expenses, financing commitment fees, real estate title and appraisal costs, and printing), (vi) the Management Expenses, and (vii) any taxes, fees and other governmental charges levied against the Fund, but not including Organizational Expenses.

"Organizational Expenses" means any fees, costs or expenses incurred by the Fund or the General Partner, but only to the extent that such items are attributable to the organization of the Fund or the General Partner and the offer and sale of interests to the Limited Partners.

"Outstanding Leverage" means the total amount of outstanding Debentures and other Securities issued by the Fund that qualify as Leverage and have not been repaid for purposes of and as provided in the SBIC Act.

"Partners" means the General Partner and the Limited Partners.

"Person" means any individual, general or limited partnership, limited liability company, corporation, joint venture, business trust, cooperative, association or other legal entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such Person where the context makes appropriate.

"Plan Assets" means assets of the Fund deemed under the Plan Assets Regulations to constitute assets of a benefit plan investor (as defined in said regulations) by virtue of the investment of such benefit plan investor in the Fund.

"Plan Assets Regulations" means the regulations concerning what constitutes assets of an employee benefit plan or of a plan for certain purposes under ERISA and the Code as adopted under ERISA by the United States Department of Labor and codified at 29 C.F.R.2510.3-101.

"Portfolio Company" means any Person in which the Fund has made an Investment, other than an investment in Cash Equivalents, in furtherance of the purposes hereof.

"Preferred Return" means an six percent (6%) per annum return, calculated on a simple basis, on the Capital Contributions that have been made to the Fund, less any distributions to the Partners that represent a return of such Capital Contributions, at the time of determination. As of any distribution date, the calculation of Preferred Return for any certain Capital Contribution will be made from the date such Capital Contribution was made to the Fund through the earlier to occur of (a) a distribution representing a return of such Capital Contribution, or (b) the date of calculation of Preferred Return. All calculations will be based on a 365-day year.

"Prime Rate" means the "Prime Rate" as published each business day by *The Wall Street Journal*, representing the base rate on corporate loans posted by at least seventy-five percent (75%) of the nation's 30 largest banks, or such similar rate published by such publication or its successor, as such rate may change from time to time. If *The Wall Street Journal* is not published on a date for which the Prime Rate must be determined, the Prime Rate shall be the prime rate published in *The Wall Street Journal* on the nearest-preceding date on which *The Wall Street Journal* was published. If *The Wall Street Journal* discontinues publishing a prime rate, the Prime Rate shall be the prime rate announced publicly from time to time by Bank of America Corporation (or successor bank) as the prime rate of such bank.

"Principals" refers, at any time, to each Person who is then a member of the General Partner. As of the date of this Agreement, the Principals are Joseph B. Alala, III, Markham Hunt Broyhill and Elyn Sykes Dortch

"Private Foundation Partner" means any Limited Partner that is a "private foundation" as described in Section 509 of the Code.

"Publicly Traded and Marketable" means securities that are salable without restriction or that are salable within 12 months pursuant to Rule 144 of the Securities Act of 1933, as amended, by the holder thereof (or in the case of a distribution in kind, by the distributee thereof), and are of a class that is traded on a regulated stock exchange, or is listed in the Automated Quotation System of the National Association of Securities Dealers (NASDAQ), or has, at a minimum, at least two market makers as defined in the relevant sections of the Securities Exchange Act of 1934, as amended, and in all cases the quantity of which can be sold over a reasonable period of time without having an adverse impact upon the price of the stock.

"Regulatory Allocations" has the meaning set forth in **Section 8.9**.

"Regulatory Capital" has the meaning set forth in the SBIC Act.

"Remaining Securities" has the meaning set forth in **Section 9.2**.

"Restoration Amount" means at any time (i) with respect to the General Partner, the amount of the deficit balance, if any, in such Partner's Capital Account at such time, and (ii) with respect to any other Partner, the sum of (a) such Partner's share (as determined under Section 752 of the Code), if any, at such time of the recourse indebtedness of the Fund, but only to the extent that such Partner would be required to make a payment in satisfaction of such indebtedness if all Fund property were sold for the amount of the book basis of such property at such time (determined under Section 704(b) of the Code and the regulations thereunder), and (b) any part of such Partner's Unfunded Commitment that has not been terminated before such time (to the extent not taken into account in determining such Partner's share of the recourse indebtedness of the Fund).

"Retained Net Fund Proceeds" has the meaning given to it in **Section 9.3**.

"SBA" means the United States Small Business Administration.

"SBIC" means a "small business investment company" licensed to operate as such by the SBA.

"SBIC Act" means the Small Business Investment Act of 1958, as amended, and the rules, regulations and policies promulgated and announced thereunder by the SBA, as in effect from time to time.

"Sale" means any sale, transfer, assignment, pledge, redemption, repurchase, repayment, exchange, satisfaction, or other disposition of, and any similar or equivalent event or condition with respect to, Investments and any other assets (except realizations of purchase discounts on commercial paper, certificates of deposit or other money market instruments) of the Fund that would generate a gain or loss for federal income tax purposes under the Code, provided, however, that for this purpose a distribution in kind of any Security shall be treated as a Sale of such Security.

"Securities" means securities of every kind and nature and rights and options with respect thereto, including stock, notes, bonds, debentures, evidences of indebtedness and other business interests of every type, including partnerships, joint ventures, proprietorships and other business entities.

"Short-Term Investment Income" means all income earned on Cash Equivalents during a fiscal year, including any gains and net of any losses realized upon the disposition of Cash Equivalents.

"Sold Investment" means any Investment that the Fund has disposed of by Sale.

"Subscription Agreement" means, with respect to any Partner, this Agreement in form satisfactory to the General Partner evidencing such Partner's obligation to provide its Commitment.

"Subsequent Closing" means any closing of admission of Newly Admitted Partners, as permitted by **Section 4.1.**

"Substitute Limited Partner" means a transferee of a Limited Partner's rights and obligations under this Agreement who has been admitted to the Fund in accordance with **Section 10.1(d)** and granted those rights enumerated in clauses (i) through (iv) of **Section 10.1(d)**.

"Tax Distribution" means a portion of any distributions made to the General Partner with respect to a fiscal year equal to the General Partner's anticipated taxes with respect to the taxable income allocated to the General Partner for such fiscal year pursuant to **Sections 8.7(d)** and **8.7(e)(ii)** (relating to its Carried Interest). All calculations of anticipated taxes for purposes of this definition shall assume the highest applicable marginal federal, state and local tax rates for all of the General Partner's members and former members.

"Tax Matters Partner" has the meaning set forth in **Section 12.7**.

"Total Commitments" means the sum of Commitments of the General Partner and all Limited Partners.

"Transfer" means any transfer, Sale, assignment, gift, pledge, hypothecation or other disposition or encumbrance of an interest in the Fund, or, when used as a verb, the taking of such action.

"Unfunded Commitment" means, at any given time with respect to any Partner, such Partner's Commitment less the sum of such Partner's Capital Contributions made as of such time.

"Unreduced Regulatory Capital" means the sum of:

(i) Regulatory Capital of the Fund at the time an installment of Management Expenses is paid or begins to accrue (whichever is earlier) pursuant to **Section 7.5**;

(ii) any distributions previously made by the Fund as of the time of determination which reduced Regulatory Capital under 13 C.F.R. §107.1570(b); and

any Distributions previously made by the Partnership as of the time of determination under 13 C.F.R. §107.585 which reduced Regulatory Capital by no more than two percent or which SBA approves for inclusion in the calculation of Management Expenses.

"Write-Down Amount" means the amount, as determined by the General Partner in accordance with its valuation guidelines adopted pursuant to **Section 12.6** by which an Investment in a Portfolio Company has declined in value as compared to the Cost Basis of such Investment, as reduced by any previous Write-Down Amount in respect of such Investment and increased by any Write-Down Recovery Amount in respect of such Investment.

"Write-Down Recovery Amount" means the amount, as determined by the General Partner in accordance with its valuation guidelines adopted pursuant to **Section 12.6** by which an Investment in a Portfolio Company has increased in value, or the amount realized upon the Sale of an Investment, in each case as compared to the Cost Basis of such Investment, as reduced by any Write-Down Amount in respect of such Investment, but only to the extent any such Write-Down Amount has not been offset previously by a Write-Down Recovery Amount.

"VCOC" means "venture capital operating company" within the meaning set forth in the exemption provided in paragraph (d) of the Plan Assets Regulations.

ARTICLE II

FORMATION, NAME, AND PLACE OF BUSINESS

2.1 Formation of Limited Partnership. The Partners agree to carry on the Fund subject to the terms of this Agreement and in accordance with the provisions of the North Carolina Act.

2.2 Name. The business of the Fund shall be conducted under the name of CapitalSouth Partners Fund II Limited Partnership, the partners of which are the General Partner and the Limited Partners listed on **Schedule A** (or any substitute thereto as described herein). Subject to the approval of the SBA, the General Partner may change the name of the Fund to such other name as the General Partner may determine at any time, upon written notice to all Partners indicating such new name; provided, however, that the General Partner may not select as the name of the Fund any name that includes the name of a Limited Partner without the prior written consent of such Partner. The Fund shall have the exclusive ownership of and right to use the Fund name as long as the Fund continues. Upon termination of the Fund, the Fund shall assign the name and goodwill attached to the Fund's name to the General Partner.

2.3 Address. The initial address of the Fund's registered office in North Carolina is CapitalSouth Partners Fund II Limited Partnership, at 1011 E. Morehead Street, Suite 150, Charlotte, North Carolina 28204, and its initial registered agent at such address for service of process is Joseph B. Alala, III. The

initial principal office of the Fund shall be located at 1011 E. Morehead Street, Suite 150, Charlotte, North Carolina 28204. Subject to the approval of the SBA, the General Partner may change the location of the principal office of the Fund to such other location within the United States as the General Partner may determine at any time, upon written notice to all the Partners indicating the new location of such principal office. The General Partner may cause the Fund to open such additional offices in such other locations as the General Partner in its sole discretion may determine.

2.4 Purposes and Powers. The Fund is being organized solely for the purpose of operating as a small business investment company under the SBIC Act and conducting the activities described under Title III of the SBIC Act, and shall have the powers, responsibilities, and be subject to the limitations, provided in the SBIC Act. Otherwise, to the extent not in conflict with the foregoing sentence and subject to all of the other terms and provisions hereof, the Fund shall have the following powers:

(a) to purchase, invest in and sell Securities of every kind, including without limitation capital stock, bonds, notes, debentures, trust receipts and other obligations, as well as rights and options to purchase Securities;

(b) to make and perform all contracts and engage in all activities and actions necessary or advisable to carry out the purposes of the Fund, including without limitation the purchase, sale, transfer and exercise of all rights, privileges and incidents of ownership or possession with respect to any Fund asset or liability; and

(c) otherwise to have all the powers available to it as a limited partnership under the laws of the State of North Carolina.

2.5 The SBIC Act.

(a) Compliance with SBIC Act. The operation of the Fund and the actions taken by the Fund and its Partners shall be conducted and taken in compliance with the SBIC Act.

(b) Conflict with the SBIC Act. The provisions of this Agreement shall be interpreted to the fullest extent possible in a manner consistent with the SBIC Act. In the event of any conflict between any provision of this Agreement and the provisions of the SBIC Act (including without limitation any conflict with respect to the rights of the SBA hereunder), the provisions of the SBIC Act shall control.

(c) Effective Date of SBIC Act Provisions.

(i) Any provisions of this Agreement relating to Debentures issued by the Fund that incorporates or refers to a provision of the SBIC Act (including without limitation 13 C.F.R. §§ 107.1830 - 107.1850) shall, with respect to the rights of the SBA (or any other holder of any such Debenture) under any such section as to each Debenture, be deemed to refer to such SBIC Act provision as in effect on the date on which such Debenture was purchased from the Fund.

(ii) **Section 2.5(c)(i)** applies to the rights of the SBA in its capacity as a holder or guarantor of Debentures, and it shall not be construed to apply to the provisions of the SBIC Act that relate to the regulatory authority of SBA under the SBIC Act over the Fund as a licensed small business investment company or the rights of the SBA under any other agreement between the Fund and the SBA.

(iii) References in this Agreement to the provisions of the SBIC Act relating to the SBA's regulatory authority refer to the provisions as in effect from time to time.

(d) Incorporation of SBA Annexes GDP and OP. The provisions of SBA Annexes GDP, Version 3.0 and OP, Version 1.1 attached to this Agreement as **Exhibits 1** and **2** are incorporated into this Agreement with the same force and effect as if set forth herein. Any conflict between such Annexes and the provisions contained in this Agreement will be governed by such Annexes, to the extent required by the SBA.

2.6 Articles of Limited Partnership. The General Partner shall file for record with the appropriate public authorities and, if required, publish the Articles of Limited Partnership of the Fund and any amendments thereto and take all such other action as may be required to preserve the limited liability of the Limited Partners in any jurisdiction in which the Fund shall conduct its activities.

2.7 Initial Closing. The initial closing (the "Initial Closing") of the Fund will be held at the discretion of the General Partner after the execution and delivery of this Agreement and Subscription Agreements representing aggregate Commitments for at least $5,000,000 by the General Partner and the initial Limited Partners, and the payment of their respective Initial Capital Contributions. The date of the Initial Closing shall be referred to as the "Initial Closing Date."

2.8 Admission of Limited Partners. Without the prior approval of the SBA, no Person may be admitted as a general partner of the Fund or a Limited Partner if such Limited Partner would then have made ten percent (10%) or more of the Fund's Total Commitments.

2.9 Limitation on Fund for Failure to Obtain SBIC License. Should the Fund fail to obtain its SBA license, the Fund shall deliver notice to each Investor of such failure and give each Investor the option to reduce its Commitment to the amount of its previously made Capital Contributions. To so reduce its Commitment, each Investor must have delivered notice of such to the General Partner within thirty (30) days after receipt of the Fund's notice described above. After such 30-day period has expired, the General Partner, with the approval of a Limited Partner Majority (reflecting any such withdrawals), which approval shall not be unreasonably withheld, shall amend this Agreement to reflect the absence of an SBIC license. The agreement shall, among other things, no longer contain the provisions relating to the SBIC Act and the SBA and shall contain customary provisions replacing such deleted provisions and dealing with issues governed by the SBIC Act and absent from this Agreement, such as provisions governing conflicts of interest and valuation of assets. Alternatively, upon such failure to obtain its SBIC license, the General Partner may, in its discretion, elect to dissolve, wind-up and liquidate the Fund.

ARTICLE III

CAPITAL OF THE FUND

3.1 Commitment of General Partner. The General Partner's Commitment to contribute capital to the Fund shall at all times be one percent (1%) of the Total Commitments and shall be payable on a proportionate basis as and when capital is contributed by the Limited Partners pursuant to this Article.

3.2 Names, Addresses and Commitments of Limited Partners. The names and addresses of the Limited Partners that participated in the Initial Closing, and their respective Commitments, are set forth in **Schedule A**. Except as is specifically provided herein, **Schedule A** shall be amended from time to time by the General Partner, without the consent of any other Partners, to reflect any change in the identity or Commitments of the Limited Partners made in accordance with the terms of this Agreement or any change in the name or address of a Limited Partner of which the General Partner shall be notified pursuant to **Section 13.5** hereof.

3.3 Capital Contributions.

(a) Each Partner hereby agrees (and, in the case of a Joint Commitment, each qualified individual Institutional Investor who has executed and delivered such Joint Commitment, to the extent that the Partner named therein defaults on such agreement), subject to the terms of this **Article III**, to contribute to the Fund in cash an amount equal to fifty percent (50%) of its Commitment (each such contribution, a Partner's "Initial Capital Contribution").

(b) Each Partner shall make (and, in the case of a Joint Commitment, each qualified individual Institutional Investor who has executed and delivered such Joint Commitment, to the extent that the Partner named therein fails to so make) its Initial Capital Contribution concurrently with the Initial Closing.

(c) In addition, each Partner shall make (and in the case of a Joint Commitment, each qualified individual Institutional Investor who has executed and delivered such Joint Commitment, to the extent that the Partner name therein fails to so make) additional contributions to the capital of the Fund ("Additional Capital Contributions") in cash from time to time, subject to not less than ten (10) calendar days prior written notice, upon notice from the General Partner (a "Capital Call Notice"), but not in excess of such Partner's Unfunded Commitment at the time. Such Additional Capital Contributions shall be made pro rata among all Partners based upon their respective Commitments. Each Capital Contribution to the Fund shall be made by means of a check or by wire transfer of immediately available funds to an account designated by the General Partner.

(d) If twenty-five percent (25%) or more of the Commitments from Limited Partners (and qualified individual Institutional Investors who have executed and delivered a Joint Commitment) are from Limited Partners (or qualified individual Institutional Investors who have executed and delivered a Joint Commitment) that are "benefit plan investors" (as defined in the Plan Assets Regulations), then (notwithstanding **Section 3.3(c)** above), no Capital Contribution shall be made to the Fund until the Fund has made an Investment that qualifies the Fund as a VCOC. Prior to such time, (i) the Management Expenses, Ordinary Expenses and Organizational Expenses shall be paid directly to the Management Company or the General Partner, as appropriate (provided that such amounts shall be treated as having been paid into the Fund as a Capital Contribution by each Partner, followed by payment of the same character of expense by the Fund to the Management Company or General Partner), and (ii) any Capital Contributions required by any Capital Call Notice to permit the Fund to make an Investment in a Portfolio Company shall be contributed to a trust account or an escrow fund established by the General Partner, and upon the release of such Capital Contributions to consummate an Investment, all Short-Term Investment Income earned thereon shall be returned to the Partners pro rata according to their respective Commitments or paid to the Fund on behalf of the Partners as Capital Contributions. The funds in any such trust account or escrow fund shall be invested in Cash Equivalents.

3.4 SBA Conditions to the Commitments of the Partners.

(a) Notwithstanding any provision in this Agreement to the contrary, other than as set forth **Section 3.4(c)**, the Partners shall be obligated to contribute their Unfunded Commitments to the Fund upon the earlier of (i) the completion of the liquidation of the Fund or (ii) one year from the commencement of such liquidation if and to the extent that the other Assets of the Fund have not been sufficient to permit at such time the redemption of all Outstanding Leverage, the payment of all amounts due with respect to the Outstanding Leverage as provided in the SBIC Act and the payment of all other amounts owed by the Fund to the SBA.

(b) Notwithstanding any provision in this Agreement to the contrary, other than as set forth in **Section 3.4(c)**, in the event that (i) the Fund is subject to "restricted operations" (as used in the SBIC Act), and (ii) prior to the liquidation of the Fund, the SBA requires the Partners to contribute any amount of their respective Commitments not previously contributed to the Fund, the obligation to make such contributions shall not be subject to any conditions set forth in this Agreement.

(c) The provisions of this Section shall not apply to the Commitment of any Limited Partner whose obligation to make Capital Contributions has been terminated or who has withdrawn from the Fund pursuant to (i) any provision of this Agreement or (ii) any agreement, release, settlement or action under any provision of this Agreement that has been taken with the consent of the SBA as provided in **Section 3.5**. No Partner shall have any right to delay, reduce or offset any Capital Contribution obligation to the Fund called under this Section by reason of any counterclaim or right to offset by such Partner or the Fund against the SBA.

3.5 Failure to Make Additional Capital Contributions.

(a) The Fund shall be entitled to enforce the obligations of each Partner to make the Capital Contributions specified in this Article, and the Fund shall have all rights and remedies available at law or in equity in the event any such contribution is not so made. The remedies provided in this Section are in addition to, and not in limitation of, all rights and remedies available to the Fund at law or in equity. In the event that any legal proceedings relating to the failure of a Partner to make such a Capital Contribution are commenced, such Partner shall pay all costs and expenses incurred by the Fund, including attorneys' fees, in connection with such proceedings.

(b) If any Partner (the "Defaulting Partner") fails to make a Capital Contribution required by **Section 3.3** when due, notice of default shall be given to such Partner by the General Partner. The Fund shall give the SBA prompt written notice of any default by a Limited Partner in making any capital contribution to the Fund required under this Agreement that has not been promptly cured after such notice of default has been given. Any notice given by the Fund to the SBA pursuant to this **Section 3.5(b)** shall (i) be given by separate copies directed to each of the Investment Division and the Office of the General Counsel of the SBA, (ii) explicitly state, in its caption or first sentence, that the notice is being given with respect to a specified default by a Limited Partner in making a capital contribution to the Fund and a proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default and (iii) state the nature of the default, the identity of the defaulting Limited Partner, and the nature and terms of the proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default.

(c) Without the consent of the SBA (including its deemed consent under subsection (d) below), the Fund shall not (i) enter into any agreement (whether oral or written), release or settlement with any Partner or take any action under any provision of the Agreement that defers, reduces, or terminates the obligations of any Partner to make contributions to the capital of the Fund, or (ii) commence any legal proceeding or arbitration that seeks any such deferral, reduction or termination of such obligation. Without the consent of the SBA (including its deemed consent under subsection (d) below), no such agreement, release, settlement or action taken under any provision of the Agreement shall be effective with respect to the Fund or any Partner.

(d) If the Fund has given the SBA thirty (30) days' prior written notice of any proposed agreement, release or settlement or legal proceeding, arbitration or other action with respect to any default by a Limited Partner in making any Capital Contribution to the Fund required under this Agreement and for which SBA consent is required as provided in this **Section 3.5**, and the Fund shall not have received written notice from the SBA that it objects to such proposed action within such thirty (30) day period, the SBA shall be deemed to have consented to such proposed Fund action.

3.6 Termination of the Obligation to Contribute Capital. Notwithstanding any other provision of the Agreement (including **Section 3.5**), in the event that a Limited Partner shall obtain an opinion of counsel to the effect that making a Capital Contribution to the Fund would require such Limited Partner to withdraw from the Fund pursuant to **Article X** (and shall deliver notice of such opinion in accordance with **Section 10.2(d)** and there is no cure in accordance with such provisions of **Section 10.2(d)**), such Partner may elect to terminate its obligation in whole or in part to make a Capital Contribution required pursuant to this Agreement, or upon demand by the General Partner shall no longer be entitled to make such Capital Contribution. In such event, the Commitment of the Limited Partner delivering such opinion shall be deemed to be reduced by the amount of such unfunded Capital Contribution and this Agreement shall be deemed to be amended to reflect a corresponding reduction of aggregate Commitments to the Fund.

3.7 Remedies for Failure to Make a Capital Contribution. In respect of any Defaulting Partner (except as to situations covered by **Section 3.6**), the General Partner may elect, in addition to any other remedies permitted by applicable law, in its sole discretion, to take any of the following actions:

(a) charge such Defaulting Partner interest at an annual rate up to the Prime Rate plus six percent (6%) per annum (or if less, the maximum amount permitted under applicable law) on the amount due from the date such amount became due until the earlier of (i) the date on which such payment is received by the Fund, or (ii) the date of any notice given to such Defaulting Partner by the General Partner pursuant to subsections (b) or (c) below. Any distributions to which such Defaulting Partner is entitled shall be reduced by the amount of such interest, and such interest shall be deemed to be income to the Fund;

(b) with any consent of the SBA given as required under **Section 3.5**, declare by notice of forfeiture to such Defaulting Partner that one hundred percent (100%) of the interest of such Defaulting Partner in the Fund, including amounts in its Capital Account (and any interest in future profits, losses or distributions of the Fund) and its Contributions Accounts, is forfeited, effective as of the date of such Defaulting Partner's failure to make such required contribution, in which event, as of the date of such notice of forfeiture: (i) the Defaulting Partner shall cease to be a Partner with respect to such forfeited interest and shall have no liability for the payment of any remaining Capital Contributions in respect of such forfeited interest, and (ii) the forfeited interest, less interest costs and other amounts owing to the Fund and collection costs and fees related to such forfeited interest, shall be held by the Fund and reallocated, in the case of the Contributions Account amount, pro rata to and among the respective Contributions Accounts of the non-Defaulting Partners in such proportion as the Contributions Account of each such non-Defaulting Partner then bears to the sum of the Contributions Accounts of all non-Defaulting Partners, and, in the case of the Capital Account amount, pro rata to and among the respective Capital Accounts of such non-Defaulting Partners in such proportion as the Capital Account of each such non-Defaulting Partner then bears to the sum of the Capital Accounts of all non-Defaulting Partners; or

(c) with any consent of the SBA given as required under **Section 3.5**, declare by notice to such Limited Partner that the non-Defaulting Partners shall have the right and option to acquire all or any portion of such Limited Partner's interest in the Fund, which shall include a corresponding portion of the Capital Account of such Limited Partner (the "Defaulting Interest"), on the following terms:

(i) The General Partner shall give the Partners notice promptly after any such declaration, which notice shall advise such Limited Partner of the portion of the Defaulting Interest available to it and the purchase price of such interest. The portion available to each of the non-Defaulting Partners shall be a pro rata portion of the Defaulting Interest based on the ratio of each such non-Defaulting Partner's Commitment to the aggregate Commitments of all such non-Defaulting Partners. The aggregate price for the Defaulting Interest shall be the assumption of the amount of the Unfunded

Commitment (both the portion then due and amounts due in the future) associated with such Defaulting Interest, or portion thereof, which aggregate price shall be divided pro rata according to the portion of the Defaulting Interest purchased by each such non-Defaulting Partner. The option granted hereunder shall be exercisable by each such non-Defaulting Partner in whole only at any time within sixty (60) days of the date of the notice from the General Partner by the delivery to the General Partner of (A) a notice of exercise of option, and (B) the portion of the purchase price that is represented by the Capital Contribution that is then due. The General Partner shall forward to the Defaulting Partner the above notices of exercise of option that the General Partner has received.

(ii) Should any Partner not exercise its option within the period specified in subsection (i) above, the General Partner promptly shall notify the non-Defaulting Partners who previously have exercised their options in full, which then shall have the right and option ratably among them to acquire the portion of the Defaulting Interest not so acquired (the "Remaining Portion") within ten (10) days of the date of the notice specified in this subsection (ii) on the same terms as provided in subsection (i) above.

(iii) The amount of the Remaining Portion not acquired may, if the General Partner deems it in the best interest of the Fund, be sold to any other Person on terms not more favorable to such purchaser than to the non-Defaulting Partners (and the General Partner may admit any such third party purchaser as a Limited Partner, subject to the approval of SBA, if required under the SBIC Act). Any consideration received by the Fund in excess of the purchase price paid by the non-Defaulting Partners shall be retained by the Fund and allocated among the Partners' Capital Accounts in proportion to the respective Partners' Contributions Accounts.

(iv) Upon the purchase of any portion of the Defaulting Interest, the purchaser shall be deemed to have assumed that portion of the Unfunded Commitment associated with such portion and the Defaulting Partner shall have no further rights or obligations under this Agreement with respect to such portion.

(v) Upon the purchase by the General Partner of any portion of the Defaulting Interest, the General Partner also shall become a Limited Partner to the extent of such interest.

(vi) Upon the purchase of any portion of the Defaulting Interest, for purposes of computing such purchaser's aggregate Capital Contributions, such purchaser shall be deemed to have made increased Capital Contributions equal to a pro rata portion of the Defaulting Partner's Capital Contributions previously made and the Capital Contributions of such Defaulting Partner shall be reduced by a corresponding amount.

3.8 Withholding and Application of Distributions. No part of any distribution of the Fund shall be paid to a Defaulting Partner (other than a Defaulting Partner covered by **Section 3.6**). The General Partner, in its sole discretion, either may (i) apply all or part of any such withheld distribution in satisfaction of the amount then due to the Fund from such Defaulting Partner, or (ii) withhold such distribution until all amounts then due are paid to the Fund by such Defaulting Partner. Upon payment of all amounts due to the Fund (including interest and collection costs), by application of withheld distributions or otherwise, the General Partner shall distribute any unapplied balance of any such withheld distribution to such Defaulting Partner. No interest shall be payable on the amount of any distribution withheld by the Fund pursuant to this Section.

3.9 Continuing Liability; No Partial Contribution; Liquidated Damages; No Interest. Except as specifically provided otherwise in this **Article III**, each Partner agrees that the application of any of the provisions contained in this Article shall not relieve such Partner of its obligation to make any subsequent

required Capital Contribution when due or relieve such Partner from the application of such provisions with respect to any such subsequent required Capital Contribution if it defaults with respect thereto. Except as permitted or contemplated by **Section 3.6**, a Partner may not make less than the full amount of any required Capital Contribution. Each Partner agrees that the provisions contained in this Article constitute reasonable compensation to the Fund and the non-Defaulting Partners for the additional risks and damages sustained by them when and if any Partner shall default on an obligation to pay any Capital Contribution when due. No interest shall accrue on any Capital Contribution made by a Partner. No Partner shall have the right to withdraw or to be repaid any of its Capital Contributions, except as specifically provided in this Agreement.

ARTICLE IV

ADDITIONAL LIMITED PARTNERS

4.1 Additional Subscriptions and Subsequent Closings. The General Partner can, through December 31, 2003 on one or more occasions (each a "Subsequent Closing"), admit additional Limited Partners or permit any existing Limited Partner to increase its Commitment (each a "Newly Admitted Partner"), as provided in this Agreement. The General Partner can extend such period with the consent of the Limited Partner Majority to a date not later than December 31, 2004. Each Newly Admitted Partner must contribute to the Fund the following:

(a) a percentage of its new or additional Commitment equal to the percentage of the Commitments of all Partners (including the Newly Admitted Partner) represented by the aggregate amount (net of amounts previously returned) of all previous Capital Contributions (other than those for Management Expenses) of the Partners. The amount so contributed by a Newly Admitted Partner will be reflected in the Newly Admitted Partner's Capital Account. The Newly Admitted Partner's Capital Contribution, to the extent existing Capital Contributions are attributable to Investments in Portfolio Companies, will be deemed attributable pro rata (based on cost) to all Investments then owned by the Fund and will be deemed to have been made at the time the Investments were acquired by the Fund; and

(b) to the extent determined by the General Partner, an amount equal to the aggregate Management Expenses that the Fund would have been required to pay to the Management Company in respect of such Newly Admitted Partner's new or additional Commitment if such Commitment had been made at the Initial Closing. Any such amount will be paid by the Fund to the Management Company as a retroactive Management Expense. The amount so paid will be credited to the Capital Account of the Newly Admitted Partner and treated as an Expense Contribution, and the corresponding deduction available to the Fund for such Management Expenses will be allocated solely to such Partner.

4.2 Accession to Agreement. Each Person who is to be admitted as a Newly Admitted Partner pursuant to **Section 4.1** or as a Substitute Limited Partner pursuant to **Section 10.1** shall accede to this Agreement by executing, together with the General Partner, an accession to this Agreement providing for such admission, for which the signatures of the then existing Limited Partners shall not be required. In addition, the General Partner shall, where necessary, execute, file and record any required amendments to the Fund's Articles of Limited Partnership. The admission of additional Limited Partners or Substitute Limited Partners to the Fund shall be effective upon the execution of the necessary accession and amendment to this Agreement or such later effective date as is set forth in such amendment.

4.3 Adjustment of Interests. Notwithstanding the foregoing provisions of this Article, the amounts required to be contributed by Newly Admitted Partners may be adjusted by the General Partner to reflect income, loss and distributions occurring prior to the admission of the Newly Admitted Partners so that the Newly Admitted Partners will be treated as similarly as possible to the Limited Partners

admitted on the Initial Closing Date. Upon acceptance of Newly Admitted Partners, the Fund may make special allocations pursuant to **Article VIII** so that the Newly Admitted Partners will be treated as similarly as possible to the Limited Partners admitted on the Initial Closing Date.

ARTICLE V

NATURE OF LIMITED PARTNERSHIP INTERESTS

5.1 Limited Liability. The liability of each of the Limited Partners to the Fund shall be limited to its Unfunded Commitment, which obligations shall be enforceable to the fullest extent allowed by Section 59-502 of the North Carolina Act, and any return of distributed capital that may be required by law.

5.2 No Control of Fund. No Limited Partner, in his or its capacity as such, shall take any part in the control of the affairs of the Fund, undertake any activities on behalf of the Fund, or have any power to sign for or to bind the Fund. Without limiting the generality of the foregoing, except as specifically set forth in this Agreement or as specifically required under the North Carolina Act, the Limited Partners shall have no right to: (a) elect to dissolve the Fund; (b) vote on the Sale of all or substantially all of the assets of the Fund; (c) vote on any potential conflict of interest involving the Fund, the General Partner or any other CapitalSouth Fund; (d) vote to remove the General Partner; (e) elect additional General Partners or a substitute General Partner; (f) approve or disapprove any amendment to this Agreement; or (g) withdraw from the Fund.

5.3 Independent Activities of Limited Partners. Any Limited Partner and its respective partners, members, officers, managers, directors and Affiliates may engage in or possess an interest in business ventures of every kind and description, independently or with others, including Portfolio Companies and businesses that may compete with Portfolio Companies, the Fund or the General Partner whether or not such activities may conflict with any interest of the Fund or any of the other Partners.

ARTICLE VI

SMALL BUSINESS INVESTMENT COMPANY MATTERS

6.1 Provisions Required by the SBIC Act for Issuers of Debentures.

(a) The provisions of 13 C.F.R. § 107.1810(i) are hereby incorporated by reference in this Agreement as if fully set forth herein.

(b) The Fund and the Partners hereby consent to the exercise by the SBA of all of the rights of the SBA under 13 C.F.R. § 107. 1810(i), and agree to take all actions that the SBA may require in accordance with 13 C.F.R. § 107.1810(i).

(c) This **Section 6.1** shall be in effect at any time that the Fund has Outstanding Leverage and shall not be in effect at any time that the Fund does not have any outstanding Debentures.

(d) Nothing in this **Section 6.1** shall be construed to limit the ability or authority of the SBA to exercise its regulatory authority over the Fund as a licensed small business investment company under the SBIC Act.

(e) Nothing in this Agreement limits any liability of any Partner under any other agreement between the Partner and the SBA.

6.2 SBA as Third-party Beneficiary. The SBA shall be deemed an express third-party beneficiary of the provisions of this Agreement to the extent of the rights of the SBA thereunder and under the SBIC Act, and the SBA shall be entitled to enforce such provisions (including without limitation those provisions setting forth the obligations of each Partner to make Capital Contributions) for the benefit of the holders of Debentures and for its benefit, as if the SBA were a party thereto.

6.3 Representations of Limited Partners.

This Agreement is made with each Limited Partner in reliance upon each Limited Partner's representation to the General Partner, the Fund and SBA, that:

(a) it has full power and authority to execute and deliver this Agreement and to act as a Limited Partner under this Agreement; this Agreement has been authorized by all necessary actions by it; this Agreement has been duly executed and delivered by it; and this Agreement us a legal, valid and binding obligation of it, enforceable against it in accordance with its terms;

(b) the execution and delivery of this Agreement and the performance of its obligations under this Agreement do not require the consent of any third party not previously obtained, and will not conflict with, or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provisions of law, statute, rule or regulation or any ruling, writ, order, injunction or decree of any court, administrative agency or governmental body applicable to it; and

(c) unless otherwise disclosed to the Fund in writing prior to becoming a Partner under this Agreement:

(i) it is a citizen or resident of the United States, an entity organized under the laws of the United States or a state within the United States or an entity engaged in a trade or business within the United States;

(ii) it is not subject to Title I of ERISA;

(iii) it is an Institutional Investor whose Unfunded Commitment qualifies as Private Capital;

(iv) if such Limited Partner is an entity, (i) its net worth (or in the case of any employee benefit plan, pension plan or government plan, as defined under ERISA, net assets available for benefits), calculated exclusive of any unfunded commitments to such Limited Partner by its investors, is at least $10 million, (ii) in the case of a state or national bank or holding company thereof, if its net worth is less than $10 million, its Commitment to the Fund represents ten percent (10%) or less of its net worth, or (iii) it has caused a Joint Commitment to be delivered to the Fund in respect of its Commitment and such Joint Commitment is acceptable in form and substance to the Fund and the SBA;

(v) if such Limited Partner is an individual, his or her net worth, exclusive of the value of any equity in such individual's most valuable residence, (i) is at least $10 million or (ii) if less than $10 million, is no less than $2 million and at least ten times his or her Commitment to the Fund; and

(vi) if the Limited Partner is a bank (as the term is used in the SBIC Act, at 15 U.S.C. §682(b)), the total amount of such Limited Partner's investments in federally licensed "small business investment companies," including such Limited Partner's interest in the Fund, does not exceed five percent (5%) of such Limited Partner's capital and surplus.

6.4 Notices and Information with respect to Representations by Limited Partners.

(a) Each Limited Partner who has disclosed to the Fund in writing that is it not a person described in **Section 6.3(a)(iv)** agrees to provide the Fund with any information or documentation necessary to permit the Fund to fulfill any tax withholding or other obligation relating to such Limited Partner, including without limitation any documentation necessary to establish the Limited Partner's eligibility for benefits under any applicable tax treaty.

(b) In the event that the representation made by a Limited Partner in **Section 6.3** shall cease to be true, then such Limited Partner shall promptly provide the Fund with a correct separate written representation as provided in each such Section.

(c) The Fund shall give the SBA prompt written notice of any notice received from any Limited Partner pursuant to **Section 6.4(b)** with respect to the representations of such Limited Partner.

6.5 Representations of General Partner. This Agreement is made with the General Partner in reliance upon the General Partner's representation made to the Fund and the SBA that:

(a) it is duly organized, validly existing and in good standing under the laws of the State of North Carolina, which is the jurisdiction of its organization, and is qualified to do business under the laws of each state where such qualification is required to carry on the business of the Fund;

(b) it has the corporate power and authority to execute and deliver this Agreement and to act as the general partner of the Fund under this Agreement;

(c) this Agreement has been authorized by all necessary corporate actions by it, has been duly executed and delivered by it, and is a legal, valid and binding obligation of it, enforceable according to its terms, subject as to enforcement to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and

(d) the execution and delivery of this Agreement and the performance of its obligations under this Agreement will not conflict with or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provision of law, statute, rule or regulation, or any ruling, writ, order, injunction or decree of any court, administrative agency or governing body applicable to it.

ARTICLE VII

MANAGEMENT BY GENERAL PARTNER; ADVISORY BOARD

7.1 Management and Control of the Fund.

(a) The management and operation of the Fund, including making investment-related decisions, shall be vested exclusively in the General Partner. Pursuant to the powers vested in the General Partner under this Section 7.1(a) of this Agreement and Section 59-403(c) of the North Carolina Act, notwithstanding any provision in this Agreement to the contrary, the General Partner hereby delegates the authority to manage the business and affairs of the Fund to the Board of Directors of the Fund (the "Board of Directors"). The Board of Directors will be selected annually by the affirmative vote

of Partners, voting as a single class, whose capital contributions represent at least 51% of the capital contributions of all Partners at the time of determination. All members of the Board of Directors of the Fund will also be directors of Capitala Investment Corp. ("Capitala"); provided, however, that no person may serve as a director of the Fund, other than the initial directors, without the prior written approval of the SBA. The initial directors of the Fund are Joseph B. Alala, III, M. Hunt Broyhill, R. Charles Moyer, Larry W. Carroll and H. Paul Chapman**,** who comprise all of the directors of Capitala. At all times that the Fund is a registrant under the Investment Company Act and has in effect an election to be treated as a business development company under the Investment Company Act, a majority of the Board of Directors (or such higher percentage as may be required by the Investment Company Act) will be persons who are not "interested persons" of the Fund or its "affiliates" within the definition of that term provided by Section 2(a)(19) of the Investment Company Act (or any successor provision). Notwithstanding anything contained herein to the contrary, the following duties will remain vested in the General Partner: (1) the authority to bind the Fund as provided in Section 7.1(b) of this Agreement and (2) the authority to perform any action that the North Carolina Act requires be performed by a general partner of a limited partnership (and which may not be performed by a delegate of a general partner). Further, should the General Partner seek to amend this Agreement or take any additional substantive, non-ministerial action in the name of the Fund, the General Partner shall obtain (i) the prior written approval of the SBA, and (ii) the prior approval of a majority of the Board of Directors. In addition, if the Board of Directors shall elect to amend this Agreement and any such amendment shall be approved by the SBA (to the extent so required) in writing, the General Partner shall execute such amendment. Notwithstanding Sections 13.2(a), 13.2(b), 13.3(a) and 13.3(b) of this Agreement the liability of any member of the Board of Directors will not be limited to the extent prohibited by the Investment Company Act. For the avoidance of doubt and except as otherwise set forth in this Agreement, including but not limited to Section 7.1(a)(ii) below, all powers granted to the General Partner under this Agreement shall be deemed delegated to the Board of Directors.

(i) So long as the Board of Directors remains the Board of Directors of the Fund and so long as the Fund is licensed as an SBIC, the Board of Directors will comply with the requirements of the SBIC Act, including, without limitation, 13 C.F.R. §107.160(a) and (b), as in effect from time to time.

(ii) At such time as the Fund is no longer a registrant under the Investment Company Act, the provisions of this Agreement relating to the Board of Directors shall be deemed removed from this Agreement without further action of the Partners.

(b) Third parties dealing with the Fund can rely conclusively upon the General Partner's certification that it is acting on behalf of the Fund and that its acts are authorized, and the General Partner's signature is sufficient to bind the Fund for all purposes.

(c) The General Partner may delegate certain of its responsibilities to an Investment Advisor/Manager as permitted by this Article.

(d) The General Partner shall not allow any Person to serve as a general partner, director, officer or manager of the General Partner unless such Person has been approved by the SBA in such capacity.

7.2 Specific Authority. Without limiting the generality of the foregoing and subject to express restrictions contained elsewhere in this Agreement, the General Partner has the authority, at any time and without further notice to or consent from any Limited Partner, to do any of the following:

(a) open, maintain, and close bank accounts and draw checks or other orders for the payment of money;

(b) open, maintain, and close accounts with brokers and issue instructions and authorizations regarding Securities to brokers, managers, and others;

(c) pay expenses of the Fund;

(d) make, manage, and transfer Investments and investments in Cash Equivalents, and exercise any voting, exchange, conversion, or other rights related thereto;

(e) borrow money and guarantee borrowings to facilitate the making of Investments and the payment of Fund Expenses, guarantee the indebtedness of Portfolio Companies for the purpose of protecting or enhancing the value of Investments, or otherwise incur indebtedness;

(f) provide or arrange for managerial and other assistance to Portfolio Companies;

(g) employ and dismiss from employment investment bankers, attorneys, accountants, placement agents, consultants, custodians, or other service providers;

(h) enter into, execute, perform, file, record, publish, amend, supplement, acknowledge and deliver any and all contracts, agreements, or other instruments, including without limitation the Subscription Agreements, that the General Partner decides are desirable to further the Fund's purposes; and

(i) admit Limited Partners and assignees of all or any part of a Limited Partner's interest as Substitute Limited Partners or Newly Admitted Partners.

7.3 General Partner's Duties.

(a) The General Partner shall, so long as it remains the General Partner of the Fund, comply with the requirements of the SBIC Act, including without limitation 13 C.F.R. § 107.160(a) and (b), as in effect from time to time.

(b) The General Partner shall devote all of its activities to the conduct of the business of the Fund and shall not engage actively in any other business, unless its engagement is related to and is in furtherance of the affairs of the Fund; provided, however, that the General Partner may (i) act as the general partner or Investment Adviser/Manger for other SBICs and (ii) receive, hold, manage and sell Assets received by it from the Fund (or other SBIC for which it acts as general partner or Investment Adviser/Manager) or through the exercise or exchange of Assets received by it from the Fund (or other SBIC for which it acts as general partner or Investment Adviser/Manager).

(c) The General Partner shall invest the Fund's assets and exercise all of the Fund's powers and duties in accordance with the terms of this Agreement. The General Partner shall use commercially reasonable efforts to cause the Fund to make Investments. The General Partner shall determine the amount, terms and provisions of the Investments to be made by the Fund, the terms and provisions of any management rights with respect to the Portfolio Companies, and the amount, terms and provisions of any financing arrangements for Portfolio Companies.

(d) The Fund shall pay it expenses against appropriate supporting documentation, when due and payable and as billed.

(e) The General Partner shall use its reasonable best efforts, and shall take all actions it considers desirable, to continue the Fund's valid existence as a limited partnership under the North Carolina Act and the law of each other jurisdiction in which such existence is necessary to protect the limited liability of the Limited Partners or to enable the Fund to conduct its business, and to maintain the Fund's status as a partnership for United States federal income tax purposes.

(f) The General Partner shall prepare and file on a timely basis any federal, state, or local tax returns the Fund is required to file and cause the Fund to pay all taxes payable by the Fund, except that the General Partner will not be required to cause the Fund to pay any tax so long as the General Partner or the Fund is in good faith and by appropriate proceedings contesting the validity, applicability, or amount of the tax and the contest does not materially endanger any Fund right or interest.

(g) If any Limited Partner is an ERISA Partner, the General Partner shall use its best efforts to conduct the affairs of the Fund such that the assets of the Fund will not be deemed to constitute Plan Assets of an ERISA Partner. If, despite its best efforts, the General Partner becomes aware that it is reasonably likely that the assets of the Fund will be deemed to constitute Plan Assets of an ERISA Partner, the General Partner will so notify such ERISA Partner in writing.

7.4 No Restrictions on Other Activities of General Partner and its Affiliates; No Conflicts with other CapitalSouth Funds.

(a) Except as limited by or prohibited by the SBIC Act, any (i) Limited Partner, (ii) Investment Adviser/Manager, or (iii) Affiliate, general partner, member, manager or shareholder of any Partner or Investment Adviser/Manager may engage in, and receive compensation for and profit from, any activity whatsoever. Such activities may include without limitation (A) providing investment banking services, (B) managing investments, (C) participating in investments, brokerage or consulting arrangements, or (D) acting as an adviser to or participant in any corporation, partnership, limited liability company, trust or other business person.

(b) Except as limited by or prohibited by the SBIC Act, it is acknowledged by the parties to this Agreement that (i) the Fund is authorized to and may make separate or simultaneous Investments in entities in which the Fund or any other CapitalSouth Fund has invested or is investing, (ii) any Limited Partner, the General Partner, any General Partner Affiliate or any member of the Advisory Board may co-invest in Portfolio Companies on substantially the same terms as the Fund, invest in Portfolio Companies in which the Fund already has an Investment on terms no more favorable to such General Partner Affiliate than the terms on which the Fund made its prior Investment or could make a follow-on Investment in such Portfolio Company, or participate in other investment opportunities if such investment opportunities do not meet the investment criteria of the Fund, (C) the General Partner, any General Partner Affiliate, or any member of the Advisory Board may advise or provide other services to a Portfolio Company on commercially reasonable terms and receive compensation for such services.

7.5 Management Company. Subject to the SBIC Act, the General Partner may delegate any part of its authority to an Investment Adviser/Manager (the "Management Company"), in which case it must enter into a written agreement with such Management Company specifying the authority so delegated and expressly requiring such delegated authority will be exercised by the Management Company in conformity with the terms and conditions of such agreement, this Agreement and the SBIC Act. Any such agreement with the Management Company, and all material changes thereto, shall be subject to SBA approval. Any such agreement with the Management Company (a "Management Contract") shall be binding upon the General Partner and any successor general partner, and shall provide, among other things, that: (a) the Fund shall pay the Management Expenses (as described below) to the Management Company; and (b) the General Partner shall have the right to terminate the Management Contract for any

reason. Accordingly, references in this Agreement to the role of the General Partner shall be read to refer also to the Management Company insofar as the General Partner has delegated or assigned such portion of its role to the Management Company. Notwithstanding the foregoing, only the General Partner shall have the authority to act on behalf of the Fund, including making or disposing of any Investments.

7.6 Management Expenses.

(a) In consideration for its acceptance of the responsibilities to be delegated to it pursuant to **Section 7.5**, the Fund shall pay to the Management Company (or the General Partner is there if no Management Company) an annual management fee payable in quarterly installments each fiscal quarter in advance ("Management Expenses") equal to the Management Fee Base multiplied by the Management Fee Rate; provided, however, that the General Partner may, in its discretion, cause the Fund to pay less than the required amount of Management Expenses each quarter. Notwithstanding the foregoing, in no event shall the Management Expenses paid by the Fund equal an amount greater than any corresponding management fee paid by the Management Company to any Investment Advisor/Manager.

(b) The Management Expenses shall be due and payable in advance, beginning on the Initial Closing Date (pro rated for any partial fiscal quarter), until all Investments are liquidated or the General Partner or the Management Company no longer serves in such capacity. Additional amounts of Management Expenses shall be due and payable by Newly Admitted Partners upon such admission in accordance with **Section 4.1**. Notwithstanding the foregoing, the Fund shall not pay any Management Expenses in excess of the amount of annual fees approved by the SBA for such year. The General Partner may satisfy the Fund's obligation to pay Management Expenses out of proceeds from Capital Contributions or Debentures, when issued, or any combination thereof.

(c) The Fund's payment of Management Expenses shall represent the Fund's sole payment for support and general services provided to the Fund, including without limitation the payment of salaries, office expenses, travel, expenses and fees of the Advisory Board, business development, office and equipment rental, bookkeeping, and expenses relating to developing, investigating and monitoring the Fund's investments.

(d) The Fund's payment of Management Expenses shall not represent or include the payment of, and the Fund is authorized to pay in addition to and separate from Management Expenses: (i) all interest and expenses payable by the Fund on any indebtedness, including Leverage, incurred by the Fund, (ii) all amounts payable to the SBA under the SBIC Act, including all amounts payable in connection with any Outstanding Leverage, including in respect of the issuance thereof; (iii) taxes payable by the Fund to Federal, state, local and other governmental agencies, (iv) Organizational Expenses; (v) expenses incurred in the actual or proposed acquisition or disposition of Assets, including without limitation accounting fees, brokerage fees, legal fees, transfer taxes and costs related to the registration or qualification for Sale of Investments; (vi) other legal, consulting, accounting and auditing, and insurance expenses; (vii) expenses incurred by the Fund in connection with commitments for or issuance of Leverage; (viii) fees or dues in connection with the membership of the Fund in any trade association for small business investment companies or related enterprises or any other organizations reasonably related to the conduct of the Fund's business; and (ix) expenses incurred by the General Partner in connection with meetings of and on behalf of the Fund, including meetings of the Advisory Board.

7.7 Other Expenses and Fees.

(i) Upon the Initial Closing Date or at such later date as they are incurred, the Fund shall reimburse the General Partner and the Management Company for all Organizational Expenses up to the greater of three percent (3%) of the Total Commitments or $250,000. Any excess Organizational Expenses shall be the responsibility of and paid by the Management Company or the General Partner, as the case may be, and shall not be reimbursed by the Fund. The General Partner may satisfy the Fund's reimbursement obligation under this Section out of the Initial Capital Contributions or Debentures, when issued, or any combination thereof.

(ii) The Fund may collect financing fees or receive expense reimbursements from a Portfolio Company (or prospective Portfolio Company) as permitted under 13 C.F.R. § 107.860 (which permits the collection of certain application fees, closing fees, expense reimbursements and breakup fees). The Fund and its Associates may collect fees for management services provided to a Portfolio Company as permitted by 13 C.F.R. § 107.900. To the extent that any of the foregoing fees or reimbursements are received by the General Partner or any General Partner Affiliate (and are not paid over to the Fund), the Management Expenses payable hereunder shall be reduced by one hundred percent (100%) of such fees or reimbursements. Should the Management Expenses for any quarter be reduced to zero by operation of this Section, any excess amount that would have served to reduce the Management Expenses had they not been reduced to zero shall be carried forward and applied to the Management Expenses for the following quarter, or, if there is no subsequent quarter in which the Management Expenses are due, shall be paid to the Fund.

(iii) The Fund shall not pay or be responsible for any private placement fee or finder's fee in connection with the making of its Investments.

7.8 Removal of the General Partner and Termination of the Management Company.

(a) The General Partner may be removed as the general partner only with the consent of the SBA and by a Limited Partner Super-Majority, if the General Partner has:

(i) attempted to withdraw as the general partner of the fund except in accordance with this Agreement;

(ii) committed a material breach of this Agreement, which breach cannot be or, after a reasonable period of time, has not been cured and is reasonably likely to have a material adverse effect on the Fund;

(iii) committed an act or omission that would constitute gross negligence or willful misconduct on its part, which act or omission is reasonably likely to have a material adverse effect on the Fund; or

(iv) attempted to withdraw or transfer its limited partnership interest in the Fund in a manner inconsistent with the provisions of this Agreement.

In addition, the Management Company can be removed by a Limited Partner Super-Majority, and it shall be entitled to withdraw as the management company, if the General Partner has been removed in accordance with the preceding sentence.

(b) In the event of the General Partner's removal, the Fund shall be dissolved unless a Limited Partner Majority elects to continue the operation and existence of the Fund and elects a successor general partner for the Fund in accordance with **Section 11.(e)**. In the event of such removal of the General Partner and continuance of the operations and existence of the Fund, the General Partner shall be deemed as to have withdrawn from the Fund in accordance with **Article X**.

(c) Subject to the prior written approval of the SBA, as may be required under the SBIC Act, the General Partner may replace the Management Company at any time. The Fund shall give the SBA notice of any such replacement in the event that such prior approval of the SBA is not required. The Management Company may assign its rights and obligations under this Agreement only with the prior written consent of the General Partner and the SBA, as may be required under the SBIC Act. Subject to the prior written approval of the SBA, as may be required under the SBIC Act, any replacement or assignee of the Management Company shall be substituted as the "Management Company" hereunder and subject to the provisions of this Agreement.

(d) In the event of the replacement or removal of the Management Company (or the General Partner, to the extent it is receiving Management Expenses), the Fund shall pay Management Expenses to such removed Management Company (or General Partner) only through the date of such replacement or removal. To the extent Management Expenses have been paid beyond such date, the Fund and the General Partner shall cause such excess Management Fees to repaid to the Fund.

7.9 The Advisory Board.

(a) The Fund may have an Advisory Board (the "Advisory Board"), the purpose of which shall be to consult with and advise the General Partner on the investment policies and management strategy of the Fund and on such other matters as the General Partner may request consultation and advice. In particular, the General Partner intends, but is not required, to consult with the Advisory Board on such matters as evaluating Investments, identifying new Investment opportunities, monitoring Investments, and providing management assistance to Portfolio Companies.

(b) Members of the Advisory Board shall be appointed by the General Partner from time to time and shall serve until the earlier of their resignation, their removal in accordance herewith, or the dissolution and liquidation of the Fund. Any member of the Advisory Board may be removed at any time, with or without cause, by the General Partner. Notwithstanding anything in this Agreement to the contrary, the activities of the Advisory Board and each member thereof acting in such capacity shall be limited to those permitted under the North Carolina Act to be done by Persons without their being deemed to be participating in the control of the Fund or its business, and neither the Advisory Board nor any member thereof acting in such capacity, shall have the power to bind the Fund or the authority to act for or on its behalf.

(c) The Advisory Board shall conduct its affairs in such manner and by such procedures as the General Partner deems appropriate. The Advisory Board shall meet at such times and from time to time as the General Partner may determine. Representatives of the General Partner and the Management Company may participate in meetings of the Advisory Board.

ARTICLE VIII

CONTRIBUTIONS ACCOUNTS, CAPITAL ACCOUNTS, AND ALLOCATIONS

8.1 Contributions Accounts. There shall be established on the books of the Fund a Capital Contributions account ("Contributions Account") for each Partner which shall consist of such Partner's Initial Capital Contribution to the Fund in accordance with **Section 3.3(a)**, (a) increased by (i) any Additional Capital Contributions made by such Partner to the Fund pursuant to **Section 3.3(c)**, and

(ii) any amount added to the Contributions Account of such Partner pursuant to **Section 3.7**; and (b) decreased by any amount from time to time subtracted from the Contributions Account of such Partner pursuant to **Section 3.7** or **Section 4.3**. A Partner's Contributions Account shall not be reduced on account of any distributions of capital to such Partner or for any other reason, except as provided in the preceding sentence.

8.2 Capital Accounts. There shall be established on the books of the Fund a capital account ("Capital Account") for each Partner that shall consist of such Partner's Initial Capital Contribution to the Fund, (a) increased by (i) any Additional Capital Contributions made by such Partner to the Fund pursuant to **Section 3.3(c)**, (ii) any amount added to the Capital Account of such Partner pursuant to **Section 3.7** and (iii) any amount of Net Profits or other items of income or gain allocated from time to time to such Partner pursuant to this Article or **Article IV**; and (b) decreased by (i) any distributions made to such Partner, (ii) any amount subtracted from the Capital Account of such Partner pursuant to **Section 3.7**, and (iii) any amount of Net Loss or other items deduction, expense or credit allocated from time to time to such Partner pursuant to this Article or **Article IV**.

8.3 Accounting for Distributions in Kind. For purposes of maintaining Capital Accounts when Fund property is distributed in kind, (a) the Fund shall treat such property as if it had been sold for its Fair Market Value on the date of distribution; (b) any difference between the Fair Market Value of such property and the Cost Basis of the Fund in such property shall constitute Net Profit or Net Loss and shall be allocated to the Partners pursuant to this Article; and (c) the Capital Accounts of the Partners who receive a distribution in kind shall be reduced by the Fair Market Value of such property (net of any liabilities secured by such distributed property that such Partner is considered to assume or take subject to under Section 752 of the Code).

8.4 General Partner as Limited Partner. The General Partner or any of its Affiliates also shall be a Limited Partner to the extent that the General Partner, pursuant to **Article III** or otherwise, acquires an interest in the Fund as a Limited Partner. In such event, the General Partner shall have only one Capital Account for purposes of **Section 8.9** (dealing with certain "Regulatory Allocations") and the liquidating distribution provisions of **Article XI**, although separate Capital Accounts shall be maintained for the General Partner for each class of interest that it holds for all other purposes under this Agreement.

8.5 Compliance with the Code and Treasury Regulations. The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Section 704(b) of the Code and Treasury Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such regulations. In the event that the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto, are computed in order to comply with such regulations, the General Partner may make such modification, provided that it is not likely to materially affect the amounts distributable to any Partner pursuant to **Articles IX** or **XI** hereof.

8.6 Allocations in General. Fund income, gain, loss, deductions and expenses shall be allocated to the Partners in accordance with this Article. Prior to making the allocations required by **Sections 8.7** and **8.8** in respect of any fiscal year, the General Partner shall determine the Net Profit and Net Loss, and the other items of income, gain, loss, deduction and expense of the Fund for such fiscal year in accordance with tax accounting principles (rather than generally accepted accounting principles).

8.7 Net Profits. As of the end of each fiscal year of the Fund and after giving effect to the allocations set forth in **Sections 8.3, 8.9**, and **8.10**, the Net Profits (if any) for such fiscal year shall be allocated among the Partners as follows:

(a) First, one hundred percent (100%) to the General Partner to the extent of the cumulative amount of Net Loss allocated to the General Partner in all prior fiscal years pursuant to **Section 8.8(e)** and not offset by prior allocations of Net Profit made pursuant to this **Section 8.7(a)**;

(b) Second, one hundred percent (100%) to all Partners, in proportion to and to the extent of the respective cumulative amounts of Net Loss (if any) allocated to each Partner in all prior fiscal years pursuant to **Section 8.8(d)** and not offset by prior allocations of Net Profit made pursuant to this **Section 8.7(b)**;

(c) Third, one hundred percent (100%) to all Partners in accordance with their respective Contributions Accounts until (i) the cumulative amount of allocations made pursuant to this **Section 8.7(c)** and **Section 8.7(e)(i)** in respect of the current and all prior fiscal years, minus the cumulative amount of Net Loss allocated to the Partners in all prior fiscal years pursuant to **Sections 8.8(a)(i)** and **8.8(c)**, equals (ii) the Preferred Return;

(d) Fourth, one hundred percent (100%) to the General Partner until (i) the cumulative amount of allocations made to the General Partner in the current and all prior fiscal years pursuant to this **Section 8.7(d)** and **8.7(e)(ii)**, minus the cumulative amount of Net Loss allocated to the General Partner in all prior fiscal years pursuant to **Section 8.8(b)** and **8.8(a)(ii)**, equals (ii) twenty percent (20%) of (1) the cumulative amount of allocations made in the current and all prior fiscal years to all Partners pursuant to **Sections 8.7(c)**, **(d)** and **(e)**, minus (2) the cumulative amount of Net Loss allocated in all prior fiscal years to the Partners pursuant to **Sections 8.8(a), (b)** and **(c)**; and

(e) Thereafter, (i) eighty percent (80%) to all Partners in proportion to their respective Contributions Accounts, and (ii) twenty percent (20%) to the General Partner.

8.8 Net Loss. As of the end of each fiscal year of the Fund and after giving effect to the special allocations set forth in **Sections 8.3**, **8.9**, and **8.10**, the Net Loss (if any) of the Fund for such fiscal year shall be allocated among the Partners as follows:

(a) First, (i) eighty percent (80%) to all Partners, in proportion to and to the extent of the respective amounts of Net Profit (if any) previously allocated to each such Partner pursuant to **Section 8.7(e)(i)** and (ii) twenty percent (20%) to the General Partner to the extent of Net Profit previously allocated to the General Partner pursuant to **Section 8.7(e)(ii)**, in each case to the extent such Net Profits have not been offset by prior allocations of Net Loss made pursuant to this **Section 8.8(a)**;

(b) Second, to the General Partner to the extent of the amount of Net Profit (if any) previously allocated to the General Partner pursuant to **Section 8.7(d)** and not offset by prior allocations of Net Loss made pursuant to this **Section 8.8(b)**;

(c) Third, to the Partners, in proportion to and to the extent of the respective amounts of Net Profit (if any) previously allocated to each such Partner pursuant to **Section 8.7(c)** and not offset by prior allocations of Net Loss made pursuant to this **Section 8.8(c)**;

(d) Fourth, to all Partners having positive Capital Accounts, in proportion to and to the extent of their respective positive Capital Accounts; and

(e) Fifth, to the General Partner.

8.9 Regulatory Allocations. The following provisions are included in order to comply with certain tax rules set forth in the Code and Treasury Regulations Section 1.704-1(b)(2)(ii)(d).

(a) If and to the extent that any allocation of Net Loss (or portion thereof) to any Partner would cause such Partner's Capital Account to be negative by an amount which exceeds such Partner's Restoration Amount, then such loss (or portion thereof) shall be allocated first to the other Partners in proportion to the positive balances in their respective Capital Accounts until all such Capital Accounts are reduced to zero, then to the Partners with Restoration Amounts, in proportion to their respective Restoration Amounts, until each such Partner's Capital Account is negative by an amount equal to such Partner's Restoration Amount, and then to the General Partner; provided that an allocation pursuant to this **Section 8.9(a)** shall be made only if and to the extent that the deficit in such Partner's Capital Account would exceed such Partner's Restoration Amount after all allocations provided for in this Article have been made tentatively as if this Section were not included in this Agreement.

(b) If any Partner unexpectedly receives an adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), and such adjustment, allocation or distribution causes such Partner to have a deficit balance in such Partner's Capital Account that exceeds such Partner's Restoration Amount or further reduces a balance in such Partner's Capital Account that is already negative by an amount which exceeds such Partner's Restoration Amount, there shall be allocated to such Partner items of income and gain (consisting of a pro rata portion of each item of Fund income, including gross income, and gain for such fiscal period) in an amount and manner sufficient to eliminate such Partner's deficit Capital Account balance, to the extent required by Treasury Regulations Section 1.704-1 (b)(2)(ii)(d), as quickly as possible, provided that an allocation pursuant to this subsection (b) shall be made only if and to the extent that the deficit in such Partner's Capital Account would exceed such Partner's Restoration Amount after all allocations provided for in this **Article VIII** have been made tentatively as if this subsection (b) were not included in this Agreement. The foregoing sentence is intended to constitute a "qualified income offset" provision as described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d), and shall be interpreted and applied in all respects in accordance with that Section.

(c) In the event that any Partner has a deficit balance in such Partner's Capital Account at the end of any fiscal year that exceeds such Partner's Restoration Amount, there shall be allocated to such Partner items of Fund income (including gross income) and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this subsection (c) shall be made only if and to the extent that the deficit in such Partner's Capital Account would exceed such Partner's Restoration Amount after all allocations provided for in this Article have been made tentatively as if subsection (b) and this subsection (c) were not included in this Agreement.

(d) To the extent that an adjustment to the adjusted tax basis of any Fund asset pursuant to Section 743(b) of the Code is required, pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(e) The allocations set forth in **Sections 8.9(a)**, **(b)**, **(c)** and **(d)** (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Section 1.704-1(b). Notwithstanding any other provisions of this Article (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in allocating subsequent Net Profit, Net Loss and any other items of income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of subsequent Net Profit, Net Loss and other items and the Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each such Partner pursuant to the provisions of this Article if the Regulatory Allocations had not occurred.

For purposes of applying the foregoing sentence, allocations pursuant to this subsection (e) shall be made with respect to allocations pursuant to **Section 8.9(d)** only to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners.

(f) Subject only to the "qualified income offset" provisions of **Section 8.9(b)**, the General Partner shall be allocated at least one percent (1%) of each material item of Fund income, gain, loss, deduction or credit at all times during the existence of the Fund. To the extent that any allocation is made pursuant to this subsection (f), such allocation shall be treated as a Regulatory Allocation for purposes of **Section 8.9(e)**; provided, however, that in the event of any conflict between **Section 8.9(e)** and this subsection (f), this subsection (f) shall govern.

8.10 Adjustments to Reflect Changes in Interests. Notwithstanding the foregoing provisions of this Article, in the event any Partner's interest in the Fund changes, whether by reason of the admission of a Partner, the reduction or termination of any Partner's Commitment, the withdrawal of a Partner, a non-pro rata contribution of capital to the Fund or any other event described in Section 706(d)(1) of the Code and regulations issued thereunder, allocations of Net Profit and Net Loss during the current fiscal period and subsequent fiscal periods shall be adjusted appropriately, and appropriate special allocations made, so that the Partners' Capital Accounts reflect their relative Contributions Accounts after taking into account such changes. The General Partner shall consult with the Fund's accountants and other advisors and shall select the method of making such adjustments, which method shall be used consistently thereafter. Specifically in furtherance of, and not in limitation of, the foregoing provisions in this **Section 8.10** or in this **Article VIII**, as quickly as possible after the admission of any Newly Admitted Partners, special, non-pro rata allocations of Net Profits and Net Losses shall be made so that the Partners shall have been allocated a pro rata portion, according to their respective Commitments to the Fund, of the Fund's cumulative Net Profits and Net Losses as if all of such Commitments had been made at the Initial Closing.

8.11 Allocations for Contributions of Appreciated Assets. For federal, state and local income tax purposes, Fund income, gain, loss, deduction or credit (or any item thereof) for each fiscal year shall be allocated to and among the Partners in order to reflect the allocations made pursuant to the provisions of this Article for such fiscal year (other than allocations of items that are not deductible or are excluded from taxable income), taking into account any variation between the adjusted tax basis and book value of Fund property in accordance with the principles of Section 704(c) of the Code. The General Partner may select any reasonable method or methods for making such allocations, including without limitation any method described in Treasury Regulation §1.704-3(b), (c), or (d).

ARTICLE IX

DISTRIBUTIONS

9.1 Distributions Generally. Distributions under this Agreement will be made only to Persons who, according to the Fund's records, were the holders of record of Fund interests on the date the General Partner designates for determining the Persons entitled to those distributions. Any distribution by the Fund to the Person shown on the Fund records as a Partner, its legal representatives, or the assignee of its right to receive distributions, will relieve the Fund and the General Partner of all liability to any other Person who may be interested in the distribution because of any other transfer by the Partner, because of its incapacity, or for any other reason.

9.2 Distributions in Kind.

(a) The General Partner shall use commercially reasonable efforts to make all distributions in cash or, upon prior notice, in Marketable Securities. However, in such instances where, despite such commercially reasonable efforts, the General Partner is unable to make distributions in cash or Marketable Securities, the General Partner may upon prior notice make distributions in Cash Equivalents or non-Marketable Securities. Notwithstanding the foregoing, the General Partner will not make any distribution in kind to any Partner if the General Partner has been notified in writing by such Partner of the reasonable basis for its concluding that such distribution would result in a violation of applicable law, rule or regulation (including resulting in a prohibited transaction under Section 406 of ERISA, or, with respect to a Partner that is a governmental plan as defined in Section 3(32) of ERISA, resulting in such violation if such Partner were subject to ERISA), or that such distribution would be a prohibited transaction under Section 4975 of the Code. In the event of any such notification, the General Partner will have the right, but not the obligation, to reallocate (while preserving equivalent values) the distribution among the Partners of any assets to be distributed in kind and cash to be distributed in an effort to avoid or reduce the problems faced by such Partner, and in such case the percentage of the asset distributed to a Partner can exceed the percentage in which the Partner shares in distributions from the Fund. If the General Partner does not exercise this option, or in the event any assets cannot be so distributed (such assets to be referred to herein as "Remaining Securities"), the General Partner will use commercially reasonable efforts to sell on behalf of such Partner such Remaining Securities that would otherwise have been distributed to such Partner at the best price available to the General Partner and distribute to such Partner the proceeds of such Sale, net of the expenses related thereto. In addition, any Net Profit or Net Loss from the Sale will be allocated solely to such Partner in accordance with **Article VIII**. If the General Partner is unable to sell on behalf of such Partner such Remaining Securities, the Fund will retain the Remaining Securities and will hold them for the account of such Partner, but the General Partner will retain the sole right to vote them and otherwise deal with them. Any proceeds (net of related expenses) the Fund receives in connection with the Remaining Securities, including dividends or capital gain distributions, will (subject to withholding), be distributed promptly to such Partner. Notwithstanding the foregoing, for all other purposes of this Agreement, all retained Remaining Securities will be deemed to have been distributed to such Partner at their Fair Market Value as of the date of the distribution in kind to the other Partners, and all items of income, gain, loss or deduction attributable to the Remaining Securities (including the Sale thereof) will be allocated to such Partner in accordance with **Sections 8.7** and **8.8**.

(b) The General Partner shall not discriminate among the Partners in any such distribution in kind, but shall to the extent feasible in any such distribution (i) distribute to the Partners entitled to participate therein Cash Equivalents or Securities of approximately the same type and in approximately the same proportions, and (ii) if cash, Cash Equivalents and Securities are to be distributed simultaneously in respect of a single Investment, distribute cash, Cash Equivalents and Securities in approximately the same proportion to each such Partner.

(c) For purposes of this Article, in the event the General Partner makes a distribution in Cash Equivalents or Securities, the distribution shall be treated as a distribution of the cash proceeds that would be received from the Cash Equivalents or Securities at their Fair Market Value at such time, and with respect to any Limited Partner electing not to receive such distribution in kind as provided above, such Limited Partner shall be deemed to have received a cash distribution on account of the Securities sold on its behalf equal to the amount of cash such Limited Partner would have been treated as receiving pursuant to this Section had such Securities been distributed to it in kind. If a distribution in kind is made when the Fair Market Value of the distribution (or the Fair Market Value of other assets, the valuation of which is necessary to determine the allocation of the distribution) has not been finally determined, the General Partner can withhold assets from the distribution as a reasonable reserve relating to the distribution pending the final determination of the Fair Market Value or the appropriate allocation. If the value of the assets withheld is insufficient to adjust properly the distributions under **Section 9.4**, a corrective adjustment will be made in connection with subsequent distributions.

(d) Notwithstanding the foregoing provisions of this Section, the General Partner may also from time to time offer the Limited Partners the opportunity to receive distributions otherwise payable in cash either in cash or in kind or to have Securities otherwise distributable in kind held or sold by the General Partner for the account of the Limited Partners. Securities so held will be set aside and held in one or more accounts in the name or names of the relevant Limited Partners managed by the General Partner. Any Securities so set aside and held shall be deemed to have been distributed to such Limited Partner as of the time such Securities are so set aside and held and the Fair Market Value of such Securities will be determined for all purposes hereunder as of such time. Securities so sold will be sold at the best price available to the General Partner using commercially reasonable efforts.

(e) Any distribution of an Investment in kind will be treated as a disposition of the Investment for all purposes of this Agreement.

9.3 Amount and Timing of Distributions. The amount and timing of distributions from the Fund to the Partners shall be at the sole discretion of the General Partner; provided, however, that, subject to the other provisions of this **Article IX**, the SBIC Act, the North Carolina Act and other applicable law, and subject to the availability of cash after paying Fund Expenses, Net Fund Proceeds shall be distributed to the Partners as soon as practicable after the end of each fiscal year in which such income is received by the Fund; provided, however, that the General Partner shall not distribute to the Partners the portion of Net Fund Proceeds representing the cost of a Sold Investment or that would represent a return of Capital Contributions to the Partners to the extent prohibited by the SBIC Act or to the extent the consent of the SBA to such distribution would be limited only to a distribution of up to two percent (2%) of the Fund's Regulatory Capital in any fiscal year (such retained portion of Net Fund Proceeds, "Retained Net Fund Proceeds"). Any Retained Net Fund Proceeds may be invested by the Fund in Cash Equivalents or used in the operations of the Fund, including without limitation the payment of Outstanding Leverage or other liabilities of the Fund or re-investment by the Fund in Portfolio Companies. It is specifically acknowledged by the Partners that (i) the Fund must have both sufficient capital in support of its Outstanding Leverage and a minimum amount of capital, as required by the SBIC Act, and (ii) in any event, the General Partner must obtain the SBA's prior written approval to reduce by distribution or otherwise the Fund's Regulatory Capital by more than two percent (2%) in any fiscal year.

9.4 Distribution of Net Fund Proceeds. Each distribution of Net Fund Proceeds (including in-kind distributions of Securities representing Net Fund Proceeds) and all distributions representing a return of Capital Contributions to the Partners (including in-kind distributions of Securities representing a return of Capital Contributions) shall be made to the Partners in the following priority (subject to **Sections 3.7**, the other provisions of this **Article IX** and **Article XI**):

(a) First, one hundred percent (100%) to all Partners pro rata according to their respective Contributions Accounts until the Partners have received cumulative distributions pursuant to this **Section 9.4(a)** equal to the Fund's aggregate amount of capital invested in Sold Investments, less the cumulative amount of Retained Net Fund Proceeds, plus (without duplication) the aggregate Write-Down Amounts with respect to Investments (except as may have been reversed by a Write-Down Recovery Amount), at such time, except that the General Partner shall be entitled to receive Tax Distributions in accordance with **Section 9.7**;

(b) Second, one hundred percent (100%) to all Partners pro rata according to their respective Contributions Accounts until the Partners have received cumulative distributions pursuant to this **Section 9.4(b)** equal to the Allocable Share of Fund Expenses, except that the General Partner shall be entitled to receive Tax Distributions in accordance with **Section 9.7**;

(c) Third, one hundred percent (100%) to all Partners pro rata according to their respective Contributions Accounts until the cumulative amount distributed to the Partners under this **Section 9.4(c)** and **Section 9.4(e)(i)** below equals the Preferred Return, except that the General Partner shall be entitled to receive Tax Distributions in accordance with **Section 9.7**;

(d) Fourth, one hundred percent (100%) to the General Partner until the cumulative amount of Tax Distributions to the General Partner and other distributions to the General Partner pursuant to this **Section 9.4(d)** and **Section 9.4(e)(ii)** equals twenty percent (20%) of the cumulative amount of all Tax Distributions to the General Partner and other distributions made to all Partners pursuant to **Sections 9.4(c)**, **(d)**, and **(e)**; and

(e) Thereafter, (i) eighty percent (80%) to all Partners in proportion to their respective Contributions Accounts, and (ii) twenty percent (20%) to the General Partner (including in such calculation Tax Distributions to the extent not included in the calculation under **Section 9.4(d)**);

9.5 Additional Reserves. Notwithstanding the foregoing provisions of this Article, the General Partner may reserve from cash and Securities available for distribution any amount it reasonably determines to be necessary to pay anticipated liabilities and obligations of the Fund (including without limitation Ordinary Expenses), whether fixed, liquidated or contingent, and not otherwise provided for or that it determines to be prudent to provide for any contingent liabilities of the Fund. The General Partner also may reasonably reserve such amounts as it anticipates will be required to make the Tax Distributions for the current fiscal year as provided for in **Section 9.7** or to fund the exercise price of warrants, options or comparable Securities acquired by the Fund, or to fund follow-on Investments permitted by this Agreement, in each case only in connection with the Investment that generated such available proceeds. Any amounts so reserved that are not used shall be invested in Cash Equivalents, and any income or losses therefrom shall be treated for the purposes of allocation and distribution as income or losses in respect of the Investment(s) from which the funds so reserved were derived. The General Partner shall, at least annually, review the need for any reserves it has established.

9.6 Reserved.

9.7 Distributions to Pay Taxes. The General Partner, in its sole discretion, may cause the Fund to make Tax Distributions to the General Partner (in respect of its Carried Interest). The General Partner shall not make any such Tax Distribution to the General Partner with respect to any fiscal year unless each Limited Partner has received, or concurrently receives, aggregate distributions pursuant to **Section 9.4** during or after such fiscal year equal to the anticipated taxes with respect to the amounts allocated to such Limited Partner for such fiscal year. All calculations of anticipated taxes pursuant to this **Section 9.7** shall assume the tax rates used in the definition of "Tax Distributions."

9.8 Additional Provisions Regarding Distributions. Notwithstanding anything in this Article to the contrary, the following provisions shall apply to distributions made by the Fund pursuant to this Article:

(a) The General Partner, in its discretion, may waive any distribution (or portion thereof) that would otherwise be made to the General Partner, and cause such distribution to be retained by the Fund or made to the Limited Partners in proportion to their respective Contributions Accounts at the time of distribution.

(b) Each Partner, by becoming a Partner, consents to any distribution hereafter made or omitted to be made to the Partners in accordance with this Article.

(c) No distribution shall be made to a Limited Partner if such distribution would cause the Limited Partner to have a Capital Account deficit in excess of such Limited Partner's Restoration Amount, or if such distribution would violate the North Carolina Act or the Code.

(d) Upon the winding up and dissolution of the Fund, liquidating distributions shall be made in accordance with **Article XI**.

ARTICLE X

TRANSFER AND WITHDRAWAL OF FUND INTERESTS

10.1 Transfers of Fund Interests.

(a) General Rule. Each Partner agrees that it will not Transfer all or any part of its interest in the Fund to any Person except in accordance with the provisions of this Article, by operation of law or to a receiver or trustee in bankruptcy for such Partner. The transferee of all or any part of any Partner's interest in the Fund shall only take on those rights as are granted in this Article. Any attempted Transfer that is not in full compliance with this Agreement shall be void, and the transferee of any interest validly transferred under this Agreement shall be subject to all of the terms, conditions, restrictions and obligations of this Agreement.

(b) Transfers Limited.

(i) No transfer of a Partner's interest in the Fund shall be permitted without the consent of the General Partner, which may be given or withheld in its sole discretion (subject to **Section 13.7**), and to the extent the actions to be taken in connection with such transfer would (i) result in any violation of the SBIC Act or in a violation of any applicable law, rule or regulation, (ii) cause the termination or dissolution of the Fund, (iii) cause the Fund to be classified other than as a partnership for Federal income tax purposes, (iv) require the Fund to register as an investment company under the Investment Company Act, or (v) require the Fund, the General Partner or the Investment Adviser/Manager to register as an investment adviser under the Investment Advisers Act.

(ii) Without the consent of the SBA, the General Partner may not Transfer all or any portion of its interests in the Fund except to Principals jointly or to an entity controlled, directly or indirectly, by the Principals or the General Partner. Any Transfer by the General Partner of its interest in the Fund must satisfy the general provisions of this Article regarding transfers of Limited Partners' interests. Except as otherwise consented to by the SBA, any Person who acquires the interest of a General Partner, or any portion of such interest, in the Fund (i) will not become a general partner of the Fund and will not have the right to participate in the management of the affairs of the Fund and (ii) instead will be deemed to have acquired an interest of a Limited Partner without the Carried Interest associated with the General Partner's interest under this Agreement, which Carried Interest shall cease to be applicable to such interest.

(iii) No interest representing ten percent (10%) or more of the capital of the fund may be Transferred without the consent of the SBA.

(c) Legal Opinion Required. No Transfer of all or any part of a Limited Partner's interest in the Fund shall be made without the Fund first having been provided a written opinion of counsel for the Fund or of other counsel reasonably satisfactory to the Fund: (i) that such Transfer will not result in (A) the Fund, the General Partner, any member of the General Partner, or the Management Company being subjected to any additional regulatory requirements or restrictions of any nature, (B) a violation of applicable law, rule or regulation or of this Agreement, (C) the Fund being classified as an association taxable as a corporation, (D) the Fund being deemed terminated pursuant to Section 708 of the Code, (E) the Fund being deemed a "publicly traded partnership" within the meaning of Section 7704(b) of the Code, (F) the Fund being required to register as an "investment company" under the Investment Company Act or (G) the Fund, the General Partner or the Investment Adviser/Manager being required to register as an investment adviser under the Investment Advisers Act.; (ii) that such Transfer is exempt from registration under federal and applicable state securities laws; and (iii) as to such other matters as the General Partner may reasonably request an opinion. This requirement, or any portion thereof, may be waived on a case-by-case basis by the General Partner in its sole and absolute discretion.

(d) Substitution of Limited Partners. No transferee of an interest in the Fund shall be admitted as a Substitute Limited Partner without the consent of the General Partner, which consent may be withheld in the General Partner's sole and absolute discretion. Unless and until such consent is granted, the transferee shall be entitled only to the economic benefit of ownership of an interest in the Fund, and the transferring Limited Partner shall remain liable for all of its obligations under this Agreement. Upon the General Partner's consent to a transferee becoming a Substitute Limited Partner, an amendment to this Agreement, in such form and with such provisions as are reasonably acceptable to the General Partner, shall be executed by the General Partner, the transferor Limited Partner, and the transferee Limited Partner. The General Partner, in accordance with **Section 13.6** of this Agreement, shall be authorized to execute such an amendment on behalf of the Partners. In addition, the transferor Limited Partner and the transferee Limited Partner shall execute such other certificates, agreements, and other documents as may be reasonably requested by the General Partner. Only upon the execution of these documents will the transferee become a Substitute Limited Partner, and upon their execution (or upon such other date as is set forth therein), (i) the Substitute Limited Partner shall succeed to the rights and liabilities of the transferring Limited Partner; (ii) the Contributions Account and Capital Account of the transferor shall become the Contributions Account and Capital Account, respectively, of the Substitute Limited Partner, to the extent of the interest transferred; (iii) the Substitute Limited Partner shall be treated as having received all Fund distributions previously made to the transferor Limited Partner, to the extent of the interest transferred; and (iv) the transferor Limited Partner shall bear no further liability to the Fund.

(e) Expenses of Transfers. The transferor of any interest in the Fund hereby agrees to reimburse the Fund, at the request of the General Partner, for any expenses reasonably incurred by the Fund in relation to such Transfer.

(f) Multiple Ownership. In the event of any Transfer that shall result in multiple ownership of any Limited Partner's interest in the Fund, the General Partner may require one or more trustees or nominees to be designated as representing a portion of or the entire interest transferred and any remaining interest of the transferring Limited Partner for the purpose of receiving all notices that may be given, and all payments that may be made, under this Agreement and for the purpose of exercising all rights that the transferor as a Limited Partner had pursuant to the provisions of this Agreement.

10.2 Withdrawal by Partners.

(a) Without the consent of a Limited Partner Majority, the General Partner may not withdraw from the Fund. Upon any permitted withdrawal from the Fund by the General Partner, it shall no longer have any right and shall cease to have the power to manage the affairs of the Fund.

(b) Each Limited Partner agrees that it shall have no right to withdraw from the Fund, except as otherwise specifically provided below:

(i) Withdrawal by ERISA Regulated Pension Plans. Notwithstanding any other provision of this Agreement, any Limited Partner that is an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if either such Limited Partner or the General Partner shall obtain an opinion of counsel to the effect that, as a result of ERISA, (i) the withdrawal of such Limited Partner from the Fund to such extent is required to enable such Limited Partner to avoid a violation of, or breach of the fiduciary duties of any Person under (other than a breach of the fiduciary duties of any such Person based upon the investment strategy or performance of the Fund), ERISA or any provision of the Code related to ERISA, or (ii) all or any portion of the assets of the Fund (as opposed to such Limited Partner's partnership interest in the Fund) constitute assets of such Limited Partner for purposes of ERISA and are subject to the provisions of ERISA to substantially the same extent as if owned directly by such Limited Partner.

(ii) Withdrawal by Government Plans Complying with State and Local Law. Notwithstanding any other provision of this Agreement, any Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if such Limited Partner or the General Partner shall obtain an opinion of counsel to the effect that as a result of state statutes, regulations, case law, administrative interpretations or similar authority applicable to such "government plan," the withdrawal of such Limited Partner from the Fund to such extent is required to enable such Limited Partner or the Fund to avoid a violation (other than a violation based upon the investment performance of the Fund) of such applicable state law. In the event of the issuance of the opinion of counsel referred to above, the withdrawal of and disposition of the governmental plan Partner's interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if such Partner were an ERISA Partner.

(iii) Withdrawal of Government Plans Complying with ERISA. Notwithstanding any other provision of this Agreement, any Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if such "government plan" or the General Partner shall obtain an opinion of counsel to the effect that, as a result ERISA, (i) the withdrawal of such "government plan" from the Fund to such extent would be required if it were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, to enable such "government plan" to avoid a violation of, or breach of the fiduciary duties of any Person under (other than a breach of the fiduciary duties of any such Person based upon the investment strategy or performance of the Fund), ERISA or any provision of the Code related to ERISA in the manner that would be required were it an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, or (ii) all or any portion of the assets of the Fund would constitute assets of such "government plan" for the purposes of ERISA, if such " government plan" were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA and would be subject to the provisions of ERISA to substantially the same extent as if owned directly by such "government plan." In the event of the issuance of the opinion of counsel referred to above, the withdrawal of and disposition of the governmental plan Partner's interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if such Partner were an ERISA Partner.

(iv) Withdrawal by Tax Exempt Limited Partners. Notwithstanding any other provision of this Agreement, any Limited Partner that is exempt from taxation under Section 501(a) or 501(c)(3) of the Code may elect to withdraw from the Fund in whole or in part, or upon demand by the

General Partner shall withdraw from the Fund in whole or in part, if such Limited Partner or the General Partner shall obtain an opinion of counsel to the effect that as a result of applicable statutes, regulations, case law, administrative interpretations or similar authority, the withdrawal of such Limited Partner from the Fund to such extent is required to enable such tax exempt Limited Partner to avoid loss of its tax exempt status under Section 501(a) or 501(c)(3) of the Code. In the event of the issuance of the opinion of counsel referred to above, the withdrawal of and disposition of the tax-exempt Partner's interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if such Partner were an ERISA Partner.

(v) Withdrawal by Private Foundation Partners. Notwithstanding any provision of this Agreement to the contrary, any Private Foundation Partner may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if either the Private Foundation Partner or the General Partner shall obtain an opinion of counsel to the effect that such withdrawal is necessary in order for the Private Foundation Partner to avoid (a) excise taxes imposed by Subchapter A of Chapter 42 of the Code (other than Sections 4940 and 4942 thereof), or (b) a material breach of the fiduciary duties of its trustees or other fiduciaries under any federal or state law applicable to private foundations or any rule or regulation adopted thereunder by any agency, commission, or authority having jurisdiction. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the withdrawal of and disposition of the Private Foundation Partner's interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if the Private Foundation Partner were an ERISA Partner.

(vi) Withdrawal by Registered Investment Companies. Notwithstanding any provision of this Agreement to the contrary, any Limited Partner that (i) is an "investment company" subject to registration under the Investment Company Act or that would be subject to such registration but for Section 3(c)(1) or 3(c)(7) of the Investment Company Act or (ii) is not "one person" for purposes of Section 3(c)(1) of the Investment Company Act may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if either such Limited Partner or the General Partner shall obtain an opinion of counsel to the effect that as a result of the Investment Company Act, such withdrawal is necessary for the Limited Partner to avoid a violation of applicable provisions of the Investment Company Act or for the Fund to avoid the requirement that the Fund register as an "investment company" under the Investment Company Act. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the withdrawal of and disposition of the "investment company's" interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if such "investment company" were an ERISA Partner.

(vii) Withdrawal by Banks.

(A) Notwithstanding any provision of this Agreement to the contrary, any Limited Partner that is a state or national bank may elect to withdraw from the Fund in whole or in part, or upon demand by the General Partner shall withdraw from the Fund in whole or in part, if either such Limited Partner or the General Partner shall obtain an opinion of counsel to the effect that (i) such withdrawal is necessary for the Limited Partner to avoid a violation of applicable provisions of banking laws and regulations because its investment in the Fund constitutes or will constitute an impermissible activity under such laws and regulations, and (ii) there is no permissible transfer of such Limited Partner's investment in the Fund to an affiliate of such Limited Partner that would enable such Limited Partner to avoid such violation. Upon receipt of such opinion, the General Partner may, subject to SBA approval, effect such amendments as would enable such Limited Partner to be in compliance with applicable banking laws and regulations without withdrawing from the Fund, in which case the foregoing withdrawal right shall not be applicable. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the withdrawal of and disposition of the bank's interest in the Fund shall be governed by **Section 10.2(b)(i)** of this Agreement, as if the bank were an ERISA Partner.

(B) For the purpose of permitting each Limited Partner that is a state or national bank to avoid engaging in any impermissible activity under applicable banking laws and to evaluate its withdrawal rights under the foregoing subparagraph (A), the Fund shall provide thirty (30) days prior written notice to each such Limited Partner prior to the Fund engaging in any activity or activities other those contemplated in this Agreement relating to the Fund operating as a small business investment company under the SBIC Act and conducting the activities described under Title III of the SBIC Act (including those activities taken while the Fund's application to become licensed to operate as an SBIC is being submitted and is pending).

(c) Notice and Opinion of Counsel. In the event of the issuance of an opinion of counsel described in this Section, a copy of such opinion shall be sent by the General Partner to the SBA, together with the written notice of the election of the Limited Partner to which such opinion relates to terminate its obligation to make further capital contributions with respect to its Commitment or withdraw from the Fund in whole or in part, or the written demand of the General Partner for such termination or withdrawal, as the case may be. Any counsel rendering an opinion pursuant to this Section shall be subject to the approval of the General Partner and the SBA, and any such opinion shall be satisfactory in form and substance to the General Partner and the SBA.

(d) Cure, Termination of Capital Contributions and Withdrawal. Unless within ninety (90) days after the giving of written notice and satisfactory opinion of counsel, as provided in the above subsection (i), the Limited Partner or the Fund eliminates the necessity for termination of the obligation of such Limited Partner to make further Capital Contributions or for the withdrawal of such Limited Partner from the Fund in whole or in part to the reasonable satisfaction of such Limited Partner and the General Partner, such Limited Partner shall withdraw from the Fund in whole or in part to the extent required, effective as of the end of such ninety (90) day period. Subject to the provisions of **Section 3.5**, in its discretion the General Partner may waive all or any part of the ninety (90) day cure period and cause such termination of Capital Contributions or withdrawal to be effective at an earlier date as set forth in such waiver.

(e) Distributions on Withdrawal. Except as set forth below, unless agreed to otherwise by the General Partner and a Limited Partner Majority, a Partner that has withdrawn from the Fund shall have no right to receive a withdrawal of its capital or profits or any other distribution from the Fund.

(i) Upon withdrawal under any provision of this Agreement:

(A) a Limited Partner will have the right to a distribution from the Fund equal to the fair value of its interest in the Fund, such determination to be made as of the date of withdrawal and based on the Limited Partner's right to share in distributions of the Fund (taking into account its Carried Interest) assuming the Fund's Investments were sold as of that date at their value determined in accordance with the valuation guidelines adopted pursuant to **Section 12.6**.

(B) provided in the North Carolina Act with respect to distributions to be made to limited partners upon withdrawal from a limited partnership, with any determination of fair value of the Limited Partner's Fund interest to be determined in accordance with the valuation guidelines adopted pursuant to **Section 12.6**; and

(C) in the event the operations are continued upon the withdrawal of the General Partner, the General Partner shall have the right to a distribution from the Fund of an amount equal to the fair value of the General Partner's interest in the Fund, such determination to be made as of the date of withdrawal and based upon the General Partner's rights to share in distributions of the Fund (taking into account its Carried Interest) assuming the Fund's Investments were sold as of that date at their value determined in accordance with the valuation guidelines adopted pursuant to **Section 12.6**.

(ii) In addition, any distribution or payment to a withdrawing Partner may, in the sole discretion of the General Partner, be made (i) in cash, (ii) in a pro rata distribution of Securities, in accordance with any special provisions in **Article IX** dealing with distributions in kind to Limited Partners subject to special governmental regulations, (iii) in the form of a promissory note, the terms of which shall be mutually agreed upon by the General Partner and the withdrawing Partner and which shall provide for partial payments of a distribution, as if such promissory note represented an equity interest in the Fund, at the time of cash distributions to the Partners, or (iv) in any combination of the foregoing items (i) through (iii).

(iii) All distributions from the Fund are subject to the SBIC Act and any required approval of the SBA and to the North Carolina Act.

(iv) Except to the extent permitted under the SBIC Act or consented to by the SBA, the right of the General Partner or any Limited Partner to receive any distribution from the Partnership as a result of such Partner's withdrawal, including any right any such Partner may have as a creditor of the Partnership with respect to the amount of any such distribution, is subordinate to any amount due the SBA by the Partnership.

(f) Conforming Amendment. Upon the withdrawal of any Partner from the Fund pursuant to this Section, the Partners (including the withdrawing Limited Partner) shall enter into an amendment to this Agreement reflecting such withdrawal and amending such provisions of this Agreement, including without limitation the provisions regarding allocations and distributions during the term of the Fund and upon its liquidation, as may be appropriate, so that the intent, spirit, operation and effect of such allocation, distribution and other provisions shall, to the maximum extent possible, be preserved after taking into account the withdrawal of such Partner. The General Partner, in accordance with **Section 13.6** of this Agreement, shall be authorized to execute this conforming amendment on behalf of the Partners.

ARTICLE XI

TERMINATION, DISSOLUTION, AND LIQUIDATION OF FUND

11.1 Term and Dissolution of the Fund.

(a) Unless sooner dissolved pursuant to the provisions hereof, including without limitation **Section 2.9** and the other provisions of this **Section 11.1**, the Fund shall continue until the later of (i) the date that is ten (10) years after the final date on which a Subsequent Closing may occur pursuant to **Section 4.1** or (ii) the date that is two (2) years after all Outstanding Leverage has matured and been satisfied in full, subject to being extended in accordance with this Section or sooner dissolved in accordance with this Section or by operation of law (including without limitation pursuant to the North Carolina Act).

(b) Such initial ten (10)-year period may be extended for up to two additional two-year periods by the General Partner at its sole discretion. The General Partner shall promptly notify the Limited Partners of any decision to so extend the term of the Fund. The term of the Fund also may be extended beyond the original term (and any permitted extension thereof) by written resolution of the General Partner and a Limited Partner Majority, but not past December 31, 2099.

(c) The Fund shall not be dissolved in the event of the dissolution, death, Bankruptcy, insolvency, incompetence, insanity, disability, substitution, or admission or withdrawal of any Limited Partner, or any other similar event involving the existence, status, or organization of a Limited Partner.

(d) The General Partner, with the consent of a Limited Partner Majority, may dissolve the Fund at any time on not less than ninety (90) days' prior written notice of such dissolution to the SBA and any non-consenting Limited Partners (or upon such other period of notice of as may be required by the North Carolina Act), but only after the later to occur of ten (10) years from the date of formation of the Fund, and if all Outstanding Leverage has been repaid or redeemed in full and all amounts due to the SBA, its agent or trustee have been paid in full.

(e) Upon an event of withdrawal (as defined in the North Carolina Act) of the General Partner, the Fund shall be dissolved unless within ninety (90) days after such event of withdrawal, a Limited Partner Majority agrees in writing to continue the operations of the Fund and to the appointment of one or more general partners of the Fund (subject to SBA approval).

11.2 Liquidator. At dissolution, the Fund's assets shall be liquidated in an orderly manner. The General Partner shall be the liquidator (the "Liquidator") to wind up the affairs of the Fund pursuant to this Agreement; provided that, if there shall be no General Partner at dissolution, a Limited Partner Majority may designate one or more other Persons to act as the Liquidator instead of the General Partner.

11.3 Liquidating Distributions. The Liquidator shall cause the Fund to pay or provide for the satisfaction of the Fund's liabilities and obligations to creditors. Any Net Profit or Net Loss realized in connection with the liquidation of the Fund after such liabilities and obligations are satisfied shall be allocated among the Partners in accordance with the provisions of **Article VIII** of this Agreement, and any remaining assets of the Fund shall be distributed to the Partners in cash (to the extent feasible) in proportion to the positive balances in their respective Capital Accounts (and, if a distribution in kind is necessary, after allocating any Net Profit or Net Loss attributable to such distribution). If a distribution in kind is necessary, it shall be made in accordance with special provisions in **Article IX** of this Agreement dealing with distributions in kind to Limited Partners. In performing its duties, the Liquidator is authorized to sell, exchange, or otherwise dispose of the assets of the Fund in such reasonable manner as

the Liquidator shall determine to be in the best interests of the Partners. The Liquidator shall have the authority to temporarily withhold distributions hereunder as reserves in a manner and for purposes similar to the manner and purposes of withholding of distributable cash and Securities pursuant to **Section 9.5**.

11.4 Expenses of Liquidation. The expenses incurred by the Liquidator in connection with winding up the Fund, all other losses or liabilities of the Fund incurred in accordance with the terms of this Agreement, and, if the Liquidator is not the General Partner, reasonable compensation for the services of the Liquidator, shall be borne by the Fund.

11.5 Duration of Liquidation. A reasonable time shall be allowed for the winding up of the affairs of the Fund in order to minimize any losses otherwise attendant upon such winding up, provided that the Liquidator shall use its reasonable best efforts to carry out the liquidation in conformity with the timing requirements of Treasury Regulation Section 1.704-1(b)(2)(ii)(g). The Liquidator will use its reasonable best efforts to dispose of or distribute all Fund assets within one year of dissolution, but will not be bound to do so or be liable in any way to any Partner for failure to do so. For purposes of this section, the date of liquidation of the Fund shall be the date on which the Fund has ceased to be a going concern, and the Fund shall not be deemed to have ceased to be a going concern until it has sold, distributed, or otherwise disposed of all of its Investments.

ARTICLE XII

ACCOUNTING, RECORDS AND REPORTS

12.1 Fiscal Year. The fiscal year of the Fund shall be the period ending on December 31st.

12.2 Keeping of Accounts and Records. The Fund shall maintain books and records in accordance with Treasury Regulation § 1.704 - l(b), the provisions of the SBIC Act regarding financial accounts and reporting, and generally accepted accounting principles (except as otherwise provided herein). The financial statements of the Fund shall be audited and certified as of the end of each fiscal year by a firm of independent certified public accountants selected by the General Partner.

12.3 Inspection Rights. In accordance with the North Carolina Act, at any time while the Fund continues and until its complete liquidation (but only during reasonable business hours), each Limited Partner (or the designee thereof) may examine fully and audit the Fund's books, records, accounts and assets, including bank balances, and make, or cause to be made, any examination or audit at such Partner's expense. Each Partner (or the designee thereof) may, during normal business hours, examine, or request that the General Partner furnish, such additional information as is reasonably necessary to enable the requesting Partner (or the designee thereof) to review the state of the financial affairs of the Fund. Notwithstanding the foregoing, the management of the affairs of the Fund shall be in the complete control of the General Partner and the General Partner shall have the benefit of any confidential information provisions of the North Carolina Act.

12.4 Annual Reports. The General Partner shall transmit to the Limited Partners after the close of each fiscal year a report on the affairs of the Fund during such fiscal year, including the audited financial statements required by **Section 12.5**, a statement containing a valuation of the Fund's Investments, a summary of new Investments made by the Fund during the fiscal year, and changes in Portfolio Companies occurring during the fiscal year that materially affect the Fund's Investment therein.

12.5 Audited Statements. The books and records of the Fund shall be audited and certified, subject to valuation, as of the end of each fiscal year by an independent certified public accounting firm selected by the General Partner.

12.6 Valuation of Assets. The Fund shall adopt written guidelines for determining the value of its Assets, which guidelines shall be those guidelines recommended by the SBA. Assets held by the Fund shall be valued by the General Partner in a manner consistent with such guidelines and the SBIC Act. To the extent that the SBIC Act requires any Asset held by the Fund to be valued other than as provided in this Agreement, the General Partner shall value such Asset in such manner as it determines to be consistent with the SBIC Act. Assets held by the Fund shall be valued not less often than annually (or more often, as the SBA may require), and shall be valued not less often than semi-annually (or more often, as the SBA may require) at any time that the Fund has Outstanding Leverage.

12.7 Tax Matters Partner. The tax matters partner, as defined in Section 6231 of the Code, of the Fund shall be the General Partner (the "Tax Matters Partner"). The Tax Matters Partner shall not resign as tax matters partner of the Fund unless, on the effective date of such resignation, the Fund has designated another general partner as Tax Matters Partner and that general partner has given its consent in writing to its appointment as Tax Matters Partner. The Tax Matters Partner shall receive no additional compensation from the Fund for its services in that capacity, but all expenses incurred by the Tax Matters Partner in such capacity shall be borne by the Fund. The Tax Matters Partner is authorized to employ such accountants, attorneys and agents as it, in its sole discretion, determines are necessary to or useful in the performance of its duties. The Tax Matters Partner shall take such action, to the extent necessary, so as to qualify the Fund as a "partnership" and not an "association" under the Code.

12.8 Tax Returns. The Fund's annual tax return, IRS Form 1065 and Schedule K-1 shall be prepared and delivered to each of the Partners within approximately ninety (90) days after the end of each calendar year or as soon thereafter as reasonably possible after receipt of all Schedule K-1s and IRS Form 1099s from Portfolio Companies required to issue such form or schedule.

ARTICLE XIII

MISCELLANEOUS

13.1 Amendment. Any amendment of the provisions of this Agreement requires the prior written approval of the SBA. Furthermore, and except as is otherwise specifically stated in this Agreement (including without limitation **Section 2.9**), any modification or amendment to the terms and provisions of this Agreement or the Articles of Limited Partnership may only be made with the written consent of the General Partner and a Limited Partner Majority. In addition to the foregoing, except as otherwise expressly provided herein, no amendment may be made that enlarges the obligations of any Partner under this Agreement, dilutes the relative interest of any Partner in the profits or capital of the Fund or in Fund allocations and distributions attributable to the interest owned by such Partner, changes the balance of a Partner's Contributions Account or Capital Account, modifies the method of allocation of Net Profit and Net Loss set forth herein, modifies any provision herein requiring the consent of all the Limited Partners to a specified action, or otherwise arguably adversely affects any Limited Partner in relation to any other Limited Partner unless each Limited Partner who is arguably adversely affected thereby has expressly consented in writing to such amendment. Notwithstanding the foregoing, the General Partner may make clarifying changes to this Agreement that are not adverse to the Limited Partners, taking into account the disclosure contained in the Fund's Confidential Offering Memorandum relating to investments in the Fund. The terms of this Section shall not be modified or amended without the consent of all Limited Partners. Upon approval of any amendment by the requisite parties, the General Partner shall be authorized to execute the amendment on behalf of the Limited Partners. The General Partner shall promptly furnish copies of any amendments to this Agreement or the Articles of Limited Partnership to all Partners.

13.2 Standard of Care.

(a) None of the General Partner, the Tax Matters Partner, any member of the Board of Directors, any Investment Advisor/Manager, or any partner shareholder, director, officer, employee or any Affiliate of any such Person shall be liable to the Fund or any Partner for any action taken or omitted to be taken by it or any other Partner or other Person in good faith and in a manner it reasonably believed to be in or not opposed to the best interests of the Fund, and, with respect to any criminal action or proceeding, had no reasonable cause to believe its conduct was unlawful.

(b) None of any Limited Partner, any member of any Fund committee or board (including the Advisory Board), or any member of the Board of Directors, who is not an Affiliate of the General Partner, shall be liable to the Fund or any Partner as a result of any decision made in good faith by such Limited Partner or member, in his capacity as such.

(c) Any of the foregoing Persons named in this **Section 13.2** may consult with reputable legal counsel selected by them and shall be fully protected, and shall incur no liability to the Fund or any Partner, in acting or refraining to act in good faith in reliance upon the opinion of advice of such counsel.

(d) This Section shall not constitute a modification, limitation or waiver of Section 314(b) of the SBIC Act, or a waiver by the SBA of any of its rights pursuant to such Section 314(b).

13.3 Indemnification.

(a) The Fund shall indemnify and hold harmless, but only to the extent of Assets Under Management, the General Partner, any member of the Board of Directors, any Investment Advisor/Manager, any partner, member, manager, owner, shareholder, director, officer, employee or Affiliate of any such Person from any and all costs, expenses, damages, claims, liabilities, fines and judgments (including the reasonable cost of the defense of any claim or action and any sums that may be paid with the consent of the Fund in settlement thereof) that may be incurred by or asserted against such Person, by reason of any action taken or omitted to be taken on behalf of the Fund and in furtherance of its interests.

(b) The Fund shall indemnify and hold harmless, but only to the extent of Assets Under Management, the Limited Partners, any member of the Board of Directors, and members of any Fund committee or board who are not Affiliates of the General Partner or any Investment Advisor/Manager from any and all costs, expenses, damages, claims, liabilities, fines and judgments (including the reasonable cost of the defense of any claim or action and any sums that may be paid with the consent of the Fund in settlement thereof) that may be incurred by or asserted against such Person, by any third party on account of any matter or transaction of the Fund, which matter or transaction occurred during the time that such Person has been a Limited Partner or such member.

(c) The Fund shall have power, in the discretion of the General Partner, to agree to indemnify on the same terms as set forth in this Section any Person who is or was serving, pursuant to a prior written request from the Fund, as a consultant to, agent for or representative of the Fund as a director, manager, general partner, officer, employee, agent of or consultant to another Person, against any liability asserted against such individual and incurred by such individual in any such capacity, or arising out of such Person’s status as such.

(d) No Person shall be entitled to claim any indemnity or reimbursement under subsections (a), (b) or (c) above in respect of any such cost, expense, damage, liability, claim, fine, judgment (including any cost of the defense of any claim, action, suit, proceeding or investigation, by or before any

court or administrative or legislative body or authority) that may be incurred by such Person that results from the failure of such Person to act in accordance with the provisions of this Agreement and the applicable standard of care set forth in **Section 13.2**. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contender or its equivalent, shall not, of itself, preclude a determination that such Person acted in accordance with the applicable standard of care set forth in **Section 13.2**.

(e) To the extent that a Person claiming indemnification under subsections (a), (b) or (c) has been successful on the merits in defense of any action, suit or proceeding referred to in such subsections (a), (b) or (c) or in defense of any claim, issue or matter therein, such Person shall be indemnified with respect to such matter as provided in such subsection. Except as provided in the foregoing sentence and as provided in subsection (h) below with respect to advance payments, any indemnification under this Section shall be paid only upon determination that the Person to be indemnified has met the applicable standard of conduct set forth in **Section 13.3(a)** or **(b)**.

(f) A determination that a Person to be indemnified under this Section has met the applicable standard set forth in **Section 13.2(a)** or **(b)** shall be made by (i) the General Partner, with respect to the indemnification of any Person other than a Person claiming indemnification under subsection (a) above, (ii) a committee of the Fund appointed by the Limited Partner Majority whose members are not affiliated with the General Partner or any Investment Advisor/Manager with respect to indemnification of any Person indemnified under subsection (a) above or (iii) at the election of the General Partner, independent legal counsel selected by the General Partner, with respect to the indemnification of any Person indemnified under this Section, in a written opinion.

(g) In making any such determination with respect to indemnification under subsection (f), the decision-maker shall be authorized to make such determination on the basis of its evaluation of the records of the General Partner, the Fund or any Investment Advisor/Manager to the Fund and of the statements of the party seeking indemnification with respect to the matter in question and shall not be required to perform any independent investigation in connection with any such determination. Any party making any such determination is authorized, however, in its sole discretion, to take such other actions (including engaging counsel) as it deems advisable in making such determination.

(h) Expenses incurred by any Person in respect of any such costs, expenses, damages, claims, liabilities, fines, and judgments (including any cost of the defense of any claim, action, suit, proceeding or investigation, by or before any court or administrative or legislative body or authority) may be paid by the Fund in advance of the final disposition of any such claim or action upon receipt of an undertaking by or on behalf of such Person to repay such amount unless it shall ultimately be determined as provided in subsection (e) or (f) above that such Person is not entitled to be indemnified by the Fund as authorized in this Section.

(i) The rights provided by this Section shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of each Person eligible for indemnification hereunder.

(j) The rights to indemnification provided in this Section shall be the exclusive rights of all Partners to indemnification by the Fund. No Partner shall enter into, or make any claim under, any other agreement with the Fund (whether direct or indirect) providing for indemnification. The General Partner shall not enter into any agreement with any Person which is an employee, officer, director, partner or shareholder of it, or an Affiliate, Associate or Control Person of any of the foregoing, providing for indemnification of any such Person unless such agreement provides for a determination with respect to such indemnification as provided under subsection (f)(ii) or (iii) above. The provisions of this Section shall not apply to indemnification of any Person that is not at the expense (whether in whole or in part) of the Fund.

(k) The Fund may purchase and maintain insurance on its own behalf, or on behalf of any Person, with respect to liabilities of the types described in this Section. The Fund may purchase such insurance regardless of whether such Person is acting in a capacity described in this Section or whether the Fund would have the power to indemnify such Person against such liability under the provisions of this Section.

13.4 Waivers and Consents.

(a) The General Partner's (or its members') noncompliance with any provision hereof in any single transaction or event may be waived in writing by a Limited Partner Majority; provided, however, that no such waiver of noncompliance shall be effective if such noncompliance arguably has an adverse effect on any Limited Partner in relation to any other Limited Partner unless such waiver is approved by each Limited Partner who is arguably adversely affected thereby. No waiver with respect to any event of noncompliance shall be deemed a waiver of any subsequent event of noncompliance.

(b) Except as provided in the SBIC Act and **Section 3.5(d)**, a consent or approval required to be given by the SBA under this Agreement shall be deemed given and effective for purposes of this Agreement only if the consent or approval is given by SBA in writing and delivered by SBA to the party requesting the consent or approval in the manner provided with respect to the delivery of notice in **Section 13.5**. When this Agreement provides for the consent of the SBA, such consent shall not be required to be obtained to the extent not so required under the SBIC Act.

13.5 Notices. Except where otherwise specifically provided in this Agreement, all notices, requests, consents, approvals and statements shall be in writing and shall be deemed to have been properly given if by personal delivery when delivered or if mailed from within the United States by first class U.S. mail, postage prepaid, five days after mailing, or if sent by prepaid telegram or electronic facsimile transmission or telex, upon receipt of confirmation thereof, or if by overnight courier service the day of delivery, addressed in each case, (i) if to the Fund, the General Partner, or the Management Company, at the address of the General Partner set forth in **Section 2.3**, (ii) if to any Limited Partner, to the address of such Limited Partner as set forth in **Schedule A**, in each case, to such other address or addresses as the addressee may have specified by written notice as aforesaid to the other parties, and (iii) if to the SBA, at the address of the Investment Division of the SBA and, if so required under any provision of this Agreement, in duplicate at the address of the Office of the General Counsel of the SBA.

13.6 Power of Attorney.

(a) Each of the Limited Partners hereby constitutes and appoints the General Partner, with full power of substitution, as its true and lawful representative and attorney-in-fact, with full power and authority in its name, place and stead, to make, execute, sign, acknowledge, and deliver or file (1) the Articles of Limited Partnership and any amendments thereto or other instruments, documents, and certificates that may from time to time be required by any law to effectuate, implement and continue the valid and subsisting existence of the Fund, (2) all instruments, documents and certificates that may be required to effectuate the dissolution and termination of the Fund in accordance with the provisions hereof and of the North Carolina Act, (3) such amendments to this Agreement as this Agreement specifies may be executed by the General Partner on its behalf, (4) any other instrument, certificate or document required from time to time to admit a Partner, to effect its admission as a Partner, to effect the admission of a Partner's assignee as a Substitute Limited Partner, or to reflect any action of the Partners provided for in this Agreement, and (5) any other instrument, certificate or document which may be required under the laws, regulations or procedures of the United States, any state, or any governmental entity in any jurisdiction in which the Fund is conducting or intends to conduct its activities, or which may otherwise be deemed appropriate by the General Partner.

(b) Each of the Limited Partners is aware that the terms of this Agreement permit certain amendments to the Articles of Limited Partnership and this Agreement to be effected and certain other actions to be taken by or with respect to the Fund, in each case with the approval or by the vote of less than all the Partners. If, as, and when (i) an amendment of the Articles of Limited Partnership or this Agreement is proposed or an action is proposed to be taken by or with respect to the Fund that does not require, under the terms of this Agreement, the approval of all of the Partners, and (ii) Partners holding the interest in the Fund specified in this Agreement as being required for such amendment or action have approved such amendment or action in the manner contemplated by this Agreement, each Partner agrees that the special power of attorney specified in clause (a) above, with full power of substitution, is hereby authorized and empowered to execute, acknowledge, make, swear to, verify, deliver, record, file, and/or publish, for and on behalf of such non-approving Partner, and in its name, place and stead, any and all instruments and documents which may be necessary or appropriate to permit such amendment to be lawfully made or action lawfully taken. Each Partner is fully aware that it and each other Partner has executed this special power of attorney, and that each Partner will rely on the effectiveness of such powers with a view to the orderly administration of the Fund's affairs.

(c) The foregoing grant of authority (i) is a special power of attorney coupled with an interest in favor of the General Partner and as such shall be irrevocable and shall survive the death or disability of a Partner that is a natural person or the merger, dissolution or other termination of the existence of a Partner that is a corporation, association, limited liability company, partnership or trust, and (ii) shall survive the assignment by the Partner of the whole or any portion of its interest, except that where the assignee of a Partner's entire interest has furnished a power of attorney substantially similar hereto, this power of attorney shall survive such assignment for the sole purpose of enabling the General Partner to execute, acknowledge and file any instrument necessary to effect any admission of the assignee as a Substitute Limited Partner for the assignor and shall thereafter terminate.

13.7 Non-Voting Limited Partner Interests. Where the interests held by any Partner subject to the Bank Holding Company Act of 1956, as amended (a "BHC Partner"), exceeds five percent (5%) of the then total outstanding interests (measured by the Partner's relative Contributions Accounts and exclusive of the Nonvoting Interests, as defined below) and the BHC Partner has not received the approval of the Board of Governors of the Federal Reserve System to hold more than five percent (5%) of the interests, the amount of the Fund interests held by the BHC Partners in excess of five percent (5%) shall constitute a separate class of partnership interests hereinafter referred to as "Nonvoting Interests." The rights, privileges, benefits and liabilities appertaining to the Nonvoting Interests shall be identical in all respects to the rights, privileges, benefits and liabilities appertaining to all other interests, except that holders of Nonvoting Interests shall not be entitled to vote upon or give consents in respect of any action by the Limited Partners, except those matters that, in the judgment of the BHC Partner, acting upon advice of legal counsel, would significantly and adversely affect the rights or preference of its interests. In addition, to the extent the aggregate amount of the interests, including Nonvoting Interests held by the BHC Partner shall at any time exceed twenty-four and 99/100ths percent (24.99%) of the aggregate amount of all outstanding interests, including Nonvoting Interests, the BHC Partner shall be permitted to Transfer such interest subject to the provisions hereof, including the consent of the General Partner, which consent shall not be unreasonably withheld.

13.8

13.9 Waiver of Partition. Each Partner hereby irrevocably waives any and all rights that it may have to maintain an action for partition of any of the Fund's property.

13.10 Additional Documents. Each Partner hereby agrees to execute all certificates, counterparts, amendments, instruments or documents that may be required by laws of the various states or other jurisdictions in which the Fund conducts its activities to conform with the laws of such states or other jurisdictions governing limited partnerships.

13.11 Binding on Successors. This Agreement shall be binding upon and it shall inure to the benefit of the respective heirs, successors, assigns and legal representatives of the parties hereto.

13.12 Counterparts. This Agreement or any amendment hereto may be signed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one agreement (or amendment, as the case may be).

13.13 Action by Limited Partners. Whenever action is required by this Agreement to be taken by those Limited Partners whose aggregate Commitments equal or exceed a specified percentage of the aggregate Commitments of the Limited Partners such action shall be deemed to be valid if taken upon written vote or written consent by those Limited Partners whose aggregate Commitments represent the specified percentage of the aggregate Commitments of all Limited Partners. Except where a higher percentage requirement is expressly specified herein, whenever action is required by this Agreement to be taken by the Limited Partners, such action shall be deemed to be valid if taken upon written vote or written consent by the Limited Partner Majority. With respect to any interests held as a Limited Partner by the General Partner or any of its Affiliates, the General Partner and its Affiliates shall have no voting rights as a Limited Partner (and their interests as Limited Partners shall be disregarded) with respect to all matters voted upon by the Limited Partners.

13.14 Governing Law. This Agreement shall be governed by and construed in accordance with applicable Federal laws and the internal laws of the State of North Carolina.

13.15 Authority of General Partner. No Person dealing with the General Partner shall be required to determine its authority to make any commitment or undertaking on behalf of the Fund, nor to determine any fact or circumstance bearing upon the existence of its authority and notwithstanding anything to the contrary contained herein, the acts of the General Partner in carrying out the activities of the Fund as authorized herein shall bind the Fund.

13.16 Contract Construction.

(a) Whenever the content of this Agreement permits, the masculine gender shall include the feminine and neuter genders and vice versa, and reference to singular or plural shall be interchangeable with the other. The invalidity or unenforceability of any one or more provisions of this Agreement shall not affect the other provisions, and this Agreement shall be construed in all respects as if any such invalid or unenforceable provisions were omitted. References in this Agreement to particular sections of the Code or the North Carolina Act shall be deemed to refer to such sections as they may be amended after the date of this Agreement. Captions in this Agreement are for convenience only and do not define or limit any term of this Agreement.

(b) Except as otherwise expressly provided herein, or unless the context otherwise requires, (i) references to "Sections," "Exhibits" or "Schedules" without reference to a document or statute are to the designated Sections of or Exhibits or Schedules to this Agreement, (ii) references to "subsection" without reference to a particular Section are to the Section in which such subsection reference is contained, and (iii) the words "herein," "hereof," "herewith," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular provision.

(c) **This Agreement, and all other written agreements executed by or on behalf of the General Partner and/or the Private Limited Partners and executed or approved in writing by SBA, up to and including the date of this Agreement (such other written agreements, collectively, the "SBA Agreements"), state the entire understanding among the parties relating to the subject matter of this Agreement and the SBA Agreements. Any and all prior conversations, correspondence, memoranda or other writings are merged in, and replaced by this Agreement and the SBA Agreements, and are without further effect on this Agreement and the SBA Agreements. No promises, covenants, representations or warranties of any character or nature other than those expressly stated in this Agreement and the SBA Agreements have been made to induce any party to enter into this Agreement or any SBA Agreement.**

IN WITNESS WHEREOF, the undersigned have executed this Amended and Restated Limited Partnership Agreement on the date first above written.

CAPITALSOUTH PARTNERS F-II, LLC,
as General Partner and a Limited Partner of the Fund

By: _____

Name: Joseph B. Alala, III
Title: Manager, President and Chief Executive Officer

SCHEDULE A
to
Amended and Restated Limited Partnership Agreement
of
CapitalSouth Partners Fund II Limited Partnership

See attached, subject to updating from time to time by the Fund and/or General Partner

SCHEDULE B
to
Amended and Restated Limited Partnership Agreement
of
CapitalSouth Partners Fund II Limited Partnership

Updated as of September 1, 2003

Nonqualified Entity Institutional Investor	Qualified Individual Institutional Investor
None	

SBA ANNEX GDP

Version 3.0

PROVISIONS FOR
AN AGREEMENT OF LIMITED PARTNERSHIP
FOR AN SBIC ISSUING DEBENTURES ONLY

SBA ANNEX OF PROVISIONS FOR
AN AGREEMENT OF LIMITED PARTNERSHIP
FOR A SECTION 301(c) LICENSEE ISSUING DEBENTURES ONLY

The original version of this document was drafted by the law firm of O'Sullivan Graev & Karabell, in collaboration with the law firms of Pepper, Hamilton & Scheetz and Foley, Hoag & Eliot, the National Association of Small Business Investment Companies, and the Office of the General Counsel of the United States Small Business Administration.

The Small Business Administration does not endorse or approve law firms. The above legend is not an endorsement or approval by the Small Business Administration of any law firm identified therein, and no representation to the contrary by any party is authorized.

SBA ANNEX GDP

Version 3.0

Table of Contents

SBA ANNEX GDP

Version 3.0

ARTICLE 1

General Provisions

Section 1.01 Definitions.

For the purposes of this Annex, the following terms have the following meanings:

"Act" means the state statute under which the Partnership is organized.

"Affiliate" has the meaning stated in the SBIC Act.

"Agreement" means this agreement of limited partnership, as amended from time to time. References to this Agreement will be deemed to include all provisions incorporated in this Agreement by reference.

"Assets" means common and preferred stock (including warrants, rights and other options relating to such stock), notes, bonds, debentures, trust receipts and other obligations, instruments or evidences of indebtedness, and other properties or interests commonly regarded as securities, and in addition, interests in real property, whether improved or unimproved, and interests in personal property of all kinds (tangible or intangible) choses in action, and cash, bank deposits and so-called "money market instruments".

"Assets Under Management" means, as of any specified date, the value of all Assets owned by the Partnership (the value to be determined as provided in this Agreement), including contributions requested and due from Partners and uncalled amounts of Commitments that are included in the Partnership's regulatory capital (as such term is used in the SBIC Act), less the amount of any liabilities of the Partnership, determined in accordance with generally accepted accounting principles, consistently applied.

"Associate" has the meaning stated in the SBIC Act.

"Certificate of Limited Partnership" means the certificate of limited partnership with respect to the Partnership filed for record in the state in which the Partnership is organized.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder and interpretations thereof promulgated by the Internal Revenue Service, as in effect from time to time.

"Commitments" means the capital contributions to the Partnership that the Partners have made or are obligated to make to the Partnership. The amounts and terms of the Commitments of the General Partner and the Private Limited Partners will be as stated in this Agreement.

“Control Person” has the meaning stated in the SBIC Act.

“Debentures” has the meaning stated in the SBIC Act.

“Designated Party” means any of the General Partner, any Investment Adviser/ Manager, and any partner, member, manager, stockholder, director, officer, employee or Affiliate of the General Partner and any Investment Adviser/ Manager.

“Distributable Securities” has the meaning stated in the SBIC Act.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder and interpretations thereof promulgated by the Department of Labor, as in effect from time to time.

“General Partner” means the general partner or general partners of the Partnership, as set forth in this Agreement.

“Indemnifiable Costs” means all costs, expenses, damages, claims, liabilities, fines and judgments (including the reasonable cost of the defense, and any sums which may be paid with the consent of the Partnership in settlement), incurred in connection with or arising from a claim, action, suit, proceeding or investigation, by or before any court or administrative or legislative body or authority.

“Investment Company Act” means the Investment Company Act of 1940, as amended, and the regulations thereunder and interpretations thereof promulgated by the Securities and Exchange Commission, as in effect from time to time.

“Investment Adviser/Manager” has the meaning stated in the SBIC Act.

“Leverage” has the meaning stated in the SBIC Act.

“Management Compensation” means the amounts payable by the Partnership to the General Partner or Investment Adviser/Manager, as provided in Section 3.03.

“Outstanding Leverage” means the total amount of outstanding securities (including, but not limited to, Debentures) issued by the Partnership which qualify as Leverage and have not been redeemed or repaid as provided in the SBIC Act.

“Partners” means the General Partner and the Private Limited Partners.

"Partnership" means the limited partnership established by this Agreement.

"Private Limited Partners" means any limited partners of the Partnership.

"SBA" means the United States Small Business Administration.

"SBA Agreements" has the meaning stated in Section 8.08.

"SBIC" means a small business investment company licensed under the SBIC Act.

"SBIC Act" means the Small Business Investment Act of 1958, as amended, and the rules and regulations thereunder and interpretations thereof promulgated by SBA, as in effect from time to time.

"Specified Majority in Interest of the Private Limited Partners" means Private Limited Partners whose capital contributions represent a majority (or such other greater percentage as is set forth here: _____ percent (_____%)) of the capital contributions of all Private Limited Partners as of the time of determination.

Section 1.02 Admission of Partners.

Without the prior approval of SBA, no person may be admitted as:

(i) a General Partner, or

(ii) a Private Limited Partner with an ownership interest of ten percent (10%) or more of the Partnership's capital.[1]

Section 1.03 Representations of Partners.

(a) This Agreement is made with the General Partner in reliance upon the General Partner's representation to the Partnership and SBA, that:

(i) it is duly organized, validly existing and in good standing under the laws of the State in which it is organized, and is qualified to do business under the laws of each state where such qualification is required to carry on the business of the Partnership;

(ii) it has full power and authority to execute and deliver this Agreement and to act as General Partner under this Agreement;

[1] See 13 C.F.R. § 107.400(a) which requires SBA approval for the issuance or transfer of ownership interests of 10% or more of the capital of an SBIC.

(iii) this Agreement has been authorized by all necessary actions by it, has been duly executed and delivered by it, and is a legal, valid and binding obligation of it, enforceable according to its terms; and

(iv) the execution and delivery of this Agreement and the performance of its obligations under this Agreement will not conflict with, or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provision of law, statute, rule or regulation, or any ruling, writ, order, injunction or decree of any court, administrative agency or governmental body applicable to it.

(b) This Agreement is made with each Private Limited Partner in reliance upon each Private Limited Partner's representation to the General Partner, the Partnership and SBA, that:

(i) it has full power and authority to execute and deliver this Agreement and to act as a Private Limited Partner under this Agreement; this Agreement has been authorized by all necessary actions by it; this Agreement has been duly executed and delivered by it; and this Agreement is a legal, valid and binding obligation of it, enforceable against it according to its terms;

(ii) the execution and delivery of this Agreement and the performance of its obligations under this Agreement do not require the consent of any third party not previously obtained, and will not conflict with, or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provision of law, statute, rule or regulation, or any ruling, writ, order, injunction or decree of any court, administrative agency or governmental body applicable to it;

(iii) if the Private Limited Partner is a bank (as the term is used in the SBIC Act, at 15 U.S.C. § 682(b)), the total amount of such Private Limited Partner's investments in SBICs, including such Private Limited Partner's interest in the Partnership, does not exceed five percent (5%) of such Private Limited Partner's capital and surplus[2];

Section 1.04 Notices With Respect to Representations by Private Limited Partners.

(a) If any representation made by a Private Limited Partner in Section 1.03(b)(i), (ii) or (iii) ceases to be true, then the Private Limited Partner will promptly provide the Partnership with a correct separate written representation as provided in each such Section.

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[2] See Section 302(b) of the Small Business Investment Company Act of 1958, as amended.

(b) The Partnership will give SBA prompt notice of any corrected representation received from any Private Limited Partner under Section 1.04(a).

Section 1.05 Liability of Partners.

Nothing in this Agreement limits any liability of any Partner under any agreement between the Partner and SBA.

Section 1.06 Incorporation of this Annex into the Agreement.

The Agreement shall contain the following provision evidencing the incorporation of this Annex:

> "The provisions of SBA Annex GDP attached to this Agreement are incorporated in this Agreement with the same force and effect as if fully set forth herein."

ARTICLE 2

Purpose and Powers

Section 2.01 Purpose and Powers.

(a) The Partnership is organized solely for the purpose of operating as a small business investment company under the SBIC Act and conducting the activities described under Title III of the SBIC Act. The Partnership has the powers and responsibilities, and is subject to the limitations, provided in the SBIC Act. The operations of the Partnership and the actions taken by the Partnership and the Partners will be conducted and taken in compliance with the SBIC Act.

(b) Subject to Section 2.01(a), the Partnership may make, manage, own and supervise investments of every kind and character in conducting its business as a small business investment company.

(c) Subject to the provisions of the SBIC Act, the Partnership has all powers necessary, suitable or convenient for the accomplishment of the purposes set forth in Section 2.01(a) and Section 2.01(b), alone or with others, as principal or agent, including without limitation, to engage in any lawful act or activity for which limited partnerships may be organized under the Act.

ARTICLE 3

Management

Section 3.01 Authority of General Partner.

(a) The management and operation of the Partnership and the formulation of investment policy is vested exclusively in the General Partner.

(b) The act of the General Partner in carrying on the business of the Partnership will bind the Partnership.

(c) In the case of any General Partner other than a natural person, at any time that the Partnership is licensed as an SBIC, the General Partner will not allow any person to serve as a general partner, director, officer or manager of the General Partner, unless such person has been approved by SBA.[3]

(d) So long as the General Partner remains the general partner of the Partnership:

(i) it will comply with the requirements of the SBIC Act, including, without limitation, 13 C.F.R. § 107.160(a) and (b),[4] as in effect from time to time; and

(ii) in the case of any General Partner other than a natural person, except as set forth in Section 3.01(d)(iii), it will devote all of its activities to the conduct of the business of the Partnership and will not engage actively in any other business, unless its engagement is related to and in furtherance of the affairs of the Partnership.[5]

(iii) The General Partner may, however:

(A) act as the general partner or Investment Adviser/Manager for one or more other SBICs, and

(B) receive, hold, manage and sell Assets received by it from the Partnership (or other SBIC for which it acts as general partner or Investment Adviser/Manager), or through the exercise or exchange of Assets received by it from the Partnership (or other SBIC for which it acts as general partner or Investment Adviser/Manager).

Note that 13 C.F.R. § 107.410 provides that any transaction resulting in control by any person not previously approved by SBA requires prior approval by SBA.

These regulations describe the organizational requirements for the General Partner.

See 13 C.F.R. § 107.160(b), which requires that if a general partner of a limited partnership SBIC is an entity (rather than a natural person), it must be organized for the sole purpose of serving as the general partner of one or more SBICs.

Section 3.02 The Investment Adviser/Manager.[6]

(a) Any agreement delegating any part of the authority of the General Partner to an Investment Adviser/Manager will:

(i) be in writing, executed by the General Partner, the Partnership and the Investment Adviser/Manager,

(ii) specify the authority so delegated, and

(iii) expressly require that such delegated authority will be exercised by the Investment Adviser/Manager in conformity with the terms and conditions of such agreement, this Agreement and the SBIC Act.

(b) Each agreement with an Investment Adviser/Manager, and any material amendment to any such agreement, is subject to the prior approval of SBA.[7]

Section 3.03 Management Compensation.

The Partnership will not pay any Management Compensation with respect to any fiscal year in excess of the amount of Management Compensation approved by SBA.[8]

Section 3.04 Partnership Expenses.[9]

All Partnership expenses paid by the Partnership will be made against appropriate supporting documentation. The payment by the Partnership of Partnership expenses will be due and payable as billed.

Section 3.05 Valuation of Assets.[10]

(a) The Partnership will adopt written guidelines for determining the value of its Assets. Assets held by the Partnership will be valued by the General Partner in a manner consistent with the Partnership's written guidelines and the SBIC Act. The Valuation Guidelines attached to this Agreement as Exhibit I are the Partnership's written guidelines for valuation.[11]

See 13 C.F.R. § 107.50 for the definition of Investment Adviser/Manager, 13 C.F.R. § 107.510 for the basic requirements for a management contract and 13 C.F.R. §§ 107.140 and 107.510 for the requirements for SBA approval of Management Expenses.

This Section relates to 13 C.F.R. § 107.510(b), which requires SBA approval for any material amendment of a management contract. Note that even if a change does not require advance approval, 13 C.F.R. § 107.680(a) may still require a non-material amendment to be reported to SBA.

13 C.F.R. § 107.520 provides that SBA consent is required for increases in Management Expenses if an SBIC has Outstanding Leverage, and § 107.520(c) discusses required SBA approval of Management Expenses.

13 C.F.R. § 107.520 defines the types of expenses that will be considered Management Expenses, and certain types of expenses that are not considered Management Expenses.

13 C.F.R. § 107.503 discusses how an SBIC must value its portfolio investments.

13 C.F.R. § 107.503(b) provides that an SBIC must either adopt without change SBA's model valuation policy set forth in section III of the Valuation Guidelines for SBICs or obtain SBA's prior written approval of an alternative valuation policy. The model valuation policy is attached to this Agreement as Exhibit I.

(b) To the extent that the SBIC Act requires any Asset held by the Partnership to be valued other than as provided in this Agreement, the General Partner will value the Asset in such manner as it determines to be consistent with the SBIC Act.

(c) Assets held by the Partnership will be valued at least annually (or more often, as SBA may require), and will be valued at least semi-annually (or more often, as SBA may require) at any time that the Partnership has Outstanding Leverage.[12]

Section 3.06 Standard of Care.

(a) No Designated Party will be liable to the Partnership or any Partner for any action taken or omitted to be taken by it or any other Partner or other person in good faith and in a manner it reasonably believed to be in or not opposed to the best interests of the Partnership, and, with respect to any criminal action or proceeding, had no reasonable cause to believe its conduct was unlawful.

(b) Neither any Private Limited Partner, nor any member of any Partnership committee or board who is not an Affiliate of the General Partner, will be liable to the Partnership or any Partner as the result of any decision made in good faith by the Private Limited Partner or member, in its capacity as such.

(c) Any Designated Party, any Private Limited Partner and any member of a Partnership committee or board, may consult with independent legal counsel selected by it and will be fully protected, and will incur no liability to the Partnership or any Partner, in acting or refraining to act in good faith in reliance upon the opinion or advice of such counsel.

This Section does not constitute a modification, limitation or waiver of Section 314(b) of the SBIC Act, or a waiver by SBA of any of its rights under Section 314(b).[13]

See 13 C.F.R. §§ 107.503(d) and 107.650, regarding the timing of valuations and reports.

Section 314(b) of the SBIC Act reads:

"(b) It shall be unlawful for any officer, director, employee, agent, or other participant in the management or conduct of the affairs of a licensee to engage in any act or practice, or to omit any act, in breach of his fiduciary duty as such officer, director, employee, agent, or participant, if, as a result thereof, the licensee has suffered or is in imminent danger of suffering financial loss or other damages."

In addition to the standards of care stated in this Section, this Agreement may also provide for additional (but not alternative) standards of care that must also be met.

Section 3.07 Indemnification.

(a) The Partnership will indemnify and hold harmless, but only to the extent of Assets Under Management (less any Outstanding Leverage not included as a liability in the computation of Assets Under Management), any Designated Party, from any and all Indemnifiable Costs which may be incurred by or asserted against such person or entity, by reason of any action taken or omitted to be taken on behalf of the Partnership and in furtherance of its interests.

(b) The Partnership will indemnify and hold harmless, but only to the extent of Assets Under Management (less any Outstanding Leverage not included as a liability in the computation of Assets Under Management), the Private Limited Partners, and members of any Partnership committee or board who are not Affiliates of the General Partner or any Investment Adviser/Manager from any and all Indemnifiable Costs which may be incurred by or asserted against such person or entity, by any third party on account of any matter or transaction of the Partnership, which matter or transaction occurred during the time that such person has been a Private Limited Partner or member of any Partnership committee or board.

(c) The Partnership has power, in the discretion of the General Partner, to agree to indemnify on the same terms and conditions applicable to persons indemnified under Section 3.07(b), any person who is or was serving, under a prior written request from the Partnership, as a consultant to, agent for or representative of the Partnership as a director, manager, officer, employee, agent of or consultant to another corporation, partnership, limited liability company, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by the person in any such capacity, or arising out of the person’s status as such.

(d) No person may be entitled to claim any indemnity or reimbursement under Section 3.07(a), (b) or (c) in respect of any Indemnifiable Cost that may be incurred by such person which results from the failure of the person to act in accordance with the provisions of this Agreement and the applicable standard of care stated in Section 3.06. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, will not, of itself, preclude a determination that such person acted in accordance with the applicable standard of care stated in Section 3.06.

(e) To the extent that a person claiming indemnification under Section 3.07(a), (b) or (c) has been successful on the merits in defense of any action, suit or proceeding referred to in Section 3.07(a), (b) or (c) or in defense of any claim, issue or matter in any such action, suit or proceeding, such person must be indemnified with respect to such matter as provided in such Section. Except as provided in the foregoing sentence and as provided in Section 3.07(h) with respect to advance payments, any indemnification under this Section will be paid only upon determination that the person to be indemnified has met the applicable standard of conduct stated in Section 3.06(a) or Section 3.06(b).

(f) A determination that a person to be indemnified under this Section has met the applicable standard stated in Section 3.06(a) or Section 3.06(b) may be made by (i) the General Partner, with respect to the indemnification of any person other than a person claiming indemnification under Section 3.07(a), (ii) a committee of the Partnership whose members are not affiliated with the General Partner or any Investment Adviser/Manager with respect to indemnification of any person indemnified under Section 3.07(a) or (iii) at the election of the General Partner, independent legal counsel selected by the General Partner, with respect to the indemnification of any person indemnified under this Section, in a written opinion.

(g) In making any determination with respect to indemnification under (f), the General Partner, a committee of the Partnership whose members are not affiliated with the General Partner or any Investment Adviser/Manager or independent legal counsel, as the case may be, is authorized to make the determination on the basis of its evaluation of the records of the General Partner, the Partnership or any Investment Adviser/Manager to the Partnership and of the statements of the party seeking indemnification with respect to the matter in question and is not required to perform any independent investigation in connection with any determination. Any party making any such determination is authorized, however, in its sole discretion, to take such other actions (including engaging counsel) as it deems advisable in making the determination.

(h) Expenses incurred by any person in respect of any Indemnifiable Cost may be paid by the Partnership before the final disposition of any such claim or action upon receipt of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined as provided in Section 3.07(e) or (f) that the person is entitled to be indemnified by the Partnership as authorized in this Section.

(i) The rights provided by this Section will inure to the benefit of the heirs, executors, administrators, successors, and assigns of each person eligible for indemnification under this Agreement.

(j) The rights to indemnification provided in this Section are the exclusive rights of all Partners to indemnification by the Partnership. No Partner may have any other rights to indemnification from the Partnership or enter into, or make any claim under, any other agreement with the Partnership (whether direct or indirect) providing for indemnification.

(k) The Partnership may not enter into any agreement with any person (including, without limitation, any Investment Advisor/Manager, Partner or any person that is an employee, officer, director, partner or shareholder, or an Affiliate, Associate or Control Person of any Partner) providing for indemnification of any such person (i) except as provided for under this Section, and (ii) unless such agreement provides for a determination with respect to the indemnification as provided under Section 3.07(f)(ii) or (iii).

(l) The provisions of this Section do not apply to indemnification of any person which is not at the expense (whether in whole or in part) of the Partnership.

ARTICLE 4

Small Business Investment Company Matters

Section 4.01 SBIC Act.

The provisions of this Agreement must be interpreted to the fullest extent possible in a manner consistent with the SBIC Act. If any provision of this Agreement conflicts with any provision of the SBIC Act (including, without limitation, any conflict with respect to the rights of SBA or the respective Partners under this Agreement), the provisions of the SBIC Act will control.

Section 4.02 Consent or Approval of, and Notice to, SBA.

(a) The requirements of the prior consent or approval of, and notice to, SBA in this Agreement will be in effect at any time that the Partnership is licensed as an SBIC or has Outstanding Leverage. These requirements will not be in effect if the Partnership is not licensed as an SBIC and does not have any Outstanding Leverage.[14]

(b) Except as provided in the SBIC Act[15], a consent or approval required to be given by SBA under this Agreement will be deemed given and effective for purposes of this Agreement only if the consent or approval is:

Note that if an applicant for an SBIC license begins operations prior to receiving its license, SBA approval may be required for certain actions taken while the application is pending (e.g., prelicensing investments).

In certain cases the SBIC Act provides that SBA will be deemed to have consented to an action if SBA does not act within a specified period after receiving notice of the action. See, for example, 13 C.F.R. § 107.680(c).

(i) given by SBA in writing, and

(ii) delivered by SBA to the party requesting the consent or approval in the manner provided for notices to such party under Section 8.03.

Section 4.03 Provisions Required by the SBIC Act for Issuers of Debentures.[16]

(a) The provisions of 13 C.F.R. § 107.1810(i) are incorporated by reference in this Agreement as if fully stated in this Agreement.

(b) The Partnership and the Partners consent to the exercise by SBA of all of the rights of SBA under 13 C.F.R. § 107.1810(i), and agree to take all actions that SBA may require in accordance with 13 C.F.R. § 107.1810(i).

(c) This Section will be in effect at any time that the Partnership has outstanding Debentures, and will not be in effect at any time that the Partnership does not have outstanding Debentures.

(d) Nothing in this Section may be construed to limit the ability or authority of SBA to exercise its regulatory authority over the Partnership as a licensed small business investment company under the SBIC Act.

Section 4.04 Effective Date of Incorporated SBIC Act Provisions.[17]

(a) Any section of this Agreement which relates to Debentures issued by the Partnership and incorporates or refers to the SBIC Act or any provision of the SBIC Act (including, without limitation, 13 C.F.R. §§ 107.1810(i) and 107.1830 - 107.1850)) will, with respect to each Debenture, be deemed to refer to the SBIC Act or such SBIC Act provision as in effect on the date on which the Debenture was purchased from the Partnership.

(b) Section 4.04(a) will not be construed to apply to:

(i) the provisions of the SBIC Act which relate to the regulatory authority of SBA under the SBIC Act over the Partnership as a licensed small business investment company; or

(ii) the rights of SBA under any other agreement between the Partnership and SBA.

This Section incorporates regulations relating to the special rights of SBA when the Partnership has outstanding Debentures. See also 13 C.F.R. § 107.1140 regarding the automatic agreement to and incorporation of 13 C.F.R. §§ 107.1800 through 107.1820 by an SBIC at the time of any issuance of Leverage.

See 13 C.F.R. § 107.1140 regarding the automatic agreement to and incorporation of 13 C.F.R. §§ 107.1800 through 107.1820 by an SBIC at the time of any issuance of Leverage.

(c) The parties acknowledge that references in this Agreement to the provisions of the SBIC Act relating to SBA's regulatory authority refer to the provisions as in effect from time to time.

Section 4.05 SBA as Third Party Beneficiary.

SBA will be deemed an express third party beneficiary of the provisions of this Agreement to the extent of the rights of SBA under this Agreement and under the Act. SBA will be entitled to enforce the provisions (including, without limitation, the obligations of each Partner to make capital contributions to the Partnership) for the benefit of SBA, as if SBA were a party to this Agreement.

ARTICLE 5

Partners' Capital Contributions

Section 5.01 Capital Contributions by Private Limited Partners.[18]

All capital contributions to the Partnership by Private Limited Partners must be in cash, except as provided in this Agreement and approved by SBA.

Section 5.02 Capital Contributions by the General Partner.

All capital contributions to the Partnership by the General Partner must be in cash, except as provided in this Agreement and approved by SBA.[19]

Section 5.03 Conditions to the Commitments of the General Partner and the Private Limited Partners.

(a) Notwithstanding any provision in this Agreement to the contrary, on the earlier of (i) the completion of the liquidation of the Partnership or (ii) one year from the commencement of the liquidation, the General Partner and the Private Limited Partners will be obligated to contribute any amount of their respective Commitments, not previously contributed to the Partnership, if and to the extent that the other Assets of the Partnership have not been sufficient to permit at that time the redemption of all Outstanding Leverage, the payment of all amounts due with respect to the Outstanding Leverage as provided in the SBIC Act, and the payment of all other amounts owed by the Partnership to SBA.

SBA approval of noncash contributions is generally limited to qualified prelicensing investments. See 13 C.F.R. § 107.240 for the regulatory limitations on non-cash capital contributions.

See 13 C.F.R. § 107.240. Note that SBA approval of noncash contributions will be limited to qualified prelicensing investments.

(b) The provisions of this Section do not apply to the Commitment of any Private Limited Partner whose obligation to make capital contributions has been terminated or who has withdrawn from the Partnership, with the consent of SBA, under a provision of Article 5 or Article 8 or any agreement, release, settlement or action under any provision of this Agreement. No Private Limited Partner or General Partner has any right to delay, reduce or offset any obligation to contribute capital to the Partnership called under this Section by reason of any counterclaim or right to offset by the Partner or the Partnership against SBA.

Section 5.04 Failure to Make Required Capital Contributions.

The Partnership is entitled to enforce the obligations of each Partner to make the contributions to capital specified in this Agreement. The Partnership has all rights and remedies available at law or equity if any such contribution is not so made.

Section 5.05 Notice and Consent of SBA with regard to Capital Contribution Defaults.

(a) The Partnership must give SBA prompt written notice of any default by a Private Limited Partner in making any capital contribution to the Partnership required under this Agreement which continues beyond any applicable grace period specified in this Agreement.

(b) Unless SBA has given its prior consent or the provisions of Section 5.05(c) have become applicable, the Partnership will not (i) take any action (including entering into any agreement (whether oral or written), release or settlement with any Partner) which defers, reduces, or terminates the obligations of the Partner to make contributions to the capital of the Partnership, or (ii) commence any legal proceeding or arbitration, which seeks any such deferral, reduction or termination of such obligation. Without the consent of SBA (including SBA's deemed consent under Section 5.05(c)) no such agreement, release, settlement or action taken will be effective with respect to the Partnership or any Partner.

(c) If the Partnership has given SBA thirty (30) days prior written notice of any proposed legal proceeding, arbitration or other action described under Section 5.05(b) with respect to any default by a Private Limited Partner in making any capital contribution to the Partnership, and the Partnership has not received written notice from SBA that it objects to the proposed action within the thirty (30) day period, then SBA will be deemed to have consented to the proposed Partnership action.

(d) Any notice given by the Partnership to SBA under this Section must:

(i) be given by separate copies directed to each of the Investment Division and the Office of the General Counsel of SBA;

(ii) explicitly state in its caption or first sentence that the notice is being given with respect to a specified default by a Private Limited Partner in making a capital contribution to the Partnership and a proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default; and

(iii) state the nature of the default, the identity of the defaulting Private Limited Partner, and the nature and terms of the proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default.

Section 5.06 Termination of the Obligation to Contribute Capital.

(a) Any Private Limited Partner may elect to terminate its obligation in whole or in part to make a capital contribution required under this Agreement, or upon demand by the General Partner, will no longer be entitled to make such capital contribution, if the Private Limited Partner or the General Partner obtains an opinion of counsel as provided under Section 5.07 to the effect that making such contribution would require the Private Limited Partner to withdraw from the Partnership under Section 6.02 through Section 6.07.

(b) Upon receipt by the General Partner of a notice and opinion as provided under Section 5.07, unless cured within the period provided under Section 5.08, the Commitment of the Private Limited Partner delivering the opinion will be deemed to be reduced by the amount of such unfunded capital contribution and this Agreement will be deemed amended to reflect a corresponding reduction of aggregate Commitments to the Partnership.

Section 5.07 Notice and Opinion of Counsel.

(a) A copy of any opinion of counsel issued as described in Section 5.06 or Section 6.02 through Section 6.07 must be sent by the General Partner to SBA, together with (i) the written notice of the election of the Private Limited Partner or (ii) the written demand of the General Partner, to which the opinion relates.

(b) An opinion rendered to the Partnership as provided in Section 5.06 or Section 6.02 through Section 6.07 will be deemed sufficient for the purposes of those Sections only if the General Partner and SBA each approve (i) the counsel rendering the opinion, and (ii) the form and substance of the opinion.

Section 5.08 Cure, Termination of Capital Contributions and Withdrawal.

(a) Unless within ninety (90) days after the giving of written notice and opinion of counsel, as provided in Section 5.07, the Private Limited Partner or the Partnership eliminates the necessity for termination of the obligation of the Private Limited Partner to make further capital contributions or for the withdrawal of the Private Limited Partner from the Partnership in whole or in

part to the reasonable satisfaction of the Private Limited Partner and the General Partner, the Private Limited Partner will withdraw from the Partnership in whole or in part to the extent required, effective as of the end of the ninety (90) day period.

(b) Subject to the provisions of Section 5.04, in its discretion the General Partner may waive all or any part of the ninety (90) day cure period and cause such termination of capital contributions or withdrawal to be effective at an earlier date as stated in the waiver.

(c) Any distributions made to a Private Limited Partner with respect to such Partner's withdrawal under this Section will be subject to and made as provided in Section 6.08 .

ARTICLE 6

Dissolution, Liquidation, Winding Up and Withdrawal

Section 6.01 Dissolution.

(a) The Partnership will be dissolved upon the first to occur of the following:

(i) the later of:

(A) the close of business on the date of dissolution of the Partnership (as such date is set forth in the Agreement in effect as of the date of formation of the Partnership); or

(B) ten (10) years from the date of formation of the Partnership; or

(C) two years after all Outstanding Leverage has matured; or[20]

(ii) the determination of the Partners to dissolve and terminate the Partnership as provided in Section 6.01(c).

(b) The Partnership will not dissolve upon the withdrawal, dissolution, bankruptcy, death or adjudication of incompetency or insanity of any Private Limited Partner.

See 13 C.F.R. § 107.160(c)(1) which prescribes the minimum duration for an SBIC in limited partnership form.

(c) The General Partner, with the consent of a~~A~~ Specified Majority (or such other percentage as is specified here: _____ percent (_____%)) in Interest of the Private Limited Partners, may elect to dissolve the Partnership by giving notice to each Partner and SBA of the election. Any notice of an election to dissolve the Partnership may only be given:

(i) on or after the ~~later to occur of: (A) the close of business on the date of dissolution of the Partnership (as such date is set forth in the Agreement in effect as on the date of formation of the Partnership) or (B)~~ ten (10) years from the formation of the Partnership;

(ii) if all Outstanding Leverage has been repaid or redeemed; and

(iii) if all amounts due SBA, its agent or trustee have been paid.[21]

Any election to dissolve the Partnership given under this Section will not be effective until the later of: (A)) thirty (30) days (unless another period is specified here: _____ (_____) days) from the date the notice is given to all parties or (B) the effective date of dissolution stated in the notice.

Section 6.02 Withdrawal of the General Partner.

To the extent required by the SBIC Act, no transfer of the interest of the General Partner, or any portion of such interest, will be effective without the consent of SBA.

Section 6.03 Withdrawal by ERISA Regulated Pension Plans.[22]

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel to the effect that, as a result of ERISA, (i) the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable the Private Limited Partner to avoid a violation of, or breach of the fiduciary duties of any person under ERISA (other than a breach of the fiduciary duties of any such person based upon the investment strategy or performance of the Partnership) or any provision of the Code related to ERISA or (ii) all or any portion of the assets of the Partnership (as opposed to the Private Limited Partner's partnership interest) constitute assets of the Private Limited Partner for purposes of ERISA and are subject to the provisions of ERISA to substantially the same extent as if owned directly by the Private Limited Partner.

See 13 C.F.R. § 107.160(c)(1) which specifies the minimum duration and other requirements that must be met before an SBIC in limited partnership form can elect to dissolve.

See also Section 5.06, Section 5.07 and Section 5.08 with respect to the requirements for an opinion of counsel to be effective.

Section 6.04 Withdrawal by Government Plans Complying with State and Local Law.[23]

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel to the effect that as a result of state statutes, regulations, case law, administrative interpretations or similar authority applicable to the "government plan", the withdrawal of such Private Limited Partner from the Partnership to such extent is required to enable the Private Limited Partner or the Partnership to avoid a violation (other than a violation based upon the investment performance of the Partnership) of the applicable state law.

Section 6.05 Withdrawal by Government Plans Complying with ERISA.[24]

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Partnership in whole or in part, if the "government plan" obtains an opinion of counsel to the effect that, as a result of ERISA, (i) the withdrawal of the "government plan" from the Partnership to such extent would be required if it were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, to enable the "government plan" to avoid a violation of, or breach of the fiduciary duties of any person under ERISA (other than a breach of the fiduciary duties of any such person based upon the investment strategy or performance of the Partnership) or any provision of the Code related to ERISA or (ii) all or any portion of the assets of the Partnership would constitute assets of the "government plan" for the purposes of ERISA, if the "government plan" were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA and would be subject to the provisions of ERISA to substantially the same extent as if owned directly by the "government plan."

Section 6.06 Withdrawal by Tax Exempt Private Limited Partners.[25]

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is exempt from taxation under Section 501(a) or 501(c)(3) of the Code may elect to withdraw from the Partnership in whole or in part, if the Private Limited Partner obtains an opinion of counsel to the effect that as a result of applicable statutes, regulations, case law, administrative interpretations or similar authority, the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable the tax exempt Private Limited Partner to avoid loss of its tax exempt status under Section 501(a) or 501(c)(3) of the Code.

See also Section 5.06, Section 5.07 and Section 5.08 with respect to the requirements for an opinion of counsel to be effective.

See also Section 5.06, Section 5.07 and Section 5.08 with respect to the requirements for an opinion of counsel to be effective.

See also Section 5.06, Section 5.07 and Section 5.08 with respect to the requirements for an opinion of counsel to be effective.

Section 6.07 Withdrawal by Registered Investment Companies.[26]

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is an "investment company" subject to registration under the Investment Company Act, may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel to the effect that, as a result of the Investment Company Act, the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable such Private Limited Partner or the Partnership to avoid a violation of applicable provisions of the Investment Company Act or the requirement that the Partnership register as an investment company under the Investment Company Act.

Section 6.08 Distributions on Withdrawal.

(a) Subject to the provisions of Section 6.08(b), upon withdrawal under any provision of this Agreement, a Private Limited Partner will have the rights to distributions provided in the Act with respect to distributions to be made to limited partners upon withdrawal from a limited partnership.

(b) The Partnership will not make any distribution to any Partner in connection with its withdrawal under any provision of this Agreement or the Act, unless the distribution is permitted by the SBIC Act and SBA has given its consent to such distribution before the distribution is made.

(c) Except in the case of distributions made as permitted under subsection (b), the right of any Partner to receive any distribution from the Partnership as a result of such Partner's withdrawal, including any right any Partner may have as a creditor of the Partnership with respect to the amount of any such distribution, is subordinate to any amount due to SBA by the Partnership.[27]

See also Section 5.06, Section 5.07 and Section 5.08 with respect to the requirements for an opinion of counsel to be effective.

Unless an agreement otherwise provides, RULPA provides that at the time a partner is entitled to receive a distribution the partner has the rights of a creditor with respect to the amount of the distribution. See Delaware RULPA § 17-606.

ARTICLE 7

Accounts, Reports and Auditors

Section 7.01 Books of Account.

The Partnership must maintain books and records in accordance with the provisions of the SBIC Act[28] regarding financial accounts and reporting and, except as otherwise provided in this Agreement, generally accepted accounting principles.

Section 7.02 Audit and Report.

The financial statements of the Partnership must be audited and certified as of the end of each fiscal year by a firm of independent certified public accountants selected by the Partnership.

Section 7.03 Fiscal Year.

The fiscal year of the Partnership will be a twelve-month year (except for the first and last partial years, if any) ending on December 31.[29]

ARTICLE 8

Miscellaneous

Section 8.01 Assignability.[30]

(a) No General Partner or Private Limited Partner may transfer any interest of ten percent (10%) or more in the capital of the Partnership without the prior approval of SBA.[31]

(b) The General Partner may not assign, pledge or otherwise grant a security interest in its interest in the Partnership or in this Agreement, except with the prior consent of SBA and the prior approval of a Specified Majority (or such other percentage as is specified here: _____ percent (__%)) in Interest of the Private Limited Partners.

(c) No transfer of any interest in the Partnership will be allowed if such transfer or the actions to be taken in connection with that transfer would:

(i) result in any violation of the SBIC Act;

See 13 C.F.R. § 107.600 with respect to recordkeeping requirements for an SBIC.

SBA may permit an SBIC to adopt a different fiscal year, as in the case of an SBIC with a parent entity, where the different year is desired to conform to the parent's fiscal year.

See 13 C.F.R. §§ 107.400 through 107.450 regarding changes of ownership or control of an SBIC.

See 13 C.F.R. § 107.400(a) with respect to transfers of 10% or more of the partnership capital of an SBIC.

(ii) result in a violation of any law, rule or regulation by the Partnership;

(iii) cause the termination or dissolution of the Partnership; or

(iv) cause the Partnership to be classified other than as a partnership for Federal income tax purposes.

Section 8.02 Binding Agreement.

Subject to the provisions of Section 8.01, this Agreement is binding upon, and inures to the benefit of, the heir, successor, assign, executor, administrator, committee, guardian, conservator or trustee of any Partner.

Section 8.03 Notices.

(a) All notices under this Agreement must be in writing and may be given by personal delivery, telex, telegram, private courier service or registered or certified mail.

(b) A notice is deemed to have been given:

(i) by personal delivery, telex, telegram, or private courier service, as of the day of delivery of the notice to the addressee; and

(ii) by mail, as of the fifth (5th) day after the notice is mailed.

(c) Notices must be sent to:

(i) the Partnership, at the address of the General Partner in the Certificate of Limited Partnership, or such other address or addresses as to which the Partners have been given notice;

(ii) the Private Limited Partners, at the addresses in Schedule A attached to this Agreement (as Schedule A may be amended from time to time) or such other addresses as to which the Partnership has been given notice; and

(iii) SBA, at the address of the Investment Division of SBA and, if so required under any Section of this Agreement, in duplicate at the address of the Office of the General Counsel of SBA.

Section 8.04 Consents and Approvals.

A consent or approval required to be given by any party under this Agreement will be deemed given and effective for purposes of this Agreement only if the consent or approval is:

(i) given by such party in writing, and

(ii) delivered by such party to the party requesting the consent or approval in the manner provided for notices to such party under Section 8.03.

Section 8.05 Amendments.

(a) This Agreement may not be amended except by an instrument in writing executed by the holders of a Specified Majority (or such other percentage as is specified here: _____ percent (__%)) in Interest of the Private Limited Partners who have not withdrawn as of the effective date of that amendment and the General Partner, and approved by SBA.[32]

(b) The General Partner must distribute to each Private Limited Partner and SBA a copy of:

(i) any Certificate of Amendment to the Certificate of Limited Partnership, and

(ii) any amendment to this Agreement.

(c) Copies of any Certificate of Amendment to the Certificate of Limited Partnership, and any amendment to this Agreement must be distributed in the same manner as provided for notices in Section 8.03.

Section 8.06 Applicable Law.

This Agreement is governed by, and construed in accordance with, applicable Federal laws and the laws of the state in which the Partnership is organized.

Section 8.07 Severability.

If any one or more of the provisions contained in this Agreement, or any application of any such provision, is invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement and all other applications of any such provision will not in any way be affected or impaired.

Section 8.08 Entire Agreement.

This Agreement, and all other written agreements executed by or on behalf of the General Partner and/or the Private Limited Partners and executed or approved by SBA up to and including the date of this Agreement (such other written agreements, collectively, the "SBA Agreements"), state the entire understanding among the parties relating to the subject matter of this Agreement and the SBA Agreements. Any and all prior

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Note that SBA approval is required for all amendments to the Agreement.

conversations, correspondence, memoranda or other writings are merged in, and replaced by this Agreement and the SBA Agreements, and are without further effect on this Agreement and the SBA Agreements. No promises, covenants, representations or warranties of any character or nature other than those expressly stated in this Agreement and the SBA Agreements have been made to induce any party to enter into this Agreement or any SBA Agreement.

EXHIBIT I to SBA ANNEX GDP

Valuation Guidelines

General

The General Partner has sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

Loans and Investments shall be valued individually and in the aggregate, while there is outstanding Leverage, at least semi-annually—as of the end of the second quarter of the fiscal year-end and as of the end of the fiscal year. [...], and, while there is no outstanding Leverage, at least annually—as of the end of the fiscal year.] Fiscal year-end valuations are audited as set forth in SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies.

This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business. Capitalized terms not otherwise defined in this Valuation Policy have the meaning given to such terms in the Small Business Investment Act of 1958, as amended.

Interest-Bearing Securities

Loans shall be valued in an amount not greater than cost with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivables on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the small concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

The carrying value of interest bearing securities shall not be adjusted for changes in interest rates.

Valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

Equity Securities—Private Companies

Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

The anticipated pricing of a Small Concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of the prior securities.

If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50% of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

Where a company has been self-financing and has had positive cash flow from operations for at least the past two fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity. Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or if of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

Warrants should be valued at the excess of the value of the underlying security over the exercise price.

Equity Securities—Public Companies

Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding two days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding two days.

The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10% to 40%, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10%, and generally by more.

[FORM OF AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP]

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP

OF

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

Dated as of September 24, 2013

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AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

This AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP is dated and effective as of September 24, 2013, among CapitalSouth Partners SBIC F-III, LLC, a North Carolina limited liability company (in its capacity as a general partner of the Partnership), and the private limited partners, as amended from time to time.

The parties, in consideration of their mutual agreements stated in this Agreement, agree to become partners and to form a limited partnership under the Act. The purpose of the Partnership is to operate as a small business investment company under the SBIC Act, licensed by SBA for the period and upon the terms and conditions stated in this Agreement. The parties further agree as follows:

ARTICLE 1

GENERAL PROVISIONS

Section 1.01 Definitions.

For the purposes of this Agreement, the following terms have the following meanings:

"**Act**" **means** the Delaware Revised Uniform Limited Partnership Act.

"Active Portfolio Company" means an entity in which the Partnership has an investment, as of the time of determination, that the Partnership has not written off and which remains an ongoing concern.

"Affiliate" has the meaning stated in the SBIC Act.

"Agreement" means this amended and restated agreement of limited partnership, as amended from time to time. References to this Agreement will be deemed to include all provisions incorporated in this Agreement by reference.

"**Assets" means common and preferred stock (including warrants, rights and other options relating to such stock), notes, bonds, debentures, trust receipts and other obligations, instruments or evidences of indebtedness, and other properties or interests commonly regarded as securities, and in addition, interests in real property, whether improved or unimproved, and interests in personal property of all kinds (tangible or intangible), choses in action, and cash, bank deposits and so-called "money market instruments".**

"Assets Under Management" means, as of any specified date, the value of all Assets owned by the Partnership (the value to be determined as provided in this Agreement), including contributions requested and due from Partners and uncalled amounts of Commitments that are included in the Partnership's regulatory capital (as such term is used in the SBIC Act), less the amount of any liabilities of the Partnership, determined in accordance with generally accepted accounting principles, consistently applied.

"Associate" has the meaning stated in the SBIC Act.

"Assumed SBA Leverage" means the product of (i) two, multiplied by (ii) Unreduced Regulatory Capital of the Partnership.

"Board of Directors" has the meaning set forth in Section 3.01(a).

"Capital Account" means the account of each Partner that reflects its interest in the Partnership determined in accordance with **Section 6.03**.

"Capitala" means Capitala Investment Corp.

"Certificate of Limited Partnership" means the certificate of limited partnership with respect to the Partnership filed for record in the office of the Secretary of State of the State of Delaware.

"Class A Limited Partner" means the Parent Fund, in its capacity as a limited partner of the Partnership.

"Closing Capital Account" means, with respect to any fiscal period, the Opening Capital Account of each Partner for the fiscal period after allocations have been made to the Capital Account in accordance with **Section 6.03**.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder and interpretations thereof promulgated by the Internal Revenue Service, as in effect from time to time.

"Commitments" means the capital contributions to the Partnership that the Partners have made or are obligated to make to the Partnership. The amounts and terms of the Commitments of the General Partner and the Private Limited Partners will be as stated in this Agreement.

"Control Person" has the meaning stated in the SBIC Act.

"Debentures" has the meaning stated in the SBIC Act.

"Designated Party" General Partner, any Investment Adviser/Manager, the Board of Directors and any member of the Board of Directors, and any partner, member, manager, stockholder, director, officer, employee or Affiliate of the General Partner and any Investment Adviser/Manager.

"Distributable Security" shall have the meaning stated in the SBIC Act.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder and interpretations thereof promulgated by the Department of Labor, as in effect from time to time.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the regulations thereunder and interpretations thereof promulgated by the Securities and Exchange Commission, as in effect from time to time.

"Existing Funds" means CapitalSouth Partners Fund I Limited Partnership and CapitalSouth Partners Fund II Limited Partnership.

"Final Closing Date" means the first anniversary of the Initial Closing Date, provided that the General Partner may, in its sole discretion and without the consent of any other Partner, extend the Final Closing Date for up to two periods, each of which may last up to six months.

"General Partner" means the general partner or general partners of the Partnership, as set forth in this Agreement.

"Indemnifiable Costs" means all costs, expenses, damages, claims, liabilities, fines and judgments (including the reasonable cost of the defense, and any sums which may be paid with the consent of the Partnership in settlement), incurred in connection with or arising from a claim, action, suit, proceeding or investigation, by or before any court or administrative or legislative body or authority.

"Initial Closing Date" means the date established by the General Partner in its sole discretion as the date on or as of which one or more of the Private Limited Partners are first required to make capital contributions to the Partnership.

"Initial Fee Period" means the period commencing on the earliest of (a) the date the Partnership obtains its license to operate as an SBIC, (b) the date of the Partnership's first investment in a portfolio company, or (c) the first date any Management Compensation begins to accrue or is paid pursuant to **Section 3.05**; and ending on the earlier of (x) the date five years from the start of the Initial Fee Period or (ii) the date at which total private capital of the Partnership called to date plus total Leverage issued by the Partnership equals or exceeds 80% of the sum of Unreduced Regulatory Capital plus Assumed SBA Leverage.

"Institutional Investor" has the meaning stated in the SBIC Act.

"Investment Advisers Act" means the Investment Advisers Act of 1940, as amended, and the regulations thereunder and interpretations thereof promulgated by the Securities and Exchange Commission, as in effect from time to time.

"Investment Company Act" means the Investment Company Act of 1940, as amended, and the regulations thereunder and interpretations thereof promulgated by the Securities and Exchange Commission, as in effect from time to time.

"Investment Adviser/Manager" has the meaning stated in the SBIC Act.

"Leverage" has the meaning stated in the SBIC Act.

"Management Compensation" means the amounts payable by the Partnership to the General Partner or Investment Adviser/Manager, as provided in Section 3.05.

"Management Fee Base" means (i) during the Initial Fee Period, the sum of Unreduced Regulatory Capital and Assumed SBA Leverage; and (ii) thereafter, the cost of loans and investments for all Active Portfolio Companies of the Partnership.

"Management Fee Rate" means:

(i) If the Management Fee Base is less than or equal to $60 million, 2.5%;

(ii) If the Management Fee Base is greater than $60 million and less than $120 million, 2.5% minus the product of (i) 0.5% multiplied by (ii) the amount by which the Management Fee Base exceeds $60 million; and

(iii) If the Management Fee Base is greater than or equal to $120 million, 2%.

"Net Losses" means, with respect to any fiscal period, the excess, if any, of:

(i) all expenses and losses incurred during the fiscal period by the Partnership from all sources over

(ii) the aggregate revenue, income and gains realized during the fiscal period by the Partnership from all sources.

For purposes of determining Net Losses:

(A) items will be taken into account to the extent that (1) they are includable as items of income, credit, loss or deduction for Federal income tax purposes (including items described in Section 705(a)(2)(B) of the Code, or treated as so described in Treasury Regulation § 1.704-1(b)(2)(iv)(i)) or, (2) in the case of items of income, they constitute income that is exempt from Federal income tax; and

(B) if any Noncash Asset is distributed in kind, it will be deemed sold at the value established at the most recent valuation of the Noncash Asset under this Agreement (or such other valuation date as is required under the SBIC Act) and any unrealized appreciation or depreciation with respect to the Noncash Asset will be deemed realized and included in the determination of Net Losses.

"Net Profits" means, with respect to any fiscal period, the excess, if any, of:

(i) the aggregate revenue, income and gains realized during the fiscal period by the Partnership from all sources over

(ii) all expenses and losses incurred during the fiscal period by the Partnership from all sources.

For purposes of determining Net Profits:

(A) items will be taken into account to the extent that (1) they are includable as items of income, credit, loss or deduction for Federal income tax purposes (including items described in Section 705(a)(2)(B) of the Code, or treated as so described in Treasury Regulation § 1.704-1(b)(2)(iv)(i)) or, (2) in the case of items of income, constitute income that is exempt from Federal income tax; and

(B) if any Noncash Asset is distributed in kind, it will be deemed sold at the value established at the most recent valuation of the Noncash Asset under this Agreement (or such other valuation date as is required under the SBIC Act) and any unrealized appreciation or depreciation with respect to the Noncash Asset will be deemed realized and included in the determination of Net Profits.

"Noncash Asset" means any Asset of the Partnership other than cash.

"Opening Capital Account," with respect to any fiscal period, means:

(i) with respect to any Partner admitted during the fiscal period, the Partner's initial capital contribution (or in the case of any Partner admitted as a transferee of all or part of the interest in the Partnership of another Partner, with respect to such transferred interest in the Partnership, that portion of the transferor's initial capital contribution transferred to the transferee); and

(ii) with respect to any Partner admitted during any prior fiscal period (other than a Partner who has withdrawn as of the last day of the preceding fiscal period), the Partner's Closing Capital Account for the preceding fiscal period (or in the case of any Partner admitted as a transferee of all or part of the interest in the Partnership of another Partner, with respect to such transferred interest in the Partnership, that portion of the transferor's Closing Capital Account transferred to the transferee).

"Outstanding Leverage" means the total amount of outstanding securities (including, but not limited to, Debentures) issued by the Partnership, which qualify as Leverage and have not been redeemed or repaid as provided in the SBIC Act.

"Parent Fund" means CapitalSouth Partners Fund III, L.P., a Delaware limited partnership and any and all parallel and alternative investment vehicles created in connection with the operation thereof, to the extent any such parallel and alternative investment vehicles are admitted as Class A Limited Partners.

"Person" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust, joint venture, governmental agency, or other entity, whether domestic or foreign.

"Partners" means the General Partner and the Private Limited Partners.

"Partnership" means the limited partnership established by this Agreement.

"_____ percent (__%) in interest of the Private Limited Partners" means Private Limited Partners whose capital contributions represent such percentage of the capital contributions of all Private Limited Partners as of the time of determination, and "a majority in interest of the Private Limited Partners" shall have a corresponding meaning**.**

"Prime Rate" means the rate of interest announced by Bank of America, N.A., from time to time as its "prime rate."

"Private Limited Partners" means any limited partners of the Partnership.

"Regulatory Capital" has the meaning has the meaning stated in the SBIC Act.

"SBA" means the United States Small Business Administration.

"SBA Agreements" has the meaning stated in Section 10.11.

"SBIC" means a small business investment company licensed under the SBIC Act.

"SBIC Act" means the Small Business Investment Act of 1958, as amended, and the rules and regulations thereunder and interpretations thereof promulgated by SBA, as in effect from time to time.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the regulations thereunder and interpretations thereof promulgated by the SEC, as in effect from time to time.

"Special Private Limited Partner" has the meaning stated in **Section 4.06** and **Section 8.03(c)**.

"Unreduced Regulatory Capital" means the sum of:

(i) Regulatory Capital of the Partnership at the time an installment of Management Compensation is paid or begins to accrue (whichever is earlier) pursuant to **Section 3.05**;

(ii) any distributions previously made by the Partnership as of the time of determination which reduced Regulatory Capital under 13 C.F.R. §107.1570(b); and

(iii) any Distributions previously made by the Partnership as of the time of determination under 13 C.F.R. §107.585 which reduced Regulatory Capital by no more than two percent or which SBA approves for inclusion in the calculation of Management Compensation.

Section 1.02 Name.

(a) The name of the Partnership will be "CapitalSouth Partners SBIC Fund III, L.P.".

(b) Subject to the prior approval of SBA, the General Partner has the power at any time to:

(i) change the name of the Partnership; and

(ii) qualify the Partnership to do business under any name when the Partnership's name is unavailable for use, or may not be used, in a particular jurisdiction.

(c) The General Partner will give prompt notice of any action taken under this **Section 1.02** to each Partner and SBA.

Section 1.03 Principal Office; Registered Office; and Qualification.

(a) The principal office of the Partnership will be at 1011 East Morehead Street, Suite 150, Charlotte, North Carolina 28204, or such other place as may from time to time be designated by the General Partner, subject to the approval of SBA.

(b) The registered office of the Partnership in the State of Delaware will be located at 2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808. The name of the registered agent for the Partnership will be Corporation Service Company. The General Partner may from time to time change the registered agent and registered office of the Partnership.

(c) The General Partner will qualify the Partnership to do business in each jurisdiction where the activities of the Partnership make such qualification necessary.

(d) The General Partner will give prompt notice of any action taken under this **Section 1.03** to each Partner and SBA.

Section 1.04 Commencement and Duration.

(a) The Partnership commenced upon the filing for record of the Certificate of Limited Partnership in the office of the Secretary of State of the State of Delaware on January 25, 2007.

(b) The Partnership will be dissolved and wound up at the time and in the manner provided for in **Article 8**.

Section 1.05 Admission of Partners.

(a) No person may be admitted as a General Partner or a Private Limited Partner without subscribing and delivering to the Partnership a counterpart of this Agreement, or other written instrument, which sets forth:

(i) the name and address of the Partner,

(ii) the Commitment of the Partner, and

(iii) the agreement of the Partner to be bound by the terms of this Agreement.

(b) Without the prior approval of SBA, no person may be admitted as:

(i) a General Partner, or

(ii) a Private Limited Partner with an ownership interest of ten percent (10%) or more of the Partnership's capital, determined as set forth in the SBIC Act**.**

(c) The General Partner will compile, and amend from time to time as necessary, the Schedules attached to this Agreement, which will list:

(i) On **Schedule A-1**, the name and address of the General and each Private Limited Partner; and

(ii) On **Schedule A-2**, the Commitment of the Class A Limited Partner to the Partnership and the Commitment of the General Partner to the Partnership.

(d) The addition to the Partnership at any time of one or more Partners will not be a cause for dissolution of the Partnership, and all the Partners will continue to be subject to the provisions of this Agreement in all respects.

Section 1.06 Representations of Partners.

(a) This Agreement is made with the General Partner in reliance upon the General Partner's representation to the Partnership and SBA, that:

(i) it is duly organized, validly existing and in good standing under the laws of the State of Delaware, and is qualified to do business under the laws of each state where such qualification is required to carry on the business of the Partnership;

(ii) it has full power and authority to execute and deliver this Agreement and to act as General Partner under this Agreement;

(iii) this Agreement has been authorized by all necessary actions by it, has been duly executed and delivered by it, and is a legal, valid and binding obligation of it, enforceable according to its terms; and

(iv) the execution and delivery of this Agreement and the performance of its obligations under this Agreement will not conflict with, or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provision of law, statute, rule or regulation, or any ruling, writ, order, injunction or decree of any court, administrative agency or governmental body applicable to it.

(b) This Agreement is made with each Private Limited Partner in reliance upon each Private Limited Partner's representation to the General Partner, the Partnership and SBA, that:

(i) it has full power and authority to execute and deliver this Agreement and to act as a Private Limited Partner under this Agreement; this Agreement has been authorized by all necessary actions by it; this Agreement has been duly executed and delivered by it; and this Agreement is a legal, valid and binding obligation of it, enforceable against it according to its terms;

(ii) the execution and delivery of this Agreement and the performance of its obligations under this Agreement do not require the consent of any third party not previously obtained, and will not conflict with, or result in any violation of, or default under, any provision of any governing instrument applicable to it, or any agreement or other instrument to which it is a party or by which it or any of its properties are bound, or any provision of law, statute, rule or regulation, or any ruling, writ, order, injunction or decree of any court, administrative agency or governmental body applicable to it;

(iii) if the Private Limited Partner is a bank (as the term is used in the SBIC Act, at 15 U.S.C. § 682(b)), the total amount of such Private Limited Partner's investments in SBICs, including such Private Limited Partner's interest in the Partnership, does not exceed five percent (5%) of such Private Limited Partner's capital and surplus;

(iv) unless otherwise disclosed to the Partnership in a subscription agreement executed by such Private Limited Partner, the Private Limited Partner qualifies as an Institutional Investor;

(v) unless otherwise disclosed to the Partnership in a subscription agreement executed by such Private Limited Partner, the Partner is a citizen or resident of the United States, an entity organized under the laws of the United States or a state within the United States or an entity engaged in a trade or business within the United States; and

(vi) unless otherwise disclosed to the Partnership in a subscription agreement executed by such Private Limited Partner, neither the Partner nor any portion of the Partner's assets is subject to Title I of ERISA or Section 4975 of the Code.

(c) Each Partner who has disclosed to the Partnership in writing that it is not a person described in **Section 1.06(b)(iv)**, agrees to provide the Partnership with any information or documentation necessary to permit the Partnership to fulfill any tax withholding or other obligation relating to the Partner, including but not limited to any documentation necessary to establish the Partner's eligibility for benefits under any applicable tax treaty.

Section 1.07 Notices With Respect to Representations by Private Limited Partners.

(a) If any representation made by a Private Limited Partner in Section 1.06(b)(i), (ii) or (iii) ceases to be true, then the Private Limited Partner will promptly provide the Partnership with a correct separate written representation as provided in each such Section.

(b) The Partnership will give SBA prompt notice of any corrected representation received from any Private Limited Partner under Section 1.07(a).

(c) If any other representation made by a Private Limited Partner in **Section 1.06(b)** ceases to be true, then the Private Limited Partner will promptly provide the Partnership with a correct separate written representation.

Section 1.08 Liability of Partners.

(a) Losses, liabilities and expenses incurred by the Partnership during any fiscal year will be allocated among the Partners in accordance with the procedures for allocating Net Losses as provided in **Section 6.03**.

(b) The General Partner has the liability for the liabilities of the Partnership provided for in the Act and the SBIC Act. The General Partner will not:

(i) be obligated to restore by way of capital contribution or otherwise any deficits in the respective Capital Accounts of the Private Limited Partners should such deficits occur, or

(ii) have any greater obligation with respect to any Outstanding Leverage than is required by the SBIC Act or by SBA.

(c) Except as otherwise provided under the Act and the SBIC Act, no Private Limited Partner will be liable for any loss, liability or expense whatsoever of the Partnership. Notwithstanding the preceding sentence, a Private Limited Partner will remain liable for any portion of such Private Limited Partner's Commitment not paid to the Partnership to the extent set forth in this Agreement.

(d) If a Private Limited Partner is required to return to the Partnership, for the benefit of creditors of the Partnership, amounts previously distributed to the Private Limited Partner, the obligation of the Private Limited Partner to return any such amount to the Partnership will be the obligation of the Private Limited Partner and not the obligation of the General Partner. No Private Limited Partner will be liable under this Agreement for the obligations under this Agreement of any other Partner.

(e) Nothing in this Agreement limits any liability of any Partner under any agreement between the Partner and SBA.

ARTICLE 2

PURPOSE AND POWERS

Section 2.01 Purpose and Powers.

(a) The Partnership is organized solely for the purpose of operating as a small business investment company under the SBIC Act and conducting the activities described under Title III of the SBIC Act. The Partnership has the powers and responsibilities, and is subject to the limitations, provided in the SBIC Act. The operations of the Partnership and the actions taken by the Partnership and the Partners will be conducted and taken in compliance with the SBIC Act.

(b) Subject to Section 2.01(a), the Partnership may make, manage, own and supervise investments of every kind and character in conducting its business as a small business investment company.

(c) Subject to the provisions of the SBIC Act, the Partnership has all powers necessary, suitable or convenient for the accomplishment of the purposes set forth in Section 2.01(a) and Section 2.01(b), alone or with others, as principal or agent, including without limitation the following:

(i) to engage in any lawful act or activity for which limited partnerships may be organized under the Act.

(d) Notwithstanding the foregoing or anything herein to the contrary, should the Partnership fail to obtain or lose its SBA license, the General Partner may, by notice to the Private Limited Partners, elect to continue the operation of the Partnership as a private investment fund not operating as an SBIC. In such case, the General Partner may propose for adoption by the Private Limited Partners one or more amendments to this Agreement to reflect the absence of an SBIC license, including the deletion of any or all provisions relating to or required by the SBIC Act and the SBA and the substitution or addition of customary and reasonable replacement provisions, including provisions enabling the Partnership to incur comparable amounts of indebtedness to fund investments from sources other than the SBA. Each Private Limited Partner agrees not to unreasonably withhold, condition or delay its approval of any such amendment, and agrees that neither the Partnership's lack of access to leverage pursuant to the SBIC Act nor any added ability to obtain comparable amounts of indebtedness to fund investments from sources other than the SBA will constitute reasonable grounds to disapprove any such amendment. Alternatively, upon such failure to obtain its SBIC license, the General Partner may, in its discretion, elect to dissolve, wind-up and liquidate the Partnership.

Section 2.02 Venture Capital Operating Company.

At any time that 25% or more in interest of all Private Limited Partners are "benefit plan investors" (within the meaning of ERISA or any amendment or successor regulation), the Partnership will use its best efforts to ensure that the Partnership qualifies as a "venture capital operating company" (within the meaning of Department of Labor Regulation § 2510.3-101(d), 51 Fed. Reg. 41,281 (November 13, 1986) or any amendment or successor regulation).

ARTICLE 3

MANAGEMENT

Section 3.01 Authority of General Partner.

(a) The management and operation of the Partnership and the formulation of investment policy is vested exclusively in the General Partner. Pursuant to the powers vested in the General Partner under this Section 3.01(a) of this Agreement and Section 17-403(c) of the Act, notwithstanding any provision in this Agreement to the contrary, the General Partner hereby delegates the authority to manage the business and affairs of the Partnership to the Board

of Directors of the Partnership (the "Board of Directors"). The Board of Directors will be selected annually by the affirmative vote of Partners, voting as a single class, whose capital contributions represent at least 51% of the capital contributions of all Partners at the time of determination. All members of the Board of Directors of the Partnership will also be directors of Capitala Finance Corp. ("Capitala"); provided, however, that no person may serve as a director of the Partnership, other than the initial directors, without the prior written approval of the SBA. The initial directors of the Partnership are Joseph B. Alala, III, M. Hunt Broyhill, R. Charles Moyer, Larry W. Carroll and H. Paul Chapman**,** who comprise all of the directors of Capitala. At all times that the Partnership is a registrant under the Investment Company Act and has in effect an election to be treated as a business development company under the Investment Company Act, a majority of the Board of Directors (or such higher percentage as may be required by the Investment Company Act) will be persons who are not "interested persons" of the Partnership or its "affiliates" within the definition of that term provided by Section 2(a)(19) of the Investment Company Act (or any successor provision). Notwithstanding anything contained herein to the contrary, the following duties will remain vested in the General Partner: (1) the authority to bind the Partnership as provided in Section 3.01(b) of this Agreement and (2) the authority to perform any action that the Act requires be performed by a general partner of a limited partnership (and which may not be performed by a delegate of a general partner). Further, should the General Partner seek to amend this Agreement or take any additional substantive, non-ministerial action in the name of the Partnership, the General Partner shall obtain the prior approval of a majority of the Board of Directors. In addition, if the Board of Directors shall elect to amend this Agreement and any such amendment shall be approved by the SBA (to the extent so required) in writing, the General Partner shall execute such amendment. Each member of the Board of Directors will be a "Designated Party" for purposes of this Agreement; provided, however, that the liability of any member of the Board of Directors will not be limited to the extent prohibited by the Investment Company Act. For the avoidance of doubt and except as otherwise set forth in this Agreement, including but not limited to Section 3.01(a)(ii) below, all powers granted to the General Partner under this Agreement shall be deemed delegated to the Board of Directors.

(i) So long as the Board of Directors remains the Board of Directors of the Partnership and so long as the Partnership is licensed as an SBIC, the Board of Directors will comply with the requirements of the SBIC Act, including, without limitation, 13 C.F.R. §107.160(a) and (b), as in effect from time to time.

(ii) At such time as the Partnership is no longer a registrant under the Investment Company Act, the provisions of this Agreement relating to the Board of Directors shall be deemed removed from this Agreement without further action of the Partners.

(b) The act of the General Partner in carrying on the business of the Partnership will bind the Partnership.

(c) In the case of any General Partner other than a natural person, at any time that the Partnership is licensed as an SBIC, the General Partner will not allow any person to serve as a general partner, director, officer or manager of the General Partner, unless such person has been approved by SBA.

(d) So long as the General Partner remains the general partner of the Partnership:

(i) it will comply with the requirements of the SBIC Act, including, without limitation, 13 C.F.R. § 107.160(a) and (b), as in effect from time to time; and

(ii) in the case of any General Partner other than a natural person, except as set forth in Section 3.01(d)(iii), it will devote all of its activities to the conduct of the business of the Partnership and will not engage actively in any other business, unless its engagement is related to and in furtherance of the affairs of the Partnership.

(iii) The General Partner may, however:

(A) act as the general partner or Investment Adviser/Manager for one or more other SBICs, and

(B) receive, hold, manage and sell Assets received by it from the Partnership (or other SBIC for which it acts as general partner or Investment Adviser/Manager), or through the exercise or exchange of Assets received by it from the Partnership (or other SBIC for which it acts as general partner or Investment Adviser/Manager).

(e) Each Partner (i) acknowledges and agrees that part of the investment strategy of the Partnership is to co-invest with other investment funds under common management with the Partnership, including the Existing Funds, any parallel and alternative investment vehicles created with respect to the Parent Fund, and any successor funds hereto or thereto, (ii) agrees that no consent of the Advisory Committee or any Private Limited Partner shall be required for the Partnership to make any such Investment, (iii) waives any and all claims arising out of or relating to any such transaction based on any conflict of interest or breach of any duty on the part of the General Partner, its members or any Affiliate of the General Partner, and (iv) covenants that such Partner will not assert any such claim; provided in the case of any such co-investment in the same type of securities that such co-investment is made on substantially the same terms and conditions and at substantially the same time and is managed and disposed of in substantially the same manner on behalf of the Partnership and such other investment funds making the same investment.

Section 3.02 Authority of the Private Limited Partners.

(a) Except as is specifically permitted by this Agreement, (i) the Private Limited Partners will take no part in the control of the business of the Partnership, and (ii) the Private Limited Partners will not have any authority to act for or on behalf of the Partnership.

(b) A majority in interest of the Private Limited Partners may vote to remove the General Partner, with the prior approval of SBA. Any such action for the removal of the General Partner must also provide for the appointment of a substitute general partner (such substitute general partner to be admitted as a general partner immediately prior to the effective date of removal of the General Partner to be removed) and such substitute shall continue the business of the Partnership without dissolution. In the event of the removal of the General Partner pursuant to this **Section 3.02(b)**, the interest in the Partnership of the removed General Partner shall be converted to that of a limited partner with the same rights with respect to allocations and distributions that it had as a general partner prior to such conversion.

Section 3.03 The Investment Adviser/Manager.

(a) Subject to the SBIC Act, the General Partner may delegate any part of its authority to an Investment Adviser/Manager.

(b) Any agreement delegating any part of the authority of the General Partner to an Investment Adviser/Manager will:

(i) be in writing, executed by the General Partner, the Partnership and the Investment Adviser/Manager,

(ii) specify the authority so delegated, and

(iii) expressly require that such delegated authority will be exercised by the Investment Adviser/Manager in conformity with the terms and conditions of such agreement, this Agreement and the SBIC Act.

(c) Each agreement with an Investment Adviser/Manager under Section 3.03(a) will be binding upon the General Partner and any succeeding General Partner in accordance with its terms.

(d) Each agreement with an Investment Adviser/Manager, and any material amendment to any such agreement, is subject to the prior approval of SBA.

(e) CapitalSouth Corporation, a North Carolina corporation, is the initial Investment Adviser/Manager.

Section 3.04 Restrictions on Other Activities of the General Partner and its Affiliates.

(a) Except as provided in the SBIC Act and as otherwise specifically provided in this Agreement, no provision of this Agreement will be construed to preclude any (i) Partner, (ii) Investment Adviser/Manager, or (iii) Affiliate, general partner, member, manager or stockholder of any Partner or Investment Adviser/Manager, from engaging in any activity whatsoever or from receiving compensation therefor or profit from any such activity, including in connection with the Partnership and its investments. Such activities may include, without limitation, (A) receiving compensation from issuers of securities for investment banking services, (B) managing investments, (C) participating in investments, brokerage or consulting arrangements or (D) acting as an adviser to or participant in any corporation, partnership, limited liability company, trust or other business person.

(b) In the event an investment opportunity is suitable for the Partnership and one or more other investment funds managed by the General Partner and its Affiliates (including the Parent Fund, the Existing Funds, and any successor funds hereto or thereto), the General Partner may allocate such opportunity among the Partnership and such other investment funds in good faith and in its reasonable discretion, given the investment objectives of the various entities involved, their respective available capital, and such other factors as the General Partner may reasonably determine.

(c) Except as otherwise specifically set forth herein, whenever a conflict of interest exists or arises between any Partner or the Investment Adviser/Manager and the Partnership or any other Partner, then such Partner or the Investment Adviser/Manager may resolve such conflict of interest in such manner and take such action as such Person reasonably deems to be fair and reasonable, considering in each case such matters as such Person may determine (including its own interest) with respect to such conflict, agreement, transaction or situation and the benefits and burdens relating thereto. In the absence of bad faith by such Person, the resolution, action or terms so made, taken or provided by such Person will not constitute a breach of this Agreement or any other agreement contemplated herein or of any duty or obligation of such Person at law or in equity or otherwise. The General Partner may, but shall not be required to, seek the approval of the Advisory Committee or the Private Limited Partners of its resolution of any conflict of interest, and in the event, following disclosure of the material facts relating to a conflict of interest, the Advisory Committee or a majority in interest of the Private Limited Partners consents to such resolution, each Partner hereby (i) acknowledges and agrees that such consent shall constitute a waiver of any and all claims arising out of or relating to such transaction based on any conflict of interest or breach of any duty on the part of the General Partner, its members or any Affiliate of the General Partner, and (ii) covenants that such Partner will not assert any such claim. Notwithstanding the foregoing, whether or not approved by the Private Limited Partners or the Advisory Committee, the General Partner and the Investment Adviser/Manager may not cause the Partnership to make any investment or engage in any other transaction if such investment or other transaction gives rise to a conflict of interest prohibiting such investment or other transaction under the SBIC Act and related regulations and interpretations.

Section 3.05 Management Compensation.

(a) As compensation for services rendered in the management of the Partnership, during the period beginning on the Initial Closing Date and ending on the date of dissolution of the Partnership, and subject to the limitations set forth in **Section 3.05(c)** below, the Partnership will pay an annual management fee equal to the Management Fee Base multiplied by the Management Fee Rate, as set forth in greater detail in **Section 3.06**. Notwithstanding the foregoing, in no event shall the Management Compensation paid by the Partnership equal an amount greater than any corresponding management fee paid by the General Partner and/or Investment Adviser/Manager to any other Investment Adviser/Manager.

(b) The Management Compensation will be paid by the Partnership to the General Partner or, at the General Partner's direction, in whole or in part to an Investment Adviser/Manager. The General Partner may, in its sole discretion, waive all or any portion of any installment of Management Compensation otherwise due and owing pursuant to this **Section 3.05**. No such waiver shall obligate the General Partner to waive any future installment of Management Fees, and no series of such waivers shall be deemed to establish any course of conduct entitling any Partner to the benefit of subsequent waivers or reductions in Management Fees otherwise due and owing pursuant to this **Section 3.05**.

(c) The Partnership will not pay any Management Compensation with respect to any fiscal year in excess of the amount of Management Compensation approved by SBA.

Section 3.06 Payment of Management Compensation.

(a) Management Compensation shall be computed and paid in quarterly installments in advance on demand of the General Partner; provided that the General Partner may not require the payment of more than on quarter's Management Compensation in advance.

(b) Within thirty days after (i) the end of each fiscal year of the Partnership, (ii) the date of dissolution of the Partnership, and (iii) the date a person ceases to be Investment Adviser/Manager, appropriate adjustment (by way of payment or refund) will be made so that the Management Compensation with respect to the fiscal year then ended or the period from the end of the last fiscal year to the date set forth in clause (ii) or (iii) of this sentence will be equal to the Management Compensation calculated on a daily basis under **Section 3.05(a)** for such period.

Section 3.07 Partnership Expenses.

(a) The General Partner or the Investment Adviser/Manager will pay:

(i) the compensation of all professional and other employees of the Partnership, the General Partner or the Investment Adviser/Manager who provide services to the Partnership;

(ii) except as provided in Section 3.07(b), the cost of providing support and general services to the Partnership, including, without limitation:

(A) office expenses,

(B) travel,

(C) business development,

(D) office and equipment rental,

(E) bookkeeping,

(F) the development, investigation and monitoring of investments; and

(iii) all other expenses of the Partnership not authorized to be paid by the Partnership under **Section 3.07(b)**.

(b) The Partnership will pay the following Partnership expenses:

(i) all interest and expenses payable by the Partnership on any indebtedness incurred by the Partnership;

(ii) all amounts payable to SBA under the SBIC Act, and all amounts payable in connection with any Leverage commitment and any Outstanding Leverage;

(iii) taxes payable by the Partnership to Federal, state, local and other governmental agencies;

(iv) Management Compensation;

(v) expenses incurred in the actual or proposed acquisition or disposition of Assets, including without limitation, accounting fees, brokerage fees, legal fees, transfer taxes and costs related to the registration or qualification for sale of Assets;

(vi) legal, insurance (including any insurance as contemplated in **Section 3.10(m)**), accounting and auditing expenses;

(vii) all expenses incurred by the Partnership in connection with commitments for or issuance of Leverage;

(viii) fees or dues in connection with the membership of the Partnership in any trade association for small business investment companies or related enterprises; and

(ix) all expenses arising under the Partnership's indemnification obligation set forth in **Section 3.10**.

(c) All Partnership expenses paid by the Partnership will be made against appropriate supporting documentation. The payment by the Partnership of Partnership expenses will be due and payable as billed.

Section 3.08 Valuation of Assets.

(a) The Partnership will adopt written guidelines for determining the value of its Assets. Assets held by the Partnership will be valued by the General Partner in a manner consistent with the Partnership's written guidelines and the SBIC Act. The Valuation Guidelines attached to this Agreement as Exhibit I are the Partnership's written guidelines for valuation.

(b) To the extent that the SBIC Act requires any Asset held by the Partnership to be valued other than as provided in this Agreement, the General Partner will value the Asset in such manner as it determines to be consistent with the SBIC Act.

(c) Assets held by the Partnership will be valued at least annually (or more often, as SBA may require), and will be valued at least semi-annually (or more often, as SBA may require) at any time that the Partnership has Outstanding Leverage.

Section 3.09 Standard of Care.

(a) No Designated Party will be liable to the Partnership or any Partner for any action taken or omitted to be taken by it or any other Partner or other person in good faith and in a manner it reasonably believed to be in or not opposed to the best interests of the Partnership, and, with respect to any criminal action or proceeding, had no reasonable cause to believe its conduct was unlawful.

(b) Neither any Private Limited Partner, nor any member of any Partnership committee or board who is not an Affiliate of the General Partner, will be liable to the Partnership or any Partner as the result of any decision made in good faith by the Private Limited Partner or member, in its capacity as such.

(c) Any Designated Party, any Private Limited Partner and any member of a Partnership committee or board, may consult with independent legal counsel selected by it and will be fully protected, and will incur no liability to the Partnership or any Partner, in acting or refraining to act in good faith in reliance upon the opinion or advice of such counsel.

(d) This Section does not constitute a modification, limitation or waiver of Section 314(b) of the SBIC Act, or a waiver by SBA of any of its rights under Section 314(b).

(e) In addition to the standards of care stated in this Section, this Agreement may also provide for additional (but not alternative) standards of care that must also be met.

Section 3.10 Indemnification.

(a) The Partnership will indemnify and hold harmless, but only to the extent of Assets Under Management (less any Outstanding Leverage not included as a liability in the computation of Assets Under Management), any Designated Party, from any and all Indemnifiable Costs which may be incurred by or asserted against such person or entity, by reason of any action taken or omitted to be taken on behalf of the Partnership and in furtherance of its interests.

(b) The Partnership will indemnify and hold harmless, but only to the extent of Assets Under Management (less any Outstanding Leverage not included as a liability in the computation of Assets Under Management), the Private Limited Partners, and members of any Partnership committee or board who are not Affiliates of the General Partner or any Investment Adviser/Manager from any and all Indemnifiable Costs which may be incurred by or asserted against such person or entity, by any third party on account of any matter or transaction of the Partnership, which matter or transaction occurred during the time that such person has been a Private Limited Partner or member of any Partnership committee or board.

(c) The Partnership has power, in the discretion of the General Partner, to agree to indemnify on the same terms and conditions applicable to persons indemnified under Section 3.10(b), any person who is or was serving, under a prior written request from the Partnership, as a consultant to, agent for or representative of the Partnership as a director, manager, officer, employee, agent of or consultant to another corporation, partnership, limited liability company, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by the person in any such capacity, or arising out of the person's status as such.

(d) No person may be entitled to claim any indemnity or reimbursement under Section 3.10(a), (b) or (c) in respect of any Indemnifiable Cost that may be incurred by such person which results from the failure of the person to act in accordance with the provisions of this Agreement and the applicable standard of care stated in Section 3.09. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, will not, of itself, preclude a determination that such person acted in accordance with the applicable standard of care stated in Section 3.09.

(e) To the extent that a person claiming indemnification under Section 3.10(a), (b) or (c) has been successful on the merits in defense of any action, suit or proceeding referred to in Section 3.10(a), (b) or (c) or in defense of any claim, issue or matter in any such action, suit or proceeding, such person must be indemnified with respect to such matter as provided in such Section. Except as provided in the foregoing sentence and as provided in Section 3.10(h) with respect to advance payments, any indemnification under this Section will be paid only upon determination that the person to be indemnified has met the applicable standard of conduct stated in Section 3.09(a) or Section 3.09(b).

(f) A determination that a person to be indemnified under this Section has met the applicable standard stated in Section 3.09(a) or Section 3.09(b) may be made by (i) the General Partner, with respect to the indemnification of any person other than a person claiming indemnification under Section 3.10(a), (ii) a committee of the Partnership whose members are not affiliated with the General Partner or any Investment Adviser/Manager with respect to indemnification of any person indemnified under Section 3.10(a) or (iii) at the election of the General Partner, independent legal counsel selected by the General Partner, with respect to the indemnification of any person indemnified under this Section, in a written opinion.

(g) In making any determination with respect to indemnification under (f), the General Partner, a committee of the Partnership whose members are not affiliated with the General Partner or any Investment Adviser/Manager or independent legal counsel, as the case may be, is authorized to make the determination on the basis of its evaluation of the records of the General Partner, the Partnership or any Investment Adviser/Manager to the Partnership and of the statements of the party seeking indemnification with respect to the matter in question and is not required to perform any independent investigation in connection with any determination. Any party making any such determination is authorized, however, in its sole discretion, to take such other actions (including engaging counsel) as it deems advisable in making the determination.

(h) Expenses incurred by any person in respect of any Indemnifiable Cost may be paid by the Partnership before the final disposition of any such claim or action upon receipt of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined as provided in Section 3.10(e) or (f) that the person is entitled to be indemnified by the Partnership as authorized in this Section.

(i) The rights provided by this Section will inure to the benefit of the heirs, executors, administrators, successors, and assigns of each person eligible for indemnification under this Agreement.

(j) The rights to indemnification provided in this Section are the exclusive rights of all Partners to indemnification by the Partnership. No Partner may have any other rights to indemnification from the Partnership or enter into, or make any claim under, any other agreement with the Partnership (whether direct or indirect) providing for indemnification.

(k) The Partnership may not enter into any agreement with any person (including, without limitation, any Investment Advisor/Manager, Partner or any person that is an employee, officer, director, partner or shareholder, or an Affiliate, Associate or Control Person of any Partner) providing for indemnification of any such person (i) except as provided for under this Section, and (ii) unless such agreement provides for a determination with respect to the indemnification as provided under Section 3.10(f).

(l) The provisions of this Section do not apply to indemnification of any person that is not at the expense (whether in whole or in part) of the Partnership.

(m) The Partnership may purchase and maintain insurance on its own behalf, or on behalf of any person or entity, with respect to liabilities of the types described in this **Section 3.10**. The Partnership may purchase such insurance regardless of whether the person is acting in a capacity described in this **Section 3.10** or whether the Partnership would have the power to indemnify the person against such liability under the provisions of this **Section 3.10**.

Section 3.11 Advisory Committee

(a) General. The Partnership shall have an Advisory Committee (the "Advisory Committee") consisting of at least three and no more than seven individuals chosen by the General Partner, each of whom shall be a representative of a Private Limited Partner and none of whom shall be an Affiliate of the General Partner. Any member of the Advisory Committee may be removed at any time, with or without cause, by the General Partner.

(b) Role. The function of the Advisory Committee shall be to meet to confer with the General Partner regarding such matters as the General Partner may request consultation and advice. In particular, the General Partner intends, but is not required (except as specifically set forth herein), to consult with the Advisory Committee on such matters as evaluating investments, identifying new investment opportunities, monitoring investments, providing management assistance to portfolio companies, and conflicts of interest. Except as specifically set forth herein, actions or recommendations of the Advisory Committee with respect to the business or operation of the Partnership will be advisory in nature and will not bind the Partnership or the General Partner in any way.

(c) Meetings; Action. Meetings of the Advisory Committee shall be held at the discretion of the General Partner or at the request of any two individuals serving on the Advisory Committee. Representatives of the General Partner and the Investment Adviser/Manager may observe and participate in meetings of the Advisory Committee in a non-voting capacity. Procedures for the voting on and approval of matters by the Advisory Committee shall be as established by the General Partner.

(d) Liability and Exculpation. No member of the Advisory Committee shall owe any fiduciary or other duty to any other Partner, and members of the Advisory Committee shall be indemnified by the Partnership for any actions or omissions taken or omitted to be taken by them to the maximum extent permitted by applicable law.

ARTICLE 4

SMALL BUSINESS INVESTMENT COMPANY MATTERS

Section 4.01 SBIC Act.

The provisions of this Agreement must be interpreted to the fullest extent possible in a manner consistent with the SBIC Act. If any provision of this Agreement conflicts with any provision of the SBIC Act (including, without limitation, any conflict with respect to the rights of SBA or the respective Partners under this Agreement), the provisions of the SBIC Act will control.

Section 4.02 Consent or Approval of, and Notice to, SBA.

(a) The requirements of the prior consent or approval of, and notice to, SBA in this Agreement will be in effect at any time that the Partnership is licensed as an SBIC or has Outstanding Leverage. These requirements will not be in effect if the Partnership is not licensed as an SBIC and does not have any Outstanding Leverage.

(b) Except as provided in the SBIC Act, a consent or approval required to be given by SBA under this Agreement will be deemed given and effective for purposes of this Agreement only if the consent or approval is:

(i) given by SBA in writing, and

(ii) delivered by SBA to the party requesting the consent or approval in the manner provided for notices to such party under Section 10.04.

Section 4.03 Provisions Required by the SBIC Act for Issuers of Debentures.

(a) The provisions of 13 C.F.R. § 107.1810(i) are incorporated by reference in this Agreement as if fully stated in this Agreement.

(b) The Partnership and the Partners consent to the exercise by SBA of all of the rights of SBA under 13 C.F.R. § 107.1810(i), and agree to take all actions that SBA may require in accordance with 13 C.F.R. § 107.1810(i).

(c) This Section will be in effect at any time that the Partnership has outstanding Debentures, and will not be in effect at any time that the Partnership does not have outstanding Debentures.

(d) Nothing in this Section may be construed to limit the ability or authority of SBA to exercise its regulatory authority over the Partnership as a licensed small business investment company under the SBIC Act.

Section 4.04 Effective Date of Incorporated SBIC Act Provisions.

(a) Any section of this Agreement which relates to Debentures issued by the Partnership and incorporates or refers to the SBIC Act or any provision of the SBIC Act (including, without limitation, 13 C.F.R. §§ 107.1810(i), 107.1820, and 107.1830 - 107.1850)) will, with respect to each Debenture, be deemed to refer to the SBIC Act or such SBIC Act provision as in effect on the date on which the Debenture was purchased from the Partnership.

(b) Section 4.04(a) will not be construed to apply to:

(i) the provisions of the SBIC Act which relate to the regulatory authority of SBA under the SBIC Act over the Partnership as a licensed small business investment company; or

(ii) the rights of SBA under any other agreement between the Partnership and SBA.

(c) The parties acknowledge that references in this Agreement to the provisions of the SBIC Act relating to SBA's regulatory authority refer to the provisions as in effect from time to time.

Section 4.05 SBA as Third Party Beneficiary.

SBA will be deemed an express third party beneficiary of the provisions of this Agreement to the extent of the rights of SBA under this Agreement and under the Act. SBA will be entitled to enforce the provisions (including, without limitation, the obligations of each Partner to make capital contributions to the Partnership) for its benefit, as if SBA were a party to this Agreement.

Section 4.06 Interest of the General Partner After Withdrawal.

If the General Partner withdraws as a general partner of the Partnership by notice from SBA as provided in the SBIC Act or otherwise, then the entire interest of the General Partner in the Partnership will be converted into an interest as a Special Private Limited Partner on the terms provided in **Section 8.03**.

ARTICLE 5

PARTNERS' CAPITAL CONTRIBUTIONS

Section 5.01 Capital Commitments; Additional Limited Partners.

(a) The Class A Limited Partner commits to make capital contributions to the Partnership in the aggregate amount set forth on **Schedule A-2** to this Agreement.

(b) The General Partner may accept additional subscriptions from Private Limited Partners and admit additional Private Limited Partners to the Partnership from time to time in its discretion.

(c) No Person shall be admitted as a substitute Class A Limited Partner, nor shall the Class A Limited Partner transfer any interest in the Partnership, without the prior written approval of SBA.

Section 5.02 Capital Contributions by Private Limited Partners.

(a) All capital contributions to the Partnership by Private Limited Partners must be in cash, except as provided in this Agreement and approved by SBA.

(b) The Class A Limited Partner will pay its Commitment in cash in such amounts and at such times as will be determined by the General Partner in its sole discretion. Unless waived by the Class A Limited Partner, the General Partner will give the Class A Limited Partner at least five business days' notice before each such payment is due, which will specify the amount of the payment and the date the payment will be due.

(c) The General Partner shall not:

(i) issue any capital call to the Partners to fund any investment in a new portfolio company after the fifth anniversary of the Final Closing Date, except for investments that were committed to or described in a formal term sheet or letter of intent as of such date;

(ii) otherwise (i.e., out of other available assets) cause the Partnership to make any investment in a new portfolio company after the sixth anniversary of the Final Closing Date, except for investments that were committed to or described in a formal term sheet or letter of intent as of such date; or

(iii) cause the Partnership to make any follow-on Investment in an existing portfolio company after the seventh anniversary of the Final Closing Date.

Notwithstanding the foregoing, until the seventh anniversary of the Final Closing Date, the General Partner may, but shall not be required to, cause the Partnership to make investments otherwise prohibited by the foregoing provisions of this **Section 5.02(c)** in order to avoid the Partnership's being liable for any prepayment penalties under the SBIC Act in connection with leverage obtained thereunder.

(d) For clarity, in no event may the General Partner require the Private Limited Partners to make capital contributions in excess of the unfunded Commitment of the Class A Limited Partner; provided that the unfunded Commitment of the Class A Limited Partner shall be deemed to be increased by (i) the sum of all distributions made to such Partner as of such time representing the return of the cost basis of any investment made by the Partnership, (ii) the sum of all distributions made to such Partner as of such time representing the return of capital contributions used to pay Partnership expenses (including Management Fees); and (iii) the sum of any capital contributions returned to such Partner as of such time that are attributable to unconsummated investments, all of the foregoing amounts being determined by the General Partner in its reasonable discretion and being subject to future capital calls.

Section 5.03 Capital Contributions by the General Partner.

(a) All capital contributions to the Partnership by the General Partner must be in cash, except as provided in this Agreement and approved by SBA.

(b) The General Partner commits to make capital contributions to the Partnership from time to time as and when capital contributions are required of the Private Limited Partners, with each such contribution by the General Partner equaling 0.01% of the corresponding capital contributions of the Private Limited Partners.

(c) When the Partnership is liquidated, the General Partner will contribute to the Partnership within the time period provided in Treasury Regulation § 1.704-(1)(b)(2)(ii)(b)(3) an amount equal to any deficit balance in its Capital Account.

Section 5.04 [RESERVED].

Section 5.05 Conditions to the Commitments of the General Partner and the Private Limited Partners.

(a) Notwithstanding any provision in this Agreement to the contrary, on the earlier of (i) the completion of the liquidation of the Partnership or (ii) one year from the commencement of the liquidation, the General Partner and the Private Limited Partners will be obligated to contribute any amount of their respective Commitments not previously contributed to the Partnership, if and to the extent that the other Assets of the Partnership have not been sufficient to permit at that time the redemption of all Outstanding Leverage, the payment of all amounts due with respect to the Outstanding Leverage as provided in the SBIC Act, and the payment of all other amounts owed by the Partnership to SBA.

(b) The provisions of this Section do not apply to the Commitment of any Private Limited Partner whose obligation to make capital contributions has been terminated or who has withdrawn from the Partnership, with the consent of SBA, under a provision of this Article 5 or Article 8 or any agreement, release, settlement or action under any provision of this Agreement. No Private Limited Partner or General Partner has any right to delay, reduce or offset any obligation to contribute capital to the Partnership called under this Section by reason of any counterclaim or right to offset by the Partner or the Partnership against SBA.

Section 5.06 Termination of the Obligation to Contribute Capital.

(a) Any Private Limited Partner may elect to terminate its obligation in whole or in part to make a capital contribution required under this Agreement, or upon demand by the General Partner, will no longer be entitled to make such capital contribution, if the Private Limited Partner or the General Partner obtains an opinion of counsel as provided under Section 5.07 to the effect that making such contribution would require the Private Limited Partner to withdraw from the Partnership under Section 8.06 through Section 8.10.

(b) Upon receipt by the General Partner of a notice and opinion as provided under Section 5.07, unless cured within the period provided under Section 5.08, the Commitment of the Private Limited Partner delivering the opinion will be deemed to be reduced by the amount of such unfunded capital contribution and this Agreement will be deemed amended to reflect a corresponding reduction of aggregate Commitments to the Partnership.

Section 5.07 Notice and Opinion of Counsel.

(a) A copy of any opinion of counsel issued as described in Section 5.06 or Section 8.06 through Section 8.10 must be sent by the General Partner to SBA, together with (i) the written notice of the election of the Private Limited Partner or (ii) the written demand of the General Partner, to which the opinion relates.

(b) An opinion rendered to the Partnership as provided in Section 5.06 or Section 8.06 through Section 8.10 will be deemed sufficient for the purposes of those Sections only if the General Partner and SBA each approve (i) the counsel rendering the opinion, and (ii) the form and substance of the opinion.

Section 5.08 Cure, Termination of Capital Contributions and Withdrawal.

(a) Unless within ninety (90) days after the giving of written notice and opinion of counsel, as provided in Section 5.06, the Private Limited Partner or the Partnership eliminates the necessity for termination of the obligation of the Private Limited Partner to make further capital contributions or for the withdrawal of the Private Limited Partner from the Partnership in whole or in part to the reasonable satisfaction of the Private Limited Partner and the General Partner, the Private Limited Partner will withdraw from the Partnership in whole or in part to the extent required, effective as of the end of the ninety (90) day period.

(b) Subject to the provisions of Section 5.10, in its discretion the General Partner may waive all or any part of the ninety (90) day cure period and cause such termination of capital contributions or withdrawal to be effective at an earlier date as stated in the waiver.

(c) Any distributions made to a Private Limited Partner with respect to such Partner's withdrawal under this **Section 5.08(c)** will be subject to and made as provided in **Section 8.11**.

Section 5.09 Failure to Make Required Capital Contributions.

The Partnership is entitled to enforce the obligations of each Partner to make the contributions to capital specified in this Agreement. The Partnership has all rights and remedies available at law or equity if any such contribution is not so made.

Section 5.10 Notice and Consent of SBA with respect to Capital Contribution Defaults.

(a) The Partnership must give SBA prompt written notice of any failure by a Private Limited Partner to make any capital contribution to the Partnership required under this Agreement when due, which failure continues beyond any applicable grace period specified in this Agreement.

(b) Unless SBA has given its prior consent or the provisions of subsection (c) of this Section have become applicable, the Partnership will not (i) take any action (including entering into any agreement (whether oral or written), release or settlement with any Partner) which defers, reduces, or terminates the obligations of the Partner to make contributions to the capital of the Partnership, or (ii) commence any legal proceeding or arbitration, which seeks any such deferral, reduction or termination of such obligation. Without the consent of SBA (including SBA's deemed consent under subsection (c) of this Section) no such agreement, release, settlement or action taken will be effective with respect to the Partnership or any Partner.

(c) If the Partnership has given SBA thirty (30) days prior written notice of any proposed legal proceeding, arbitration or other action described under subsection (b) of this Section with respect to any default by a Private Limited Partner in making any capital contribution to the Partnership, and the Partnership has not received written notice from SBA that it objects to the proposed action within the thirty (30) day period, then SBA will be deemed to have consented to the proposed Partnership action.

(d) Any notice given by the Partnership to SBA under this Section must:

(i) be given by separate copies directed to each of the Investment Division and the Office of the General Counsel of SBA;

(ii) explicitly state in its caption or first sentence that the notice is being given with respect to a specified default by a Private Limited Partner in making a capital contribution to the Partnership and a proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default; and

(iii) state the nature of the default, the identity of the defaulting Private Limited Partner, and the nature and terms of the proposed legal proceeding, arbitration, agreement, release, settlement or other action with respect to that default.

Section 5.11 Interest on Overdue Contributions.

In the event that any Private Limited Partner fails to make a contribution required under this Agreement within five days after the date such contribution is due, then the General Partner may, in its sole discretion, elect to charge such Private Limited Partner interest at an annual rate up to the lesser of (i) the Prime Rate plus five percent or (ii) the maximum rate permitted by applicable law, on the amount due from the date such amount became due until the earlier of (i) the date on which such payment is received by the Partnership from such Private Limited Partner or (ii) the date of any notice given to such Private Limited Partner by the General Partner pursuant to **Section 5.12** or (iii) the date on which such payment is received by the Partnership under **Section 5.13**. Any distributions to which such Private Limited Partner is entitled shall be reduced by the amount of such interest, and such interest shall be deemed to be income to the Partnership.

Section 5.12 Termination of a Private Limited Partner's Right to Make Further Capital Contributions.

In the event that any Private Limited Partner fails to make a contribution required under this Agreement within five days after the date such contribution is due, the General Partner may, in its sole discretion (but only with the consent of SBA given as provided in **Section 5.10)**, elect to declare, by notice to such Private Limited Partner, that:

(a) Such Private Limited Partner's Commitment shall be deemed to be reduced to the amount of any contributions of capital timely made pursuant to this Agreement; and

(b) Upon such notice (i) such Private Limited Partner shall have no right to make any capital contribution thereafter (including the contribution as to which the default occurred and any contribution otherwise required to be made thereafter pursuant to the terms of this Agreement) and (ii) this Agreement shall be deemed amended to reflect such reduced Commitment.

Section 5.13 Withholding and Application of a Private Limited Partner's Distributions.

At the election of the General Partner, which it may make in its sole discretion, (a) the Partnership may withhold from any distribution otherwise payable to any Private Limited Partner any amount required to be paid to the Partnership by such Private Limited Partner at the time of such distribution, and (b) the Partnership may either (i) apply all or part of any such withheld distribution in satisfaction of the amount then due to the Partnership from such Private Limited Partner or (ii) withhold such distribution until all amounts then due are paid to the Partnership by such Private Limited Partner. Upon payment of all amounts due to the Partnership (by application of withheld distributions or otherwise), the General Partner shall distribute any unapplied balance of any such withheld distribution to such Private Limited Partner. No interest shall be payable on the amount of any distribution withheld by the Partnership pursuant to this **Section 5.13**.

ARTICLE 6

ADJUSTMENT OF CAPITAL ACCOUNTS

Section 6.01 Establishment of Capital Accounts.

There will be established on the books of the Partnership an Opening Capital Account for each Partner in accordance with the definitions and methods of allocation prescribed in this Agreement.

Section 6.02 Time of Adjustment of Capital Accounts.

Allocations will be made to the Opening Capital Account of each Partner in accordance with **Section 6.03**, as of the following dates:

(i) the close of each fiscal year of the Partnership;

(ii) the day before the date of the admission of an additional Private Limited Partner or increase in any Private Limited Partner's Commitment;

(iii) the day before the dissolution of the Partnership;

(iv) the date of a distribution; and

(v) such other dates as this Agreement may provide.

Section 6.03 Adjustments to Capital Accounts.

(a) As of the times stated in **Section 6.02**, allocations will be made to the Opening Capital Accounts of the Partners to arrive at each Partner's Closing Capital Account for the period in the following order and amounts:

(i) The amount of any capital contributions paid by each Partner during such period will be credited to the Partner's Opening Capital Account (other than capital contributions referred to in clause (i) of the definition of "Opening Capital Account" in **Article 1**); provided, however, that any such capital contribution will be credited to the Partner's Opening Capital Account on the later of the date the capital contribution was due or the date on which the capital contribution was actually received by the Partnership;

(ii) The amount of any distributions made to each Partner during the period will be debited against the Partner's Opening Capital Account;

(iii) Net Profits will be credited and Net Losses will be debited to the Opening Capital Accounts of the Partners pro rata in accordance with their respective capital contributions.

(b) Notwithstanding the provisions of **Section 6.03(a)(iii)**:

(i) at such time as the Capital Account of the General Partner or any Private Limited Partner is reduced to an amount equal to the aggregate capital contributions of such Partner (less all distributions to such Partner), the balance of all Net Losses will be allocated:

(A) first, to the remaining Capital Accounts of the General Partner and Private Limited Partners which have not been reduced to zero (to be apportioned among them in accordance with their respective positive Capital Accounts); and

(B) second, after the Capital Accounts of all Private Limited Partners have been reduced to zero, then the balance to the General Partner.

(ii) If Net Losses are allocated in accordance with the foregoing clause (i), any Net Profits that are required to be allocated after such special allocation of Net Losses as provided in the foregoing clause will be allocated:

(A) first, to the General Partner until the effect of the special allocation of Net Losses under clause (i)(B) is reversed and eliminated; and

(B) second, to the General Partner and Private Limited Partners to whom the allocation of such Net Losses has been made under clause (i) (A) until the effect of such special allocation of Net Losses has been reversed and eliminated.

(c) To the extent not otherwise accomplished by the provisions of **Section 6.03(a)** and **Section 6.03(b)**, the Opening Capital Accounts of the Partners will be adjusted to effect any allocation of any item of income, gain, loss, deduction or credit to a Partner required by the Code.

Section 6.04 Tax Matters.

(a) If at the end of a fiscal year of the Partnership, a Partner unexpectedly receives an adjustment, allocation, or distribution described in clauses (4), (5) and (6) of Treasury Regulation § 1.704 - 1(b)(2)(ii) and that adjustment, allocation, or distribution reduces that Partner's Opening Capital Account below zero (0), then the Partner will be allocated all items of income and gain of the Partnership for that year and for all subsequent fiscal years until the deficit balance has been eliminated as provided in Treasury Regulation § 1.704 - 1(b)(2)(ii)(d), as quickly as possible. If any such unexpected adjustment, allocation or distribution creates a deficit balance in the Opening Capital Accounts of more than one Partner in any fiscal year, all items of income and gain of the Partnership for the fiscal year and all subsequent fiscal years will be allocated among all such Partners in proportion to their respective deficit balances until such balances have been eliminated. If any allocation is made pursuant to this paragraph, subsequent allocations shall be made (in a manner consistent with this paragraph) to offset the effects of such prior allocation. This provision is intended to qualify as a "qualified income offset" within the meaning of Treasury Regulation § 1.704-1(b)(2)(ii)(d).

(b) For Federal, state and local income tax purposes, each item of Partnership income, credit, gain or loss will be allocated among the Partners as provided in **Section 6.03**.

(c) The General Partner has the power to make such allocations and to take such actions necessary under the Code or other applicable law to effect and to maintain the substantial economic effect of allocations made to the Partners under Section 704(b) of the Code. All allocations made and other actions taken by the General Partner under this paragraph will be consistent to the maximum extent possible with the provisions of this Agreement.

(d) The General Partner is the "tax matters partner," as the term is used in the Code.

(e) The General Partner is expressly authorized to (i) elect that the Partnership be classified as a partnership for federal tax purposes, and (ii) to make any election or other action on behalf of the Partnership permitted under the Code with respect to the election of that tax classification.

(f) The General Partner must keep the Partners informed of all administrative and judicial proceedings with respect to Partnership tax returns or the adjustment of Partnership items. Any Partner who enters into a settlement agreement with respect to Partnership items must promptly give the General Partner notice of the settlement agreement and terms that relate to Partnership items.

(g) In the event of any admission of any additional Private Limited Partner or transfer by any Private Limited Partner of its Partnership interest, the General Partner will allocate items of income, credit, gain or loss in accordance with the Code and may make such elections under the Code as the General Partner determines to be necessary or appropriate.

(h) Anything contained in this Agreement to the contrary notwithstanding, if the Partnership is deemed liquidated within the meaning of Treasury Regulation § 1.704-1(b) (2)(ii)(g) but has not dissolved under **Section 8.01(a)**, then the assets of the Partnership will, after provision for payment to creditors, be deemed distributed to the Partners in accordance with Treasury Regulation § 1.704- 1(b)(2)(ii)(b)(2) and immediately recontributed to the Partnership and the General Partner must make the contributions contemplated by **Section 5.03(b)**.

ARTICLE 7

DISTRIBUTIONS

Section 7.01 Distributions to Partners.

(a) The Partnership may make distributions of cash and/or property, if any, at such times as the SBIC Act permits and as are determined under this Agreement. To the extent permitted by the SBIC Act, and subject to the establishment of reasonable reserves, the General Partner will cause the Partnership to distribute available cash at least annually.

(b) All distributions shall be made to the Partners pro rata in accordance with their respective Capital Account balances.

Section 7.02 Distributions of Noncash Assets in Kind.

(a) Subject to the provisions of the SBIC Act, the Partnership at any time may distribute Noncash Assets in kind.

(b) To the extent reasonably possible, any distribution of Noncash Assets will be made pro rata among the Partners (based upon the respective amounts which each Partner would be entitled to receive if the distribution were made in cash) with respect to the distribution of each Noncash Asset.

(c) Subject to the SBIC Act, Noncash Assets distributed in kind under this Article VII will be subject to such conditions and restrictions as are legally required, including, without limitation, such conditions and restrictions required to assure compliance by the Partners and/or the Partnership with the aggregation rules and volume limitations under Rule 144 promulgated under the Securities Act.

Section 7.03 Distributions for Payment of Tax.

(a) Subject to the SBIC Act, anything contained in this Agreement to the contrary notwithstanding, the General Partner shall be entitled to cause the Partnership to make cash distributions to the Partners (after taking into account any other distributions received by the

Partners in that fiscal year) in amounts sufficient to enable the Partners (and their partners, if any) to discharge any Federal, state and local tax liability excluding penalties arising as a result of the Partners' interest in the Partnership. Such distributions will be debited to the Partners' Capital Accounts, as provided in **Section 6.03(a)(ii)**.

(b) Subject to the SBIC Act, the Partnership will at all times be entitled to make payments with respect to any Partner in amounts required to discharge any legal obligation of the Partnership to withhold or make payments to any governmental authority with respect to any Federal, state or local tax liability of the Partner arising as a result of the Partner's interest in the Partnership. Each such payment will be debited to such Partner's Capital Account, as provided in **Section 6.03(a)(ii)**.

Section 7.04 Distributions Violative of the Act Prohibited.

Anything contained in this Agreement to the contrary notwithstanding, no distribution may be made by the Partnership if and to the extent that such distribution would violate the Act.

ARTICLE 8

DISSOLUTION, LIQUIDATION, WINDING UP AND WITHDRAWAL

Section 8.01 Dissolution.

(a) The Partnership will be dissolved upon the first to occur of the following:

(i) subject to **Section 8.04** of this Agreement, an event of withdrawal (as defined in Section 17-101-3 of the Act) of the General Partner;

(ii) the later of:

(A) the close of business on the tenth anniversary of the Initial Closing Date; **or**

(B) ten (10) years from the formation of the Partnership; or

(C) two years after all Outstanding Leverage has matured; or

(iii) the determination of the Partners to dissolve and terminate the Partnership as provided in **Section 8.01(c)**.

(b) The Partnership will not dissolve upon the withdrawal, dissolution, bankruptcy, death or adjudication of incompetence or insanity of any Private Limited Partner.

(c) Eighty **percent (**80**%) in interest of the Private Limited Partners may elect to dissolve the Partnership by giving notice to each Partner and SBA of the election. Any notice of an election to dissolve the Partnership may only be given:**

(i) on or after the later to occur of: (A) the tenth anniversary of the Initial Closing Date **or (B) ten (10) years from the formation of the Partnership;**

(ii) if all Outstanding Leverage has been repaid or redeemed; and

(iii) if all amounts due SBA, its agent or trustee have been paid.

Any election to dissolve the Partnership given under this Section 8.01(c) will not be effective until the later of: (A) sixty **(**60**) days from the date the notice is given to all parties or (B) the effective date of dissolution stated in the notice.**

(d) The General Partner may elect in its sole discretion to extend the date set forth in **Section 8.01(a)(ii)(A)** and **Section 8.01(c)(i)** for up to two additional periods of up to one year each and may further extend such date as may be reasonably necessary in order to facilitate the orderly liquidation of the Partnership's assets.

Section 8.02 Winding Up.

(a) Subject to the SBIC Act and **Section 8.03**, when the Partnership is dissolved, the property and business of the Partnership will be liquidated by the General Partner or if there is no General Partner or the General Partner is unable to act, a person designated by the holders of a majority in interest of the Private Limited Partners. The liquidator shall distribute the assets of the Partnership, or the proceeds from the disposition thereof, (i) first, to creditors of the Partnership, including Partners who are creditors to the extent permitted by law, in satisfaction of liabilities of the Partnership (whether by payment thereof or the making of reasonable provision for payment thereof) other than liabilities for which reasonable provision for payment has been made and liabilities for distributions to Partners, and (ii) second, to the Partners in accordance with the distribution provisions of **Section 7.01**.

(b) Within a reasonable period (and subject to the requirements of Treasury Regulation §§ 1.704-1(b)(ii)(g) and 1.704-1(b)(2)(ii)(b)(2)) after the effective date of dissolution of the Partnership, the affairs of the Partnership will be wound up and the Partnership's assets will be distributed as provided in the SBIC Act and the Act.

Section 8.03 Withdrawal of the General Partner.

(a) Except as provided in **Section 4.03**, the General Partner may not withdraw as the general partner of the Partnership without the approval of a majority in interest of the Private Limited Partners.

(b) To the extent required by the SBIC Act, no transfer of the interest of the General Partner, or any portion of such interest, will be effective without the consent of SBA.

(c) The General Partner shall not sell, assign, pledge, mortgage or otherwise dispose of its interest in the Fund. Without limitation to the preceding sentence and subject to approval of the SBA, the admission of new members of the General Partner or the transfer of interests in the General Partner will not be deemed to be a transfer or sale of the General Partner's interest in the Fund.

(d) Except as provided in **Section 8.03(b)**, **Section 10.01(b)**, **Section 10.01(d)** or **Section 10.01(f)**, any person who acquires the interest of the General Partner, or any portion of such interest, in the Partnership, will not be a General Partner but will become a special private limited partner (a "Special Private Limited Partner") upon his written acceptance and adoption of all the terms and provisions of this Agreement. Such person will acquire no more than the interest of the General Partner in the Partnership as it existed on the date of the transfer, but will not be entitled to any priority given to the Private Limited Partners, their successors and assigns, in respect of the interest. No such person will have any right to participate in the management of the affairs of the Partnership or to vote with the Private Limited Partners, and the interest acquired by such person will be disregarded in determining whether any action has been taken by any percentage of the limited partnership interests.

(e) Upon an event of withdrawal of the General Partner without continuation of the Partnership as provided in **Section 8.04**, the affairs of the Partnership will be wound up in accordance with the provisions of **Section 8.02**.

Section 8.04 Continuation of the Partnership After the Withdrawal of the General Partner.

Upon the occurrence of an event of withdrawal (as defined in the Act) of the General Partner, the Partnership will not be dissolved, if, within ninety (90) days after the event of withdrawal, eighty percent in interest of the Private Limited Partners agree in writing to continue the business of the Partnership and to the appointment of one or more additional general partners (subject to the approval of SBA), effective as of the date of withdrawal of the General Partner.

Section 8.05 Withdrawals of Capital.

Except as specifically provided in this Agreement or in a written agreement with the Partnership or the General Partner that is approved by SBA, withdrawals by a Partner of any amount of its Capital Account are not permitted.

Section 8.06 Withdrawal by ERISA Regulated Pension Plans.

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel to the effect that, as a result of ERISA, (i) the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable the Private Limited Partner to avoid a violation of, or breach of the fiduciary duties of any person under ERISA (other than a breach of the fiduciary duties of any such person based upon the investment strategy or performance of the Partnership) or any provision of the Code related to ERISA or (ii) all or any portion of the assets of the Partnership (as opposed to the Private Limited Partner's partnership interest) constitute assets of the Private Limited Partner for purposes of ERISA and are subject to the provisions of ERISA to substantially the same extent as if owned directly by the Private Limited Partner.

Section 8.07 Withdrawal by Government Plans Complying with State and Local Law.

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel to the effect that as a result of state statutes, regulations, case law, administrative interpretations or similar authority applicable to the "government plan", the withdrawal of such Private Limited Partner from the Partnership to such extent is required to enable the Private Limited Partner or the Partnership to avoid a violation (other than a violation based upon the investment performance of the Partnership) of the applicable state law.

Section 8.08 Withdrawal by Government Plans Complying with ERISA.

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is a "government plan" within the meaning of ERISA may elect to withdraw from the Partnership in whole or in part, if the "government plan" obtains an opinion of counsel to the effect that, as a result of ERISA, (i) the withdrawal of the "government plan" from the Partnership to such extent would be required if it were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA, to enable the "government plan" to avoid a violation of, or breach of the fiduciary duties of any person under ERISA (other than a breach of the fiduciary duties of any such person based upon the investment strategy or performance of the Partnership) or any provision of the Code related to ERISA or (ii) all or any portion of the assets of the Partnership would constitute assets of the "government plan" for the purposes of ERISA, if the "government plan" were an "employee benefit plan" within the meaning of, and subject to the provisions of, ERISA and would be subject to the provisions of ERISA to substantially the same extent as if owned directly by the "government plan."

Section 8.09 Withdrawal by Tax Exempt Private Limited Partners.

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is exempt from taxation under Section 501(a) or 501(c)(3) of the Code may elect to withdraw from the Partnership in whole or in part, if the Private Limited Partner obtains an opinion of counsel to the effect that as a result of applicable statutes, regulations, case law, administrative interpretations or similar authority, the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable the tax exempt Private Limited Partner to avoid loss of its tax exempt status under Section 501(a) or 501(c)(3) of the Code.

Section 8.10 Withdrawal by Registered Investment Companies.

Notwithstanding any other provision of this Agreement, any Private Limited Partner that is an "investment company" subject to registration under the Investment Company Act, may elect to withdraw from the Partnership in whole or in part, or upon demand by the General Partner must withdraw from the Partnership in whole or in part, if either such Private Limited Partner or the General Partner obtains an opinion of counsel

to the effect that, as a result of the Investment Company Act, the withdrawal of the Private Limited Partner from the Partnership to such extent is required to enable such Private Limited Partner or the Partnership to avoid a violation of applicable provisions of the Investment Company Act or the requirement that the Partnership register as an investment company under the Investment Company Act.

Section 8.11 Distributions on Withdrawal.

(a) Subject to the provisions of this Section, upon withdrawal under any provision of this Agreement, a Private Limited Partner will have the rights to distributions provided in the Act with respect to distributions to be made to limited partners upon withdrawal from a limited partnership.

(b) The Partnership will not make any distribution to any Partner in connection with its withdrawal under any provision of this Agreement or the Act, unless the distribution is permitted by the SBIC Act and SBA has given its consent to such distribution before the distribution is made.

(c) Except in the case of distributions made as permitted under subsection (b), the right of any Partner to receive any distribution from the Partnership as a result of such Partner's withdrawal, including any right any Partner may have as a creditor of the Partnership with respect to the amount of any such distribution, is subordinate to any amount due to SBA by the Partnership.

ARTICLE 9

ACCOUNTS, REPORTS AND AUDITORS

Section 9.01 Books of Account.

(a) The Partnership must maintain books and records in accordance with the provisions of the SBIC Act regarding financial accounts and reporting and, except as otherwise provided in this Agreement, generally accepted accounting principles.

(b) The books and records of the Partnership must be kept at the principal place of business of the Partnership. Each Partner will have access, upon reasonable notice and during regular business hours, to all books and records of the Partnership for all proper purposes as a Partner of the Partnership and shall have such other rights to information about the Partnership as are set forth in the Act.

(c) The Partnership will not be required to disclose, however, any confidential or proprietary information received by the Partnership in connection with its investment operations, except for any disclosure to SBA required by the SBIC Act.

Section 9.02 Audit and Report.

(a) The financial statements of the Partnership must be audited and certified as of the end of each fiscal year by a firm of independent certified public accountants selected by the Partnership.

(b) After the end of each fiscal year of the Partnership, the General Partner shall cause an audit of the Partnership's financial statements for such year to be made by its auditors and shall cause a copy of such audited financial statements to be delivered to each Partner. With respect to each tax year of the Partnership, the General Partner shall prepare or have prepared the appropriate state and federal income tax returns and other appropriate tax returns and information of the Partnership, and shall furnish the appropriate informational tax returns and information to each Partner. The General Partner shall exercise commercially reasonable efforts to cause the reports and other documents to be provided pursuant to this **Section 9.02(b)** to be delivered to each Partner within 120 days of the end of each fiscal year or tax year, as applicable, it being acknowledged that such items may not be available until after the Partnership receives certain year-end reports and tax and other information from its portfolio companies.

(c) Quarterly Reports. The General Partner shall deliver to each Limited Partner reports on the activities and affairs of the Partnership at least quarterly. The General Partner shall exercise commercially reasonable efforts to deliver such reports within 60 days of the end of each fiscal quarter.

Section 9.03 Fiscal Year.

The fiscal year of the Partnership will be a twelve-month year (except for the first and last partial years, if any) ending on December 31.

ARTICLE 10

MISCELLANEOUS

Section 10.01 Assignability.

(a) No Private Limited Partner may assign, pledge or otherwise grant a security interest in its or his interest in the Partnership or in this Agreement, except:

(i) by operation of law;

(ii) to a receiver or trustee in bankruptcy for that Partner; or

(iii) with the prior written consent of the General Partner (which consent may, except in the case of a transfer to an Affiliate of such Private Limited Partner, be withheld in the sole discretion of the General Partner).

(b) No General Partner or Private Limited Partner may transfer any interest of ten percent (10%) or more in the capital of the Partnership without the prior approval of SBA.

(c) The General Partner may not assign, pledge or otherwise grant a security interest in its interest in the Partnership or in this Agreement, except with the prior consent of SBA and the prior approval of eighty **percent (**80**%) in interest of the Private Limited Partners.**

(d) No transfer of any interest in the Partnership will be allowed if such transfer or the actions to be taken in connection with that transfer would:

(i) result in any violation of the SBIC Act;

(ii) result in a violation of any law, rule or regulation by the Partnership;

(iii) cause the termination or dissolution of the Partnership;

(iv) cause the Partnership to be classified other than as a partnership for Federal income tax purposes;

(v) cause the Partnership to be classified as a "publicly traded partnership" within the meaning of Section 469(k)(2) of the Code or for the purposes of Section 512(c)(2) of the Code;

(vi) result in a violation of the Securities Act;

(vii) require the Partnership to register as an investment company under the Investment Company Act;

(viii) require the Partnership, the General Partner or the Investment Adviser/Manager to register as an investment adviser under the Investment Advisers Act;

(ix) result in a termination of the Partnership for Federal or state income tax purposes; or

(x) result in the Partnership's assets being considered as "plan assets" within the meaning of ERISA or any regulations proposed or promulgated thereunder.

(e) If a natural person Private Limited Partner dies or become incapacitated, his or her legal representative will, upon execution of a counterpart of this Agreement, be substituted as a Private Limited Partner, subject to all the terms and conditions of this Agreement.

(f) Any transferee of any interest in the Partnership by a transfer in compliance with this **Section 10.01** will become a substituted Partner under this Agreement upon delivery and execution of a counterpart of this Agreement, will have the same rights and responsibilities under this Agreement as its assignor and will succeed to the Capital Account and balances thereof.

Section 10.02 Binding Agreement.

Subject to the provisions of Section 10.01, this Agreement is binding upon, and inures to the benefit of, the heir, successor, assign, executor, administrator, committee, guardian, conservator or trustee of any Partner.

Section 10.03 Construction.

The article and section headings contained in this Agreement are solely for the purpose of reference and convenience, are not part of the agreement of the parties, and shall not in any way limit, modify or otherwise affect the meaning or interpretation of this Agreement. References herein to "Sections" or "Articles" refer to corresponding Sections or Articles of this Agreement unless otherwise specified. As used herein, except as otherwise specified, the words "include," "including" and variations thereof mean without limitation. Unless the context requires otherwise, words in the singular include the plural, words in the plural include the singular, and the use of any gender shall be applicable to all genders.

Section 10.04 Notices.

(a) All notices under this Agreement must be in writing and may be given by personal delivery, telex, telegram, private courier service or registered or certified mail.

(b) A notice is deemed to have been given:

(i) by personal delivery, telex, telegram, or private courier service, as of the day of delivery of the notice to the addressee; and

(ii) by mail, as of the fifth (5th) day after the notice is mailed.

(c) Notices must be sent to:

(i) the Partnership, at the address of the General Partner in the Certificate of Limited Partnership, or such other address or addresses as to which the Partners have been given notice;

(ii) the Private Limited Partners, at the addresses in Schedule A attached to this Agreement (as Schedule A may be amended from time to time) or such other addresses as to which the Partnership has been given notice; and

(iii) SBA, at the address of the Investment Division of SBA and, if so required under any Section of this Agreement, in duplicate at the address of the Office of the General Counsel of SBA.

Section 10.05 Consents and Approvals.

A consent or approval required to be given by any party under this Agreement will be deemed given and effective for purposes of this Agreement only if the consent or approval is:

(i) given by such party in writing, and

(ii) delivered by such party to the party requesting the consent or approval in the manner provided for notices to such party under Section 10.04.

Section 10.06 Counterparts.

This Agreement and any amendment to this Agreement may be executed in more than one counterpart with the same effect as if the parties executed one counterpart as of the day and year first above written on this Agreement or any such amendment. To be effective, each separate counterpart must be executed by the General Partner.

Section 10.07 Amendments.

(a) This Agreement may not be amended except by an instrument in writing executed by the holders of at least fifty **percent (**50**%) in interest of the Private Limited Partners who have not withdrawn as of the effective date of that amendment and the General Partner, and approved by SBA.**

(b) In addition to the requirements in **Section 10.06** and **Section 10.07(a)**, any amendment that:

(i) increases the amount of a Private Limited Partner's Commitment requires that Partner's consent;

(ii) may cause a Private Limited Partner to become liable as a general partner of the Partnership requires the written consent of all Partners;

(iii) would modify any provision of this Agreement requiring the consent of more than a majority in interest of the Private Limited Partners to a specified action will not be effected without the consent of such greater percentage in interest of the Private Limited Partners; or

(iv) amends this **Section 10.07** requires the consent of all Partners.

(c) Each Private Limited Partner consents to:

(i) the admission of additional Private Limited Partners and the increase in any Private Limited Partner's Commitment in accordance with **Section 5.01**;

(ii) the transfer of a Partner's interest in accordance with **Section 10.01** and the admission of a substituted Partner under such transfer;

(iii) any amendment of this Agreement or the Certificate of Limited Partnership necessary to effect such transfer or admission;

(iv) amendments to the Schedules to this Agreement to update and maintain their accuracy in accordance with the terms of this Agreement; and

(v) any amendment of this Agreement or the Certificate of Limited Partnership to comply with or conform to any amendments of applicable laws governing the Partnership (including any amendment to this Agreement that the General Partner reasonably determines is necessary or advisable in connection with Partnership's efforts to receive a license to operate as an SBIC; *provided*, *however*, that such consent with respect to any such amendment is contingent on the General Partner having reasonably determined that such amendment will not subject any Private Limited Partner to any material adverse economic consequences, alter the liability of any Private Limited Partner, alter or waive the right to receive allocations and distributions that otherwise would be made to any Private Limited Partner, or alter or waive in any material respect any right or interest of any Private Limited Partner or the duties and obligations of the General Partner to the Partnership or any Private Limited Partner).

(d) The General Partner must distribute to each Private Limited Partner and SBA a copy of:

(i) any Certificate of Amendment to the Certificate of Limited Partnership, and

(ii) any amendment to this Agreement.

(e) Copies of any Certificate of Amendment to the Certificate of Limited Partnership, and any amendment to this Agreement must be distributed in the same manner as provided for notices in Section 10.04.

Section 10.08 Power of Attorney.

(a) Each Private Limited Partner appoints the General Partner, and each general partner of the General Partner, as its true and lawful representative and attorney-in-fact, in its name, place and stead, to make, execute, sign and file:

(i) any amendments of this Agreement necessary to reflect:

(A) the transfer of a Partner's interest in accordance with **Section 10.01**;

(B) the admission of a substituted Private Limited Partner under **Section 10.01**;

(C) the admission of an additional Private Limited Partner under **Section 5.01**;

(D) an amendment of this Agreement adopted by the Partners under **Section 10.07**; and

(ii) all instruments, documents and certificates which, from time to time, may be required by the law of the United States of America, the State of Delaware, the State of North Carolina, or any other state in which the Partnership determines to do business, or any political subdivision or agency thereof, to execute, implement and continue the valid and subsisting existence of the Partnership and in conformance to the provisions of this Agreement.

(b) The General Partner and its partners, as representatives and attorneys-in-fact, do not have any rights, powers or authority to amend or modify this Agreement when acting in such capacity, except as expressly provided in this Agreement. This power of attorney is coupled with an interest and will continue in full force and effect notwithstanding the subsequent death or incapacity of such party.

Section 10.09 Applicable Law.

This Agreement is governed by, and construed in accordance with, applicable Federal laws and the laws of the State of Delaware**.**

Section 10.10 Severability.

If any one or more of the provisions contained in this Agreement, or any application of any such provision, is invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement and all other applications of any such provision will not in any way be affected or impaired.

Section 10.11 Entire Agreement.

This Agreement, and all other written agreements executed by or on behalf of the General Partner and/or the Private Limited Partners and executed or approved by SBA, up to and including the date of this Agreement (such other written agreements, collectively, the "SBA Agreements"), state the entire understanding among the parties relating to the subject matter of this Agreement and the SBA Agreements. Any and all prior conversations, correspondence, memoranda or other writings are merged in, and replaced by this Agreement and the SBA Agreements, and are without further effect on this Agreement and the SBA Agreements. No promises, covenants, representations or warranties of any character or nature other than those expressly stated in this Agreement and the SBA Agreements have been made to induce any party to enter into this Agreement or any SBA Agreement.

IN WITNESS WHEREOF, the parties to this Agreement have executed this Agreement as of September 24, 2013.

General Partner:

CapitalSouth Partners SBIC F-III, LLC

By: _____
Joe Alala, III, Managing Member

Private Limited Partner:

CapitalSouth Partners Fund III, L.P.

By: CapitalSouth Partners F-III, LLC

By: _____
Joe Alala, III, Managing Member

[Signatures continued on following pages.]

SCHEDULE A-1

Partners

Partners' Names and Addresses

General Partner:

CapitalSouth Partners SBIC F-III, LLC	1011 East Morehead Street, Suite 150 Charlotte, NC 28204

Class A Limited Partner:

CapitalSouth Partners Fund III, L.P.	1011 East Morehead Street, Suite 150 Charlotte, NC 28204

SCHEDULE A-2

Commitments of the Class A Limited Partner and the General Partner

Partner	Commitment
Class A Limited Partner:	
CapitalSouth Partners Fund III, L.P.	$
General Partner:	
CapitalSouth Partners SBIC F-III, LLC	$

EXHIBIT I

Valuation Guidelines

General

The General Partner has sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

Loans and Investments shall be valued individually and in the aggregate at least semi-annually - as of the end of the second quarter of the fiscal year-end and as of the end of the fiscal year. Fiscal year-end valuations are audited as set forth in SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies.

This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business.

Interest-Bearing Securities

Loans shall be valued in an amount not greater than cost with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivables on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the small concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

The carrying value of interest bearing securities shall not be adjusted for changes in interest rates.

Valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

Equity Securities - Private Companies

Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

The anticipated pricing of a Small Concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of the prior securities.

If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50% of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

Where a company has been self-financing and has had positive cash flow from operations for at least the past two fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity. Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or if of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

Warrants should be valued at the excess of the value of the underlying security over the exercise price.

Equity Securities - Public Companies

Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding two days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding two days.

The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10% to 40%, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10%, and generally by more.

Exhibit h

[FORM OF UNDERWRITING AGREEMENT]

CAPITALA FINANCE CORP.

4,000,000 Shares

Common Stock
($0.01 par value per Share)

UNDERWRITING AGREEMENT

September __, 2013

UNDERWRITING AGREEMENT

September __, 2013

Deutsche Bank Securities Inc.
UBS Securities LLC
Barclays Capital Inc.
as Managing Underwriters
c/o UBS Securities LLC
299 Park Avenue
New York, New York 10171-0026

Ladies and Gentlemen:

Each of Capitala Finance Corp., a Maryland corporation (the "Company"), CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership ("Fund II"), CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership ("Fund III"), Capitala Investment Advisors, LLC, a Delaware limited liability company (the "Advisor"), which has registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder (the "Advisers Act"), and Capitala Advisors Corp., a North Carolina corporation (the "Administrator" and, together with the Company, Fund II, Fund III and the Advisor, the "Capitala Entities") confirms its agreement with the underwriters named in Schedule A annexed hereto (the "Underwriters"), for whom you are acting as representatives, with respect to the issue and sale by the Company to the Underwriters of an aggregate 4,000,000 shares (the "Firm Shares") of common stock, $0.01 par value per share (the "Common Stock"), of the Company. In addition, solely for the purpose of covering over-allotments, the Company proposes to grant to the Underwriters the option to purchase from the Company up to an additional 600,000 shares of Common Stock (the "Additional Shares"). The Firm Shares and the Additional Shares are hereinafter collectively sometimes referred to as the "Shares." The Shares are described in the Prospectus which is referred to below.

Immediately prior to execution and delivery of this Agreement, the Capitala Entities completed a series of transactions described in the Prospectus (as hereinafter defined) under the caption "Formation Transactions" as further detailed in Exhibit A hereto (such transactions being hereinafter referred to collectively as the "Formation Transactions").

As of the time of purchase (as hereinafter defined), the Company will have entered into (i) an Investment Advisory Agreement, dated as of the date hereof (the "Investment Advisory Agreement") with the Advisor and (ii) an Administration Agreement, dated as of the date hereof (the "Administration Agreement") with the Administrator.

The Company has prepared and filed a registration statement on Form N-2 and each of Fund II and Fund III has filed a registration statement on Form N-5 (File Nos. 333-188956, 333-188960 and 333-188961, respectively) including a prospectus, relating to the Shares, and amendments thereto, in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "Act") with the Securities and Exchange Commission (the "Commission").

Pursuant to the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (collectively, the "1940 Act"), the Company, Fund II and Fund III have each filed with the Commission a Notification of Election to be Subject to Sections 55 through 65 of the 1940 Act on Form N-54A (a "BDC Election") (File Nos. [_____], [_____] and [_____], respectively), pursuant to which the Company, Fund II and Fund III each elected to be treated as a business development company ("BDC") under the 1940 Act. The Company also intends to elect to be treated, and intends to qualify annually, as a regulated investment company ("RIC") (within the meaning of Section 851(a) of the Internal Revenue Code of 1986, as amended (the "Code")) commencing with its taxable year ending December 31, 2013.

Except where the context otherwise requires, "Registration Statement," as used herein, means the registration statements, as amended, referred to in the fourth paragraph hereof at the time of such registration statements' effectiveness for purposes of Section 11 of the Act, as such section applies to the respective Underwriters (the "Effective Time"), including (i) all documents filed as a part thereof, (ii) any information contained in a prospectus filed with the Commission pursuant to Rule 497(h) under the Act, to the extent such information is deemed, pursuant to Rule 430A under the Act, to be part of the registration statement at the Effective Time, and (iii) any registration statements filed to register the offer and sale of Shares pursuant to Rule 462(b) under the Act.

Except where the context otherwise requires, "Prospectus," as used herein, means the prospectus, relating to the Shares, filed by the Company with the Commission pursuant to Rule 497(h) under the Act on or before the second business day after the date hereof (or such earlier time as may be required under the Act), or, if no such filing is required, the final prospectus included in the Registration Statement at the time it became effective under the Act, in each case in the form furnished by the Company to you for use by the Underwriters and by dealers in connection with the offering of the Shares.

"Preliminary Prospectus," as used herein, means, as of any time, the prospectus, dated _____, 2013, relating to the Shares that is included in the Registration Statement.

"Exempt Written Communication," as used herein, means each written communication, if any, by the Company or any person authorized to act on behalf of the Company made to one or more qualified institutional buyers ("QIBs") as such term is defined in Rule 144A under the Act and/or one or more institutions that are accredited investors ("IAIs"), as defined in Rule 501(a) under the Act to determine whether such investors might have an interest in a contemplated securities offering.

"Exempt Oral Communication," as used herein, means each oral communication made prior to the filing of the Registration Statement by the Company or any person authorized to act on behalf of the Company made to one or more QIBs and/or one or more IAIs to determine whether such investors might have an interest in a contemplated securities offering.

"Permitted Exempt Written Communication," as used herein, means the documents listed on Schedule B attached hereto.

"Covered Exempt Written Communication," as used herein, means (i) each Exempt Written Communication that is not a Permitted Exempt Written Communication and (ii) each Permitted Exempt Written Communication.

"Disclosure Package," as used herein, means, collectively, the pricing information set forth on Schedule B attached hereto and the Preliminary Prospectus considered together.

"Applicable Time," as used herein, means [_____], 2013 ["A.M." / "P.M."], New York City time, on September [__], 2013.

As used in this Agreement, "business day" shall mean a day on which the NASDAQ Global Select Market (the "NASDAQ") is open for trading. The terms "herein," "hereof," "hereto," "hereinafter" and similar terms, as used in this Agreement, shall in each case refer to this Agreement as a whole and not to any particular section, paragraph, sentence or other subdivision of this Agreement. The term "or," as used herein, is not exclusive.

Each of the Company, Fund II and Fund III have prepared and filed, in accordance with Section 12 of the Exchange Act, a registration statement (as amended, the "Exchange Act Registration Statement") on Form 8-A (File Nos. [_____], [_____] and [_____], respectively) under the Exchange Act to register, under Section 12(b) of the Exchange Act, the class of securities consisting of the Common Stock.

The Capitala Entities and the Underwriters agree as follows:

1. Sale and Purchase. Upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the respective Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase from the Company, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule A attached hereto, subject to adjustment in accordance with Section 10 hereof, in each case at a purchase price of $[_____] per Share. The Company is advised by you that the Underwriters intend (i) to make a public offering of their respective portions of the Firm Shares as soon after the effective date of the Registration Statement as in your judgment is advisable and (ii) initially to offer the Firm Shares upon the terms set forth in the Prospectus. You may from time to time increase or decrease the public offering price after the initial public offering to such extent as you may determine.

In addition, the Company hereby grants to the several Underwriters the option (the "Over-Allotment Option") to purchase, and upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Underwriters shall have the right to purchase, severally and not jointly, from the Company, ratably in accordance with the number of Firm Shares to be purchased by each of them, all or a portion of the Additional Shares as may be necessary to cover over-allotments made in connection with the offering of the Firm Shares, at the same purchase price per share to be paid by the Underwriters to the Company for the Firm Shares. The Over-Allotment Option may be exercised by Deutsche Bank Securities

Inc. ("DB"), UBS Securities LLC ("UBS") and Barclays Capital Inc. ("Barclays" and, together with DB and UBS, the "Managers") on behalf of the several Underwriters at any time and from time to time on or before the thirtieth day following the date of the Prospectus, by written notice to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the Over-Allotment Option is being exercised and the date and time when the Additional Shares are to be delivered (any such date and time being herein referred to as an "additional time of purchase"); provided, however, that no additional time of purchase shall be earlier than the "time of purchase" (as defined below) nor earlier than the second business day after the date on which the Over-Allotment Option shall have been exercised nor later than the tenth business day after the date on which the Over-Allotment Option shall have been exercised. The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same proportion to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter on Schedule A hereto bears to the total number of Firm Shares (subject, in each case, to such adjustment as the Managers may determine to eliminate fractional shares), subject to adjustment in accordance with Section 10 hereof.

2. Payment and Delivery. Payment of the purchase price for the Firm Shares shall be made to the Company by federal funds wire transfer against delivery of the Firm Shares to you through the facilities of The Depository Trust Company ("DTC") for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 A.M., New York City time, on September __, 2013 (unless another time shall be agreed to by you and the Company or unless postponed in accordance with the provisions of Section 10 hereof). The time at which such payment and delivery are to be made is hereinafter sometimes called the "time of purchase." Electronic transfer of the Firm Shares shall be made to you at the time of purchase in such names and in such denominations as you shall specify.

Payment of the purchase price for the Additional Shares shall be made at the additional time of purchase in the same manner and at the same office and time of day as the payment for the Firm Shares. Electronic transfer of the Additional Shares shall be made to you at the additional time of purchase in such names and in such denominations as you shall specify.

Deliveries of the documents described in Section 8 hereof with respect to the purchase of the Shares shall be made at the offices of Morrison & Foerster LLP at 1290 Avenue of the Americas, New York, New York 10104, at 9:00 A.M., New York City time, on the date of the closing of the purchase of the Firm Shares or the Additional Shares, as the case may be.

3. Representations and Warranties of the Capitala Entities. The Capitala Entities, jointly and not severally, represent and warrant to and agree with each of the Underwriters that:

(a) the Registration Statement has heretofore become effective under the Act or, with respect to any registration statement to be filed to register the offer and sale of Shares pursuant to Rule 462(b) under the Act, will be filed with the Commission and become effective under the Act no later than 10:00 P.M., New York City time, on the date of determination of the public offering price for the Shares; no stop order of the Commission preventing or suspending the use of any Preliminary Prospectus, or the effectiveness of the Registration Statement, has been issued, and no proceedings for such

purpose have been instituted or, to the Company's knowledge, are contemplated by the Commission; the Exchange Act Registration Statement has become effective as provided in Section 12 of the Exchange Act;

(b) as of the Effective Time, the Registration Statement complied in all material respects with the requirements of the Act and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the conditions to the use of Form N-2 by the Company and of Form N-5 by each of Fund II and Fund III in connection with the offering and sale of the Shares as contemplated hereby have been satisfied; as of the Applicable Time, the Preliminary Prospectus complied in all material respects with the requirements of the Act (including, without limitation, Section 10(a) of the Act) and the Disclosure Package did not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; the Prospectus will comply, as of its date, the time of purchase and each additional time of purchase, if any, in all material respects, with the requirements of the Act (including, without limitation, Section 10(a) of the Act) and, as of the date the Prospectus is filed with the Commission, the time of purchase and any additional time of purchase, if any, the Prospectus will not, as then amended or supplemented, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Capitala Entities make no representation or warranty in this Section 3(b) with respect to any statement contained in the Registration Statement, the Disclosure Package or the Prospectus made in reliance upon and in conformity with information concerning an Underwriter and furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in the Registration Statement, the Disclosure Package or the Prospectus;

(c) prior to the execution of this Agreement, the Company has not, directly or indirectly, offered or sold any Shares by means of any "prospectus" (within the meaning of the Act) or used any "prospectus" (within the meaning of the Act) in connection with the offer or sale of the Shares, in each case other than the Preliminary Prospectus and the Permitted Exempt Written Communications, if any; the Company has not, directly or indirectly, prepared, used or referred to any free writing prospectus as defined in Rule 405 under the Act; the Preliminary Prospectus is a prospectus that satisfies the requirements of Section 10 of the Act, including a price range where required by rule; the parties hereto agree and understand that the content of any and all Exempt Oral Communications and Covered Exempt Written Communications related to the offering of the Shares contemplated hereby are solely the property of the Company;

(d) as of the date of this Agreement, the Company qualifies as an emerging growth company ("EGC"), as defined in Section 2(a)(19) of the Act;

(e) each Permitted Exempt Written Communication, if any, did not as of its date include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) the Company has, prior to the date of the Preliminary Prospectus, furnished to you a list containing the names of the recipients of all Covered Exempt Written Communications and all Exempt Oral Communications;

(g) the Company has filed publicly on the Commission's EDGAR database at least 21 calendar days prior to any "road show," (as defined in Rule 433 under the Act) any confidentially submitted registration statements and registration amendments relating to the offer and sale of the Shares;

(h) Each Covered Exempt Written Communication, if any, does not as of the date hereof conflict with the information contained in the Registration Statement, the Preliminary Prospectus and the Prospectus;

(i) as of the date of this Agreement, the Company has an authorized and outstanding capitalization as set forth in the sections of the Registration Statement, the Disclosure Package and the Prospectus entitled "Capitalization" and "Description of Our Capital Stock," and, as of the time of purchase and any additional time of purchase, as the case may be, the Company shall have an authorized and outstanding capitalization as set forth in the sections of the Registration Statement, the Disclosure Package and the Prospectus entitled "Capitalization" and "Description of Our Capital Stock"; all of the issued and outstanding shares of capital stock, including the Common Stock, of the Company, including the shares of Common Stock issued in connection with the Formation Transactions, have been duly authorized and validly issued and are fully paid and non-assessable, have been issued in compliance with all applicable securities laws and were not issued in violation of any preemptive right, resale right, right of first refusal or similar right; the Shares are duly listed, and admitted and authorized for trading, subject to official notice of issuance and evidence of satisfactory distribution, on NASDAQ;

(j) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maryland, with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Registration Statement, the Disclosure Package and the Prospectus to execute and deliver this Agreement and to issue, sell and deliver the Shares as contemplated herein;

(k) each of the Company and its Subsidiaries (as defined below) is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, either (i) have a material adverse effect on the business, properties, financial condition, results of operations or prospects of the Company and the Subsidiaries taken as a whole, (ii) prevent or materially interfere

with consummation of the transactions contemplated hereby or (iii) prevent the shares of Common Stock from being accepted for listing on, or result in the delisting of shares of Common Stock from, NASDAQ (the occurrence of any such effect or any such prevention or interference or any such result described in the foregoing clauses (i), (ii) and (iii) being herein referred to as a "Material Adverse Effect");

(l) the Company owns all of the issued and outstanding equity interests of Fund II, Fund III, CapitalSouth Partners F-II, LLC ("Fund II GP") and CapitalSouth Partners SBIC F-III, LLC ("Fund III GP" and, together with Fund II, Fund III and Fund II GP, the "Subsidiaries"); complete and correct copies of the charters documents of the Company and each Subsidiary and all amendments thereto have been delivered to you, and, except as may be set forth in the exhibits to the Registration Statement, no changes therein will be made on or after the date hereof through and including the time of purchase or, if later, any additional time of purchase; each Subsidiary has been duly formed and is validly existing as a limited partnership or limited liability company, as applicable, in good standing under the laws of the jurisdiction of its formation, as applicable, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement, the Disclosure Package and the Prospectus; each Subsidiary is duly qualified to do business as a foreign limited partnership or limited liability company, as applicable, and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Material Adverse Effect; all of the outstanding equity interests of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable, have been issued in compliance with all applicable securities laws, were not issued in violation of any preemptive right, resale right, right of first refusal or similar right and, following the Formation Transactions, are owned by the Company subject to no security interest, other encumbrance or adverse claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of capital stock or ownership interests in the Subsidiaries are outstanding; except for the Subsidiaries and as set forth in the Prospectus under the caption "Portfolio Companies," the Company has no subsidiaries as defined in the Act;

(m) the Shares have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and non-assessable and free of statutory and contractual preemptive rights, resale rights, rights of first refusal and similar rights; the Shares, when issued and delivered against payment therefor as provided herein, will be free of any restriction upon the voting or transfer thereof pursuant to the Maryland General Corporation Law or the Company's charter or bylaws or any agreement or other instrument to which the Company is a party;

(n) the capital stock of the Company, including the Shares, conforms in all material respects to each description thereof, if any, contained in the Registration Statement, the Disclosure Package and the Prospectus; and the certificates for the Shares are in due and proper form;

(o) this Agreement has been duly authorized, executed and delivered by the Capitala Entities;

(p) none of the Company or any of its Subsidiaries is in breach or violation of or in default under (nor has any event occurred which, with notice, lapse of time or both, would result in any breach or violation of, constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) (A) its charter, bylaws, certificate of formation, limited partnership agreement or limited liability company agreement, as the case may be, or (B) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which it is a party or by which it or any of its properties may be bound or affected, or (C) any federal, state, local or foreign law, regulation or rule, or (D) any rule or regulation of any self-regulatory organization or other non-governmental regulatory authority (including, without limitation, the rules and regulations of NASDAQ), or (E) any decree, judgment or order applicable to it or any of its properties;

(q) the execution, delivery and performance of this Agreement, the issuance and sale of the Shares and the consummation of the transactions contemplated hereby will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which, with notice, lapse of time or both, would result in any breach or violation of, constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) (or result in the creation or imposition of a lien, charge or encumbrance on any property or assets of the Company or any Subsidiary pursuant to) (A) charter, bylaws, certificate of formation, limited partnership agreement or limited liability company agreement of the Company or any of the Subsidiaries, as applicable, or (B) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound or affected, or (C) any federal, state, local or foreign law, regulation or rule, or (D) any rule or regulation of any self-regulatory organization or other non-governmental regulatory authority (including, without limitation, the rules and regulations of NASDAQ), or (E) any decree, judgment or order applicable to the Company or any of the Subsidiaries or any of their respective properties;

(r) no approval, authorization, consent or order of or filing with any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency, or of or with any self-regulatory organization or other non-governmental regulatory authority (including, without limitation, NASDAQ) is required in connection with the issuance and sale of the Shares or the consummation by any of the Capitala Entities, Fund II GP or Fund III GP of the Formation Transactions and the other

transactions contemplated hereby, other than (i) registration of the Shares under the Act, which has been effected (or, with respect to any registration statement to be filed hereunder pursuant to Rule 462(b) under the Act, will be effected in accordance herewith), (ii) any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters, (iii) under the rules of the Financial Industry Regulatory Authority, Inc. ("FINRA"), (iv) any listing applications and related consents or any notices required by NASDAQ in the ordinary course of the offering of the Shares, or (v) filings with the Commission pursuant to Rule 497(h) under the Act;

(s) except as described in the Registration Statement (excluding the exhibits thereto), the Preliminary Prospectus and the Prospectus (i) no person has the right, contractual or otherwise, to cause the Company to issue or sell to it any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, (ii) no person has any preemptive rights, resale rights, rights of first refusal or other rights to purchase any shares of Common Stock or shares of any other capital stock of or other equity interests in the Company, (iii) no person has the right to act as an underwriter or as a financial advisor to the Company in connection with the offer and sale of the Shares and (iv) no person has the right, contractual or otherwise, to cause the Company to register under the Act any shares of Common Stock or shares of any other capital stock of or other equity interests in the Company or to include any such shares or interests in the Registration Statement or the offering contemplated thereby;

(t) each of the Company and the Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any applicable law, regulation or rule, and has obtained all necessary licenses, authorizations, consents and approvals from other persons, in order to conduct their respective businesses; neither the Company nor any of the Subsidiaries is in violation of, or in default under, or has received notice of any proceedings relating to revocation or modification of, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of the Subsidiaries, except where such violation, default, revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect;

(u) there are no actions, suits, claims, investigations or proceedings pending or, to the Company's knowledge, threatened or contemplated to which the Company or any of the Subsidiaries or any of their respective directors or officers is or would be a party or of which any of their respective properties is or would be subject at law or in equity, before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency, or before or by any self-regulatory organization or other non-governmental regulatory authority (including, without limitation, NASDAQ), except any such action, suit, claim, investigation or proceeding which, if resolved adversely to the Company or any Subsidiary, would not, individually or in the aggregate, have a Material Adverse Effect;

(v)

(i) Ernst & Young LLP, whose report on the financial statements of the Company is included in the Registration Statement, the Disclosure Package and the Prospectus, are independent registered public accountants as required by the Act and by the rules of the Public Company Accounting Oversight Board;

(ii) Dixon Hughes Goodman LLP, whose reports on the financial statements of Fund II and Fund III are included in the Registration Statement, the Disclosure Package and the Prospectus, are independent registered public accountants as required by the Act and by the rules of the Public Company Accounting Oversight Board;

(w) the financial statements included in the Registration Statement, the Disclosure Package and the Prospectus, together with the related notes and schedules, including the financial statements of Fund II and Fund III, present fairly the financial position of each of the Company, Fund II and Fund III as of the dates indicated and the results of operations, cash flows and changes in stockholders' equity of each of the Company, Fund II and Fund III for the periods specified and have been prepared in compliance with the requirements of the Act and Exchange Act and in conformity with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved; all pro forma financial statements or data included in the Registration Statement, the Disclosure Package and the Prospectus comply with the requirements of the Act and the Exchange Act, and the assumptions used in the preparation of such pro forma financial statements and data are reasonable, the pro forma adjustments used therein are appropriate to give effect to the transactions or circumstances described therein and the pro forma adjustments have been properly applied to the historical amounts in the compilation of those statements and data; the other financial data contained in the Registration Statement, the Disclosure Package and the Prospectus are accurately and fairly presented and prepared on a basis consistent with the financial statements and books and records of each of the Company, Fund II and Fund III; there are no financial statements (historical or pro forma) that are required to be included in the Registration Statement, the Disclosure Package or the Prospectus that are not included as required; each of the Company, Fund II and Fund III does not have any material liabilities or obligations, direct or contingent (including any off-balance sheet obligations), not described in the Registration Statement (excluding the exhibits thereto), the Disclosure Package and the Prospectus; and all disclosures contained in the Registration Statement, the Disclosure Package and the Prospectus regarding "non-GAAP financial measures" (as such term is defined by the rules and regulations of the Commission) comply with Regulation G of the Exchange Act and Item 10 of Regulation S-K under the Act, to the extent applicable;

(x) subsequent to the respective dates as of which information is given in the Registration Statement, the Disclosure Package and the Prospectus, in each case excluding any amendments or supplements to the foregoing made after the execution of this Agreement, there has not been (i) any material adverse change, or any development involving a prospective material adverse change, in the business, properties, management, financial condition or results of operations of the Company and the Subsidiaries taken as a whole, (ii) any transaction that is material to the Company and the

Subsidiaries taken as a whole, (iii) any obligation or liability, direct or contingent (including any off-balance sheet obligations), incurred by the Company or any Subsidiary, that is material to the Company and the Subsidiaries taken as a whole, (iv) any material change in the capital stock or in the outstanding indebtedness of the Company or any of the Subsidiaries taken as a whole or (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any Subsidiary, in each case, other than as contemplated in the Registration Statement, the Disclosure Package and the Prospectus;

(y) the Company has obtained for the benefit of the Underwriters the agreement (a "Lock-Up Agreement"), in the form set forth as Exhibit B hereto, of each of its directors, "officers" (within the meaning of Rule 16a-1(f) under the Exchange Act) and existing stockholders of the Company and the Subsidiaries;

(z) the Company and each of the Subsidiaries have good and marketable title to all property (real and personal, excluding for the purposes of this Section 3(z), Intellectual Property (as defined below)) described in the Registration Statement, the Disclosure Package and the Prospectus as being owned by any of them, free and clear of all liens, claims, security interests or other encumbrances; all the property described in the Registration Statement, the Disclosure Package and the Prospectus as being held under lease by the Company or a Subsidiary is held thereby under valid, subsisting and enforceable leases;

(aa) each of the Company and the Subsidiaries owns or possesses all inventions, patent applications, patents, trademarks (both registered and unregistered), tradenames, service names, copyrights, trade secrets and other proprietary information (collectively, "Intellectual Property") described in the Registration Statement, the Disclosure Package and the Prospectus as being owned or licensed by it or which is necessary for the conduct of, or material to, its businesses, and the Company is unaware of any claim to the contrary or any challenge by any other person to the rights of the Company or any of the Subsidiaries with respect to Intellectual Property; except for matters which would not, individually or in the aggregate, have a Material Adverse Effect, neither the Company nor any of the Subsidiaries has infringed or is infringing the Intellectual Property of a third party, and neither the Company nor any Subsidiary has received notice of a claim by a third party to the contrary;

(bb) except as would not be expected to have a Material Adverse Effect, all tax returns required to be filed by the Company or any of the Subsidiaries have been timely filed (within any applicable time limit extensions permitted by the relevant tax authority), and all taxes and other assessments of a similar nature (whether imposed directly or through withholding) including any interest, additions to tax or penalties applicable thereto due or claimed to be due from such entities have been timely paid, other than those being contested in good faith and for which adequate reserves have been provided;

(cc) the Company and each of the Subsidiaries maintain insurance covering their respective properties, operations, personnel and businesses as the Company reasonably deems adequate; such insurance insures against such losses and risks to an extent which is adequate in accordance with customary industry practice to protect the Company and the Subsidiaries and their respective businesses; all such insurance is fully in force on the date hereof and will be fully in force at the time of purchase and each additional time of purchase, if any; neither the Company nor any Subsidiary has reason to believe that it will not be able to (i) renew any such insurance as and when such insurance expires or (ii) obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted at a cost that would not result in any Material Adverse Effect; the Capitala Entities' fidelity bond required by Rule 17g-1 under the 1940 Act is subject to legal and valid binders and is in full force and effect; each Capitala Entity is in compliance with the terms of such fidelity bond in all material respects; there are no claims by any Capitala Entity under any such fidelity bond as to which any insurance company is denying liability or defending under a reservation of rights clause;

(dd) neither the Company nor any Subsidiary has sent or received any communication regarding termination of, or intent not to renew, any of the agreements referred to or described in any Preliminary Prospectus or the Prospectus, or referred to or described in, or filed as an exhibit to, the Registration Statement, and no such termination or non-renewal has been threatened by the Company or any Subsidiary or, to the Company's knowledge, any other party to any such contract or agreement;

(ee) the Company and each of the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences;

(ff) the Company has established and maintains "disclosure controls and procedures" (as such term is defined in Rule 13a-15 and 15d-15 under the Exchange Act) and "internal control over financial reporting" (as such term is defined in Rule 13a-15 and 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's Chief Executive Officer and its Chief Financial Officer by others within those entities, and such disclosure controls and procedures are effective to perform the functions for which they were established; the Company's independent registered public accountants and the Audit Committee of the Board of Directors of the Company have been advised of: (i) all significant deficiencies, if any, in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data; and (ii) all fraud, if any, whether or not material, that involves management or other employees who have a role in the Company's internal controls; all "significant deficiencies" and

"material weaknesses" (as such terms are defined in Rule 1-02(a)(4) of Regulation S-X under the Act) of the Company, if any, have been identified to the Company's independent registered public accountants and are disclosed in the Registration Statement (excluding the exhibits thereto), the Preliminary Prospectus and the Prospectus; since the date of the most recent evaluation of such disclosure controls and procedures and internal controls, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses; and the Company has taken all necessary actions to ensure that, upon and at all times after the filing of the Registration Statement, the Company and the Subsidiaries and their respective officers and directors, in their capacities as such, will be in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and regulations promulgated thereunder;

(gg) all statistical or market-related data included in the Registration Statement, the Disclosure Package and the Prospectus are based on or derived from sources that the Company reasonably believes to be reliable and accurate;

(hh) neither the Company nor any of the Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of the Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "Foreign Corrupt Practices Act"); and the Company, the Subsidiaries and, to the knowledge of the Company, its affiliates have instituted and maintain policies and procedures designed to ensure continued compliance therewith;

(ii) the operations of the Company and the Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the applicable money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency in each case, to the extent applicable to the Company and the Subsidiaries (collectively, the "Money Laundering Laws"); and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator or non-governmental authority involving the Company or any of the Subsidiaries with respect to the Money Laundering Laws is pending or, to the Company's knowledge, threatened;

(jj) neither the Company nor any of the Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of the Subsidiaries is currently subject to any sanctions administered or enforced by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly use the proceeds of the offering of the Shares contemplated hereby, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other person or entity for the purpose of financing the activities of any person currently subject to any sanctions administered or enforced by OFAC;

(kk) no Subsidiary is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such Subsidiary's capital stock, from repaying to the Company any loans or advances to such Subsidiary from the Company or from transferring any of such Subsidiary's property or assets to the Company or any other Subsidiary of the Company, except as described in the Registration Statement (excluding the exhibits thereto), each Preliminary Prospectus and the Prospectus;

(ll) except pursuant to this Agreement, neither the Company nor any of the Subsidiaries has incurred any liability for any finder's or broker's fee or agent's commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby or by the Registration Statement;

(mm) neither the Company nor any of the Subsidiaries nor, to their knowledge, any of their respective directors or officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(nn) to the Company's knowledge, there are no affiliations or associations between (i) any member of FINRA and (ii) the Company or any of the Company's officers, directors or 5% or greater security holders or any beneficial owner of the Company's unregistered equity securities that were acquired at any time on or after the 180th day immediately preceding the date the Registration Statement was initially confidentially submitted to the Commission, except as disclosed in the Disclosure Package and the Prospectus;

(oo) Each of the Company and the Subsidiaries have duly authorized, executed and delivered agreements required to make the investments described in the Disclosure Package and the Prospectus under the caption "Portfolio Companies" (each a "Portfolio Company Agreement"). Except as otherwise disclosed in the Disclosure Package and the Prospectus, to the knowledge of the Company, each of the Portfolio Companies is current in all material respects with all of its obligations under the applicable Portfolio Company Agreement, and no event of default (or a default which with the giving of notice or the passage of time would become an event of default) has occurred under such agreements, except to the extent that any such failure to be current in its obligations and any such default would not reasonably be expected to result in a Material Adverse Effect;

(pp) Except as disclosed in the Prospectus, no person is serving or acting as an investment adviser, officer or director of any of the Capitala Entities, Fund II GP or Fund III GP except in accordance with the applicable provisions of the 1940 Act. Except as disclosed in the Registration Statement, the Disclosure Package and the Prospectus, no director of any of the Capitala Entities, Fund II GP or Fund III GP is (i) an "interested

person" (as defined in the 1940 Act) of any of the Capitala Entities, Fund II GP or Fund III GP or (ii) an "affiliated person" (as defined in the 1940 Act) of any Underwriter. For purposes of this Section 3(pp), the Capitala Entities shall be entitled to reasonably rely on representations from such officers and directors;

(qq) Each of the Company, Fund II and Fund III has filed a BDC Election and, accordingly, has duly elected to be subject to the provisions of Sections 55 through 65 of the 1940 Act. At the time each of the Company's, Fund II's and Fund III's BDC Election was filed with the Commission, each (i) contained all statements required to be stated therein in accordance with, and complied in all material respect with the requirements of, the 1940 Act and (ii) did not include any untrue statement of material fact or omit to state a material fact necessary to make the statements therein not misleading. None of the Company, Fund II of Fund III has filed with the Commission any notice of withdrawal of a BDC Election pursuant to Section 54(c) of the 1940 Act, each BDC Election remains in full force and effect, and, to Company's, Fund II's and Fund III's knowledge, as applicable, no order of suspension or revocation of a BDC Election under the 1940 Act has been issued or proceedings therefore initiated or threatened by the Commission. The operations of the Company, Fund II and Fund III are in compliance in all material respects with the provisions of the 1940 Act, including the provisions applicable to BDCs;

(rr) Each of the Formation Transaction Agreements and any other agreements and instruments executed, delivered and/or filed with the appropriate state authorities has been duly authorized by all necessary corporate or other action, including required approvals of the former limited partners of Fund II and Fund III and CapitalSouth Partners Fund III, L.P. and the former members of Fund II GP and Fund III GP, and are legal, valid, binding and enforceable in accordance with their respective terms;

(ss) The Company has entered into or adopted (i) a Custody Agreement with U.S. Bank National Association that complies with Section 17(f) of the 1940 Act, (ii) a Transfer Agency and Registrar Services Agreement with American Stock Transfer &Trust Company, LLC, which, among other matters, will implement the Company's dividend reinvestment plan, (iii) the Investment Advisory Agreement, (iv) the Administration Agreement, and (v) the Formation Transaction Agreements (all such agreements being herein referred to collectively as the "Material Agreements"). Each Material Agreement required to be described in the Disclosure Package and Prospectus has been accurately and fully described in all material respects. Neither the Company nor any of the Subsidiaries has sent or received notice of, or otherwise communicated or received communication with respect to, termination of any Material Agreement, nor has any such termination been threatened by any person;

(tt) Each of the Capitala Entities has complied with all agreements and satisfied all conditions on its part to be performed or satisfied in connection with the Formation Transactions as required by applicable law, the Formation Transaction Agreements and each of the Capitala Entities' charter and operating documents, and the Formation Transactions have been consummated. The entry by the Company and the

Subsidiaries and any of their respective affiliates into the Formation Transactions and the taking by any such party of any and all actions permitted and/or required in connection with, and the consummation of the Formation Transactions contemplated in the Preliminary Prospectus (including, without limitation, any and all actions required and/or permitted in connection with the transfer of shares of Common Stock to Fund II's and Fund III's former limited partners and to Fund II GP's and Fund III GP's former members) have been duly authorized by all necessary corporate or other required action and do not and will not, whether with or without the giving of notice or passage of time or both, result in any violation of the provisions of the charter, bylaws and other organizational documents of either the Company, Fund II or Fund III, each as amended from time to time, or any statute, law, rule, regulation, filing, judgment, order, injunction, writ or decree applicable to the Company, Fund II or Fund III or any of their assets, properties or operations as would not, individually or in the aggregate, result in a Material Adverse Effect. All necessary or required filings with, or authorizations, approvals, consents, licenses, orders, registrations, qualifications or decrees of, any court or governmental authority or agency (including, without limitation, the United States Small Business Administration (the "SBA")), domestic or foreign, in connection with the execution, delivery and/or performance of the Formation Transaction Agreements and consummation of the Formation Transactions have been obtained, and any and all necessary or required authorizations, approvals, votes or other consents of any other person or entity for the performance by the Company, Fund II or Fund III of their respective obligations in connection therewith, or the consummation of the transactions contemplated thereby, have been obtained;

(uu) Each of Fund II and Fund III is licensed to operate as a Small Business Investment Company ("SBIC") by the SBA. Each of Fund II's and Fund III's SBIC license is in good standing with the SBA and no adverse regulatory findings contained in any examinations reports prepared by the SBA regarding either Fund II or Fund III are outstanding or unresolved. The method of operation of each of Fund II and Fund III will permit it to continue to meet the requirements for qualification as an SBIC, subject to SBA approval, and the SBA has approved the change of control resulting from the Formation Transactions;

(vv) Each of Fund II and Fund III is eligible to sell securities guaranteed by the SBA. Neither Fund II nor Fund III is in default under the terms of any debenture that it has issued to the SBA for guaranty by the SBA or under any other material monetary obligation.

In addition, any certificate signed by any officer of the Company or any of the Subsidiaries and delivered to any Underwriter or counsel for the Underwriters in connection with the offering of the Shares shall be deemed to be a representation and warranty by the Capitala Entities, as to matters covered thereby, to each Underwriter.

4. Representations and Warranties of the Advisor. The Advisor represents and warrants to and agrees with each of the Underwriters that:

(a) With respect to the Advisor, except as otherwise disclosed in the Disclosure Package and the Prospectus, subsequent to the respective dates as of which information is given in the Disclosure Package and the Prospectus: (i) there has been no material adverse change, or any development that could reasonably be expected to (x) have a material adverse effect on the business, properties, financial condition, results of operations or prospects of the Advisor, (y) prevent or materially interfere with consummation of the transactions contemplated hereby or (z) prevent the shares of Common Stock from being accepted for listing on, or result in the delisting of shares of Common Stock from, NASDAQ (the occurrence of any such effect or any such prevention or interference or any such result described in the foregoing clauses (x), (y) and (z) being herein referred to as an "Advisor Material Adverse Effect") and (ii) the Advisor has not incurred any material liability or obligation, indirect, direct or contingent, not in the ordinary course of business or entered into any material transaction or agreement not in the ordinary course of business;

(b) The Advisor is a limited liability company that is duly formed and validly existing as a limited liability company under the laws of the state of Delaware and is duly qualified as a foreign limited liability company to transact business, and is in good standing in each jurisdiction in which such qualification is required whether by reason of ownership or leasing of property or the conduct of business, except for such jurisdictions where the failure to so qualify or be in good standing would not, individually or in the aggregate, have an Advisor Material Adverse Effect;

(c) The Advisor is not in violation of or default under: (i) its certificate of formation or other organizational documents; (ii) any indenture, mortgage, loan or credit agreement, note, contract, franchise, lease or other instrument; or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over it or any of its properties, as applicable, except with respect to clauses (ii) and (iii) herein, for such violations or defaults as would not, individually or in the aggregate, have an Advisor Material Adverse Effect;

(d) The Advisor's execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby and by the Prospectus and the Disclosure Package (i) have been duly authorized by all necessary corporate action and will not result in any violation of the provisions of the organizational documents of the Advisor, (ii) will not conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Advisor pursuant to, or require the consent of any other party to, any existing instrument, except for such conflicts, breaches, defaults, liens, charges or encumbrances as would not, individually or in the aggregate, result in an Advisor Material Adverse Effect and (iii) will not result in any violation of any law, administrative regulation or administrative or court decree applicable to the Advisor. No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency, is required for the Advisor's execution, delivery and performance of this Agreement or consummation of the transactions

contemplated hereby and by the Prospectus and the Disclosure Package, except such as have already been obtained or made under the Act and the 1940 Act and such as may be required under any applicable state securities or blue sky laws or from FINRA;

(e) The Advisor possesses such valid and current certificates, authorizations or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct its business, and the Advisor has not received any notice of proceedings relating to the revocation or modification of, or non-compliance with, any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, could reasonably be expected to result in an Advisor Material Adverse Effect;

(f) There is no legal suit, proceeding or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Advisor, threatened, against the Advisor, which is required to be disclosed in the Registration Statement, the Prospectus or the Disclosure Package (other than as disclosed therein), or which might reasonably be expected to result in an Advisor Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in this Agreement, or the performance by the Advisor of its obligations hereunder or under the Investment Advisory Agreement. The aggregate of all pending legal or governmental proceedings to which either the Advisor is a party or of which any of its property or assets is the subject which are not described in the Registration Statement, the Prospectus or the Disclosure Package, including ordinary routine litigation incidental to the business, could not reasonably be expected to have an Advisor Material Adverse Effect;

(g) The description of the Advisor and its business, and the statements attributable to the Advisor, in the Registration Statement and the Prospectus complied and comply in all material respects with the provisions of the Act, the 1940 Act and the Advisers Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(h) The Advisor is registered as an investment adviser under the Advisers Act and is not prohibited by the Advisers Act or the 1940 Act from acting under the Investment Advisory Agreement as an investment advisor for the Company as contemplated by the Prospectus and the Disclosure Package;

(i) The Advisor maintains insurance covering its properties, operations, personnel and business as it deems adequate; such insurance insures against such losses and risks to an extent which is adequate in accordance with customary industry practice to protect the Advisor and its business;

(j) The Advisor has not taken and will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Common Stock;

(k) Except as disclosed in the Disclosure Package and the Prospectus, the Advisor has no material lending or other relationship with a bank or lending institution affiliated with any of the Underwriters;

(l) The Advisor has the financial and other resources available to it necessary for the performance of its services and obligations as contemplated in the Disclosure Package, the Prospectus, this Agreement and the Investment Advisory Agreement and the Advisor owns, leases or has access to all properties and other assets that are necessary to the conduct of its business and to perform the services, as described in the Registration Statement, the Disclosure Package and the Prospectus; and

(m) The Advisor is not aware that (i) any executive, key employee or significant group of employees of the Advisor plans to terminate employment with the Advisor or (ii) any such executive or key employee is subject to any non-compete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Advisor, except where such termination or violation would not reasonably be expected to have an Advsior Material Adverse Effect.

5. Representations and Warranties of the Administrator. The Administrator represents and warrants to and agrees with each of the Underwriters that:

(a) With respect to the Administrator, except as otherwise disclosed in the Disclosure Package and the Prospectus, subsequent to the respective dates as of which information is given in the Disclosure Package and the Prospectus: (i) there has been no material adverse change, or any development that could reasonably be expected to (x) have a material adverse effect on the business, properties, financial condition, results of operations or prospects of the Administrator, (y) prevent or materially interfere with consummation of the transactions contemplated hereby or (z) prevent the shares of Common Stock from being accepted for listing on, or result in the delisting of shares of Common Stock from, NASDAQ (the occurrence of any such effect or any such prevention or interference or any such result described in the foregoing clauses (x), (y) and (z) being herein referred to as an "Administrator Material Adverse Effect"); and (ii) the Administrator has not incurred any material liability or obligation, indirect, direct or contingent, not in the ordinary course of business or entered into any material transaction or agreement not in the ordinary course of business;

(b) The Administrator is a corporation that is duly incorporated and validly existing as a corporation under the laws of the state of North Carolina and is duly qualified as a foreign corporation to transact business, and is in good standing in each jurisdiction in which such qualification is required whether by reason of ownership or leasing of property or the conduct of business, except for such jurisdictions where the failure to so qualify or be in good standing would not, individually or in the aggregate, have an Administrator Material Adverse Effect;

(c) The Administrator is not in violation of or default under: (i) its certificate of incorporation or other organizational documents; (ii) any indenture, mortgage, loan or credit agreement, note, contract, franchise, lease or other instrument; or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over it or any of its properties, as applicable, except with respect to clauses (ii) and (iii) herein, for such violations or defaults as would not, individually or in the aggregate, have an Administrator Material Adverse Effect;

(d) The Administrator's execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby and by the Prospectus and the Disclosure Package (i) have been duly authorized by all necessary corporate action and will not result in any violation of the provisions of the organizational documents of the Administrator, (ii) will not conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Administrator pursuant to, or require the consent of any other party to, any existing instrument, except for such conflicts, breaches, defaults, liens, charges or encumbrances as would not, individually or in the aggregate, result in an Administrator Material Adverse Effect and (iii) will not result in any violation of any law, administrative regulation or administrative or court decree applicable to the Administrator. No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency, is required for the Administrator's execution, delivery and performance of this Agreement or consummation of the transactions contemplated hereby and by the Prospectus and the Disclosure Package, except such as have already been obtained or made under the Act and the 1940 Act and such as may be required under any applicable state securities or blue sky laws or from FINRA;

(e) The Administrator possesses such valid and current certificates, authorizations or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct its business, and the Administrator has not received any notice of proceedings relating to the revocation or modification of, or non-compliance with, any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, could reasonably be expected to result in an Administrator Material Adverse Effect;

(f) There is no legal suit, proceeding or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Administrator, threatened, against the Administrator, which is required to be disclosed in the Registration Statement, the Prospectus or the Disclosure Package (other than as disclosed therein), or which might reasonably be expected to result in an Administrator Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in this Agreement, or the performance by the Administrator of its obligations hereunder or under the Administration Agreement. The aggregate of all pending legal or governmental

proceedings to which either the Administrator is a party or of which any of its property or assets is the subject which are not described in the Registration Statement, the Prospectus or the Disclosure Package, including ordinary routine litigation incidental to the business, could not reasonably be expected to have an Administrator Material Adverse Effect;

(g) The description of the Administrator and its business, and the statements attributable to the Administrator, in the Registration Statement and the Prospectus complied and comply in all material respects with the provisions of the Act and the 1940 Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(h) The Administrator is not prohibited by the Advisers Act or the 1940 Act from acting under the Administration Agreement for the Capitala Entities as contemplated by the Prospectus and the Disclosure Package;

(i) The Administrator maintains insurance covering its properties, operations, personnel and business as it deems adequate; such insurance insures against such losses and risks to an extent which is adequate in accordance with customary industry practice to protect the Administrator and its business;

(j) The Administrator has not taken and will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Common Stock;

(k) Except as disclosed in the Disclosure Package and the Prospectus, the Administrator has no material lending or other relationship with a bank or lending institution affiliated with any of the Underwriters;

(l) The Administrator has the financial and other resources available to it necessary for the performance of its services and obligations as contemplated in the Disclosure Package, the Prospectus, this Agreement and the Administration Agreement and the Administrator owns, leases or has access to all properties and other assets that are necessary to the conduct of its business and to perform the services, as described in the Registration Statement, the Disclosure Package and the Prospectus; and

(m) The Administrator is not aware that (i) any executive, key employee or significant group of employees of the Administrator plans to terminate employment with the Administrator or (ii) any such executive or key employee is subject to any non-compete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Administrator, except where such termination or violation would not reasonably be expected to have an Administrator Material Adverse Effect.

6. Certain Covenants of the Capitala Entities. The Capital Entities agree:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such states or other jurisdictions as you may designate and to maintain such qualifications in effect so long as you may request for the distribution of the Shares; provided, however, that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such jurisdiction (except service of process with respect to the offering and sale of the Shares); and to promptly advise you of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for offer or sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(b) to make available to the Underwriters in New York City, as soon as practicable after this Agreement becomes effective, and thereafter from time to time to furnish to the Underwriters, as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriters may request for the purposes contemplated by the Act; in case any Underwriter is required to deliver, in connection with the sale of the Shares, a prospectus after the nine-month period referred to in Section 10(a)(3) of the Act, the Company will prepare, at its expense, promptly upon request such amendment or amendments to the Registration Statement and the Prospectus as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act;

(c) if, at the time this Agreement is executed and delivered, it is necessary or appropriate for a post-effective amendment to the Registration Statement, or a Registration Statement under Rule 462(b) under the Act, to be filed with the Commission and become effective before the Shares may be sold, the Company will use its best efforts to cause such post-effective amendment or such Registration Statement to be filed and become effective, and will pay any applicable fees in accordance with the Act, as soon as possible; and the Company will advise you promptly and, if requested by you, will confirm such advice in writing, (i) when such post-effective amendment or such Registration Statement has become effective, and (ii) if Rule 430A under the Act is used, when the Prospectus is filed with the Commission pursuant to Rule 497(h) under the Act (which the Company agrees to file in a timely manner in accordance with such Rules);

(d) for so long as a prospectus is required by the Act to be delivered to notify you immediately upon an event that causes the Company to no longer qualify as an EGC;

(e) to advise you promptly, confirming such advice in writing, of any request by the Commission for amendments or supplements to the Registration Statement or the Exchange Act Registration Statement, any Preliminary Prospectus or the Prospectus or for additional information with respect thereto, or of notice of institution of proceedings for, or the entry of a stop order, suspending the effectiveness of the Registration Statement and, if the Commission should enter a stop order suspending the effectiveness of the Registration Statement, to use its best efforts to obtain the lifting or removal of

such order as soon as possible; to advise you promptly of any proposal to amend or supplement the Registration Statement or the Exchange Act Registration Statement, any Preliminary Prospectus or the Prospectus, and to provide you and Underwriters' counsel copies of any such documents for review and comment a reasonable amount of time prior to any proposed filing and to file no such amendment or supplement to which you shall have objected as soon as reasonably practicable in writing;

(f) subject to Section 6(e) hereof, to file promptly all reports and documents and any preliminary or definitive proxy or information statement required to be filed by the Company with the Commission in order to comply with the Exchange Act for so long as a prospectus is required by the Act to be delivered in connection with any sale of Shares;

(g) to advise the Underwriters promptly of the happening of any event within the period during which a prospectus is required by the Act to be delivered in connection with any sale of Shares, which event could require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, and to advise the Underwriters promptly if, during such period, it shall become necessary to amend or supplement the Prospectus to cause the Prospectus to comply with the requirements of the Act, and, in each case, during such time, subject to Section 6(e) hereof, to prepare and furnish, at the Company's expense, to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change or to effect such compliance;

(h) to make generally available (within the meaning of Rule 158 under the Act) to its security holders, and, if not available on the Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR"), to deliver to you, an earnings statement of the Company and the Subsidiaries (which will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve months beginning after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act) as soon as is reasonably practicable after the termination of such twelve-month period but in any case not later than the date determined in accordance with the provisions of the last paragraph of Section 11(a) of the Act and Rule 158(c) thereunder;

(i) to furnish to you two copies of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto) and sufficient copies of the foregoing (other than exhibits) for distribution of a copy to each of the other Underwriters, which obligation may be satisfied by delivery of a .pdf file unless otherwise requested by the Managers;

(j) if requested by you, to furnish to you as early as practicable prior to the time of purchase and any additional time of purchase, as the case may be, but not later than two business days prior thereto, a copy of the latest available unaudited interim and monthly consolidated financial statements, if any, of the Company, provided, however, that the Company shall not be required to furnish any materials pursuant to this clause if such materials are available via EDGAR;

(k) to apply the net proceeds from the sale of the Shares in the manner set forth under the caption "Use of Proceeds" in the Prospectus;

(l) to pay all costs, expenses, fees and taxes in connection with (i) the preparation and filing of the Registration Statement, the Preliminary Prospectus, the Prospectus and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the registration, issue, sale and delivery of the Shares including any stock or transfer taxes and stamp or similar duties payable upon the sale, issuance or delivery of the Shares to the Underwriters, (iii) the producing, word processing and/or printing of this Agreement, any dealer agreements, any Powers of Attorney and any closing documents (including compilations thereof) and the reproduction and/or printing and furnishing of copies of each thereof to the Underwriters and (except closing documents) to dealers (including costs of mailing and shipment), (iv) the qualification of the Shares for offering and sale under state or foreign laws and the determination of their eligibility for investment under state or foreign law (including the reasonable legal fees and filing fees and other disbursements of counsel for the Underwriters relating thereto) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any listing of the Shares on any securities exchange or qualification of the Shares for quotation on NASDAQ and any registration thereof under the Exchange Act, (vi) the fees and disbursements of any transfer agent or registrar for the Shares, (vii) the reasonable costs and expenses incurred by officers of the Company relating to presentations or meetings undertaken in connection with the marketing of the offering and sale of the Shares to prospective investors and the Underwriters' sales forces, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged directly by the Company in connection with the road show presentations, travel, lodging and other expenses incurred by the officers of the Company and any such consultants, and the costs of all Exempt Oral Communications and Covered Exempt Written Communications, (viii) the costs and expenses of qualifying the Shares for inclusion in the book-entry settlement system of the DTC, (ix) the preparation and filing of the Exchange Act Registration Statement, including any amendments thereto, (x) the preparation of stock certificates and (xi) the performance of the Company's other obligations hereunder;

(m) beginning on the date hereof and ending on, and including, the date that is 180 days after the date of the Prospectus (the "Lock-Up Period"), without the prior written consent of the Managers, not to (i) issue, sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act and the rules and regulations of the Commission promulgated thereunder, with respect to, any Common Stock or any other securities of the Company that are

substantially similar to Common Stock, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, (ii) file or cause to become effective a registration statement under the Act relating to the offer and sale of any Common Stock or any other securities of the Company that are substantially similar to Common Stock, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, (iii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock or any other securities of the Company that are substantially similar to Common Stock, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, whether any such transaction is to be settled by delivery of Common Stock or such other securities, in cash or otherwise or (iv) publicly announce an intention to effect any transaction specified in clause (i), (ii) or (iii), except, in each case, for the registration of the offer and sale of the Shares as contemplated by this Agreement and the issuance of shares pursuant to the Company's dividend reinvestment plan;

(n) until the closing of the purchase of the Firm Shares, to provide you with reasonable advance notice of and opportunity to comment on any press release or other communication directly or indirectly and hold no press conferences with respect to the Company or any Subsidiary, the financial condition, results of operations, business, properties, assets, or liabilities of the Company or any Subsidiary, or the offering of the Shares, and to issue no such press release or communications or hold such press conference without your prior consent;

(o) not, at any time at or after the execution of this Agreement, to, directly or indirectly, offer or sell any Shares by means of any "prospectus" (within the meaning of the Act), or use any "prospectus" (within the meaning of the Act) in connection with the offer or sale of the Shares, in each case other than the Prospectus;

(p) not to, and to cause the Subsidiaries not to, take, directly or indirectly, any action designed, or which will constitute, or has constituted, or might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(q) to use its best efforts to cause the Shares to be listed for quotation on NASDAQ and to maintain such listing for quotation on NASDAQ;

(r) to use its best efforts to cause each of Fund II and Fund III to continue to comply with the requirements for qualification as an SBIC and to meet its obligations as an SBIC licensed by the SBA;

(s) to maintain a transfer agent and, if necessary, under the jurisdiction of incorporation of the Company, a registrar for the Common Stock; and

(t) to announce the Underwriters' intention to release any director or "officer" (within the meaning of Rule 16a-1(f) under the Exchange Act) of the Company from any of the restrictions imposed by any Lock-Up Agreement, by issuing, through a major news service, a press release, the form of which is attached as Exhibit B-2 hereto, that is satisfactory to the Managers, promptly following the Company's receipt of any notification from the Managers in which the Underwriters indicate such intention, but in any case not later than the close of the second business day prior to the date on which such release or waiver is to become effective; provided, however, that nothing shall prevent the Managers, on behalf of the Underwriters, from announcing the same through a major news service, irrespective of whether the Company has made the required announcement; and further provided that no such announcement shall be made of any release or waiver granted solely to permit a transfer of securities that is not for consideration and where the transferee has agreed in writing to be bound by the terms of a Lock-Up Agreement in the form set forth as Exhibit B hereto.

7. Reimbursement of the Underwriters' Expenses. If, after the execution and delivery of this Agreement, the Shares are not delivered for any reason other than the termination of this Agreement pursuant to clause (2) of the second paragraph of Section 9 or the fifth paragraph of Section 10 hereof or the default by one or more of the Underwriters in its or their respective obligations hereunder, the Company shall, in addition to paying the amounts described in Section 6(l) hereof, reimburse the Underwriters for all of their reasonable out-of-pocket expenses, including the reasonable fees and disbursements of their counsel.

8. Conditions of the Underwriters' Obligations. The several obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Capitala Entities on the date hereof, at the time of purchase and, if applicable, at the additional time of purchase, the performance by the Capitala Entities of their obligations hereunder and to the following additional conditions precedent:

(a) The Company shall furnish to you at the time of purchase and, if applicable, at the additional time of purchase, an opinion of Sutherland Asbill & Brennan LLP, counsel for the Company, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with executed copies for each Underwriter, and in form and substance satisfactory to the Managers, in the form set forth in Exhibit C hereto.

(b) The Company shall furnish to you at the time of purchase and, if applicable, at the additional time of purchase, an opinion of Robinson, Bradshaw & Hinson, P.A. counsel for the Company, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with executed copies for each Underwriter, and in form and substance satisfactory to the Managers, in the form set forth in Exhibit D hereto.

(c)

(i) You shall have received from Ernst & Young LLP letters dated, respectively, the date of this Agreement, the date of the Prospectus, the time of purchase and, if applicable, the additional time of purchase, and addressed to the Underwriters (with executed copies for each Underwriter) in the forms satisfactory to the Managers, which letters shall cover, without limitation, the various financial disclosures relating to the Company contained in the Registration Statement, the Disclosure Package and the Prospectus.

(ii) You shall have received from Dixon Hughes Goodman LLP letters dated, respectively, the date of this Agreement, the date of the Prospectus, the time of purchase and, if applicable, the additional time of purchase, and addressed to the Underwriters (with executed copies for each Underwriter) in the forms satisfactory to the Managers, which letters shall cover, without limitation, the various financial disclosures relating to Fund II and Fund III contained in the Registration Statement, the Disclosure Package and the Prospectus.

(d) You shall have received at the time of purchase and, if applicable, at the additional time of purchase, the favorable opinion of Morrison & Foerster LLP, counsel for the Underwriters, dated the time of purchase or the additional time of purchase, as the case may be, in form and substance reasonably satisfactory to the Managers.

(e) No Prospectus or amendment or supplement to the Registration Statement or the Prospectus shall have been filed to which you shall have objected in writing.

(f) The Registration Statement, the Exchange Act Registration Statement and any registration statement required to be filed, prior to the sale of the Shares, under the Act pursuant to Rule 462(b) shall have been filed and shall have become effective under the Act or the Exchange Act, as the case may be. If Rule 430A under the Act is used, the Prospectus shall have been filed with the Commission pursuant to Rule 497(h) under the Act at or before 5:30 P.M., New York City time, on the second full business day after the date of this Agreement (or such earlier time as may be required under the Act).

(g) Prior to and at the time of purchase, and, if applicable, the additional time of purchase, (i) no stop order with respect to the effectiveness of the Registration Statement shall have been issued under the Act or proceedings initiated under Section 8(d) or 8(e) of the Act; (ii) the Registration Statement and all amendments thereto shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; (iii) neither the Preliminary Prospectus nor the Prospectus, and no amendment or supplement thereto, shall include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading; (iv) no Disclosure Package, and no amendment or supplement thereto, shall include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading; and (v) none of the Permitted Exempt Written Communications, if any, shall include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(h) Each of the Capitala Entities will, at the time of purchase and, if applicable, at the additional time of purchase, deliver to you (i) a certificate of its Chief Executive Officer and its Chief Financial Officer, dated the time of purchase or the additional time of purchase, as the case may be, in the form attached as Exhibit E hereto, and (ii) a certificate of its Chief Financial Officer dated the time of purchase or the additional time of purchase, as the case may be, with respect to certain financial information in the Registration Statement, in form and substance reasonably acceptable to the Underwriters.

(i) You shall have received each of the signed Lock-Up Agreements referred to in Section 3(y) hereof, and each such Lock-Up Agreement shall be in full force and effect at the time of purchase and the additional time of purchase, as the case may be.

(j) The Company shall have furnished to you such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement, any Preliminary Prospectus or the Prospectus as of the time of purchase and, if applicable, the additional time of purchase, as you may reasonably request.

(k) The Shares shall have been approved for quotation on NASDAQ, subject only to notice of issuance at or prior to the time of purchase or the additional time of purchase, as the case may be.

(l) FINRA shall not have raised any objection with respect to the fairness or reasonableness of the underwriting, or other arrangements of the transactions, contemplated hereby.

9. Effective Date of Agreement; Termination. This Agreement shall become effective when the parties hereto have executed and delivered this Agreement.

The obligations of the several Underwriters hereunder shall be subject to termination in the absolute discretion of the Managers, if (1) since the time of execution of this Agreement or the earlier respective dates as of which information is given in the Registration Statement, the Disclosure Package and the Prospectus there has been any change or any development involving a prospective change in the business, properties, management, financial condition or results of operations of the Company and the Subsidiaries taken as a whole, the effect of which change or development is, in the judgment of the Managers, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement, the Disclosure Package and the Prospectus or (2) since the time of execution of this Agreement, there shall have occurred: (A) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, NYSE MKT LLC or NASDAQ; (B) a suspension or material limitation in trading in the Company's securities on NASDAQ; (C) a general moratorium on commercial banking activities declared by either federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (D) an outbreak or escalation of hostilities or acts of terrorism involving the United States or a declaration by the United States of a national emergency or war; or (E) any other calamity or crisis or any change in financial, political or

economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (D) or (E), in the judgment of the Managers, makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement, the Disclosure Package and the Prospectus.

If the Managers elect to terminate this Agreement as provided in this Section 9, the Capital Entities and each other Underwriter shall be notified promptly in writing.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement, or if such sale is not carried out because the Capitala Entities shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 6(l), 7 and 11 hereof), and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 11 hereof) or to one another hereunder.

10. Increase in Underwriters' Commitments. Subject to Sections 8 and 9 hereof, if any Underwriter shall default in its obligation to take up and pay for the Firm Shares to be purchased by it hereunder (otherwise than for a failure of a condition set forth in Section 8 hereof or a reason sufficient to justify the termination of this Agreement under the provisions of Section 9 hereof) and if the number of Firm Shares which all Underwriters so defaulting shall have agreed but failed to take up and pay for does not exceed 10% of the total number of Firm Shares, the non-defaulting Underwriters (including the Underwriters, if any, substituted in the manner set forth below) shall take up and pay for (in addition to the aggregate number of Firm Shares they are obligated to purchase pursuant to Section 1 hereof) the number of Firm Shares agreed to be purchased by all such defaulting Underwriters, as hereinafter provided. Such Shares shall be taken up and paid for by such non-defaulting Underwriters in such amount or amounts as you may designate with the consent of each Underwriter so designated or, in the event no such designation is made, such Shares shall be taken up and paid for by all non-defaulting Underwriters pro rata in proportion to the aggregate number of Firm Shares set forth opposite the names of such non-defaulting Underwriters in Schedule A.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company agrees with the non-defaulting Underwriters that it will not sell any Firm Shares hereunder unless all of the Firm Shares are purchased by the Underwriters (or by substituted Underwriters selected by you with the approval of the Company or selected by the Company with your approval).

If a new Underwriter or Underwriters are substituted by the Underwriters or by the Company for a defaulting Underwriter or Underwriters in accordance with the foregoing provision, the Company or you shall have the right to postpone the time of purchase for a period not exceeding five business days in order that any necessary changes in the Registration Statement and the Prospectus and other documents may be effected.

The term "Underwriter" as used in this Agreement shall refer to and include any Underwriter substituted under this Section 10 with like effect as if such substituted Underwriter had originally been named in Schedule A hereto.

If the aggregate number of Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase exceeds 10% of the total number of Firm Shares which all Underwriters agreed to purchase hereunder, and if neither the non-defaulting Underwriters nor the Company shall make arrangements within the five business day period stated above for the purchase of all the Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall terminate without further act or deed and without any liability on the part of the Company to any Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company. Nothing in this paragraph, and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

11. Indemnity and Contribution.

(a) The Capitala Entities jointly and not severally agree to indemnify, defend and hold harmless each Underwriter, its partners, directors, officers and members, any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and any "affiliate" (within the meaning of Rule 405 under the Act) of such Underwriter, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as any such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in, and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in, the Registration Statement or arises out of or is based upon any omission or alleged omission to state a material fact in the Registration Statement in connection with such information, which material fact was not contained in such information and which material fact was required to be stated in such Registration Statement or was necessary to make such information not misleading or (ii) any untrue statement or alleged untrue statement of a material fact included in any Prospectus (the term Prospectus for the purpose of this Section 11 being deemed to include the Preliminary Prospectus, the Prospectus and any amendments or supplements to the foregoing), in any Covered Exempt Written Communication, in any "issuer information" (as defined in Rule 433 under the Act) of the Company or in any Prospectus together with any Covered Exempt Written Communications or arises out of or is based upon any omission or alleged omission to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except, with respect to such Prospectus or any Permitted Exempt Written

Communication, insofar as any such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in, and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in, such Prospectus or Permitted Exempt Written Communication or arises out of or is based upon any omission or alleged omission to state a material fact in such Prospectus or Permitted Exempt Written Communication in connection with such information, which material fact was not contained in such information and which material fact was necessary in order to make the statements in such information, in the light of the circumstances under which they were made, not misleading, and will reimburse each "indemnified party" (defined below) for any legal or other fees or expenses reasonably incurred by such indemnified party in connection with investigating or defending against any loss, damage, expense, liability, claim, action, litigation, investigation or proceeding whatsoever (whether or not such indemnified party is a party thereto), whether threatened or commenced, and in connection with the enforcement of this provision with respect to the above as such fees and expenses are incurred.

(b) Each Underwriter severally agrees to indemnify, defend and hold harmless the Capitala Entities, their directors and officers, and any person who controls the Capitala Entities within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, any "affiliate" (within the meaning of Rule 405 under the Act) of each of the Capitala Entities, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Capitala Entities or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in, and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in, the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact in such Registration Statement in connection with such information, which material fact was not contained in such information and which material fact was required to be stated in such Registration Statement or was necessary to make such information not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in, and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in, a Prospectus or a Permitted Exempt Written Communication, or arises out of or is based upon any omission or alleged omission to state a material fact in such Prospectus or Permitted Exempt Written Communication in connection with such information, which material fact was not contained in such information and which material fact was necessary in order to make the statements in such information, in the light of the circumstances under which they were made, not misleading.

(c) If any action, suit or proceeding (each, a "Proceeding") is brought against a person (an "indemnified party") in respect of which indemnity may be sought against any Capitala Entity or an Underwriter (as applicable, the "indemnifying party") pursuant to subsection (a) or (b), respectively, of this Section 11, such indemnified party shall promptly notify such indemnifying party in writing of the institution of such Proceeding and such indemnifying party shall assume the defense of such Proceeding, including the retention of counsel reasonably satisfactory to such indemnified party, and pay all legal or other fees and expenses related to such Proceeding or incurred in connection with such indemnified party's enforcement of subsection (a) of this Section 11; provided, however, that the omission to so notify such indemnifying party shall not relieve such indemnifying party from any liability that such indemnifying party may have to any indemnified party or otherwise (except to the extent that it has been materially prejudiced by such omission). The indemnified party or parties shall have the right to retain its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the retention of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such Proceeding, (ii) the indemnifying party shall not have, within a reasonable period of time in light of the circumstances, retained counsel to defend such Proceeding or (iii) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them that are different from, additional to or in conflict with those available to such indemnifying party (in which case such indemnifying party shall not have the right to direct the defense of such Proceeding on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such indemnifying party and paid as incurred (it being understood, however, that such indemnifying party shall not be liable for the fees or expenses of more than one separate counsel (in addition to any local counsel) in any one Proceeding or series of related Proceedings in the same jurisdiction representing the indemnified parties who are parties to such Proceeding). The indemnifying party shall not be liable for any settlement of any Proceeding effected without its written consent but, if settled with its written consent, such indemnifying party agrees to indemnify and hold harmless the indemnified party or parties from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second sentence of this Section 11(c), then the indemnifying party agrees that it shall be liable for any settlement of any Proceeding effected without its written consent if (i) such settlement is entered into more than 60 business days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall not have fully reimbursed the indemnified party in accordance with such request prior to the date of such settlement and (iii) such indemnified party shall have given the indemnifying party at least 30 days' prior notice of its intention to settle. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened Proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such Proceeding and does not include an admission of fault or culpability or a failure to act by or on behalf of such indemnified party.

(d) If the indemnification provided for in this Section 11 is unavailable to an indemnified party under subsections (a) and (b) of this Section 11 or insufficient to hold an indemnified party harmless in respect of any losses, damages, expenses, liabilities or claims referred to therein, then each applicable indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Capitala Entities on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Capitala Entities on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, damages, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Capitala Entities on the one hand and the Underwriters on the other shall be deemed to be in the same respective proportions as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company, and the total underwriting discounts and commissions received by the Underwriters, bear to the aggregate public offering price of the Shares. The relative fault of the Capitala Entities on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, damages, expenses, liabilities and claims referred to in this subsection shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating, preparing to defend or defending any Proceeding.

(e) The Capitala Entities and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 11 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in subsection (d) above. Notwithstanding the provisions of this Section 11, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by such Underwriter and distributed to the public were offered to the public exceeds the amount of any damage which such Underwriter has otherwise been required to pay by reason of such untrue statement or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 11 are several in proportion to their respective underwriting commitments and not joint.

(f) The indemnity and contribution agreements contained in this Section 11 and the covenants, warranties and representations of the Capitala Entities contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter, its partners, directors, officers or members or any person (including each partner, officer, director or member of such person) who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors or officers or any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and shall survive any termination of this Agreement or the issuance and delivery of the Shares. The Capitala Entities and each Underwriter agree promptly to notify each other of the commencement of any Proceeding against it and, in the case of the Capitala Entities, against any of the Capitala Entities' officers or directors in connection with the issuance and sale of the Shares, or in connection with the Registration Statement, any Preliminary Prospectus or the Prospectus.

12. Information Furnished by the Underwriters. The statements set forth in the third and eleventh paragraphs under the caption "Underwriting" in the Prospectus, only insofar as such statements relate to the amount of selling concession and reallowance or to over-allotment and stabilization activities that may be undertaken by the Underwriters, constitute the only information furnished by or on behalf of the Underwriters, as such information is referred to in Sections 3(b) and 11(a) hereof.

13. Notices. Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram or facsimile and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to 1285 Avenue of the Americas, New York, New York 10019, Attention: Syndicate / Michael Ryan (fax: (212) 713-3371); and if to the Capitala Entities, shall be sufficient in all respects if delivered or sent to the Company at the offices of the Company at 4201 Congress St., Suite 360, Charlotte, North Carolina 28209 (facsimile: (704) 376-5877), Attention: Joseph B. Alala, III, Chief Executive Officer and President, with a copy to Sutherland Asbill & Brennan LLP, 700 Sixth Street, NW, Suite 700, Washington, District of Columbia 20001, Attention: Steven B. Boehm (fax: (202) 637-3593).

14. Governing Law; Construction. This Agreement and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement ("Claim"), directly or indirectly, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts formed and to be performed entirely within the state of New York without regard to the conflicts of law principles thereof to the extent such principals would require or permit the application of the laws of another jurisdiction. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

15. Submission to Jurisdiction. Except as set forth below, no Claim may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Capitala Entities each consent to the jurisdiction of such courts and personal service with respect thereto. The Capitala Entities each hereby consent to personal jurisdiction,

service and venue in any court in which any Claim arising out of or in any way relating to this Agreement is brought by any third party against any Underwriter or any indemnified party. Each Underwriter and each Capitala Entity (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waive all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement. The Capitala Entities each agree that a final judgment in any such action, proceeding or counterclaim brought in any such court shall be conclusive and binding upon such Capitala Entity and may be enforced in any other courts to the jurisdiction of which such Capitala Entity is or may be subject, by suit upon such judgment.

16. Parties at Interest. The Agreement herein set forth has been and is made solely for the benefit of the Underwriters and the Capitala Entities and to the extent provided in Section 11 hereof the controlling persons, partners, directors, officers, members and affiliates referred to in such Section, and their respective successors, assigns, heirs, personal representatives and executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

17. No Fiduciary Relationship. The Capitala Entities hereby acknowledge that the Underwriters are acting solely as underwriters in connection with the purchase and sale of the Company's securities. The Capitala Entities further acknowledge that the Underwriters are acting pursuant to a contractual relationship created solely by this Agreement entered into on an arm's length basis, and in no event do the parties intend that the Underwriters act or be responsible as a fiduciary to any of the Capitala Entities, their management, stockholders or creditors or any other person in connection with any activity that the Underwriters may undertake or have undertaken in furtherance of the purchase and sale of the Company's securities, either before or after the date hereof. The Underwriters hereby expressly disclaim any fiduciary or similar obligations to the Capitala Entities, either in connection with the transactions contemplated by this Agreement or any matters leading up to such transactions, and the Capitala Entities hereby confirm their understanding and agreement to that effect. The Capitala Entities and the Underwriters agree that they are each responsible for making their own independent judgments with respect to any such transactions and that any opinions or views expressed by the Underwriters to the Company regarding such transactions, including, but not limited to, any opinions or views with respect to the price or market for the Company's securities, do not constitute advice or recommendations to the Company. The Capitala Entities and the Underwriters agree that the Underwriters are acting as principal and not the agent or fiduciary of the Company and no Underwriter has assumed, and none of them will assume, any advisory responsibility in favor of the Company with respect to the transactions contemplated hereby or the process leading thereto (irrespective of whether any Underwriter has advised or is currently advising the Company on other matters). The Capitala Entities hereby waive and release, to the fullest extent permitted by law, any claims that the Capitala Entities may have against the Underwriters with respect to any breach or alleged breach of any fiduciary, advisory or similar duty to the Capitala Entities in connection with the transactions contemplated by this Agreement or any matters leading up to such transactions.

18. Counterparts. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

19. Successors and Assigns. This Agreement shall be binding upon the Underwriters, the Capitala Entities and their successors and assigns and any successor or assign of any substantial portion of the Capitala Entities' and any of the Underwriters' respective businesses and/or assets.

20. Miscellaneous. UBS, an indirect, wholly owned subsidiary of UBS AG, is not a bank and is separate from any affiliated bank, including any U.S. branch or agency of UBS AG. Because UBS is a separately incorporated entity, it is solely responsible for its own contractual obligations and commitments, including obligations with respect to sales and purchases of securities. Securities sold, offered or recommended by UBS are not deposits, are not insured by the Federal Deposit Insurance Corporation, are not guaranteed by a branch or agency, and are not otherwise an obligation or responsibility of a branch or agency.

21. PATRIOT Act. The Company acknowledges that, in accordance with the requirements of the USA PATRIOT Act of 2001, the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients

[***The Remainder of This Page Intentionally Left Blank; Signature Page Follows***]

If the foregoing correctly sets forth the understanding between the Capitala Entities and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this Agreement and your acceptance shall constitute a binding agreement between the Capitala Entities and the several Underwriters.

Very truly yours,

CAPITALA FINANCE CORP.

By: _____
Name:
Title:

CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP

By: _____
Name:
Title:

CAPITALSOUTH PARTNERS SBIC FUND III, L.P.

By: _____
Name:
Title:

CAPITALA INVESTMENT ADVISORS, LLC

By: _____
Name:
Title:

CAPITALA ADVISORS CORP.

By: _____
Name:
Title:

Accepted and agreed to as of the date first above written, on behalf of themselves and the other several Underwriters named in Schedule A

DEUTSCHE BANK SECURITIES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

UBS SECURITIES LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

BARCLAYS CAPITAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

[Form of Purchase and Sale Agreement]

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated September 24, 2013 and effective as of the Effective Date (as defined herein), is by and among Capitala Finance Corp., a Maryland corporation ("Purchaser"), CapitalSouth Partners Fund III, L.P., a Delaware limited partnership ("Seller"), CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership (the "Partnership"), and CapitalSouth Partners SBIC F-III, LLC, a North Carolina limited liability company and the general partner of the Partnership (the "General Partner"). Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Partnership Agreement (as defined herein).

RECITALS:

A. Seller and the General Partner are parties to the Agreement of Limited Partnership of the Partnership, dated as of March 21, 2007 (as amended from time to time, the "Partnership Agreement"), pursuant to which Seller became a limited partner in the Partnership and purchased a limited partnership interest in the Partnership.

B. The Partnership is licensed as a Small Business Investment Company by the United States Small Business Administration (the "SBA").

C. As of the Effective Date, Seller desires to sell, transfer, convey and assign to Purchaser all right, title and interest in and to one hundred percent (100%) of Seller's limited partnership interest in the Partnership (including obligations and liabilities with respect thereto) under the Partnership Agreement (the "Transferred Interest"), and Purchaser desires to purchase, acquire, accept and assume the Transferred Interest and to become a limited partner of the Partnership to the extent of the Transferred Interest (collectively, the "Transaction").

D. In addition to the Transaction, as of the Effective Date, Purchaser also intends to purchase, acquire, and accept all right, title and interest (including obligations and liabilities with respect thereto) in and to the general partner interests of the General Partner in the Partnership, and to become the sole limited partner of the Partnership and the sole owner of the General Partner of the Partnership (collectively with the Transaction, the "Drop-Down Transaction").

E. The closing of the Drop-Down Transaction is conditioned upon receiving approval of the SBA (the "SBA Approval").

F. Purchaser has received and read a copy of the Partnership Agreement and is thoroughly familiar with its terms.

G. Pursuant to the provisions of the Partnership Agreement, any sale, transfer or assignment by Seller of all or a portion of its limited partnership interest in the Partnership requires the consent of the SBA and the General Partner.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Assignment and Assumption.

(a) Assignment of Transferred Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, Seller, effective as of the Effective Date, (A) hereby sells, transfers, conveys and assigns to Purchaser all of Seller's right, title and interest in and to the Transferred Interest free and clear of all liens (the "Transfer") and (B) shall, to the fullest extent permitted by Delaware law, be relieved of all obligations to the Partnership and the General Partner under the Partnership Agreement with respect to the Transferred Interest, but excluding any liabilities or obligations arising from a breach of this Agreement (the obligations described in this subclause (B), the "Transferred Obligations").

(b) Assumption of Transferred Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, Purchaser, effective as of the Effective Date, (A) hereby accepts the Transfer, and (B) ratifies and agrees to be bound by all of the terms and conditions of, and shall succeed to all of the rights and be subject to all of the Transferred Obligations, including without limitation the obligation to make Capital Contributions to the Partnership, with respect to the Transferred Interest from and after the Effective Date.

2. Consideration.

(a) The aggregate consideration payable to Seller on the Effective Date in exchange for the Transferred Interest (the "Consideration") shall consist of a number of shares of common stock, par value $0.01 per share, of Purchaser (collectively, the "Shares"), equal to (i) the Final NAV (as defined below), divided by (ii) $20.00. For these purposes, the following definitions apply:

"Adjustment Period" means the period from but excluding the NAV Determination Date through but excluding the Pricing Date.

"Benchmark NAV" means the aggregate net asset value of the Partnership determined on the NAV Determination Date (but excluding, for the avoidance of doubt, the value attributable to the partnership interests held by the General Partner).

"Final NAV" means (i) the Benchmark NAV, plus (ii) the Net Cash Adjustment (which may be positive or negative).

"NAV Determination Date" shall mean the last day of the last calendar quarter ended prior to the Transaction for which the net asset value of the Partnership was determined in the ordinary course of business.

"Net Cash Adjustment" means (i) capital contributions received by the Partnership during the Adjustment Period, plus (ii) the earnings of the Partnership during the Adjustment Period (determined in accordance with GAAP), minus (iii) cash distributions made by the Partnership during the Adjustment Period, minus (iv) the Partnership's pro rata share (based on the relative asset values of all assets acquired by the Purchaser immediately prior to the IPO) of the aggregate legal, audit, valuation and other costs and expenses incurred in connection with the IPO, the Transaction and the other asset acquisitions being made by the Corporation simultaneously with the Transaction in contemplation of the Purchaser's initial public offering, but excluding underwriting discounts and commissions. For the avoidance of doubt, the Net Cash Adjustment can be a positive or negative number.

"Pricing Date" means the date on which the per-share price of Common Stock to be offered in the IPO is determined.

(b) The Consideration is agreed by Seller and Purchaser to represent the aggregate value of the Transferred Interest, including all rights and Transferred Obligations with respect thereto, as of the Effective Date.

(c) For the avoidance of doubt, all payments to be made to the Partnership with respect to the Transferred Interest from and after the Effective Date, including without limitation Capital Contributions and any other payments or obligations arising from or relating to events occurring prior to the Effective Date, shall be made by Purchaser, and all payments that would otherwise be made by the Partnership to the owner of the Transferred Interest from and after the Effective Date shall be made to Purchaser.

(d) From and after the Effective Time, the General Partner shall cause the Partnership to forgive all Back-Up Commitments (as defined in the Partnership Agreement) of the Class B Limited Partners, and the General Partner shall take, or cause to be taken, such steps as are necessary to document, on behalf of the Partnership, the release of the Class B Limited Partners from their respective Back-Up Commitments.

(e) Following Closing, the Seller shall hold the Shares for the period (the "Lock-Up Period"), and on the terms, set forth in the lock-up agreement executed by the Seller in connection with the IPO; provided, however, that the Shares allocated to a given limited partner of Seller (each, a "Seller Limited Partner") shall be released by Seller to such Seller Limited Partner upon the earlier of (i) the date in which the relevant Seller Limited Partner delivers a lock-up agreement substantially similar to the lock-up agreement executed by Seller, and (ii) expiration of the Lock-Up Period. For the avoidance of doubt, each Seller Limited Partner shall be the beneficial owner of the Shares allocated to it and held by the Seller and shall have the right to vote (or direct the voting of) such Shares on any matter on which shareholders of the Corporation are entitled to vote. Unless otherwise instructed by a Seller Limited Partner with respect to the Shares allocated to such Seller Limited Partner, Seller shall opt out of Buyer's dividend reinvestment program with respect to the Shares it holds.

3. General Partner Consent; Admission as Limited Partner. In reliance upon the representations, warranties and covenants of Seller and Purchaser under this Agreement, the General Partner hereby (i) consents to the transactions contemplated by this Agreement as of the Effective Date; (ii) agrees that Purchaser shall be admitted as a substituted limited partner of the Partnership as of the Effective Date, to the extent of the Transferred Interest, in accordance with the Partnership Agreement; (iii) acknowledges and confirms that this Agreement constitutes documentation in form satisfactory to the General Partner for the Transfer in accordance with the Partnership Agreement; (iv) consents to the amendment of the Partnership Agreement to reflect the substitution of the Purchaser as a limited partner of the Partnership, to implement the changes contemplated by Section 2(d), and to make such other changes as may be requested by Purchaser and approved by the SBA, and (v) waives its right to require, with respect to the Transfer, an opinion of counsel, additional representations and warranties, or any other information the General Partner is entitled to request in connection with the Transfer of the Transferred Interest.

4. Agreements, Representations and Warranties. Seller represents and warrants as of the date hereof and immediately prior to the Effective Date, and (with respect to clause (e)) covenants as follows:

(a) Title to Transferred Interest; Compliance with Laws. Seller owns all right, title and interest (legal and beneficial) in and to the Transferred Interest free and clear of all liens, other than any restrictions under federal and state securities laws. Upon delivery of the Transferred Interest to Purchaser and payment to Seller of the Consideration, Purchaser will acquire good and marketable title to the Transferred Interest free and clear of all liens, other than any liens created by or through Purchaser or any of its Affiliates or any restrictions under federal and state securities laws.

(b) Compliance with Law. Seller's ownership of the Transferred Interest has at all times been conducted in all material respects in accordance with all applicable laws, rules, regulations and other requirements of all governmental authorities or agencies having jurisdictions over Seller.

(c) No Default; No Excuse. Seller has (i) contributed to the Partnership all amounts it was required to contribute, when required to contribute such amounts, pursuant to the terms of the Partnership Agreement, and (ii) paid all management fees due and payable by it pursuant to the terms of the Partnership Agreement, including all such fees through the Effective Date. Seller (A) has not received written notice from the General Partner or the Partnership that it is required to return any distributions or portions of distributions previously received by Seller from the Partnership, and (B) is not in default under the Partnership Agreement. Seller has not (x) made any voluntary Capital Contributions or Commitments to the Partnership, nor to Seller's knowledge have any been made on behalf of it, or (y) opted out of or, to Seller's knowledge, been excluded from, any investments of the Partnership pursuant to the Partnership Agreement.

(d) Good Standing; Requisite Authority; Due Authorization. Seller is duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Seller has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of the obligations to be performed by it hereunder. This Agreement has been duly authorized, executed and delivered by Seller, and, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws of general application affecting enforcement of creditors' rights generally.

(e) Prompt Conveyance. Seller agrees to promptly convey to Purchaser any amounts with respect to the Transferred Interest inadvertently delivered by the Partnership to Seller from and after the Effective Date, and Purchaser agrees to promptly convey to Seller any amounts with respect to the Transferred Interest inadvertently delivered to Purchaser prior to the Effective Date.

5. No Reliance.

(a) Purchaser hereby acknowledges that:

(i) except as otherwise expressly set forth herein, the General Partner and its Affiliates are making no representation as to the accuracy or completeness of any information regarding the Partnership supplied to Purchaser by any Person, including, without limitation, with respect to the Consideration or the valuation of the Transferred Interest;

(ii) Purchaser has had the opportunity to conduct its own due diligence on the Partnership and the Transferred Interest and is relying on no information other than such investigation, the Partnership's most recent quarterly and annual financial statements, and the representations and warranties expressly made to, or for the benefit of, Purchaser in making its decision to purchase the Transferred Interest and invest in the Partnership;

(iii) the General Partner and its Affiliates are not recommending that Purchaser make an investment, and Purchaser must make an independent decision based on the available information and its tolerance for risk; and

(iv) Purchaser has had the opportunity to consult its own tax advisor with respect to the Transferred Interest and the transactions contemplated by this Agreement.

(b) Seller hereby releases and discharges the General Partner, the Partnership and each of their respective directors, officers, partners, members, agents, representatives and advisors (collectively, the "Releasees"), from any and all claims, demands, suits, causes of action, liabilities, obligations, judgments, orders, debts, liens and causes of action of every kind and nature, whether known or unknown, vested or contingent, in law or equity, existing by statute, common law, contract or otherwise, which have existed, may exist in the future or do exist now (collectively, "Liabilities"), relating to or arising out of this Agreement and the transactions contemplated herein, including, without limitation, any Liabilities arising out of or in any way related to or based upon any alleged misrepresentation in or omission from any information relating to the Partnership supplied by the General Partner, except to the extent such Liabilities arise out of fraud or the gross negligence or willful misconduct of the Releasees.

6. Cooperation. Seller, on the one hand, and Purchaser, on the other hand, shall cooperate fully with each other in furnishing any information or performing any action reasonably requested by the other party, which information or action is necessary to the timely and successful consummation of the transactions contemplated by this Agreement.

7. Fees and Expenses. Purchaser covenants that Purchaser shall promptly pay all reasonable out-of-pocket expenses incurred by the Partnership in connection with the Transfer, including, but not limited to, reasonable legal and accounting expenses incurred by the Partnership.

8. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

9. Amendments, Changes and Modifications. This Agreement may not be amended, changed or otherwise modified except by a written instrument executed by the parties hereto.

10. Governing Law. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of Delaware, without regard to the conflict of laws principles thereof that would apply the laws of another jurisdiction.

11. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

12. Effectiveness; Termination. The closing of the Transaction is subject to the Seller's receipt of:

(a) a fully executed signature page of the Partnership Agreement executed by the transferee and executed purchase and sale agreement for the transfer of the general partner interest to be transferred in connection with the Drop-Down Transaction; and

(b) Receipt of SBA Approval (the date of Seller's receipt thereof, the "SBA Approval Date").

The Transaction shall close and be effective as of a specific date to be determined by the Purchaser by written notice to Seller, such date to occur as soon as reasonably practicable (considering only logistics required for closing) following the SBA Approval Date (the "Effective Date"); provided that, if the Effective Date does not occur prior to December 31, 2013, Seller and Purchaser shall each have the right in its sole and absolute discretion to terminate this Agreement by written notice to the other, and in such event this Agreement shall be null and void and of no effect.

13. Survival. The parties' rights and obligations under Sections 4-8, and applicable defined terms shall survive any termination of this Agreement.

14. Notices and Deliveries. Any notice, communication or delivery required or permitted to be given by any provision of this Agreement shall be deemed to have been delivered, given, and received for all purposes when the same is actually received, and may be delivered personally or by courier, delivery service, registered or certified mail (postage and charges prepaid), or facsimile, in each case addressed to the recipient at the address set forth below or at such other address as the recipient may notify the sender in writing:

PURCHASER:	Capitala Finance Corp. 4201 Congress Street, Suite 360 Charlotte, NC 28209 704.376.5502 phone 704.376.5877 fax Contact: Joseph B. Alala, III
SELLER:	CapitalSouth Partners Fund III, L.P. 4201 Congress Street, Suite 360 Charlotte, NC 28209 704.376.5502 phone 704.376.5877 fax Contact: Joseph B. Alala, III
GENERAL PARTNER AND PARTNERSHIP:	CapitalSouth Partners SBIC F-III, LLC CapitalSouth Partners SBIC Fund III, L.P. 4201 Congress Street, Suite 360 Charlotte, NC 28209 704.376.5502 phone 704.376.5877 fax Contact: Joseph B. Alala, III

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written and the Agreement shall be effective as of the Effective Date.

GENERAL PARTNER:

CapitalSouth Partners SBIC F-III, LLC, a North Carolina limited liability company

By: _____
Name:
Title:

SELLER:

CapitalSouth Partners Fund III, L.P., a Delaware limited partnership

By: _____
Name:
Title:

PARTNERSHIP:

CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership

By: **CapitalSouth Partners SBIC F-III, LLC**, a North Carolina limited liability company, its general partner

By: _____
Name:
Title:

PURCHASER:

Capitala Finance Corp., a Maryland corporation

By: _____
Name:
Title:

[Form of Purchase and Sale Agreement]

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated September 24, 2013, is by and among Capitala Finance Corp., a Maryland corporation ("Purchaser"), Atlas Powers Investments, LLC ("Atlas"), Markham Hunt Broyhill ("Broyhill"), and John F. McGlinn ("McGlinn" and, together with Atlas and Broyhill, the "Sellers"), in their capacity as holders of all of the limited liability company interests of CapitalSouth Partners SBIC F-III, LLC (the "General Partner"), a North Carolina limited liability company and the general partner of CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership (the "Partnership"). Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Partnership Agreement (as defined herein).

RECITALS:

A. Sellers owns all of the issued and outstanding limited liability company membership interests (the "Interests") in the General Partner.

B. The ownership of the Interests by Sellers is as set forth in Exhibit A hereto.

C. The Partnership is licensed as a Small Business Investment Company by the United States Small Business Administration (the "SBA").

D. Purchaser has separately entered into an agreement pursuant to which it will acquire all of the issued and outstanding limited partnership interests of the Partnership held by the limited partners of the Partnership (the "LP Transaction").

E. The operation of the General Partner is subject to the terms of its limited liability company operating agreement (the "Operating Agreement").

F. As of the Effective Date (defined below), Sellers desire to sell, transfer, convey and assign to Purchaser all right, title and interest in and to the Interests and Purchaser desires to become the sole owner of the General Partner (the "Transaction").

G. The closing of the Transaction is conditioned upon receiving approval of the SBA.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Assignment and Assumption.

(a) Assignment of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, Sellers hereby sell, transfer, convey and assign to Purchaser all of Sellers' right, title and interest in and to the Interests free and clear of all liens (the "Transfer").

(b) Assumption of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, (A) Purchaser hereby accepts the Transfer, and (B) ratifies and agrees to be bound by all of the terms and conditions of, and shall succeed to all of the rights and be subject to all of the obligations arising under the Operating Agreement with respect to the Interest from and after the Effective Date.

(c) Consent and Waiver. The Sellers and the General Partner each consent to the Transfer pursuant to Section 8.1, to the amendments to be made to the Operating Agreement, and to the admission of the Purchaser as a member of the General Partner, and each hereby waives the application of Section 8.2 of the Operating Agreement to the Transfer.

2. Consideration.

(a) The aggregate consideration payable to Sellers on the Effective Date in exchange for the Interests (the "Consideration") shall consist of $1.00 cash and the assumption of obligations arising under the Operating Agreement with respect to the Interests. The Consideration shall be allocated among Sellers in the manner set forth in Exhibit A.

(b) The Consideration is agreed by Sellers and Purchaser to represent the aggregate value of the Interest, including all rights and obligations with respect thereto, as of the Effective Date.

3. Agreements, Representations and Warranties. Each Seller represents and warrants as to himself or itself as of the date hereof and immediately prior to the Effective Date, and (with respect to clause (e)) covenants as follows:

(a) Title to Interest; Compliance with Laws. Seller owns all right, title and interest (legal and beneficial) in and to the Interest to be sold by Seller hereunder free and clear of all liens, other than any restrictions under federal and state securities laws. Upon delivery of the Interest to Purchaser and payment to Seller of the Consideration, Purchaser will acquire good and marketable title to the Interest free and clear of all liens, other than any liens created by or through Purchaser or any of its Affiliates or any restrictions under federal and state securities laws.

(b) Compliance with Law. Seller's ownership of the Interest has at all times been conducted in all material respects in accordance with all applicable laws, rules, regulations and other requirements of all governmental authorities or agencies having jurisdictions over Seller.

(c) Good Standing; Requisite Authority; Due Authorization. Seller is either a natural person or is an entity duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Seller has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of the obligations to be performed by it hereunder. This Agreement has been duly authorized, executed and delivered by Seller, and, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws of general application affecting enforcement of creditors' rights generally.

4. Cooperation. Sellers, on the one hand, and Purchaser, on the other hand, shall cooperate fully with each other in furnishing any information or performing any action reasonably requested by the other party, which information or action is necessary to the timely and successful consummation of the transactions contemplated by this Agreement.

5. Fees and Expenses. Purchaser covenants that Purchaser shall promptly pay all reasonable out-of-pocket expenses incurred by the Partnership in connection with the Transfer, including, but not limited to, reasonable legal and accounting expenses incurred by the Partnership.

6. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

7. Amendments, Changes and Modifications. This Agreement may not be amended, changed or otherwise modified except by a written instrument executed by the parties hereto.

8. Governing Law. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of North Carolina, without regard to the conflict of laws principles thereof that would apply the laws of another jurisdiction.

9. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

10. Effectiveness, Termination. The closing of the Transaction is subject to the Seller's receipt of SBA approval of the Transaction and the simultaneous closing of the LP Transaction. The Transaction shall close and be effective as of a specific date to be determined by the Purchaser by written notice to Seller, such date to occur as soon as reasonably practicable (considering only logistics required for closing) following receipt of SBA approval and simultaneously with closing of the LP Transaction (the "Effective Date"); provided that, if the Effective Date does not occur prior to December 31, 2013, Seller and Purchaser shall each have the right in its sole and absolute discretion to terminate this Agreement by written notice to the other, and in such event this Agreement shall be null and void and of no effect.

11. Survival. The parties' rights and obligations under Sections 4-8, and applicable defined terms shall survive any termination of this Agreement.

12. Notices and Deliveries. Any notice, communication or delivery required or permitted to be given by any provision of this Agreement shall be deemed to have been delivered, given, and received for all purposes when the same is actually received, and may be delivered personally or by courier, delivery service, registered or certified mail (postage and charges prepaid), or facsimile, in each case addressed to the recipient at the address set forth below or at such other address as the recipient may notify the sender in writing:

PURCHASER: Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

SELLERS: c/o CapitalSouth Partners SBIC F-III, LLC
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SELLERS:

Atlas Powers Investments, LLC

By: _____
Name:
Title:

_____
Markham Hunt Broyhill

_____
John F. McGlinn

PURCHASER:

Capitala Finance Corp., a Maryland corporation

By: _____
Name:
Title:

[FORM OF
PURCHASE AND SALE AGREEMENT]

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated September 24, 2013, is by and among Capitala Finance Corp., a Maryland corporation ("Purchaser"), CapitalSouth Partners F-II, LLC, a North Carolina limited liability company (the "General Partner"), Atlas Powers Investments, LLC ("Atlas"), Markham Hunt Broyhill ("Broyhill"), John F. McGlinn ("McGlinn"), Capitala Transaction Corp. ("CTC"), Joseph B. Alala, III ("Alala"), and Chris Norton ("Norton" and, together with Atlas, Broyhill, McGlinn, CTC and Alala, the "Sellers"), in their capacity as holders of all of the voting and non-voting limited liability company interests of the General Partner. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Operating Agreement (as defined herein).

RECITALS:

A. The General Partner is the general partner of the CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership (the "Partnership").

B. Atlas, Broyhill, McGlinn and CTC collectively own all the issued and outstanding voting limited liability company membership interests (the "Voting Interests") in the General Partner, and Sellers collectively own all the "carried interest percentages" in the General Partner (the "Non-Voting Interests" and, together with the Voting Interests, the "Interests"), in each case as set forth in Exhibit A hereto.

C. The Partnership is licensed as a Small Business Investment Company by the United States Small Business Administration (the "SBA").

D. Purchaser has separately entered into an agreement pursuant to which it will acquire all of the issued and outstanding limited partnership interests of the Partnership held by the limited partners of the Partnership (the "LP Transaction").

E. The operation of the General Partner is subject to the terms of its limited liability company operating agreement (the "Operating Agreement").

F. As of the Effective Date (defined below), Sellers desire to sell, transfer, convey and assign to Purchaser all right, title and interest in and to the Interests and Purchaser desires to become the sole owner of the General Partner (the "Transaction").

G. The closing of the Transaction is conditioned upon receiving conditional approval of the SBA.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Assignment and Assumption.

(a) Assignment of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, Sellers hereby sell, transfer, convey and assign to Purchaser all of Sellers' right, title and interest in and to the Interests free and clear of all liens (the "Transfer").

(b) Assumption of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, (i) Purchaser hereby accepts the Transfer, and (ii) ratifies and agrees to be bound by all of the terms and conditions of, and shall succeed to all of the rights and be subject to all of the obligations arising under the Operating Agreement with respect to the Interest from and after the Effective Date.

(c) Consent and Waiver. The Sellers and the General Partner each consent to the Transfer pursuant to Section 8.1 of the Operating Agreement, to the amendments to be made to the Operating Agreement, and to the admission of the Purchaser as a member of the General Partner, and each hereby waives the application of Section 8.2 of the Operating Agreement to the Transfer.

2. Consideration.

(a) The aggregate consideration payable to Sellers on the Effective Date in exchange for the Interests (the "Consideration") shall consist of 195,018 shares of common stock, par value $0.01 per share, of Purchaser (collectively, the "Shares"). The Shares shall be allocated among Sellers in accordance with Exhibit B; provided, however, that in order to effect a contribution to Capitala Restricted Shares I, LLC ("CRS I") of the Shares to be received by Sellers with respect to any Non-Voting Interests held by them (which Shares shall be subject to a lock-up agreement entered into in connection with the IPO), the holders of the Non-Voting Interests hereby direct Purchaser to issue the relevant Shares to, and in the name of, CRS I.

(b) The Consideration is agreed by Sellers and Purchaser to represent the aggregate value of the Interest, including all rights and obligations with respect thereto, as of the Effective Date.

3. Agreements, Representations and Warranties. Each Seller represents and warrants as to himself or itself as of the date hereof and immediately prior to the Effective Date, as follows:

(a) Title to Interest; Compliance with Laws. Seller owns all right, title and interest (legal and beneficial) in and to the Interest to be sold by Seller hereunder free and clear of all liens, other than any restrictions under federal and state securities laws. Upon delivery of the Interest to Purchaser and payment to Seller of the Consideration, Purchaser will acquire good and marketable title to the Interest free and clear of all liens, other than any liens created by or through Purchaser or any of its Affiliates or any restrictions under federal and state securities laws.

(b) Compliance with Law. Seller's ownership of the Interest has at all times been conducted in all material respects in accordance with all applicable laws, rules, regulations and other requirements of all governmental authorities or agencies having jurisdictions over Seller.

(c) Good Standing; Requisite Authority; Due Authorization. Seller is either a natural person or is an entity duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Seller has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of the obligations to be performed by it hereunder. This Agreement has been duly authorized, executed and delivered by Seller, and, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid

and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws of general application affecting enforcement of creditors' rights generally.

4. Cooperation. Sellers, on the one hand, and Purchaser, on the other hand, shall cooperate fully with each other in furnishing any information or performing any action reasonably requested by the other party, which information or action is necessary to the timely and successful consummation of the transactions contemplated by this Agreement.

5. Fees and Expenses. Purchaser covenants that Purchaser shall promptly pay all reasonable out-of-pocket expenses incurred by the Partnership in connection with the Transfer, including, but not limited to, reasonable legal and accounting expenses incurred by the Partnership.

6. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

7. Amendments, Changes and Modifications. This Agreement may not be amended, changed or otherwise modified except by a written instrument executed by the parties hereto.

8. Governing Law. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of North Carolina, without regard to the conflict of laws principles thereof that would apply the laws of another jurisdiction.

9. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

10. Effectiveness; Termination. The closing of the Transaction is subject to the Seller's receipt of SBA approval of the Transaction and the simultaneous closing of the LP Transaction. The Transaction shall close and be effective as of a specific date to be determined by the Purchaser by written notice to Seller, such date to occur as soon as reasonably practicable (considering only logistics required for closing) following receipt of SBA approval and simultaneously with closing of the LP Transaction (the "Effective Date"); provided that, if the Effective Date does not occur prior to December 31, 2013, Seller and Purchaser shall each have the right in its sole and absolute discretion to terminate this Agreement by written notice to the other, and in such event this Agreement shall be null and void and of no effect.

11. Survival. The parties' rights and obligations under Sections 4-8, and applicable defined terms shall survive any termination of this Agreement.

12. Notices and Deliveries. Any notice, communication or delivery required or permitted to be given by any provision of this Agreement shall be deemed to have been delivered, given, and received for all purposes when the same is actually received, and may be delivered personally or by courier, delivery service, registered or certified mail (postage and charges prepaid), or facsimile, in each case addressed to the recipient at the address set forth below or at such other address as the recipient may notify the sender in writing:

If to Sellers, to:

c/o CapitalSouth Partners F-II, LLC
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

If to Purchaser, to:

Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SELLERS:

Atlas Powers Investments, LLC

By: _____
Name:
Title:

_____
Markham Hunt Broyhill

_____
John F. McGlinn

Capitala Transaction Corp.

By: _____
Name:
Title:

_____
Joseph B. Alala, III

_____
Chris Norton

PURCHASER:

Capitala Finance Corp., a Maryland corporation

By: _____
Name:
Title:

[FORM OF
AGREEMENT AND PLAN OF MERGER]

This Agreement and Plan of Merger (the "Agreement"), dated as of September 24, 2013, is by and between Capitala Finance Corp., a Maryland corporation (the "Corporation"), CS F-II Acquisition Sub, LLC, a North Carolina limited liability company (the "Merger Sub"), CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership (the "Fund"), CapitalSouth Partners F-II, LLC, a North Carolina limited liability company and the general partner of the Fund (the "Fund GP"), and solely for purposes of Section 1.3(f) below, Capitala Investment Advisors, LLC, a Delaware limited liability company and the investment adviser to the Corporation (the "Adviser").

Recitals:

WHEREAS, the Corporation is a corporation organized under the Maryland General Corporation Law and is wholly owned by the Adviser, which owns all of the issued and outstanding shares of common stock, par value $0.01 per share, of the Corporation ("Common Stock");

WHEREAS, the business and affairs of the Corporation are managed by or under the direction of the Corporation's board of directors (the "Board of Directors");

WHEREAS, the Merger Sub is a limited liability company organized under the North Carolina Limited Liability Company Act (the "NC LLC Act") and is wholly owned by the Corporation, which owns 100% of the issued and outstanding equity interests of Merger Sub (the "Membership Interests");

WHEREAS, the Merger Sub is member managed by the Corporation as its sole member (in such capacity, the "Merger Sub Manager") pursuant to the terms of that certain operating agreement of the Merger Sub dated as of June 10, 2013 (the "Operating Agreement");

WHEREAS, Merger Sub has had no operations prior to the date hereof and was formed solely for the purposes of facilitating the acquisition of the Fund by the Corporation, as described in greater detail below;

WHEREAS, the Board of Directors has determined that the merger of the Merger Sub with and into the Fund, with the Fund surviving the merger, and the related issuance of the Merger Shares (as defined below), in each case on the terms, and subject to the conditions, set forth herein (the "Merger"), are in the best interests of the Corporation and the Adviser, as the sole stockholder of the Corporation, and the Board of Directors has approved the issuance of the Merger Shares;

WHEREAS, the Merger Sub Manager has determined that the Merger is in the best interests of the Merger Sub and the Corporation, in its capacity as the sole equity holder of Merger Sub, and the Merger Sub Manager has approved this Agreement and the Merger and declared the advisability of both;

WHEREAS, the Fund is a limited partnership organized under the North Carolina Revised Uniform Limited Partnership Act (as amended, the "NC LP Act") and operated in accordance with the terms set forth in that certain Amended and Restated Limited Partnership Agreement of the Fund dated as of September 1, 2003 (such agreement, as amended from time-to-time, the "Partnership Agreement");

WHEREAS, pursuant to the Partnership Agreement, the business and affairs of the Fund are managed by or under the direction of the Fund GP;

WHEREAS, the Fund is owned by the Fund GP and the limited partners of the Fund (the "Limited Partners"), who collectively own all of the issued and outstanding partnership interests of the Fund (the "Units" and the Unit(s) so held by the Fund GP, the "GP Interest");

WHEREAS, pursuant to the Partnership Agreement, the Fund GP has the authority to effect a "Share Exchange" of the type contemplated by the Merger without obtaining the prior approval of the Limited Partners;

WHEREAS, the Fund GP has determined that the Merger is advisable and in the best interests of the Fund and the Limited Partners and has approved this Agreement and the Merger;

WHEREAS, simultaneously with the closing of the Merger, pursuant to an equity purchase agreement entered into between the Corporation and the equity owners of the Fund GP, the Corporation will acquire all of the issued and outstanding equity of the Fund GP in exchange for shares of Common Stock (the "GP Acquisition");

WHEREAS, as a result of, and immediately following, the Merger and the GP Acquisition, (i) the Corporation will own all of the issued and outstanding equity of the Fund GP; (ii) the Corporation will own all of the issued and outstanding Units; and (iii) the Adviser, the former Limited Partners of the Fund, and the former equity owners of the Fund GP will own Common Stock;

WHEREAS, following the effective time of the Merger, the Corporation intends to elect to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"), and to effect an initial public offering of Common Stock (the "IPO");

WHEREAS, it is contemplated that the issuance of Common Stock by the Corporation to the Limited Partners pursuant to this Agreement will not be subject to the registration requirements contained in the Securities Act of 1933, as amended (the "Securities Act"); and

WHEREAS, in order to effect a "lock-up" arrangement required by the underwriters of the IPO for a six-month period (the "Lock Up Period"), the parties desire that, immediately following the Effective Time, the Merger Shares be issued to the Adviser, to be held as agent on behalf of the Limited Partners during the Lock Up Period and released to the Limited Partners promptly upon the expiration of the Lock-Up Period (or, if earlier, the date on which a Limited Partner executes a lock-up agreement with respect to the Merger Shares allocated to such Limited Partner).

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth herein, and subject to and on the terms and conditions set forth herein, the parties hereby agree as follows:

ARTICLE I
THE MERGER

Section 1.1 ***The Merger.*** At the Effective Time (as defined below), in accordance with the NC LLC Act, the NC LP Act and this Agreement, the Merger Sub will merge with and into the Fund, the separate legal existence of the Merger Sub will cease, and the Fund will continue as a North Carolina limited partnership and the surviving entity in the Merger (the "Surviving Entity"). From and after the Effective Time:

(i) the title to all real estate and other property owned by the Merger Sub and the Fund shall be vested in the Surviving Entity without reversion or impairment;

(ii) the Surviving Entity shall have all liabilities of the Merger Sub and the Fund;

(iii) all proceedings (if any) pending by or against the Merger Sub or the Fund maybe be continued as if the Merger had not occurred or the Surviving Entity may be substituted in the proceeding for a for the Merger Sub;

(iv) the certificate of limited partnership of the Fund shall be the certificate of limited partnership of the Surviving Entity following the Merger without amendment;

(v) the name of the Surviving Entity shall continue to be "CapitalSouth Partners Fund II Limited Partnership"; and

(vi) the Merger shall otherwise have the effects set forth herein and in the NC LLC Act and the NC LP Act.

Section 1.2 ***Partnership Agreement.*** The Partnership Agreement, as amended to reflect the the Corporation as the sole Limited Partner of the Fund following the Effective Time, shall be the limited partnership agreement of the Surviving Entity until duly amended in accordance with applicable law and the terms thereof.

Section 1.3 ***Conversion of Units and Membership Interests.***

(a) As of the Effective Time, by virtue of the Merger and without any further action on the part of the Merger Sub, the Fund, or the Limited Partners, (i) each Unit issued and outstanding as of the Effective Time (other than the Unit(s) representing the GP Interest) shall be automatically converted into the right to receive its proportionate share of the Merger Consideration, as determined pursuant to Section 1.3(b) and (c) below. All Units, when and if converted in accordance with this Section 1.3(a), will no longer be outstanding, will automatically be cancelled, will cease to exist, and will thereafter represent only the right to

receive the relevant portion of the Merger Consideration in respect of such cancelled Units. For purposes of this Agreement, the following definitions will apply:

"Adjustment Period" means the period from but excluding the NAV Determination Date through but excluding the Pricing Date.

"Benchmark NAV" means the aggregate net asset value of the Fund determined on the NAV Determination Date (but excluding, for the avoidance of doubt, the value attributable to the Units held by the Fund GP).

"NAV Determination Date" shall mean the last day of the last calendar quarter ended prior to the Merger for which the net asset value of the Fund was determined in the ordinary course of business.

"Net Cash Adjustment" means (i) the proceeds, if any, received by the Fund during the Adjustment Period from the sale of Units, plus (ii) the earnings of the Fund during the Adjustment Period (determined in accordance with GAAP), minus (iii) cash distributions made by the Fund during the Adjustment Period, minus (iv) the Fund's pro rata share (based on the relative asset values of all assets acquired by the Corporation immediately prior to the IPO) of the aggregate legal, audit, valuation and other costs and expenses incurred in connection with the IPO, the Merger, the GP Acquisition, and the other asset acquisitions being made by the Corporation simultaneously with the Merger in contemplation of the IPO, but excluding underwriting discounts and commissions. For the avoidance of doubt, the Net Cash Adjustment can be a positive or negative number.

"Pricing Date" means the date on which the per-share price of Common Stock to be offered in the IPO is determined.

"Total Dollar Merger Amount" means (i) the Benchmark NAV, plus (ii) the Net Cash Adjustment (which may be positive or negative).

(b) The aggregate merger consideration payable to the Limited Partners (the "Merger Consideration") will be a number of shares of Common Stock equal, in the aggregate, to (i) the Total Dollar Merger Amount (as defined above), divided by (ii) $20.00 (collectively, the "Merger Shares").

(c) At the Effective Time, each holder of a Unit (other than the Fund GP) shall, subject to Section 1.3(f) below, be entitled to receive, with respect to each such Unit, a number of Merger Shares equal to (i) the aggregate number of Merger Shares determined in accordance with Section 1.3(b), divided by (ii) the total number of Units issued and outstanding immediately prior to the Effective Time. Notwithstanding anything to the contrary contained in this Section 1.3(c), however, the total number of shares of Common Stock issuable to a Limited Partner at the Effective Time is subject to adjustment for fractional shares as provided in Sections 1.3(g) below.

(d) At the Effective Time, the Units held by the Fund GP shall remain issued and outstanding in accordance with their terms, and will not be converted, exchanged or modified as a result of the Merger.

(e) At the Effective Time, as a result of the Merger, the Membership Interests of Merger Sub shall be automatically converted into the total number of Units held by the Limited Partners immediately prior to the Merger (but excluding, for the avoidance of doubt, the Units held by the Fund GP) such that, as a result of the Merger, the Corporation shall own directly all of the issued and outstanding Units (other than the Units held by the Fund GP), and upon such conversion such Membership Interests shall be cancelled and shall no longer remain outstanding as a result of the Merger.

(f) Promptly following the Effective Time, the Corporation will issue Merger Shares to the Adviser, as agent for the Limited Partners, in the aggregate amount determined in accordance with the foregoing Section 1.3(c), which Merger Shares shall be held by the Adviser during the Lock-Up Period in accordance with the lock-up agreement entered into by the Adviser in connection with the IPO. The Merger Shares allocated to a given Limited Partner shall be released by the Adviser to such Limited Partner upon the earlier of (i) the date in which the relevant Limited Partner delivers a lock-up agreement substantially similar to the lock-up agreement executed by the Adviser, and (ii) expiration of the Lock-Up Period. For the avoidance of doubt, the Adviser will hold the Merger Shares during the relevant period solely as agent for the Limited Partners, and for all purposes (including tax), each Limited Partner shall be the beneficial owner of the Merger Shares held by the Adviser on such Limited Partner's behalf, shall have the right to vote (or direct the voting of) such Merger Shares on any matter on which shareholders of the Corporation are entitled to vote, and shall for all purposes (including Section 10.13 of the Partnership Agreement) be considered to "hold" such Merger Shares. Unless otherwise instructed by a Limited Partner with respect to the Merger Shares allocated to such Limited Partner, the Adviser shall opt out of the Corporation's dividend reinvestment program with respect to the Merger Shares it holds.

(g) Notwithstanding Section 1.3(c) above, no fraction of a share of Common Stock shall be issued pursuant to Section 1.3(c). If any Limited Partner would otherwise have been entitled to receive a fraction of a share of Common Stock with respect to the aggregate number of Merger Shares to be issued to such Limited Partner pursuant to Section 1.3(c), such Limited Partner shall be entitled to receive a cash payment with respect to such fractional share in an amount equal to the product of such fractional share multiplied by $20.00. The payment of cash to the Limited Partners in lieu of fractional shares of Common Stock is not separately bargained for consideration and is being made solely for the purpose of saving the Corporation the expense and inconvenience of issuing and transferring fractional shares of Common Stock.

Section 1.4 ***Remaining Commitments.*** From and after the Effective Time, to the extent any outstanding Commitments (as defined in the Partnership Agreement) of the Limited Partners remain unfunded, the Corporation shall assume all obligations of the Limited Partners to make any Capital Contributions pursuant to such Commitments, on the terms and subject to the conditions set forth in the Partnership Agreement, and the Corporation shall cause the Fund GP to take such steps as are necessary to document, on behalf of the Fund, the release of the Limited Partners from their respective Commitments.

ARTICLE II
CLOSING

Section 2.1 ***Closing.*** The closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Sutherland Asbill & Brennan LLP, 700 Sixth Street, N.W., Washington, DC 20001 at 10:00 a.m. New York City time on the Pricing Date, or at such other time and place as the parties to this Agreement may agree.

Section 2.2 ***Effective Time.*** Upon the terms and conditions of this Agreement, the Fund shall file articles of merger with the Secretary of State of the State of North Carolina (the "Articles of Merger") contemporaneously with, or prior to, the Closing, and shall make all other filings or recordings as may be required under the NC LLC Act and NC LP Act and any other applicable law in order to effect the Merger. The Merger will become effective at the time of the filing of the Articles of Merger with the Secretary of State of the State of North Carolina in accordance with the NC LLC ACT and the NC LP Act, or at such later time as the parties may agree and reflect in the Articles of Merger. The date and time at which the Merger will so become effective is herein referred to as the "Effective Time."

ARTICLE III
REPRESENTATIONS AND WARRANTIES
OF THE CORPORATION AND THE MERGER SUB

The Corporation and the Merger Sub hereby represent and warrant to the Fund as follows:

Section 3.1 ***Organization and Good Standing.*** The Corporation is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Maryland, with full corporate power and authority to conduct its business as it is now being conducted. The Merger Sub is a limited liability company duly formed and in good standing under the laws of the State of North Carolina, with full limited liability company power and authority to conduct its business as it is now being conducted.

Section 3.2 ***Authority.*** This Agreement constitutes the valid and binding obligation of the Corporation and the Merger Sub, enforceable against the Corporation and Merger Sub in accordance with its terms. Each of the Corporation and the Merger Sub has all requisite corporate or limited liability company, as applicable, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Corporation and the Merger Sub and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by the Board of Directors and the Merger Sub Manager.

Section 3.3 ***Valid Issuance of Merger Shares.*** The Merger Shares to be issued hereunder have been duly and validly authorized, and will be duly and validly issued, fully paid and nonassessable when issued upon conversion of Units pursuant to this Agreement, and, subject to the lock-up agreement described in Section 1.3(f), will be free of any restrictions on transfer other than restrictions on transfer under applicable federal and state securities laws and any agreement entered into, or to be entered into, by a Limited Partner with respect to the Merger Shares to be received by it.

Section 3.4 ***No Conflict.*** Subject to receipt of the consents and approvals referred to in the following sentence, neither the execution and delivery of this Agreement by the Corporation or the Merger Sub nor the consummation of the transactions contemplated hereby will, directly or indirectly (with or without notice or lapse of time): (i) conflict with the Certificate of Incorporation or Bylaws of the Corporation or the Operating Agreement (in each case as in effect immediately prior to the Effective Time), (ii) conflict with any legal requirement or order of any

court or governmental authority to which the Corporation or the Merger Sub is subject, or (iii) breach any provision of any material contract to which the Corporation or the Merger Sub is a party, except in the case of the foregoing (ii) or (iii) to the extent such conflict or breach would not, individually or in the aggregate, have a material adverse effect on the Corporation, the Merger Sub or their respective ability to consummate the transactions contemplated hereby. Except for the approval of the Board of Directors and the Merger Sub Manager (each of which approvals has already been obtained), neither the Corporation nor the Merger Sub is required to obtain any consent or approval from any person in connection with the execution and delivery of this Agreement or the consummation of the transactions under this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE FUND

The Fund represents and warrants to the Corporation and the Merger Sub as follows:

Section 4.1 ***Organization and Good Standing.*** The Fund is a limited partnership duly formed and in good standing under the laws of the State of North Carolina, with full limited partnership power and authority to conduct its business as it is now being conducted.

Section 4.2 ***Authority.*** This Agreement constitutes the valid and binding obligation of the Fund, enforceable against the Fund in accordance with its terms. The Fund has all requisite limited partnership power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Fund and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved under the Partnership Agreement and the NC LP Act.

Section 4.3 ***Capitalization.*** As of the date hereof, there are 52.37 Units issued and outstanding. The outstanding Units were duly and validly authorized and issued. Other than the Units issued and outstanding on the date hereof, and except for the relevant provisions of the Partnership Agreement regarding capital commitments and the issuance of Units, there are no options, warrants, rights, agreements or commitments of any kind granted by the Fund relating to the issuance, conversion, registration, voting, sale, transfer or redemption of equity interests in the Fund.

Section 4.4 ***No Conflict.*** Subject to receipt of the consents and approvals referred to in the following sentence, neither the execution and delivery of this Agreement by the Fund nor the consummation of the transactions contemplated hereby will, directly or indirectly (with or without notice or lapse of time): (i) conflict with the Partnership Agreement or the certificate of formation of the Fund, (ii) conflict with any legal requirement or order of any court or governmental authority to which the Fund is subject, (iii) breach any provision of any material contract to which the Fund is a party, except in the case of the foregoing (ii) or (iii) to the extent such conflict or breach would not, individually or in the aggregate, have a material adverse effect on the Fund or its ability to consummate the transactions contemplated hereby. Except for the approval of the Fund GP (which approval has already been obtained), the Fund is not and will not be required to obtain any consent or approval from any person in connection with the execution and delivery of this Agreement or the consummation of the transactions under this Agreement.

ARTICLE V
CONDITIONS TO CLOSING

Section 5.1 ***Conditions to Obligations of the Fund.*** The obligation of the Fund to consummate the transactions contemplated by this Agreement is subject to the satisfaction at or prior to the Closing of the following conditions (which, other than (c) below, may be waived in writing, in whole or in part, by the Fund):

(a) Representations and Warranties. The representations and warranties of the Corporation and the Merger Sub in Article III must be true and correct in all material respects immediately prior to the Closing.

(b) Performance of Obligations. The Corporation and the Merger Sub shall have performed and complied in all material respects with all agreements, covenants, obligations and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing.

(c) SBA Approval. The United States Small Business Association shall have approved this Agreement, the Merger and the other transactions contemplated hereby (the "SBA Approval").

Section 5.2 ***Conditions to Obligations of the Corporation and the Merger Sub.*** The obligation of the Corporation and the Merger Sub to consummate the transactions contemplated by this Agreement is subject to the satisfaction at or prior to the Closing of the following conditions (which, other than (c) below, may be waived in writing, in whole or in part, by the Corporation and the Merger Sub):

(a) Representations and Warranties. The representations and warranties of the Fund in Article IV must be true and correct in all material respects immediately prior to the Closing.

(b) Performance of Obligations. The Fund shall have performed and complied in all material respects with all agreements, covenants, obligations and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing.

(c) SBA Approval. The SBA Approval shall have been obtained.

ARTICLE VI
GENERAL PROVISIONS

Section 6.1 ***Cooperation***. Each of the Corporation, the Merger Sub and the Fund shall cooperate with each other and take such actions as may be reasonably necessary or appropriate to effect the transactions contemplated by this Agreement.

Section 6.2 ***Survival.*** None of the representations and warranties, nor any covenant to be performed prior to the Effective Time, set forth herein, shall survive the Effective Time.

Section 6.3 ***Termination; Abandonment.*** (a) Prior to the Effective Time, by written notice, this Agreement may be terminated by either the Fund (acting through the Fund GP), on the one hand, or the Corporation (acting through the Board of Directors) and the Merger Sub (acting through the Merger Sub Manager), on the other hand, if the Closing has not occurred on or before December 31, 2013.

(b) Anything herein to the contrary notwithstanding, this Agreement may be abandoned and terminated at any time prior to the Effective Time, regardless of whether the requisite consents and approvals have been obtained, by mutual consent of the Fund (acting through the Fund GP), the Corporation (by a vote of the Board of Directors) and the Merger Sub (acting through the Merger Sub Manager), which mutual consent is set forth in a written instrument signed by a duly authorized officer of the Fund, the Corporation and the Merger Sub.

Section 6.4 ***Waiver.*** No failure to exercise, and no delay in exercising, on the part of either party, any privilege, any power or any right hereunder will operate as a waiver thereof, nor will any single or partial exercise of any privilege, right or power hereunder preclude further exercise of any other privilege, right or power hereunder.

Section 6.5 ***Entire Agreement and Modification.*** This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior agreements between the parties with respect to its subject matter. Subject to applicable law, this Agreement may be amended at any time prior to the Effective Time, regardless of whether the requisite consents and approvals have been obtained, by mutual consent of the Fund (acting through the Fund GP), the Corporation (by a vote of the Board of Directors) and the Merger Sub (acting through the Merger Sub Manager), which mutual consent is set forth in a written instrument signed by a duly authorized officer of the Fund and by a duly authorized officer of the Corporation. Without in any way limiting the foregoing, to the extent permitted by applicable law, this Agreement shall be amended by the parties if required by the United States Securities and Exchange Commission to comply with any provision of the 1940 Act.

Section 6.6 ***Assignment; Binding Effect; No Third Party Beneficiaries.*** To the fullest extent permitted by law, this Agreement may not be assigned by any party without the prior written consent of the other party. Subject to the foregoing, this Agreement will be binding upon and shall inure to the benefit of the parties hereto and their permitted successors and assigns. Nothing in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right under or with respect to this Agreement, except such rights as will inure to a successor or permitted assignee pursuant to this Section 6.6.

Section 6.7 ***Severability.*** If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect.

Section 6.8 ***Governing Law.*** This Agreement will be governed by and construed in accordance with the laws of the State of North Carolina, without regard to the conflict of law provisions thereof.

Section 6.9 ***Construction.*** The parties hereto intend that the language used in the Agreement will be construed, in all cases, according to its fair meaning, and not for or against any party hereto. The parties acknowledge that each party has reviewed this Agreement and, to the fullest extent permitted by law, intend that rules of construction to the effect that any ambiguities are to be resolved against the drafting party will not be available in the interpretation of this Agreement.

Section 6.10 ***Execution of Agreement; Counterparts.*** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

Section 6.11 ***Notices.*** All notices, consents, waivers, and other communications under this Agreement must be in writing and must be delivered (i) personally, (ii) by facsimile with confirmation of transmission by the transmitting equipment, or (iii) by certified or registered mail (postage prepaid, return receipt requested), and will be deemed given when so delivered personally or by facsimile, or if mailed, three (3) days after the date of mailing, to the addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to the Fund:

CapitalSouth Partners Fund II, L.P.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

If to the Corporation or the Merger Sub:

Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

[Signature pages follow]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

CAPITALA FINANCE CORP.
a Maryland corporation

By: _____
Name:
Its:

CS F-II ACQUISITION SUB, LLC
a North Carolina limited liability company

By: Capitala Finance Corp., its sole member

By: _____
Name:
Its:

CAPITALSOUTH PARTNERS FUND II LIMITED PARTNERSHIP
a North Carolina limited partnership

By: CapitalSouth Partners F-II, LLC,
as General Partner

By: _____
Name:
Its:

CAPITALSOUTH PARTNERS F-II, LLC
a North Carolina limited liability company

By: _____
Name:
Its:

[Signature page – Fund II merger agreement]

for purposes of section 1.3(f) only:

CAPITALA INVESTMENT ADVISORS, LLC
a Delaware limited liability company

By: _____
Name:
Its:

[Signature page – Fund II merger agreement]

**[FORM OF
PURCHASE AGREEMENT]**

By and Between

CAPITALA FINANCE CORP.

And

CAPITALSOUTH PARTNERS FUND III, L.P.

Dated as of September 24, 2013

PURCHASE AGREEMENT

This **PURCHASE AGREEMENT** ("**Agreement**") is made as of September 24, 2013, by and among Capitala Finance Corp., a Maryland corporation ("**Buyer**"), CapitalSouth Partners Fund III, L.P., a Delaware limited partnership ("**Seller**"), and CapitalSouth Partners F-III, LLC, a North Carolina limited liability company, as the general partner of Seller (the "**General Partner**"). Each of Buyer, Seller and the General Partner may be referred to individually as a "**Party**" and, collectively, as the "**Parties**."

RECITALS

WHEREAS, Buyer is a corporation organized under the Maryland General Corporation Law;

WHEREAS, Seller is a Delaware limited partnership and operated in accordance with the terms set forth in that certain Agreement of Limited Partnership of the Seller dated as of March 21, 2007 (such agreement, as amended from time-to-time, the "**Partnership Agreement**");

WHEREAS, the General Partner desires to cause Seller to sell, transfer and assign to Buyer, and Buyer desires to purchase, accept and assume from Seller, certain assets and liabilities of Seller for the consideration and on the terms and subject to the conditions set forth in this Agreement (such purchase and sale, the "**Transaction**");

WHEREAS, the General Partner has the authority to cause Seller to enter into transactions relating to the sale of Seller's assets, subject to the approval of the advisory Committee or the limited partners of the Partnership (the "Limited Partners") in the case of a transfer of assets to the General Partner or any of its Affiliates;

WHEREAS, the Advisor Committee has approved the Transaction in accordance with Section 4.2(C) of the Partnership Agreement;

WHEREAS, simultaneously with the closing of the Transaction, it is contemplated that the Buyer will acquire (i) all of the issued and outstanding equity of CapitalSouth Partners Fund II, L.P., CapitalSouth Partners F-II, LLC, CapitalSouth Partners SBIC Fund III, L.P., and CapitalSouth Partners SBIC F-III, LLC (the "**Primary Formation Transactions**"), (ii) certain investment assets owned by CapitalSouth Partners Fund I, Limited Partnership, and (iii) all of the issued and outstanding equity of CapitalSouth Partners Florida Sidecar Fund I, L.P. and its general partner (the foregoing (i) through (iii) referred to collectively as the "**Other Formation Transactions**");

WHEREAS, following the closing of the Transaction and the Other Formation Transactions, the Buyer intends to elect to be treated as a business development company under the Investment Company Act of 1940, as amended (the "**1940 Act**"), and to effect an initial public offering (the "**IPO**") of common stock, par value $0.01 per share, of Buyer ("**Common Stock**"); and

WHEREAS, it is contemplated that the issuance of Common Stock by the Buyer to the Seller pursuant to this Agreement will not be subject to the registration requirements contained in the Securities Act of 1933, as amended (the "**Securities Act**").

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

ARTICLE 1

DEFINITIONS; MATTERS OF CONSTRUCTION

1.1 Definitions. In this Agreement, the following terms have the meanings specified or referred to in this Section 1.1 and shall be equally applicable to both the singular and the plural forms.

"**Assignment Agreement**" means (i) with respect to any Purchased Asset that includes a specific form of assignment and assumption agreement or similar document within the Loan Documents or Equity Documents governing such Purchased Asset, such specific form of assignment and assumption agreement or similar document, and (ii) with respect to any other Purchased Asset, an assignment and assumption agreement or stock transfer power, as applicable, in such form as may be mutually agreed by Buyer and Seller, in each case pursuant to which Seller shall sell, transfer, assign, convey and deliver the relevant Purchased Asset to Buyer and Buyer shall assume the Purchased Asset and agree to pay, perform or otherwise discharge the Assumed Obligations.

"**Assumed Obligations**" has the meaning specified in Section 2.2.

"**Borrowers**" means those Persons who constitute "borrowers" (or any similarly defined entity) under the Loan Documents.

"**Business Day**" means any day excluding Saturday, Sunday and any other day that is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are closed.

"**Buyer**" has the meaning specified in the preamble to this Agreement.

"**Closing**" has the meaning specified in Section 4.1.

"**Common Stock**" has the meaning specified in the recitals to this Agreement.

"**Consent**" means, with respect to any Purchased Asset, any consent of the Borrower, the administrative agent or other Person required in order for Seller to sell, assign, transfer, convey or deliver such Purchased Asset to Buyer.

"**Court Order**" means any judgment, order, decision, award, injunction, ruling, subpoena, verdict or decree of any foreign, federal, state or local court, tribunal or Governmental Body and any award in any arbitration proceeding.

"**Eligible Institution**" means an entity that qualifies as an "Eligible Institution", "Approved Fund," "Qualified Transferee", "Permitted Lender", "Eligible Assignee", "Qualified Institutional Lender" or similarly defined entity under the applicable definition under the Loan Documents relating to the Purchased Loans to be acquired by such entity.

"**Effective Time**" has the meaning specified in Section 4.1.

"**Encumbrance**" means any lien, security interest, mortgage, pledge, conditional sale or other title retention agreement, adverse claim, or other encumbrance.

"**Equity Documents**" means the certificates or other similar documents or instruments representing the Equity Interests and the limited liability, partnership, stockholders', voting or other similar agreements governing the rights and obligations of holders of Equity Interests, as in effect as of the Effective Time.

"**Equity Interests**" means the equity interests identified on Exhibit B.

"**Governmental Approval**" means the approval, consent, order, authorization of, declaration, filing, or registration with, any Governmental Body.

"**Governmental Body**" means any foreign, federal, state or local government, court, department, commission, board, bureau, agency or other governmental authority or administrative or regulatory body, any applicable securities or commodities exchange and any other self-regulatory body.

"**Guarantor**" means Persons who, under the Loan Documents or otherwise, have given guaranties, sureties, indemnities or made other agreements or undertakings in connection with the Purchased Loans or pledged, mortgaged or granted security interests in property to secure payment of the Purchased Loans.

"**Loan Collateral**" means the assets and properties securing payment of outstanding obligations of Borrowers under the Loan Documents.

"**Loan Documents**" means the credit and financing agreements, guarantees, subordination agreements, Notes, mortgages, deeds of trust, security agreements (including pledge and control agreements), financing statements, intercreditor agreements, and other instruments and documents affecting Seller's ownership and economic rights with respect to the Purchased Loans which are executed and delivered to or otherwise obtained by Seller, or in which Seller has an interest in connection with the Purchased Loans, as in effect as of the Effective Time.

"Loan Files" means credit and transaction files of Seller relating to the Purchased Loans, including Loan Documents, Third Party Reports, operating statements, Borrower financial statements, budgets, recent borrowing base, compliance and advance certificates, and other documents of Seller that relate to the Purchased Loans, in each case in the possession of Seller as of the Effective Time.

"**Loan Schedule**" means the schedule attached hereto as Exhibit A, which identifies (i) each Purchased Loan, (ii) the name of the Borrower of each Purchased Loan, (iii) the interest rate on each Purchased Loan, (iv) the maturity date of each Purchased Loan, (v) the outstanding unpaid principal amount of each Purchased Loan, and (vi) the amount of accrued interest for each Purchased Loan, in each case as of the date hereof.

"**Notes**" means the original executed promissory notes issued to the order of the Seller, or copies of a "master" note if no such note was issued to Seller or an allonge endorsing a note in favor of Seller, evidencing indebtedness owing to the Seller under a Purchased Loan.

"**Outside Date**" means December 31, 2013.

"**Parties**" has the meaning specified in the preamble to this Agreement.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, business trust, joint venture, association or other entity or Governmental Body.

"**Purchased Assets**" has the meaning specified in Section 2.1.

"**Purchase Price**" has the meaning set forth in Section 3.1.

"**Purchased Loans**" means the loans identified on the Loan Schedule, including principal and accrued and unpaid interest thereon.

"**Requirements of Law**" means any federal, state or local law, statute, regulation, rule, code, ordinance or Court Order enacted, adopted, issued or promulgated by any Governmental Body, including laws pertaining to usury and other laws applicable to banking institutions and banking activities, in each case together with the rules and regulations promulgated thereunder.

"SBA" means the U.S. Small Business Administration.

"SEC" means the Securities and Exchange Commission.

"Securities Act" has the meaning set forth in the recitals to this Agreement.

"**Seller**" has the meaning specified in the preamble to this Agreement.

"**Shares**" has the meaning specified in Section 3.1.

"**Third Party Reports**" means all reports, appraisals and other written materials prepared by third parties for Seller with respect to the Purchased Loans, including all real estate appraisals, equipment appraisals and environmental reports that relate to the Purchased Loans.

"**UCC**" means the Uniform Commercial Code (or any successor statute) as adopted and in force in the State of New York or, when the laws of any other state govern the method or manner of the perfection or enforcement of any security interest in any of the Loan Collateral, the Uniform Commercial Code (or any successor statute) of such state.

1.2 Matters of Construction. The terms "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun shall be deemed to cover all genders. All references: to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; to any agreement, instrument or other documents shall include any and all modifications and supplements thereto and any and all restatements, extensions or renewals thereof; to any person or entity shall mean and include the successors and permitted assigns of such person or entity; "to," "including" and "include" shall be understood to mean "including, without limitation"; or to the time of day shall mean the time on the day in question in New York, New York, unless otherwise expressly provided in this Agreement.

ARTICLE 2

PURCHASE AND SALE

2.1 Purchased Assets. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, Seller shall sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase and assume from Seller, all of Seller's right, title and interest in, to and under the following, wherever located (collectively, the "**Purchased Assets**"):

(a) each Purchased Loan including, to the extent permitted to be assigned under applicable Requirements of Law, all claims, suits, causes of action and any other right of the relevant Seller under the Loan Documents against any Person, whether known or unknown, arising under or in connection with the Loan Documents or in any way based on or related to any of the foregoing;

(b) the Loan Documents relating to such Purchased Loan;

(c) the Loan Files relating to such Purchased Loan;

(d) each of the Equity Interests; and

(e) each of the Equity Documents relating to such Equity Interests.

2.2 Assumed Obligations. At the Effective Time, Buyer and Seller shall execute and deliver the Assignment Agreements with respect to the Purchased Assets, pursuant to which Buyer shall assume all obligations under the Loan Documents and/or Equity Documents, as applicable, to the extent, and only to the extent, that such obligations arise out of or relate to facts, events or circumstances arising or occurring on or after the Effective Time (collectively, the "**Assumed Obligations**").

ARTICLE 3

PURCHASE PRICE

3.1 Purchase Price.

(a) The aggregate consideration for the Purchased Assets (the "**Purchase Price**") shall be 251,041 shares of Common Stock (the "**Shares**").

(b) For the avoidance of doubt, all payments made with respect to the Purchased Assets prior to the Effective Time shall be for the account of Seller, and all payments with respect to the Purchased Assets from and after the Effective Time shall be for the account of Buyer; provided, however, that to the extent accrued interest has been recognized as income by Seller, the payment of such accrued interest after the Effective Time shall be for the account of Seller.

(c) The Purchase Price is agreed by Buyer and Seller to represent the aggregate value of the Purchased Assets, including all rights, liabilities and obligations with respect thereto, as of the Effective Date.

ARTICLE 4

CLOSING

4.1 Closing; Effective Time. The closing of the purchase and sale of the Purchased Assets and the assumption of Assumed Obligations (the "**Closing**") shall, subject to the satisfaction or waiver of all conditions to the Closing set forth in Article 8 and Article 9 (other than those that can only be satisfied at the Closing), take place simultaneously with, and at the time and place of, the closing of the Other Formation Transactions, or at such other time and place as Seller and Buyer may agree (the time of such Closing, the "**Effective Time**"). At the Closing, Seller shall sell, transfer, assign, convey and deliver to Buyer the Purchased Assets and the Assumed Liabilities, and Buyer shall purchase, accept and assume the Purchased Assets and Assumed Liabilities.

4.2 Buyer's Deliveries. At the Closing, Buyer shall:

(a) issue the Shares to Seller (or, at the direction of Seller or the General Partner, to both Seller and Capitala Restricted Shares I, LLC); and

(b) deliver to Seller a counterpart of each relevant Assignment Agreement, duly executed (where applicable) on behalf of Buyer.

4.3 Seller's Deliveries. At the Closing, Seller shall deliver to Buyer all of the following:

(a) a counterpart of each Assignment Agreement with respect to the sale and assignment of the relevant Purchased Assets duly executed on behalf of Seller and each Person for which a Consent is required for such Purchased Asset (unless a separate Consent has been delivered);

(b) the Notes and other Loan Documents with respect to such Purchased Loans (to the extent in the possession of Seller);

(c) any Loan Files in the possession of Seller; and

(d) the Equity Documents.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SELLER

As an inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, Seller hereby represents and warrants to Buyer as follows:

5.1 Organization; Compliance with Laws. Seller is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization with full power and authority to own the Purchased Assets and to consummate the Transaction. Seller's ownership of the Purchased Assets has at all times been conducted in all material respects in accordance with all applicable Requirements of Law.

5.2 Authority. Seller has full power and authority to execute, deliver and perform this Agreement and the Assignment Agreements to which it will be a party. All action required to be taken by Seller to authorize the execution, delivery and performance of this Agreement and the Assignment Agreements has been taken. This Agreement has been duly authorized, executed and delivered by Seller and is the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, and the Assignment Agreements have been duly authorized by Seller and upon execution and delivery by Seller will be a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, in each case, subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and any limitation imposed by general equity principles, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.3 Consents. None of the execution and delivery of this Agreement or the Assignment Agreements, the consummation of the Transaction, or compliance by Seller with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(a) conflict with, result in a material breach of the terms, conditions or provisions of, or constitute a material default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under, or result in the creation or imposition of any Encumbrance upon any of the Purchased Assets, under (i) Seller's organizational documents, (ii) any Loan Document or

Equity Document, or any other material agreement or material instrument (other than a Loan Document or Equity Document) to which Seller is a party or by which Seller is bound with respect to any Purchased Asset, (iii) any Court Order to which Seller is a party or by which Seller is bound with respect to any Purchased Asset, or (iv) any Requirements of Law applicable to Seller, except to the extent such breach or default would not materially and adversely affect the Purchased Assets or the Transaction;

(b) except as set forth in Schedule 5.3, require the approval, Consent, authorization or act of, or the making or giving by Seller of any notice, declaration, filing, report or registration with, any Person in connection with the execution and delivery by Seller of this Agreement or the Assignment Agreements or the consummation of any of the transactions contemplated hereby or thereby; or

(c) require any Governmental Approval.

5.4 Purchased Assets. Seller has and, as of the Effective Time, will transfer to Buyer, good title to all of the Purchased Assets, free and clear of any Encumbrances. The Purchased Assets represent all the conforming investment assets of Seller.

5.5 Securities Law Matters. Seller is an "accredited investor" (as defined in Rule 501 of Regulation D under the Securities Act) and is acquiring the Shares without any present intention of offering or selling the Shares in violation of the Securities Act. Seller has received information determined by it to be necessary in order to make an informed investment decision regarding the investment in the Shares. Seller acknowledges that the Shares have not been registered under the Securities Act or under the securities laws of any state, and, therefore, cannot be sold unless it is subsequently registered under the Securities Act and any applicable state securities laws or an exemption from registration is available. Further, Seller understands that the transfer agent records will reflect the foregoing restrictions and, so long as such restrictions are in effect, a stop-transfer order may be placed against transfer of such Shares. Unless otherwise required by applicable Requirements of Law, such restrictions shall be removed (a) upon the sale of such Shares pursuant to an effective registration statement under the Securities Act, (b) in connection with any other sale, assignment or transfer transaction, if Seller provides Buyer with an opinion of counsel, in form, substance, and scope, and from such counsel, as may be reasonably acceptable to Buyer, to the effect that the sale, assignment or other transfer of the Shares may be made without registration under the Securities Act, or (c) if Seller provides Buyer with notice that the Shares are being sold pursuant to Rule 144 under the Securities Act (or a successor rule thereto). Seller agrees to sell the Shares only in compliance with all applicable securities laws.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to Seller to enter into this Agreement and to consummate the transactions contemplated hereby, Buyer hereby represents and warrants to Seller as follows:

6.1 Organization of Buyer. Buyer is a corporation, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, with full power and authority to consummate the transactions contemplated hereby.

6.2 Authority of Buyer. Buyer has full power and authority to execute, deliver and perform this Agreement and the Assignment Agreements. All corporate or other legal action required to be taken by Buyer to authorize the execution, delivery and performance of this Agreement and the Assignment Agreements has been taken. This Agreement has been duly authorized, executed and delivered by Buyer

in accordance with its terms, and the Assignment Agreements have been duly authorized by Buyer and upon execution and delivery by Buyer will be a legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, in each case subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and any limitation imposed by general equity principles, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or equity).

6.3 Consents. Neither the execution and delivery of this Agreement or the Assignment Agreements nor the consummation of the Transaction nor compliance by Buyer with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(a) conflict with, result in a material breach of the terms, conditions or provisions of, or constitute a material default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under (i) the organizational documents of Buyer, (ii) any material agreement or material instrument to which Buyer is a party or by which Buyer is bound, (iii) any Court Order to which Buyer is a party or by which Buyer is bound or (iv) any Requirements of Law applicable to Buyer, in each case except to the extent such breach or default would not materially and adversely affect Buyer's ability to acquire the Purchased Assets or perform the Assumed Obligations;

(b) require the approval, Consent, authorization or act of, or the making or giving by Buyer of any notice, declaration, filing, report or registration with, any Person in connection with the execution and delivery by Buyer of this Agreement or the Assignment Agreements or the consummation of any of the Transaction; or

(c) require any Governmental Approval.

6.4 Status of Buyer. Buyer (i) is or at Closing will be a "sophisticated" investor and/or an "accredited" investor as that term is defined in Rule 501 of Regulation D under the Securities Act, or a "qualified purchaser" as defined in Section 2(a)(51) of the 1940 Act, (ii) is an Eligible Institution, (iii) is able to bear the economic risk associated with the purchase of the Purchased Assets and the assumption of the obligations thereunder, and (iv) has such knowledge and experience so as to be aware of the risks and uncertainties inherent in the purchase of rights and assumption of liabilities, including the Assumed Obligations, of the type contemplated in this Agreement. Without characterizing the Purchased Assets as a "security" within the meaning of the Securities Act or any other securities laws, Buyer is not purchasing the Purchased Assets with a view towards sale or distribution thereof in violation of the Securities Act.

ARTICLE 7

ADDITIONAL AGREEMENTS

7.1 Notices; Post-Closing Remittances; Correspondence; Further Assurances.

(a) Promptly following the Effective Time, the Parties shall give notice to all Borrowers, Guarantors and other necessary Persons, in form and substance reasonably acceptable to Buyer, notifying them of the sale of the relevant Purchased Assets to Buyer and shall provide them with information regarding the account(s) to which all payments under the Loan Documents and/or Equity Documents shall be made following the Effective Time. Buyer agrees to cooperate with Seller in all respects in connection with the foregoing and shall promptly provide Seller with such information as it may require in connection with providing such notices.

(b) Amounts which are paid in respect of the Purchased Assets and are received by Seller following the Effective Time in respect of Purchased Assets shall be received by Seller as agent, in trust for and on behalf of Buyer and Seller shall pay promptly all of such amounts over to Buyer and shall provide Buyer information, to the extent known, as to the nature, source and classification of such payments, including any invoice relating thereto. All amounts in respect of assets of Seller that are not Purchased Assets that are received by Buyer following the Effective Time shall be received by Buyer as agent, in trust for and on behalf of Seller, and Buyer shall promptly pay all of such amounts over to Seller and shall provide to Seller information relating thereto, to the extent known, as to the nature, source and classification of such payments, including any invoice relating thereto.

(c) Following the Effective Time, to the extent that Seller receives (and Buyer does not also receive) any mail (including electronic mail) or other correspondence or materials relating to the Purchased Assets or the Assumed Obligations (other than any internal mail, correspondence, or materials generated by Seller itself), Seller shall promptly forward such mail, correspondence, or other materials to Buyer.

(d) Seller shall use commercially reasonable efforts to execute such other assignments, novations, transfer documents, instruments of further assurance (including without limitation, if and to the extent necessary, lost certificate affidavits and related indemnities), approvals and consents as are necessary or proper in order to complete, ensure and perfect the sale, transfer and conveyance of the Purchased Assets and the Assumed Obligations to Buyer and the consummation of the other transactions contemplated hereby, and to effect the economic intentions of the parties. Without in any way limiting the foregoing, in the event any purported assignment of a Purchased Asset hereunder is determined to not be effective as of closing, whether due to the failure to obtain a required consent or otherwise, Seller shall be deemed to have granted to Purchaser, as of the Effective Time, a 100% participation interest in such Purchased Asset (and shall execute such documentation as may be required to evidence such participation interest), until such time as the assignment is effective.

(e) Following Closing, the Seller shall hold the Shares for the period (the "Lock-Up Period"), and on the terms, set forth in the lock-up agreement executed by the Seller in connection with the IPO; provided, however, that the Shares allocated to a given Limited Partner shall be released by Seller to such Limited Partner upon the earlier of (i) the date in which the relevant Limited Partner delivers a lock-up agreement substantially similar to the lock-up agreement executed by Seller, and (ii) expiration of the Lock-Up Period. For the avoidance of doubt, each Limited Partner shall be the beneficial owner of the Shares allocated to it and held by the Seller and shall have the right to vote (or direct the voting of) such Shares on any matter on which shareholders of the Corporation are entitled to vote. Unless otherwise instructed by a Limited Partner with respect to the Shares allocated to such Limited Partner, Seller shall opt out of Buyer's dividend reinvestment program with respect to the Shares it holds.

ARTICLE 8

CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligations of Buyer to consummate the transactions contemplated hereby shall be subject to the satisfaction, on or prior to the Effective Time, of the following conditions, any or all of which may, to the extent legally permissible, be waived in Buyer's sole discretion:

8.1 Accuracy of Representations and Warranties. The representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects as of the Effective Time (except for representations and warranties expressly stated to relate to a specific date, in which case such representation and warranties shall be true and correct in all material respects as of such date).

8.2 Obligations Performed. Seller shall have performed and complied in all material respects with all of the obligations, covenants and agreements required by this Agreement required to be performed or complied with by it prior to the Effective Time.

8.3 No Restraint or Litigation. No action, suit, claim, investigation or proceeding shall have been instituted to restrain or prohibit or otherwise challenge the legality or validity of the Transaction.

8.4 Consents. All Consents required to have been obtained in connection with the sale of the Purchased Assets shall have been obtained and not revoked or rescinded, except to the extent the failure to obtain such Consents would not materially and adversely affect the Purchased Assets or the Transaction.

8.5 SBA Approval; Other Formation Transactions. The SBA shall have approved the change of control contemplated by the Primary Formation Transactions (which conditional approval shall become final following the consummation of the Transaction and the satisfaction of the SBA's requirements in connection therewith) (the "**SBA Approval**") and the conditions to closing of the Other Formation Transactions shall have been duly satisfied or waived.

ARTICLE 9

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER

The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the satisfaction, on or prior to the Effective Time, of the following conditions any or all of which may, to the extent legally permissible, be waived in Seller's sole discretion:

9.1 Accuracy of Representations and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects as of the Effective Time (except for representations and warranties expressly stated to relate to a specific date, in which case such representation and warranties shall be true and correct in all material respects as of such date).

9.2 Obligations Performed. Buyer shall have performed and complied in all material respects with all obligations, covenants and agreements required by this Agreement to be performed or complied with by it prior to the Effective Time.

9.3 No Restraint or Litigation. No action, suit, claim, investigation or proceeding shall have been instituted to restrain or prohibit or otherwise challenge the legality or validity of the Transaction.

9.4 Consents. All Consents required to have been obtained in connection with the sale of the Purchased Assets shall have been obtained and not revoked or rescinded, except to the extent the failure to obtain such Consents would not materially and adversely affect the Purchased Assets or the Transaction.

9.5 SBA Approval; Other Formation Transactions. The SBA Approval shall have been obtained and the conditions to closing of the Other Formation Transactions shall have been duly satisfied or waived.

ARTICLE 10

TERMINATION

10.1 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, at any time prior to the Closing:

(a) by mutual written agreement of Seller and Buyer;

(b) by Seller or Buyer after the Outside Date, by written notice to the other Party, if the Closing with respect to any Purchased Asset has not occurred for any reason other than a breach of this Agreement by the terminating Party;

(c) by Seller or Buyer if any court of competent jurisdiction or any Governmental Body shall have issued an order or taken any other final action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement and such order or other action is or shall have become final and nonappealable; provided, however, that the Party seeking to terminate this Agreement pursuant to this Section 10.1(c) shall have used commercially reasonable efforts to prevent the entry of and to remove such order or other final action;

(d) by Buyer, if there has been a material breach by Seller of any of its representations, warranties, covenants or agreements contained in this Agreement which (x) would result in a failure of a condition set forth in Article VIII, and (y) cannot be cured prior to the Outside Date; or

(e) by Seller, if there has been a material breach by Buyer of any of its representations, warranties, covenants or agreements contained in this Agreement which (x) would result in a failure of a condition set forth in Article IX, and (y) cannot be cured prior to the Outside Date.

10.2 Procedure and Effect of Termination. In the event of the termination of this Agreement and the abandonment of the transactions contemplated hereby pursuant to Section 10.1 hereof, this Agreement shall become void and there shall be no liability on the part of any Party hereto except (a) this Section 10.2 and the obligations set forth in Article 11 hereof shall survive any such termination of this Agreement and (b) nothing herein shall relieve any party from liability for breach of this Agreement prior to termination.

ARTICLE 11

GENERAL PROVISIONS

11.1 Notices. All notices required under this Agreement shall be in writing and shall be given upon: (a) personal delivery (including delivery by overnight courier) of the written notice; (b) sending the message by a telecopy or facsimile machine to the other party's telecopy or facsimile machine, provided the sending machine automatically prints a message confirming that the message was received, and a copy thereof is forthwith mailed or sent by personal delivery to the addressee; (c) when sent by electronic mail (with hard copy to follow) during a Business Day (or on the next Business Day if sent after the close of normal business hours or on any non-Business Day); or (d) if sent via United States mail, the third day following mailing, certified mail, return receipt requested, postage prepaid and appropriately addressed. Such addresses shall be:

If to Seller, to:

CapitalSouth Partners Fund III, L.P.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

If to Buyer, to:

Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

or to such other address as such party may indicate by a notice delivered to the other parties hereto in accordance with this Section 11.1.

11.2 Successors and Assigns. No Party may assign its rights and/or obligations under this Agreement without the prior written consent of the other parties. Subject to the foregoing, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provisions of this Agreement, and this Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the Parties to this Agreement and their respective permitted successors and assigns.

11.3 Entire Agreement; Exhibits and Schedules; Amendments. This Agreement and the Exhibits and Schedules referred to herein and the other documents referred to herein contain the entire understanding and agreement of the parties hereto with regard to the subject matter contained herein or therein, and supersede all prior agreements, inducements, understandings, disclosures, correspondence, offering memoranda or letters of intent between or among any of the parties hereto, whether expressed or implied, oral or written, regarding the same subject matter. Each of the Exhibits and Schedules attached hereto are incorporated into this Agreement and by this reference made a part hereof. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto.

11.4 Waivers. Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provisions of this Agreement shall not be construed to be a waiver of such provisions, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

11.5 Expenses. Each party hereto will pay all of its own costs and expenses incident to its negotiation and preparation of this Agreement and to its performance and compliance with all agreements and conditions contained herein on its part to be performed or complied with, including fees, expenses and disbursements of its counsel and accountants.

11.6 Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable Requirements of Law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provisions shall be ineffective to the extent, but only to the extent, of such invalid, illegal or unenforceable provisions or other provisions hereof.

11.7 Execution in Counterparts. This Agreement may be executed in one or more counterparts, including facsimiles thereof and through electronic transmission, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement, and shall become binding when one or more counterparts have been signed by each of the parties hereto and delivered to Seller and Buyer.

11.8 Further Assurances. The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents (including without limitation, if and to the extent necessary, any required lost certificate affidavit and related indemnity) and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement, including, but not limited to assignments of filed UCC financing statements and other documents of record.

11.9 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to the conflicts of law provisions thereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

BUYER:

CAPITALA FINANCE CORP.

By: _____
Name:
Title:

SELLER:

CAPITALSOUTH PARTNERS FUND III, L.P.

By: CapitalSouth Partners F-III, LLC, as
General Partner

By: _____
Name:
Title:

GENERAL PARTNER:

CAPITALSOUTH PARTNERS F-III, LLC

By: _____
Name:
Title:

[Signature page – Fund III Asset Purchase]

Exhibit k.9

[Form of Purchase and Sale Agreement]

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated September 24, 2013 and effective as of the Effective Date (as defined herein), is by and among Capitala Finance Corp., a Maryland corporation ("Purchaser"), Florida Growth Fund LLC, a Delaware limited liability company and the sole limited partner of the Partnership ("Seller"), CapitalSouth Partners Florida Sidecar Fund I, L.P., a Delaware limited partnership (the "Partnership"), and CSP-Florida Mezzanine Fund I, LLC, a North Carolina limited liability company and the general partner of the Partnership (the "General Partner"). Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Partnership Agreement (as defined herein).

RECITALS:

A. Seller and the General Partner are parties to the Agreement of Limited Partnership of the Partnership, dated as of July 2, 2010 (as amended from time to time, the "Partnership Agreement"), pursuant to which Seller became a limited partner in the Partnership and purchased a limited partnership interest in the Partnership.

B. As of the Effective Date, Seller desires to sell, transfer, convey and assign to Purchaser all right, title and interest in and to one hundred percent (100%) of Seller's limited partnership interest in the Partnership (including obligations and liabilities with respect thereto) under the Partnership Agreement (the "Transferred Interest"), and Purchaser desires to purchase, acquire, accept and assume the Transferred Interest and to become a limited partner of the Partnership to the extent of the Transferred Interest (collectively, the "Transaction").

C. In addition to the Transaction, as of the Effective Date, Purchaser also intends to purchase, acquire, and accept all right, title and interest (including obligations and liabilities with respect thereto) in and to the general partner interests of the General Partner in the Partnership, and to become the sole limited partner of the Partnership and the sole owner of the General Partner of the Partnership (collectively with the Transaction, the "Drop-Down Transaction").

D. Simultaneously with the closing of the Transaction, it is contemplated that the Buyer will acquire (i) all of the issued and outstanding equity of CapitalSouth Partners Fund II, L.P., CapitalSouth Partners F-II, LLC, CapitalSouth Partners SBIC Fund III, L.P., and CapitalSouth Partners SBIC F-III, LLC (the "Primary Formation Transactions"), and (ii) certain investment assets owned by CapitalSouth Partners Fund III, L.P. and CapitalSouth Partners Fund I, Limited Partnership (the foregoing (i) and (ii) referred to collectively as the "Other Formation Transactions");

E. Purchaser has received and read a copy of the Partnership Agreement and is thoroughly familiar with its terms;

F. Pursuant to the provisions of the Partnership Agreement, any sale, transfer or assignment by Seller of all or a portion of its limited partnership interest in the Partnership requires the consent of the General Partner.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Assignment and Assumption.

(a) Assignment of Transferred Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, Seller, effective as of the Effective Date, (A) hereby sells, transfers, conveys and assigns to Purchaser all of Seller's right, title and interest in and to the Transferred Interest free and clear of all liens (the "Transfer") and (B) shall, to the fullest extent permitted by Delaware law, be relieved of all obligations to the Partnership and the General Partner under the Partnership Agreement with respect to the Transferred Interest, but excluding any liabilities or obligations arising from a breach of this Agreement (the obligations described in this subclause (B), the "Transferred Obligations").

(b) Assumption of Transferred Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, Purchaser, effective as of the Effective Date, (A) hereby accepts the Transfer, and (B) ratifies and agrees to be bound by all of the terms and conditions of, and shall succeed to all of the rights and be subject to all of the Transferred Obligations, including without limitation the obligation to make Capital Contributions to the Partnership, with respect to the Transferred Interest from and after the Effective Date.

2. Consideration.

(a) The aggregate consideration payable to Sellers on the Effective Date in exchange for the Interests (the "Consideration") shall consist of 97,243 shares of common stock, par value $0.01 per share, of Purchaser (collectively, the "Shares").

(b) The Consideration is agreed by Seller and Purchaser to represent the aggregate value of the Transferred Interest, including all rights and Transferred Obligations with respect thereto, as of the Effective Date.

(c) For the avoidance of doubt, all payments to be made to the Partnership with respect to the Transferred Interest from and after the Effective Date, including without limitation Capital Contributions and any other payments or obligations arising from or relating to events occurring prior to the Effective Date, shall be made by Purchaser, and all payments that would otherwise be made by the Partnership to the owner of the Transferred Interest from and after the Effective Date shall be made to Purchaser.

3. General Partner Consent; Admission as Limited Partner. In reliance upon the representations, warranties and covenants of Seller and Purchaser under this Agreement, the General Partner hereby (i) consents to the transactions contemplated by this Agreement as of the Effective Date; (ii) agrees that Purchaser shall be admitted as a substituted limited partner of the Partnership as of the Effective Date, to the extent of the Transferred Interest, in accordance with the Partnership Agreement; (iii) acknowledges and confirms that this Agreement constitutes documentation in form satisfactory to the General Partner for the Transfer in accordance with the Partnership Agreement; (iv) consents to the amendment of the Partnership Agreement to reflect the substitution of the Purchaser as a limited partner of the Partnership, and to make such other changes as may be requested by Purchaser, and (v) waives its right to require, with respect to the Transfer, an opinion of counsel, additional representations and warranties, or any other information the General Partner is entitled to request in connection with the Transfer of the Transferred Interest.

4. Agreements, Representations and Warranties. Seller represents and warrants as of the date hereof and immediately prior to the Effective Date, and (with respect to clause (e)) covenants as follows:

(a) Title to Transferred Interest; Compliance with Laws. Seller owns all right, title and interest (legal and beneficial) in and to the Transferred Interest free and clear of all liens, other than any restrictions under federal and state securities laws. Upon delivery of the Transferred Interest to Purchaser and payment to Seller of the Consideration, Purchaser will acquire good and marketable title to the Transferred Interest free and clear of all liens, other than any liens created by or through Purchaser or any of its Affiliates or any restrictions under federal and state securities laws.

(b) Compliance with Law. Seller's ownership of the Transferred Interest has at all times been conducted in all material respects in accordance with all applicable laws, rules, regulations and other requirements of all governmental authorities or agencies having jurisdictions over Seller.

(c) No Default; No Excuse. Seller has (i) contributed to the Partnership all amounts it was required to contribute, when required to contribute such amounts, pursuant to the terms of the Partnership Agreement, and (ii) paid all management fees due and payable by it pursuant to the terms of the Partnership Agreement, including all such fees through the Effective Date. Seller (A) has not received written notice from the General Partner or the Partnership that it is required to return any distributions or portions of distributions previously received by Seller from the Partnership, and (B) is not in default under the Partnership Agreement. Seller has not (x) made any voluntary Capital Contributions or Commitments to the Partnership, nor to Seller's knowledge have any been made on behalf of it, or (y) opted out of or, to Seller's knowledge, been excluded from, any investments of the Partnership pursuant to the Partnership Agreement.

(d) Good Standing; Requisite Authority; Due Authorization. Seller is duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Seller has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of the obligations to be performed by it hereunder. This Agreement has been duly authorized, executed and delivered by Seller, and, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws of general application affecting enforcement of creditors' rights generally.

(e) Prompt Conveyance. Seller agrees to promptly convey to Purchaser any amounts with respect to the Transferred Interest inadvertently delivered by the Partnership to Seller from and after the Effective Date, and Purchaser agrees to promptly convey to Seller any amounts with respect to the Transferred Interest inadvertently delivered to Purchaser prior to the Effective Date.

5. No Reliance; Release of General Partner.

(a) Purchaser hereby acknowledges that:

(i) except as otherwise expressly set forth herein, the General Partner and its Affiliates are making no representation as to the accuracy or completeness of any information regarding the Partnership supplied to Purchaser by any Person, including, without limitation, with respect to the Consideration or the valuation of the Transferred Interest;

(ii) Purchaser has had the opportunity to conduct its own due diligence on the Partnership and the Transferred Interest and is relying on no information other than such investigation, the Partnership's most recent quarterly and annual financial statements, and the representations and warranties expressly made to, or for the benefit of, Purchaser in making its decision to purchase the Transferred Interest and invest in the Partnership;

(iii) the General Partner and its Affiliates are not recommending that Purchaser make an investment, and Purchaser must make an independent decision based on the available information and its tolerance for risk; and

(iv) Purchaser has had the opportunity to consult its own tax advisor with respect to the Transferred Interest and the transactions contemplated by this Agreement.

(b) Seller hereby releases and discharges the General Partner, the Partnership and each of their respective directors, officers, partners, members, agents, representatives and advisors (collectively, the "Releasees"), from any and all claims, demands, suits, causes of action, liabilities, obligations, judgments, orders, debts, liens and causes of action of every kind and nature, whether known or unknown, vested or contingent, in law or equity, existing by statute, common law, contract or otherwise, which have existed, may exist in the future or do exist now (collectively, "Liabilities"), relating to or arising out of this Agreement and the transactions contemplated herein, including, without limitation, any Liabilities arising out of or in any way related to or based upon any alleged misrepresentation in or omission from any information relating to the Partnership supplied by the General Partner, except to the extent such Liabilities arise out of fraud or the gross negligence or willful misconduct of the Releasees.

6. Cooperation. Seller, on the one hand, and Purchaser, on the other hand, shall cooperate fully with each other in furnishing any information or performing any action reasonably requested by the other party, which information or action is necessary to the timely and successful consummation of the transactions contemplated by this Agreement.

7. Fees and Expenses. Purchaser covenants that Purchaser shall promptly pay all reasonable out-of-pocket expenses incurred by the Partnership in connection with the Transfer, including, but not limited to, reasonable legal and accounting expenses incurred by the Partnership.

8. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

9. Amendments, Changes and Modifications. This Agreement may not be amended, changed or otherwise modified except by a written instrument executed by the parties hereto.

10. Governing Law. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of Delaware, without regard to the conflict of laws principles thereof that would apply the laws of another jurisdiction.

11. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

12. Effectiveness; Termination. The closing of the Transaction is subject to:

(a) the Seller's receipt of a fully executed signature page of the Partnership Agreement executed by the transferee and executed purchase and sale agreement for the transfer of the general partner interest to be transferred in connection with the Drop-Down Transaction;

(b) the delivery by Seller to Purchaser and/or the underwriters in the IPO of a a fully executed lock-up agreement satisfactory to the Purchaser and underwriters; and

(c) Seller's receipt of approval from the SBA of the change of control contemplated by the Primary Formation Transactions (which conditional approval shall become final following the consummation of the Transaction and the satisfaction of the SBA's requirements in connection therewith) (the "SBA Approval" and the date of receipt thereof, the "SBA Approval Date").

The Transaction shall close and be effective as of a specific date to be determined by the Purchaser by written notice to Seller, such date to occur as soon as reasonably practicable (considering only logistics required for closing) following the SBA Approval Date (the "Effective Date"); provided that, if the Effective Date does not occur prior to December 31, 2013, Seller and Purchaser shall each have the right in its sole and absolute discretion to terminate this Agreement by written notice to the other, and in such event this Agreement shall be null and void and of no effect.

13. Survival. The parties' rights and obligations under Sections 4-8, and applicable defined terms shall survive any termination of this Agreement.

14. Notices and Deliveries. Any notice, communication or delivery required or permitted to be given by any provision of this Agreement shall be deemed to have been delivered, given, and received for all purposes when the same is actually received, and may be delivered personally or by courier, delivery service, registered or certified mail (postage and charges prepaid), or facsimile, in each case addressed to the recipient at the address set forth below or at such other address as the recipient may notify the sender in writing:

PURCHASER: Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

SELLER: Florida Growth Fund LLC
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written and the Agreement shall be effective as of the Effective Date.

GENERAL PARTNER:

CSP-Florida Mezzanine Fund I, LLC, a North Carolina limited liability company

By: _____
Name:
Title:

SELLER:

Florida Growth Fund LLC, a Delaware limited liability company

By: _____
Name:
Title:

PARTNERSHIP:

CapitalSouth Partners Florida Sidecar Fund I, L.P., a Delaware limited partnership

By: **CSP-Florida Mezzanine Fund I, LLC**, a North Carolina limited liability company, its general partner

By: _____
Name:
Title:

PURCHASER:

Capitala Finance Corp., a Maryland corporation

By: _____
Name:
Title:

[Signature Page to Purchase and Sale Agreement – Florida Sidecar LP]

[Form of Purchase Agreement]

PURCHASE AGREEMENT

By and Between

CAPITALA FINANCE CORP.

And

CAPITALSOUTH PARTNERS FUND I LIMITED PARTNERSHIP

Dated as of September 24, 2013

PURCHASE AGREEMENT

This **PURCHASE AGREEMENT** ("**Agreement**") is made as of September 24, 2013, by and among Capitala Finance Corp., a Maryland corporation ("**Buyer**"), CapitalSouth Fund I Limited Partnership, a North Carolina limited partnership ("**Seller**"), and CapitalSouth Partners, LLC, a North Carolina limited liability company, as the general partner of Seller (the "**General Partner**"). Each of Buyer, Seller and the General Partner may be referred to individually as a "**Party**" and, collectively, as the "**Parties**."

RECITALS

WHEREAS, Buyer is a corporation organized under the Maryland General Corporation Law;

WHEREAS, Seller is a Delaware limited partnership and operated in accordance with the terms set forth in that certain Amended and Restated Limited Partnership Agreement of the Seller dated as of December 4, 2000 (such agreement, as amended from time-to-time, the "**Partnership Agreement**");

WHEREAS, the General Partner is the general partner of Seller and has the authority to cause Seller to enter into transactions relating to the sale of Seller's assets;

WHEREAS, Seller desires to sell, transfer and assign to Buyer, and Buyer desires to purchase, accept and assume from Seller, certain assets and liabilities of Seller for the consideration and on the terms and subject to the conditions set forth in this Agreement (such purchase and sale, the "**Transaction**");

WHEREAS, simultaneously with the closing of the Transaction, it is contemplated that the Buyer will acquire (i) all of the issued and outstanding equity of CapitalSouth Partners Fund II, L.P., CapitalSouth Partners F-II, LLC, CapitalSouth Partners SBIC Fund III, L.P., and CapitalSouth Partners SBIC F-III, LLC (the "**Primary Formation Transactions**"), and (ii) certain investment assets owned by CapitalSouth Partners Fund III, L.P., and (iii) the issued and outstanding equity of CapitalSouth Partners Florida Sidecar Fund I, L.P. and its general partner (the foregoing (i) through (iii) referred to collectively as the "**Other Formation Transactions**");

WHEREAS, following the closing of the Transaction and the Other Formation Transactions, the Buyer intends to elect to be treated as a business development company under the Investment Company Act of 1940, as amended (the "**1940 Act**"), and to effect an initial public offering (the "**IPO**") of common stock, par value $0.01 per share, of Buyer ("**Common Stock**"); and

WHEREAS, it is contemplated that the issuance of Common Stock by the Buyer to the Seller pursuant to this Agreement will not be subject to the registration requirements contained in the Securities Act of 1933, as amended (the "**Securities Act**").

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

ARTICLE 1

DEFINITIONS; MATTERS OF CONSTRUCTION

1.1 Definitions. In this Agreement, the following terms have the meanings specified or referred to in this Section 1.1 and shall be equally applicable to both the singular and the plural forms.

"**Assignment Agreement**" means (i) with respect to any Purchased Asset that includes a specific form of assignment and assumption agreement or similar document within the Loan Documents or Equity Documents governing such Purchased Asset, such specific form of assignment and assumption agreement or similar document, and (ii) with respect to any other Purchased Asset, an assignment and assumption agreement or stock transfer power, as applicable, in such form as may be mutually agreed by Buyer and Seller, in each case pursuant to which Seller shall sell, transfer, assign, convey and deliver the relevant Purchased Asset to Buyer and Buyer shall assume the Purchased Asset and agree to pay, perform or otherwise discharge the Assumed Obligations.

"**Assumed Obligations**" has the meaning specified in Section 2.2.

"**Borrowers**" means those Persons who constitute "borrowers" (or any similarly defined entity) under the Loan Documents.

"**Business Day**" means any day excluding Saturday, Sunday and any other day that is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are closed.

"**Buyer**" has the meaning specified in the preamble to this Agreement.

"**Closing**" has the meaning specified in Section 4.1.

"**Common Stock**" has the meaning specified in the recitals to this Agreement.

"**Consent**" means, with respect to any Purchased Asset, any consent of the Borrower, the administrative agent or other Person required in order for Seller to sell, assign, transfer, convey or deliver such Purchased Asset to Buyer.

"**Court Order**" means any judgment, order, decision, award, injunction, ruling, subpoena, verdict or decree of any foreign, federal, state or local court, tribunal or Governmental Body and any award in any arbitration proceeding.

"**Eligible Institution**" means an entity that qualifies as an "Eligible Institution", "Approved Fund," "Qualified Transferee", "Permitted Lender", "Eligible Assignee", "Qualified Institutional Lender" or similarly defined entity under the applicable definition under the Loan Documents relating to the Purchased Loans to be acquired by such entity.

"**Effective Time**" has the meaning specified in Section 4.1.

"**Encumbrance**" means any lien, security interest, mortgage, pledge, conditional sale or other title retention agreement, adverse claim, or other encumbrance.

"**Equity Documents**" means the certificates or other similar documents or instruments representing the Equity Interests and the limited liability, partnership, stockholders', voting or other similar agreements governing the rights and obligations of holders of Equity Interests, as in effect as of the Effective Time.

"**Equity Interests**" means the equity interests identified on Exhibit B.

"**Governmental Approval**" means the approval, consent, order, authorization of, declaration, filing, or registration with, any Governmental Body.

"**Governmental Body**" means any foreign, federal, state or local government, court, department, commission, board, bureau, agency or other governmental authority or administrative or regulatory body, any applicable securities or commodities exchange and any other self-regulatory body.

"**Guarantor**" means Persons who, under the Loan Documents or otherwise, have given guaranties, sureties, indemnities or made other agreements or undertakings in connection with the Purchased Loans or pledged, mortgaged or granted security interests in property to secure payment of the Purchased Loans.

"**Loan Collateral**" means the assets and properties securing payment of outstanding obligations of Borrowers under the Loan Documents.

"**Loan Documents**" means the credit and financing agreements, guarantees, subordination agreements, Notes, mortgages, deeds of trust, security agreements (including pledge and control agreements), financing statements, intercreditor agreements, and other instruments and documents affecting Seller's ownership and economic rights with respect to the Purchased Loans which are executed and delivered to or otherwise obtained by Seller, or in which Seller has an interest in connection with the Purchased Loans, as in effect as of the Effective Time.

"Loan Files" means credit and transaction files of Seller relating to the Purchased Loans, including Loan Documents, Third Party Reports, operating statements, Borrower financial statements, budgets, recent borrowing base, compliance and advance certificates, and other documents of Seller that relate to the Purchased Loans, in each case in the possession of Seller as of the Effective Time.

"**Loan Schedule**" means the schedule attached hereto as Exhibit A, which identifies (i) each Purchased Loan, (ii) the name of the Borrower of each Purchased Loan, (iii) the interest rate on each Purchased Loan, (iv) the maturity date of each Purchased Loan, (v) the outstanding unpaid principal amount of each Purchased Loan, and (vi) the amount of accrued interest for each Purchased Loan, in each case as of the date hereof.

"**Notes**" means the original executed promissory notes issued to the order of the Seller, or copies of a "master" note if no such note was issued to Seller or an allonge endorsing a note in favor of Seller, evidencing indebtedness owing to the Seller under a Purchased Loan.

"**Outside Date**" means December 31, 2013.

"**Parties**" has the meaning specified in the preamble to this Agreement.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, business trust, joint venture, association or other entity or Governmental Body.

"**Purchased Assets**" has the meaning specified in Section 2.1.

"**Purchase Price**" has the meaning set forth in Section 3.1.

"**Purchased Loans**" means the loans identified on the Loan Schedule, including principal and accrued and unpaid interest thereon.

"**Requirements of Law**" means any federal, state or local law, statute, regulation, rule, code, ordinance or Court Order enacted, adopted, issued or promulgated by any Governmental Body, including laws pertaining to usury and other laws applicable to banking institutions and banking activities, in each case together with the rules and regulations promulgated thereunder.

"SBA" means the U.S. Small Business Administration.

"SEC" means the Securities and Exchange Commission.

"Securities Act" has the meaning set forth in the recitals to this Agreement.

"**Seller**" has the meaning specified in the preamble to this Agreement.

"**Shares**" has the meaning specified in Section 3.1.

"**Third Party Reports**" means all reports, appraisals and other written materials prepared by third parties for Seller with respect to the Purchased Loans, including all real estate appraisals, equipment appraisals and environmental reports that relate to the Purchased Loans.

"**UCC**" means the Uniform Commercial Code (or any successor statute) as adopted and in force in the State of New York or, when the laws of any other state govern the method or manner of the perfection or enforcement of any security interest in any of the Loan Collateral, the Uniform Commercial Code (or any successor statute) of such state.

1.2 Matters of Construction. The terms "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun shall be deemed to cover all genders. All references: to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; to any agreement, instrument or other documents shall include any and all modifications and supplements thereto and any and all restatements, extensions or renewals thereof; to any person or entity shall mean and include the successors and permitted assigns of such person or entity; "to," "including" and "include" shall be understood to mean "including, without limitation"; or to the time of day shall mean the time on the day in question in New York, New York, unless otherwise expressly provided in this Agreement.

ARTICLE 2

PURCHASE AND SALE

2.1 Purchased Assets. Upon the terms and subject to the conditions of this Agreement, at the Effective Time, Seller shall sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase and assume from Seller, all of Seller's right, title and interest in, to and under the following, wherever located (collectively, the "**Purchased Assets**"):

(a) each Purchased Loan including, to the extent permitted to be assigned under applicable Requirements of Law, all claims, suits, causes of action and any other right of the relevant Seller under the Loan Documents against any Person, whether known or unknown, arising under or in connection with the Loan Documents or in any way based on or related to any of the foregoing;

(b) the Loan Documents relating to such Purchased Loan;

(c) the Loan Files relating to such Purchased Loan;

(d) each of the Equity Interests; and

(e) each of the Equity Documents relating to such Equity Interests.

2.2 Assumed Obligations. At the Effective Time, Buyer and Seller shall execute and deliver the Assignment Agreements with respect to the Purchased Assets, pursuant to which Buyer shall assume all obligations under the Loan Documents and/or Equity Documents, as applicable, to the extent, and only to the extent, that such obligations arise out of or relate to facts, events or circumstances arising or occurring on or after the Effective Time (collectively, the "**Assumed Obligations**").

ARTICLE 3

PURCHASE PRICE

3.1 Purchase Price.

(a) The aggregate consideration for the Purchased Assets (the "**Purchase Price**") shall be 338,746 shares of Common Stock (the "**Shares**").

(b) For the avoidance of doubt, all payments made with respect to the Purchased Assets prior to the Effective Time shall be for the account of Seller, and all payments with respect to the Purchased Assets from and after the Effective Time shall be for the account of Buyer; provided, however, that to the extent accrued interest has been recognized as income by Seller, the payment of such accrued interest after the Effective Time shall be for the account of Seller.

(c) The Purchase Price is agreed by Buyer and Seller to represent the aggregate value of the Purchased Assets, including all rights, liabilities and obligations with respect thereto, as of the Effective Date.

ARTICLE 4

CLOSING

4.1 Closing; Effective Time. The closing of the purchase and sale of the Purchased Assets and the assumption of Assumed Obligations (the "**Closing**") shall, subject to the satisfaction or waiver of all conditions to the Closing set forth in Article 8 and Article 9 (other than those that can only be satisfied at the Closing), take place simultaneously with, and at the time and place of, the closing of the Other Formation Transactions, or at such other time and place as Seller and Buyer may agree (the time of such Closing, the "**Effective Time**"). At the Closing, Seller shall sell, transfer, assign, convey and deliver to Buyer the Purchased Assets and the Assumed Liabilities, and Buyer shall purchase, accept and assume the Purchased Assets and Assumed Liabilities.

4.2 Buyer's Deliveries. At the Closing, Buyer shall:

(a) issue the Shares to Seller; and

(b) deliver to Seller a counterpart of each relevant Assignment Agreement, duly executed (where applicable) on behalf of Buyer.

4.3 Seller's Deliveries. At the Closing, Seller shall deliver to Buyer all of the following:

(a) a counterpart of each Assignment Agreement with respect to the sale and assignment of the relevant Purchased Assets duly executed on behalf of Seller and each Person for which a Consent is required for such Purchased Asset (unless a separate Consent has been delivered);

(b) the Notes and other Loan Documents with respect to such Purchased Loans (to the extent in the possession of Seller);

(c) any Loan Files in the possession of Seller; and

(d) the Equity Documents.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SELLER

As an inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, Seller hereby represents and warrants to Buyer as follows:

5.1 Organization; Compliance with Laws. Seller is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization with full power and authority to own the Purchased Assets and to consummate the Transaction. Seller's ownership of the Purchased Assets has at all times been conducted in all material respects in accordance with all applicable Requirements of Law.

5.2 Authority. Seller has full power and authority to execute, deliver and perform this Agreement and the Assignment Agreements to which it will be a party. All action required to be taken by Seller to authorize the execution, delivery and performance of this Agreement and the Assignment Agreements has been taken. This Agreement has been duly authorized, executed and delivered by Seller and is the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, and the Assignment Agreements have been duly authorized by Seller and upon execution and delivery by Seller will be a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, in each case, subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and any limitation imposed by general equity principles, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.3 Consents. None of the execution and delivery of this Agreement or the Assignment Agreements, the consummation of the Transaction, or compliance by Seller with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(a) conflict with, result in a material breach of the terms, conditions or provisions of, or constitute a material default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under, or result in the creation or imposition of any Encumbrance upon any of the Purchased Assets, under (i) Seller's organizational documents, (ii) any Loan Document or Equity Document, or any other material agreement or material instrument (other than a Loan Document

or Equity Document) to which Seller is a party or by which Seller is bound with respect to any Purchased Asset, (iii) any Court Order to which Seller is a party or by which Seller is bound with respect to any Purchased Asset, or (iv) any Requirements of Law applicable to Seller, except to the extent such breach or default would not materially and adversely affect the Purchased Assets or the Transaction;

(b) except as set forth in Schedule 5.3, require the approval, Consent, authorization or act of, or the making or giving by Seller of any notice, declaration, filing, report or registration with, any Person in connection with the execution and delivery by Seller of this Agreement or the Assignment Agreements or the consummation of any of the transactions contemplated hereby or thereby; or

(c) require any Governmental Approval.

5.4 Purchased Assets. Seller has and, as of the Effective Time, will transfer to Buyer, good title to all of the Purchased Assets, free and clear of any Encumbrances. The Purchased Assets represent all the investment assets of Seller.

5.5 Securities Law Matters. Seller is an "accredited investor" (as defined in Rule 501 of Regulation D under the Securities Act) and is acquiring the Shares without any present intention of offering or selling the Shares in violation of the Securities Act. Seller has received information determined by it to be necessary in order to make an informed investment decision regarding the investment in the Shares. Seller acknowledges that the Shares have not been registered under the Securities Act or under the securities laws of any state, and, therefore, cannot be sold unless it is subsequently registered under the Securities Act and any applicable state securities laws or an exemption from registration is available. Further, Seller understands that the transfer agent records will reflect the foregoing restrictions and, so long as such restrictions are in effect, a stop-transfer order may be placed against transfer of such Shares. Unless otherwise required by applicable Requirements of Law, such restrictions shall be removed (a) upon the sale of such Shares pursuant to an effective registration statement under the Securities Act, (b) in connection with any other sale, assignment or transfer transaction, if Seller provides Buyer with an opinion of counsel, in form, substance, and scope, and from such counsel, as may be reasonably acceptable to Buyer, to the effect that the sale, assignment or other transfer of the Shares may be made without registration under the Securities Act, or (c) if Seller provides Buyer with notice that the Shares are being sold pursuant to Rule 144 under the Securities Act (or a successor rule thereto). Seller agrees to sell the Shares only in compliance with all applicable securities laws.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to Seller to enter into this Agreement and to consummate the transactions contemplated hereby, Buyer hereby represents and warrants to Seller as follows:

6.1 Organization of Buyer. Buyer is a corporation, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, with full power and authority to consummate the transactions contemplated hereby.

6.2 Authority of Buyer. Buyer has full power and authority to execute, deliver and perform this Agreement and the Assignment Agreements. All corporate or other legal action required to be taken by Buyer to authorize the execution, delivery and performance of this Agreement and the Assignment Agreements has been taken. This Agreement has been duly authorized, executed and delivered by Buyer in accordance with its terms, and the Assignment Agreements have been duly authorized by Buyer and

upon execution and delivery by Buyer will be a legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, in each case subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and any limitation imposed by general equity principles, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or equity).

6.3 Consents. Neither the execution and delivery of this Agreement or the Assignment Agreements nor the consummation of the Transaction nor compliance by Buyer with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(a) conflict with, result in a material breach of the terms, conditions or provisions of, or constitute a material default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under (i) the organizational documents of Buyer, (ii) any material agreement or material instrument to which Buyer is a party or by which Buyer is bound, (iii) any Court Order to which Buyer is a party or by which Buyer is bound or (iv) any Requirements of Law applicable to Buyer, in each case except to the extent such breach or default would not materially and adversely affect Buyer's ability to acquire the Purchased Assets or perform the Assumed Obligations;

(b) require the approval, Consent, authorization or act of, or the making or giving by Buyer of any notice, declaration, filing, report or registration with, any Person in connection with the execution and delivery by Buyer of this Agreement or the Assignment Agreements or the consummation of any of the Transaction; or

(c) require any Governmental Approval.

6.4 Status of Buyer. Buyer (i) is or at Closing will be a "sophisticated" investor and/or an "accredited" investor as that term is defined in Rule 501 of Regulation D under the Securities Act, or a "qualified purchaser" as defined in Section 2(a)(51) of the 1940 Act, (ii) is an Eligible Institution, (iii) is able to bear the economic risk associated with the purchase of the Purchased Assets and the assumption of the obligations thereunder, and (iv) has such knowledge and experience so as to be aware of the risks and uncertainties inherent in the purchase of rights and assumption of liabilities, including the Assumed Obligations, of the type contemplated in this Agreement. Without characterizing the Purchased Assets as a "security" within the meaning of the Securities Act or any other securities laws, Buyer is not purchasing the Purchased Assets with a view towards sale or distribution thereof in violation of the Securities Act.

ARTICLE 7

ADDITIONAL AGREEMENTS

7.1 Notices; Post-Closing Remittances; Correspondence; Further Assurances.

(a) Promptly following the Effective Time, the Parties shall give notice to all Borrowers, Guarantors and other necessary Persons, in form and substance reasonably acceptable to Buyer, notifying them of the sale of the relevant Purchased Assets to Buyer and shall provide them with information regarding the account(s) to which all payments under the Loan Documents and Equity Documents shall be made following the Effective Time. Buyer agrees to cooperate with Seller in all respects in connection with the foregoing and shall promptly provide Seller with such information as it may require in connection with providing such notices.

(b) Amounts which are paid in respect of the Purchased Assets and are received by Seller following the Effective Time in respect of Purchased Assets shall be received by Seller as agent, in trust for and on behalf of Buyer and Seller shall pay promptly all of such amounts over to Buyer and shall provide Buyer information, to the extent known, as to the nature, source and classification of such payments, including any invoice relating thereto. All amounts in respect of assets of Seller that are not Purchased Assets that are received by Buyer following the Effective Time shall be received by Buyer as agent, in trust for and on behalf of Seller, and Buyer shall promptly pay all of such amounts over to Seller and shall provide to Seller information relating thereto, to the extent known, as to the nature, source and classification of such payments, including any invoice relating thereto.

(c) Following the Effective Time, to the extent that Seller receives (and Buyer does not also receive) any mail (including electronic mail) or other correspondence or materials relating to the Purchased Assets or the Assumed Obligations (other than any internal mail, correspondence, or materials generated by Seller itself), Seller shall promptly forward such mail, correspondence, or other materials to Buyer.

(d) Seller shall use commercially reasonable efforts to execute such other assignments, novations, transfer documents, instruments of further assurance (including without limitation, if and to the extent necessary, lost certificate affidavits and related indemnities), approvals and consents as are necessary or proper in order to complete, ensure and perfect the sale, transfer and conveyance of the Purchased Assets and the Assumed Obligations to Buyer and the consummation of the other transactions contemplated hereby, and to effect the economic intentions of the parties. Without in any way limiting the foregoing, in the event any purported assignment of a Purchased Asset hereunder is determined to not be effective as of closing, whether due to the failure to obtain a required consent or otherwise, Seller shall be deemed to have granted to Purchaser, as of the Effective Time, a 100% participation interest in such Purchased Asset (and shall execute such documentation as may be required to evidence such participation interest), until such time as the assignment is effective.

(e) Following Closing, the Seller shall hold the Shares for the period (the "Lock-Up Period"), and on the terms, set forth in the lock-up agreement executed by the Seller in connection with the IPO; provided, however, that the Shares allocated to a given limited partner of the Partnership (each, a "Limited Partner") shall be released by Seller to such Limited Partner upon the earlier of (i) the date in which the relevant Limited Partner delivers a lock-up agreement substantially similar to the lock-up agreement executed by Seller, and (ii) expiration of the Lock-Up Period. For the avoidance of doubt, each Limited Partner shall be the beneficial owner of the Shares allocated to it and held by the Seller and shall have the right to vote (or direct the voting of) such Shares on any matter on which shareholders of the Corporation are entitled to vote. Unless otherwise instructed by a Limited Partner with respect to the Shares allocated to such Limited Partner, Seller shall opt out of Buyer's dividend reinvestment program with respect to the Shares it holds.

ARTICLE 8

CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligations of Buyer to consummate the transactions contemplated hereby shall be subject to the satisfaction, on or prior to the Effective Time, of the following conditions, any or all of which may, to the extent legally permissible, be waived in Buyer's sole discretion:

8.1 Accuracy of Representations and Warranties. The representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects as of the Effective Time (except for representations and warranties expressly stated to relate to a specific date, in which case such representation and warranties shall be true and correct in all material respects as of such date).

8.2 Obligations Performed. Seller shall have performed and complied in all material respects with all of the obligations, covenants and agreements required by this Agreement required to be performed or complied with by it prior to the Effective Time.

8.3 No Restraint or Litigation. No action, suit, claim, investigation or proceeding shall have been instituted to restrain or prohibit or otherwise challenge the legality or validity of the Transaction.

8.4 Consents. All Consents required to have been obtained in connection with the sale of the Purchased Assets shall have been obtained and not revoked or rescinded, except to the extent the failure to obtain such Consents would not materially and adversely affect the Purchased Assets or the Transaction.

8.5 SBA Approval; Other Formation Transactions. The SBA shall have approved the change of control contemplated by the Primary Formation Transactions (which conditional approval shall become final following the consummation of the Transaction and the satisfaction of the SBA's requirements in connection therewith) (the "SBA Approval") and the conditions to Closing of the Other Formation Transactions shall have been duly satisfied or waived.

ARTICLE 9

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER

The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the satisfaction, on or prior to the Effective Time, of the following conditions any or all of which may, to the extent legally permissible, be waived in Seller's sole discretion:

9.1 Accuracy of Representations and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects as of the Effective Time (except for representations and warranties expressly stated to relate to a specific date, in which case such representation and warranties shall be true and correct in all material respects as of such date).

9.2 Obligations Performed. Buyer shall have performed and complied in all material respects with all obligations, covenants and agreements required by this Agreement to be performed or complied with by it prior to the Effective Time.

9.3 No Restraint or Litigation. No action, suit, claim, investigation or proceeding shall have been instituted to restrain or prohibit or otherwise challenge the legality or validity of the Transaction.

9.4 Consents. All Consents required to have been obtained in connection with the sale of the Purchased Assets shall have been obtained and not revoked or rescinded, except to the extent the failure to obtain such Consents would not materially and adversely affect the Purchased Assets or the Transaction.

9.5 SBA Approval; Other Formation Transactions. The SBA Approval shall have been obtained and the conditions to closing of the Other Formation Transactions shall have been duly satisfied or waived.

ARTICLE 10

TERMINATION

10.1 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, at any time prior to the Closing:

(a) by mutual written agreement of Seller and Buyer;

(b) by Seller or Buyer after the Outside Date, by written notice to the other Party, if the Closing with respect to any Purchased Asset has not occurred for any reason other than a breach of this Agreement by the terminating Party;

(c) by Seller or Buyer if any court of competent jurisdiction or any Governmental Body shall have issued an order or taken any other final action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement and such order or other action is or shall have become final and nonappealable; provided, however, that the Party seeking to terminate this Agreement pursuant to this Section 10.1(c) shall have used commercially reasonable efforts to prevent the entry of and to remove such order or other final action;

(d) by Buyer, if there has been a material breach by Seller of any of its representations, warranties, covenants or agreements contained in this Agreement which (x) would result in a failure of a condition set forth in Article VIII, and (y) cannot be cured prior to the Outside Date; or

(e) by Seller, if there has been a material breach by Buyer of any of its representations, warranties, covenants or agreements contained in this Agreement which (x) would result in a failure of a condition set forth in Article IX, and (y) cannot be cured prior to the Outside Date.

10.2 Procedure and Effect of Termination. In the event of the termination of this Agreement and the abandonment of the transactions contemplated hereby pursuant to Section 10.1 hereof, this Agreement shall become void and there shall be no liability on the part of any Party hereto except (a) this Section 10.2 and the obligations set forth in Article 11 hereof shall survive any such termination of this Agreement and (b) nothing herein shall relieve any party from liability for breach of this Agreement prior to termination.

ARTICLE 11

GENERAL PROVISIONS

11.1 Notices. All notices required under this Agreement shall be in writing and shall be given upon: (a) personal delivery (including delivery by overnight courier) of the written notice; (b) sending the message by a telecopy or facsimile machine to the other party's telecopy or facsimile machine, provided the sending machine automatically prints a message confirming that the message was received, and a copy thereof is forthwith mailed or sent by personal delivery to the addressee; (c) when sent by electronic mail (with hard copy to follow) during a Business Day (or on the next Business Day if sent after the close of normal business hours or on any non-Business Day); or (d) if sent via United States mail, the third day following mailing, certified mail, return receipt requested, postage prepaid and appropriately addressed. Such addresses shall be:

If to Seller, to:

CapitalSouth Partners Fund I, Limited Partnership
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

If to Buyer, to:

Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

or to such other address as such party may indicate by a notice delivered to the other parties hereto in accordance with this Section 11.1.

11.2 Successors and Assigns. No Party may assign its rights and/or obligations under this Agreement without the prior written consent of the other parties. Subject to the foregoing, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provisions of this Agreement, and this Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the Parties to this Agreement and their respective permitted successors and assigns.

11.3 Entire Agreement; Exhibits and Schedules; Amendments. This Agreement and the Exhibits and Schedules referred to herein and the other documents referred to herein contain the entire understanding and agreement of the parties hereto with regard to the subject matter contained herein or therein, and supersede all prior agreements, inducements, understandings, disclosures, correspondence, offering memoranda or letters of intent between or among any of the parties hereto, whether expressed or implied, oral or written, regarding the same subject matter. Each of the Exhibits and Schedules attached hereto are incorporated into this Agreement and by this reference made a part hereof. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto.

11.4 Waivers. Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provisions of this Agreement shall not be construed to be a waiver of such provisions, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

11.5 Expenses. Each party hereto will pay all of its own costs and expenses incident to its negotiation and preparation of this Agreement and to its performance and compliance with all agreements and conditions contained herein on its part to be performed or complied with, including fees, expenses and disbursements of its counsel and accountants.

11.6 Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable Requirements of Law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provisions shall be ineffective to the extent, but only to the extent, of such invalid, illegal or unenforceable provisions or other provisions hereof.

11.7 Execution in Counterparts. This Agreement may be executed in one or more counterparts, including facsimiles thereof and through electronic transmission, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement, and shall become binding when one or more counterparts have been signed by each of the parties hereto and delivered to Seller and Buyer.

11.8 Further Assurances. The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents (including without limitation, if and to the extent necessary, any required lost certificate affidavit and related indemnity) and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement, including, but not limited to assignments of filed UCC financing statements and other documents of record.

11.9 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to the conflicts of law provisions thereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

BUYER:

CAPITALA FINANCE CORP.

By: _____
Name:
Title:

SELLER:

CAPITALSOUTH PARTNERS FUND I LIMITED PARTNERSHIP

By: CapitalSouth Partners, LLC, as General Partner

By: _____
Name:
Title:

GENERAL PARTNER:

CAPITALSOUTH PARTNERS, LLC

By: _____
Name:
Title:

[signature page – Fund I Asset Purchase]

Exhibit k.11

[Form of Purchase and Sale Agreement]

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated September 24, 2013, is by and between Capitala Finance Corp., a Maryland corporation ("Purchaser"), and CapitalSouth Corporation, a North Carolina corporation ("Seller"), in its capacity as the sole member and holder of the limited liability company interests of CSP-Florida Mezzanine Fund I, LLC (the "General Partner"), a North Carolina limited liability company and the general partner of CapitalSouth Partners Florida Sidecar Fund I, L.P., a Delaware limited partnership (the "Partnership"). Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Partnership Agreement (as defined herein).

RECITALS:

A. Seller owns all of the issued and outstanding limited liability company membership interests (the "Interests") in the General Partner.

B. Purchaser has separately entered into an agreement pursuant to which it will acquire all of the issued and outstanding limited partnership interests of the Partnership held by the limited partners of the Partnership (the "LP Transaction").

C. The operation of the General Partner is subject to the terms of its limited liability company operating agreement (the "Operating Agreement").

D. Simultaneously with the closing of the Transaction, it is contemplated that the Buyer will acquire (i) all of the issued and outstanding equity of CapitalSouth Partners Fund II, L.P., CapitalSouth Partners F-II, LLC, CapitalSouth Partners SBIC Fund III, L.P., and CapitalSouth Partners SBIC F-III, LLC (the "Primary Formation Transactions"), (ii) certain investment assets owned by CapitalSouth Partners Fund III, L.P. and CapitalSouth Partners Fund I, Limited Partnership, and (iii) all of the issued and outstanding equity of the Pasrtnership (the foregoing (i) through (iii) referred to collectively as the "Other Formation Transactions");

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Assignment and Assumption.

(a) Assignment of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, Seller hereby sells, transfers, conveys and assigns to Purchaser all of Seller's right, title and interest in and to the Interests free and clear of all liens (the "Transfer").

(b) Assumption of Interest. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and agreements set forth in this Agreement, effective as of the Effective Date, (A) Purchaser hereby accepts the Transfer, and (B) ratifies and agrees to be bound by all of the terms and conditions of, and shall succeed to all of the rights and be subject to all of the obligations arising under the Operating Agreement with respect to the Interest from and after the Effective Date.

2. Consideration.

(a) The aggregate consideration payable to Seller on the Effective Date in exchange for the Interests (the "Consideration") shall consist of 972 shares of common stock, par value $0.01 per share, of Purchaser, in exchange for the capital interests in the General Partner (the "Capital Interest Shares") and 7,226 shares of common stock, par value $0.01 per share, of Purchaser, in exchange for the carried interests in the General Partner (the "Carried Interest Shares" and, together with the Capital Interest Shares, the "Shares"); provided, however, that in order to effect a contribution of the Carried Interest Shares to Capitala Restricted Shares I, LLC ("CRS I"), Seller hereby directs Purchaser to issue the Carried Interest Shares to, and in the name of, CRS I.

(b) The Consideration is agreed by Seller and Purchaser to represent the aggregate value of the Interest, including all rights and obligations with respect thereto, as of the Effective Date.

3. Agreements, Representations and Warranties. Seller represents and warrants as of the date hereof and immediately prior to the Effective Date, as follows:

(a) Title to Interest; Compliance with Laws. Seller owns all right, title and interest (legal and beneficial) in and to the Interest to be sold by Seller hereunder free and clear of all liens, other than any restrictions under federal and state securities laws. Upon delivery of the Interest to Purchaser and payment to Seller of the Consideration, Purchaser will acquire good and marketable title to the Interest free and clear of all liens, other than any liens created by or through Purchaser or any of its Affiliates or any restrictions under federal and state securities laws.

(b) Compliance with Law. Seller's ownership of the Interest has at all times been conducted in all material respects in accordance with all applicable laws, rules, regulations and other requirements of all governmental authorities or agencies having jurisdictions over Seller.

(c) Good Standing; Requisite Authority; Due Authorization. Seller is an entity duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Seller has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of the obligations to be performed by it hereunder. This Agreement has been duly authorized, executed and delivered by Seller, and, assuming due authorization, execution and delivery by the other parties hereto, constitutes a valid and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and moratorium laws and other laws of general application affecting enforcement of creditors' rights generally.

4. Cooperation. Seller, on the one hand, and Purchaser, on the other hand, shall cooperate fully with each other in furnishing any information or performing any action reasonably requested by the other party, which information or action is necessary to the timely and successful consummation of the transactions contemplated by this Agreement.

5. Fees and Expenses. Purchaser covenants that Purchaser shall promptly pay all reasonable out-of-pocket expenses incurred by the Partnership in connection with the Transfer, including, but not limited to, reasonable legal and accounting expenses incurred by the Partnership.

6. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

7. Amendments, Changes and Modifications. This Agreement may not be amended, changed or otherwise modified except by a written instrument executed by the parties hereto.

8. Governing Law. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of Delaware, without regard to the conflict of laws principles thereof that would apply the laws of another jurisdiction.

9. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

10. Effectiveness, Termination. The closing of the Transaction is subject to approval of the Primary Formation Transactions by the U.S. Small Business Association (the :SBA") and the conditions to closing of the Other Formation Transactions having been duly satisfied or waive. The Transaction shall close and be effective as of a specific date to be determined by the Purchaser by written notice to Seller, such date to occur as soon as reasonably practicable (considering only logistics required for closing) following receipt of the SBA Approval and simultaneously with closing of the LP Transaction (the "Effective Date"); provided that, if the Effective Date does not occur prior to December 31, 2013, Seller and Purchaser shall each have the right in its sole and absolute discretion to terminate this Agreement by written notice to the other, and in such event this Agreement shall be null and void and of no effect.

11. Survival. The parties' rights and obligations under Sections 4-8, and applicable defined terms shall survive any termination of this Agreement.

12. Notices and Deliveries. Any notice, communication or delivery required or permitted to be given by any provision of this Agreement shall be deemed to have been delivered, given, and received for all purposes when the same is actually received, and may be delivered personally or by courier, delivery service, registered or certified mail (postage and charges prepaid), or facsimile, in each case addressed to the recipient at the address set forth below or at such other address as the recipient may notify the sender in writing:

PURCHASER: Capitala Finance Corp.
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

SELLER: CapitalSouth Corporation
4201 Congress Street, Suite 360
Charlotte, NC 28209
704.376.5502 phone
704.376.5877 fax
Contact: Joseph B. Alala, III

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SELLER:

CapitalSouth Corporation, a North Carolina corporation

By: _____
Name:
Title:

PURCHASER:

Capitala Finance Corp., a Maryland corporation

By: _____
Name:
Title:

[Signature Pages to Purchase and Sale Agreement – Florida Sidecar GP]

Exhibit (l)

[Letterhead of Sutherland Asbill & Brennan LLP]

September 24, 2013

Capitala Finance Corp.
4201 Congress St., Suite 360
Charlotte, NC 28209

Re: Capitala Finance Corp.
Registration Statement on Form N-2

Ladies and Gentlemen:

We have acted as counsel to Capitala Finance Corp., a Maryland corporation (the "***Company***"), in connection with the preparation and filing by the Company with the Securities and Exchange Commission (the "***Commission***") of a joint registration statement on Forms N-2 and N-5 (as amended from time to time, the "***Registration Statement***") under the Securities Act of 1933, as amended (the "***Securities Act***"), with respect to the offer, issuance and sale of up to $92,000,000 of shares (the ***"Shares"***) of the Company's common stock, par value $0.01 per share (the "***Common Stock***"), together with any additional Shares that may be issued by the Company pursuant to Rule 462(b) under the Securities Act (as prescribed by the Commission pursuant to the Securities Act) in connection with the offering described in the Registration Statement.

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined the originals or copies, certified or otherwise identified to our satisfaction as being true copies, of the following:

(i) The Articles of Amendment and Restatement of the Company (the "***Charter***"), certified as of a recent date by the State Department of Assessments and Taxation of Maryland (the "***SDAT***");

(iii) The Bylaws of the Company, certified as of the date hereof by an officer of the Company;

(iv) A Certificate of Good Standing with respect to the Company issued by SDAT as of a recent date (the "***Certificate of Good Standing***"); and

(v) The resolutions of the board of directors (the "***Board***") of the Company relating to, among other things, (a) the authorization and approval of the preparation and filing of the Registration Statement, and (b) the authorization, issuance, offer and sale of the Shares pursuant to the Registration Statement, certified as of the date hereof by an officer of the Company (collectively, the "***Resolutions***").

With respect to such examination and our opinion expressed herein, we have assumed, without any independent investigation or verification, (i) the genuineness of all signatures on all documents submitted to us for examination, (ii) the legal capacity of all natural persons, (iii) the authenticity of all documents submitted to us as originals, (iv) the conformity to original documents of all documents submitted to us as conformed or reproduced copies and the authenticity of the originals of such copied documents, (v) that all certificates issued by public officials have been properly issued, and (vi) the form and content of all documents submitted to us as unexecuted drafts do not differ in any respect relevant to this opinion letter from the form and content of such documents as executed and delivered. We also have assumed without independent investigation or verification the accuracy and completeness of all corporate records made available to us by the Company.

Where factual matters material to this opinion letter were not independently established, we have relied upon certificates of public officials (which we have assumed remain accurate as of the date of this opinion), upon certificates and/or representations of officers and employees of the Company, upon such other certificates as we deemed appropriate, and upon such other data as we have deemed to be appropriate under the circumstances. Except as otherwise stated herein, we have undertaken no independent investigation or verification of factual matters.

The opinions set forth below are limited to the effect of the Maryland General Corporation Law, as in effect on the date hereof, and we express no opinion as to the applicability or effect of any other laws of such jurisdiction or the laws of any other jurisdictions. Without limiting the preceding sentence, we express no opinion as to any state securities or broker-dealer laws or regulations thereunder relating to the offer, issuance and sale of the Shares pursuant to the Registration Statement. This opinion letter has been prepared, and should be interpreted, in accordance with customary practice followed in the preparation of opinion letters by lawyers who regularly give, and such customary practice followed by lawyers who on behalf of their clients regularly advise opinion recipients regarding, opinion letters of this kind.

On the basis of and subject to the foregoing, and in reliance thereon, and subject to the limitations and qualifications set forth in this opinion letter, and assuming that (i) the Board or a duly authorized committee thereof will approve the final terms and conditions of the issuance, offer and sale of the Shares, including those relating to price and amount of Shares to be issued, offered and sold, in accordance with the Resolutions; (ii) the Shares have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof; and (iii) the Certificate of Good Standing remains accurate, each of the Charter and the Resolutions remain in effect, without amendment, and the Registration Statement has become effective under the Securities Act and remains effective at the time of the issuance, offer and sale of the Shares, we are of the opinion that the Shares have been duly authorized and, when issued and paid for in accordance with the Registration Statement, will be validly issued, fully paid and nonassessable.

The opinions expressed in this opinion letter (i) are strictly limited to the matters stated in this opinion letter, and without limiting the foregoing, no other opinions are to be implied and (ii) are only as of the date of this opinion letter, and we are under no obligation, and do not undertake, to advise the addressee of this opinion letter or any other person or entity either of any change of law or fact that occurs, or of any fact that comes to our attention, after the date of this opinion letter, even though such change or such fact may affect the legal analysis or a legal conclusion in this opinion letter.

We hereby consent to the filing of this opinion letter as an exhibit to the Registration Statement or any registration statement filed by the Company under the Securities Act pursuant to Rule 462(b) thereunder as described in the first paragraph of this opinion letter. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Respectfully submitted,

/s/ SUTHERLAND ASBILL & BRENNAN LLP