

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

FORM 8-K

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

Date of Report (Date of earliest event reported):

May 4, 2020

CAPITALA FINANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation)

814-01022
(Commission File Number)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On May 4, 2020, Capitala Finance Corp. (the “*Company*”) issued a press release announcing its financial results for the quarter ended March 31, 2020 (the “*Earnings Release*”), the text of which is attached hereto as Exhibit 99.1.

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

Item 5.07. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Shareholders (the “*Meeting*”) on April 30, 2020 and submitted two matters to the vote of the shareholders. A summary of the matters voted upon by shareholders is set forth below.

1. Shareholders elected one director of the Company, who will serve for a three-year term to expire at the 2023 Annual Meeting of Shareholders, based on the following votes:

Name	For	Withheld	Broker Non-Votes
R. Charles Moyer	7,188,356	1,575,517	-

2. Shareholders approved a proposal to authorize the Company to sell shares of its common stock at a price or prices below the Company’s then current net asset value per share in one or more offerings, in each case subject to the approval of its board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto (including, without limitation, that the number of shares issued does not exceed 25% of the Company’s then outstanding common stock immediately prior to each such offering) based on the following votes:

	For	Against	Abstain	Broker Non-Votes
With Affiliates	7,090,344	1,448,162	225,355	-
% of Voted*	80.90%	16.52%	2.57%	-
Without Affiliates	5,948,132	1,448,162	225,355	-
% of Voted*	78.04%	19.00%	2.96%	-

* For purposes of this proposal, the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Meeting that are not held by affiliated persons of the Company was required to approve this proposal. For purposes of this proposal, the Investment Company Act of 1940, as amended, defines “a majority of the outstanding shares” as: (1) 67% or more of the voting securities present at the Meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) more than 50% of the outstanding voting securities of the Company, whichever is the less.

Item 7.01. Regulation FD Disclosure

On May 4, 2020, the Company issued a press release, the text of which is attached as Exhibit 99.2. In addition, on May 4, 2020, the Company made available on its website, <http://investor.CapitalaGroup.com>, a supplemental investor presentation with respect to the Earnings Release.

The information disclosed under this Item 7.01, including Exhibit 99.2 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. The information provided herein shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

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

Exhibit No.

Description

[99.1](#)

[Press release dated May 4, 2020](#)

[99.2](#)

[Press release dated May 4, 2020](#)

SIGNATURES

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

Date: May 4, 2020

CAPITALA FINANCE CORP.

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



Capitala Finance Corp. Reports First Quarter 2020 Results
Distributions Suspended for the Second Quarter of 2020

CHARLOTTE, NC, May 4, 2020--Capitala Finance Corp. (NASDAQ:CPTA) ("Capitala", the "Company", "we", "us", or "our") today announced its financial results for the first quarter of 2020, and the suspension of regular distributions effective for the second quarter of 2020.

Management Commentary

Chairman and Chief Executive Officer Joseph B. Alala, III offered the following comments, "COVID-19 has presented unprecedented challenges to our nation, from both a personal health standpoint as well as a shutdown in the U.S. economy. We have weathered the former very well, with remote working capabilities; however, the shutdown of the U.S economy has had a major impact on small business performance, especially those in the lower middle market. Net asset value per share declined by \$2.87 per share during the quarter, with approximately 41%, or \$1.18 per share, of this decline related to unrealized depreciation on equity investments. Management will continue to focus on the personal well-being of our employees, but is also fully engaged with management teams and sponsors, as appropriate, of all of our portfolio companies to assess and address liquidity needs and other challenges created by this shutdown. Our decision to suspend regular distributions for the second quarter of 2020 was not taken lightly, but deemed appropriate until we have better visibility into our net investment income for the remainder of the year. We are a regulated investment company, and as such, remain committed to complying with distribution requirements for 2020 to retain our tax status. The Company, along with its affiliation with Capitala Group, has the leadership and liquidity to position itself for improved financial performance once the economy improves."

Investment Portfolio, Portfolio Management, and Valuation

As of March 31, 2020, our portfolio consisted of 41 companies with a fair market value of \$321.2 million and a cost basis of \$356.0 million. First lien debt investments represented 65.7% of the portfolio, second lien debt investments represented 16.0% of the portfolio, equity/warrant investments represented 14.0% of the portfolio, and our investment in Capitala Senior Loan Fund II, LLC represented 4.3% of the portfolio, based on fair values at March 31, 2020.

At March 31, 2020, the Company had debt investments for eight portfolio companies on non-accrual status, with a cost and fair value, respectively, of \$68.0 million and \$42.9 million. At December 31, 2019, the Company had no non-accrual balances. The increase in non-accrual loans is primarily related to the impacts of COVID-19.

Under the leadership of our investment adviser's Chief Risk Officer, our investment adviser's portfolio management team is fully engaged on a daily basis with the management teams, and sponsors, of all of our portfolio companies. While the process is fluid, we are confident we have the leadership and resources to manage through this disruption.

At March 31, 2020, the Company's Board of Directors approved the fair value of the Company's investment portfolio of approximately \$321.2 million in good faith in accordance with the Company's valuation procedures. The Company's Board of Directors approved the fair value of the Company's investment portfolio as of March 31, 2020 with input from a third-party valuation firm and the investment adviser based on information available at the time of the approval, including trailing and forward looking data. The COVID-19 pandemic is an unprecedented circumstance that materially impacted the fair value of the Company's portfolio at March 31, 2020.

Liquidity and Capital Resources

At March 31, 2020, the Company had \$56.4 million in cash and cash equivalents. In addition, the Company had SBA debentures outstanding totaling \$150.0 million with an annual weighted average interest rate of 3.16%, \$75.0 million of fixed rate notes bearing an interest rate of 6.00%, and \$52.1 million of convertible notes bearing an interest rate of 5.75%.

As of March 31, 2020, the Company was not in compliance with certain debt covenants in its senior secured credit facility (the "Credit Facility"), including its minimum net asset value covenant and its minimum interest coverage covenant. The Company's non-compliance with these covenants was largely driven by the increase in non-accrual loans and an increase in unrealized depreciation as the result of impacts from COVID-19. The Company will not be able to borrow under the Credit Facility until a waiver or amendment can be obtained from ING Capital, LLC and the lender group or until such time that it can comply with the existing debt covenants in the Credit Facility. The Credit Facility was undrawn at March 31, 2020.

As of March 31, 2020, our asset coverage ratio was 180.2%. If our asset coverage ratio falls below 150% due to a decline in the fair value of our portfolio, including as a result of the economic impact of COVID-19, we may be limited in our ability to raise additional debt.

First Quarter 2020 Financial Results

During the first quarter of 2020, the Company invested \$8.3 million, consisting of \$8.0 million of first lien debt and \$0.3 million in equity.

Total investment income was \$7.1 million for the first quarter of 2020 compared to \$12.7 million in the first quarter of 2019. Interest, fee and PIK income collectively declined by \$4.3 million for the comparable periods. This was primarily the result of a decrease in our debt portfolio, coupled with approximately \$1.6 million, or \$0.10 per share, of lost interest on non-accrual loans for the first quarter of 2020. Dividend income declined by \$1.3 million for the comparable periods, as we received \$1.3 million in 2019 from our equity investment in Nth Degree, Inc.

Total expenses for the first quarter of 2020 were \$7.1 million, compared to \$8.5 million for the first quarter of 2019. Interest and financing charges decreased \$0.6 million resulting from a decrease in debt outstanding, base management fees decreased by \$0.4 million resulting from a decline in total assets, incentive fees decreased by \$1.0 million as incentive fees were not earned during the first quarter of 2020, and general and administrative expenses increased by \$0.5 million. The increase in general and administrative expenses during the period related to the timing of certain legal and professional fee billings, and should normalize for the remainder of 2020.

Net realized gains totaled \$1.0 million, or \$0.06 per share, for the first quarter of 2020, compared to net realized losses of \$5.8 million, or \$0.36 per share, for the same period in 2019.

Net unrealized depreciation totaled \$43.4 million, or \$2.68 per share, for the first quarter of 2020, compared to net unrealized appreciation of \$1.5 million for the first quarter of 2019. Approximately 44.2% of net unrealized depreciation during the first quarter of 2020 related to equity investments.

The net decrease in net assets resulting from operations was \$42.4 million for the first quarter of 2020, or \$2.62 per share, compared to a net decrease of \$0.2 million, or \$0.01 per share, for the same period in 2019.

Subsequent Events

On May 1, 2020, the Small Business Administration (the “SBA”) issued a “green light” letter inviting the Company to continue its application process for Capitala SBIC Fund VII, LP, as a wholly owned small business investment company (“SBIC”) subsidiary of Capitala Finance Corp. If approved, the additional SBIC license would provide the Company with an incremental source of attractive long-term capital.

At a meeting held on April 30, 2020, the Company’s Board of Directors determined not to declare any common stock distributions for the second quarter of 2020.

First Quarter 2020 Financial Results Conference Call

Management will host a conference call to discuss the operating and financial results at 8:30 a.m. on Tuesday, May 5, 2020. To participate in the conference call, please dial 1-877-312-5507 approximately 10 minutes prior to the call. A live webcast of the conference will be available at <http://investor.CapitalaGroup.com>.

About Capitala Finance Corp.

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

About Capitala Group

Capitala Group is a \$3.0 billion asset management firm that has been providing capital to lower middle market companies through its credit, growth, and equity investment strategies throughout North America for twenty years. Since its inception in 1998, Capitala Group has invested in over 160 companies and seeks to partner with strong management teams to create value and generate superior risk-adjusted returns for its individual and institutional investors. For more information, definition and details visit Capitala Group's website at www.capitalagroup.com.

Forward-Looking Statements

This press release contains certain forward-looking statements. Words such as “believes,” “intends,” “expects,” “projects,” “anticipates,” and “future” or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties, including the impact of COVID-19 and related changes in base interest rates and significant volatility on our business, our portfolio companies, our industry and the global economy. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

SOURCE: Capitala Finance Corp.

Capitala Finance Corp.
Stephen Arnall
CFO|COO
sarnall@capitalagroup.com

Capitala Finance Corp.

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

	As of	
	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Investments at fair value:		
Non-control/non-affiliate investments (amortized cost of \$252,701 and \$250,433, respectively)	\$ 214,789	\$ 241,046
Affiliate investments (amortized cost of \$80,578 and \$80,756, respectively)	84,857	98,763
Control investments (amortized cost of \$22,692 and \$22,692, respectively)	21,581	22,723
Total investments at fair value (amortized cost of \$355,971 and \$353,881, respectively)	321,227	362,532
Cash and cash equivalents	56,431	62,321
Interest and dividend receivable	1,515	1,745
Prepaid expenses	814	624
Other assets	94	115
Total assets	<u>\$ 380,081</u>	<u>\$ 427,337</u>
LIABILITIES		
SBA Debentures (net of deferred financing costs of \$883 and \$1,006, respectively)	\$ 149,117	\$ 148,994
2022 Notes (net of deferred financing costs of \$1,307 and \$1,447, respectively)	73,693	73,553
2022 Convertible Notes (net of deferred financing costs of \$826 and \$916, respectively)	51,261	51,172
Credit Facility (net of deferred financing costs of \$1,165 and \$1,165, respectively)	(1,165)	(1,165)
Management and incentive fees payable	3,621	3,713
Interest and financing fees payable	1,224	2,439
Accounts payable and accrued expenses	375	518
Total liabilities	<u>\$ 278,126</u>	<u>\$ 279,224</u>
NET ASSETS		
Common stock, par value \$0.01, 100,000,000 common shares authorized, 16,266,484 and 16,203,769 common shares issued and outstanding, respectively	\$ 163	\$ 162
Additional paid in capital	238,220	237,886
Total distributable loss	(136,428)	(89,935)
Total net assets	<u>\$ 101,955</u>	<u>\$ 148,113</u>
Total liabilities and net assets	<u>\$ 380,081</u>	<u>\$ 427,337</u>
Net asset value per share	\$ 6.27	\$ 9.14

Capitala Finance Corp.

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

	For the Three Months Ended March 31,	
	2020	2019
INVESTMENT INCOME		
Interest and fee income:		
Non-control/non-affiliate investments	\$ 4,707	\$ 7,285
Affiliate investments	1,679	2,399
Control investments	103	724
Total interest and fee income	<u>6,489</u>	<u>10,408</u>
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	336	442
Affiliate investments	180	149
Control investments	-	328
Total payment-in-kind interest and dividend income	<u>516</u>	<u>919</u>
Dividend income:		
Non-control/non-affiliate investments	-	1,281
Affiliate investments	25	-
Control investments	-	25
Total dividend income	<u>25</u>	<u>1,306</u>
Interest income from cash and cash equivalents	44	51
Total investment income	<u>7,074</u>	<u>12,684</u>
EXPENSES		
Interest and financing expenses	3,826	4,413
Base management fee	1,757	2,118
Incentive fees	-	1,034
General and administrative expenses	1,504	984
Total expenses	<u>7,087</u>	<u>8,549</u>
NET INVESTMENT INCOME (LOSS)	<u>(13)</u>	<u>4,135</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments:		
Non-control/non-affiliate investments	968	(3,909)
Affiliate investments	-	(111)
Control investments	-	(1,827)
Net realized gain (loss) on investments	<u>968</u>	<u>(5,847)</u>
Net unrealized appreciation (depreciation) on investments:		
Non-control/non-affiliate investments	(28,525)	6,039
Affiliate investments	(13,728)	(268)
Control investments	(1,142)	(4,276)
Net unrealized appreciation (depreciation) on investments	<u>(43,395)</u>	<u>1,495</u>
Net realized and unrealized loss on investments	<u>(42,427)</u>	<u>(4,352)</u>
Tax benefit	-	66
Total net realized and unrealized loss on investments, net of taxes	<u>(42,427)</u>	<u>(4,286)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ (42,440)</u>	<u>\$ (151)</u>
NET DECREASE IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS – BASIC AND DILUTED	<u>\$ (2.62)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING – BASIC AND DILUTED	16,220,591	16,062,906
DISTRIBUTIONS PAID PER SHARE	<u>\$ 0.25</u>	<u>\$ 0.25</u>



Capitala Finance Corp. Receives “Green Light” from Small Business Administration for Fifth SBIC License

Capitala SBIC Fund VII, L.P. to be Subsidiary of Capitala Finance Corp.

CHARLOTTE, NC—May 4, 2020 (Globe Newswire)—Capitala Group (“Capitala”), a leading provider of capital to lower middle market companies, announced today that the United States Small Business Administration (“SBA”) issued a “green light¹” approval letter inviting Capitala Group to submit a small business investment company (“SBIC”) application to obtain its fifth SBIC license.

“We are excited to receive the “green light” from the SBA continuing our 20+ year partnership with the SBIC program,” said Joe Alala, III, Chairman and CEO of Capitala Group. “We believe a fifth license will enable us to continue funding our investment strategy and allow us to selectively grow our portfolio and generate attractive risk-adjusted returns for our shareholders.”

If approved, Capitala SBIC Fund VII, L.P. expects to invest primarily in senior secured debt of lower middle market small businesses. The additional SBIC license would provide Capitala Finance Corp., a publicly traded business development company (Nasdaq: CPTA), with an incremental source of attractive long-term capital.

About Capitala Group

Capitala Group is a \$3.0 billion asset management firm that has been providing capital to lower middle market companies throughout North America for twenty years. Since our inception in 1998, Capitala has invested in over 160 companies and seeks to partner with strong management teams to create value and generate superior risk-adjusted returns for our individual and institutional investors. For more information, definition and details visit Capitala Group’s website at www.CapitalaGroup.com.

¹ Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and the company has received no assurance or indication from the SBA that it will receive an additional SBIC license, or of the timeframe in which it would receive an additional license, should on ultimately be granted.

About Capitala Finance Corp.

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Forward-Looking Statements

This press release contains certain forward-looking statements. Words such as "believes," "intends," "expects," "projects," "anticipates," and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties, including the impact of COVID-19 and related changes in base interest rates and significant volatility on our business, our portfolio companies, our industry and the global economy. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

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