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

FORM 10-Q

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

For the quarterly period ended March 31, 2022

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

Commission File Number	Exact name of registrant as specified in its charter, address of principal executive office, telephone number, and state or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number
814-01022	**Logan Ridge Finance Corporation** 650 Madison Avenue, 23rd Floor New York, New York 10022 State of Incorporation: Maryland Telephone: (212) 891-2880	90-0945675

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	LRFC	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 (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☐ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	x	Smaller reporting company	☐
		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. ☐

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

Yes ☐ No x

The number of shares of Logan Ridge Finance Corporation’s common stock, $0.01 par value, outstanding as of May 12, 2022 was 2,711,068.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Logan Ridge Finance Corporation
Consolidated Statements of Assets and Liabilities
(in thousands, except share and per share data)

	As of March 31, 2022 (unaudited)		As of December 31, 2021	
ASSETS				
Investments at fair value:				
Non-control/non-affiliate investments (amortized cost of $140,329 and $131,829, respectively)		137,341	$	129,991
Affiliate investments (amortized cost of $49,790 and $49,803, respectively)		62,649		61,359
Control investments (amortized cost of $8,850 and $8,850, respectively)		6,915		6,839
Total investments at fair value (amortized cost of $198,969 and $190,482, respectively)		206,905		198,189
Cash and cash equivalents		15,838		39,056
Interest and dividend receivable		1,025		929
Prepaid expenses		3,137		3,358
Receivable for unsettled trades		7,086		685
Total assets	$	233,991	$	242,217
LIABILITIES				
2022 Notes (net of deferred financing costs of $18 and $46, respectively)	$	22,815	$	22,787
2022 Convertible Notes (net of deferred financing costs of $67 and $167, respectively)		52,020		51,921
2026 Notes (net of deferred financing costs and original issue discount of $1,540 and $1,552, respectively)		48,460		48,448
KeyBank Credit Facility (net of deferred financing costs of $305 and $353, respectively)		(305)		(353)
Management and incentive fees payable		1,027		1,065
Interest and financing fees payable		1,595		911
Payable for unsettled trades		1,478		9,265
Accounts payable and accrued expenses		730		1,144
Total liabilities	$	127,820	$	135,188
Commitments and contingencies (Note 2)				
NET ASSETS				
Common stock, par value $0.01, 100,000,000 common shares authorized, 2,711,068 and 2,711,068 common shares issued and outstanding, respectively	$	27	$	27
Additional paid in capital		188,846		188,846
Total distributable loss		(82,702)		(81,844)
Total net assets	$	106,171	$	107,029
Total liabilities and net assets	$	233,991	$	242,217
Net asset value per share	$	39.16	$	39.48

See accompanying notes to consolidated financial statements

Logan Ridge Finance Corporation
Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	For the Three Months Ended March 31,	
	2022	**2021**
INVESTMENT INCOME		
Interest income:		
Non-control/non-affiliate investments	$ 2,383	$ 3,197
Affiliate investments	719	1,297
Control investments	95	98
Total interest and fee income	3,197	4,592
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	85	71
Affiliate investments	47	99
Total payment-in-kind interest and dividend income	132	170
Dividend income:		
Affiliate investments	—	155
Total dividend income	—	155
Other income:		
Affiliate investments	8	9
Total other income	8	9
Total investment income	3,337	4,926
EXPENSES		
Interest and financing expenses	2,188	3,037
Base management fee	1,027	1,398
Directors expense	103	103
Administrative service fees	120	350
General and administrative expenses	950	821
Total expenses	4,388	5,709
NET INVESTMENT LOSS	(1,051)	(783)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized loss on investments:		
Non-control/non-affiliate investments	(36)	(14,023)
Net realized loss on investments	(36)	(14,023)
Net change in unrealized appreciation on investments:		
Non-control/non-affiliate investments	(1,150)	23,212
Affiliate investments	1,303	3,972
Control investments	76	(24)
Net change in unrealized appreciation on investments	229	27,160
Total net realized and unrealized gain on investments	193	13,137
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (858)	$ 12,354
NET (DECREASE) INCREASE IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS – BASIC (SEE NOTE 10)	$ (0.32)	$ 4.56
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING – BASIC	2,711,068	2,711,068
NET (DECREASE) INCREASE IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS – DILUTED (SEE NOTE 10)	$ (0.32)	$ 4.04
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - DILUTED	2,711,068	3,263,647
DISTRIBUTIONS PAID PER SHARE	$ —	$ —

See accompanying notes to consolidated financial statements.

Logan Ridge Finance Corporation
Consolidated Statements of Changes in Net Assets
(in thousands, except share data)
(unaudited)

For the Three Months Ended March 31, 2022 and 2021	Common Stock Number of Shares	Common Stock Par Value	Additional Paid in Capital [(1)]	Total Distributable Loss	Total
BALANCE, December 31, 2021	2,711,068	$ 27	$ 188,846	$ (81,844)	$ 107,029
Net investment loss	—	—	—	(1,051)	(1,051)
Net realized loss on investments	—	—	—	(36)	(36)
Net change in unrealized appreciation on investments	—	—	—	229	229
BALANCE, March 31, 2022	2,711,068	$ 27	$ 188,846	$ (82,702)	$ 106,171
BALANCE, December 31, 2020	2,711,068	$ 27	$ 229,481	$ (120,561)	$ 108,947
Net investment loss	—	—	—	(783)	(783)
Net realized loss on investments	—	—	—	(14,023)	(14,023)
Net change in unrealized appreciation on investments	—	—	—	27,160	27,160
BALANCE, March 31, 2021	2,711,068	$ 27	$ 229,481	$ (108,207)	$ 121,301

See accompanying notes to consolidated financial statements.

Logan Ridge Finance Corporation
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the Three Months Ended March 31,	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	$ (858)	$ 12,354
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	(16,393)	—
Repayments and sales of investments	8,401	29,906
Net realized loss on investments	36	14,023
Net change in unrealized appreciation on investments	(229)	(27,160)
Payment-in-kind interest and dividends	(132)	(170)
Accretion of original issue discount on investments	(399)	(77)
Amortization of deferred financing fees and original issue discount	254	425
Changes in assets and liabilities:		
Interest and dividend receivable	(96)	1,143
Prepaid expenses	221	206
Receivable for unsettled trades	(6,401)	—
Management and incentive fees payable	(38)	(80)
Interest and financing fees payable	684	(757)
Payable for unsettled trades	(7,787)	—
Accounts payable and accrued expenses	(414)	(28)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(23,151)	29,785
CASH FLOWS FROM FINANCING ACTIVITIES		
Paydowns on SBA-guaranteed debentures	—	(20,000)
Deferred financing fees paid	(67)	—
NET CASH USED IN FINANCING ACTIVITIES	(67)	(20,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,218)	9,785
CASH AND CASH EQUIVALENTS, beginning of period	39,056	49,942
CASH AND CASH EQUIVALENTS, end of period	$ 15,838	$ 59,727
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,091	$ 3,291

See accompanying notes to consolidated financial statements.

(in thousands, except for units/shares)

Investment (1), (2), (3), (4), (5)	Industry	Interest Rate (+)	Reference Rate and Spread (+)	Floor (+)	Maturity	Par/Shares (++)	Cost	Fair Value	Footnotes
Investments in Non-Control, Non-Affiliate Portfolio Companies - 129.4%									
First Lien/Senior Secured Debt - 85.5%									
Accordion Partners LLC	Industrials	6.50%	L + 5.50%	1.00%	09/24/2027	$ 6,748	$ 6,640	$ 6,639	(12)
Accordion Partners LLC (Revolver)	Industrials	6.50%	L + 5.50%	1.00%	09/30/2026	2,500	2,433	2,439	(13)
Accurate Background, LLC	Information Technology	7.00%	L + 6.00%	1.00%	03/26/2027	2,985	2,737	2,850	
Alternative Biomedical Solutions, LLC	Healthcare	8.00%	—	—	12/18/2022	6,941	6,941	6,442	
American Academy Holdings, LLC	Healthcare	12.00%	L + 11.00%	1.00%	01/01/2025	2,078	2,054	2,053	(17)
American Clinical Solutions, LLC	Healthcare	7.00%	—	—	12/31/2022	3,500	3,500	3,386	
AP Core Holdings II, LLC	Information Technology	6.25%	L + 5.50%	0.75%	07/21/2027	1,219	1,202	1,211	
AP Core Holdings II, LLC	Information Technology	6.25%	L + 5.50%	0.75%	07/21/2027	1,250	1,233	1,250	
BigMouth, Inc.	Consumer Products	—	—	—	11/14/2021	1,513	758	803	(7)(25)
Bradshaw International, Inc.	Consumer Discretionary	6.75%	L + 5.75%	1.00%	10/21/2027	505	493	490	
Bradshaw International, Inc. (Revolver)	Consumer Discretionary	—	L + 5.75%	1.00%	10/21/2026	—	(22)	(22)	(14)
Critical Nurse Staffing, LLC	Healthcare	7.00%	L + 6.00%	1.00%	10/30/2026	5,909	5,797	5,780	(15)
Critical Nurse Staffing, LLC (Revolver)	Healthcare	—	L + 6.00%	1.00%	10/30/2026	—	(16)	(16)	(16)
Dodge Data & Analytics LLC	Information Technology	5.25%	L + 4.75%	0.50%	02/10/2029	1,500	1,478	1,478	
Freedom Electronics, LLC (First Out)	Electronic Machine Repair	7.00%	L + 5.00%	2.00%	12/20/2023	2,581	2,581	2,581	(26)
Freedom Electronics, LLC (Last Out)	Electronic Machine Repair	8.67%	—	—	12/20/2023	5,632	5,632	5,584	(10)(26)
HUMC Opco, LLC	Healthcare	9.00%	—	—	01/14/2022	4,527	4,527	4,441	(26)
JO ET Holdings Limited	Information Technology	14.00%	SOFR+6.00%, 7.00% PIK	1.00%	12/15/2026	1,015	980	996	
Jurassic Quest Holdings, LLC	Entertainment	9.50%	L + 7.50%	2.00%	05/01/2024	8,230	8,230	8,223	(26)
Keg Logistics LLC	Consumer Discretionary	7.00%	L + 6.00%	1.00%	11/23/2027	7,516	7,410	7,432	
Keg Logistics LLC (Revolver)	Consumer Discretionary	—	L + 6.00%	1.00%	11/23/2027	—	(12)	(10)	(18)
Lucky Bucks, LLC	Consumer Discretionary	6.25%	L + 5.50%	0.75%	07/21/2027	2,963	2,909	2,911	
Marble Point Credit Management LLC	Financials	7.00%	L + 6.00%	1.00%	08/11/2028	5,727	5,584	5,629	
Marble Point Credit Management LLC (Revolver)	Financials	7.00%	L + 6.00%	1.00%	08/11/2028	2,500	2,477	2,457	
Premier Imaging, LLC	Healthcare	7.00%	L + 6.00%	1.00%	12/29/2028	2,496	2,459	2,456	(20)
Rotolo Consultants, Inc.	Industrials	9.00%	L + 8.00%	1.00%	12/21/2026	998	988	984	
Sequoia Healthcare Management, LLC	Healthcare Management	—	—	—	01/14/2022	11,935	11,935	6,247	(7)
Symplr Software, Inc.	Healthcare	5.25%	SOFR + 4.50%	0.75%	06/30/2022	1,700	1,696	1,678	
Wealth Enhancement Group, LLC	Financials	6.75%	L + 5.75%	1.00%	10/02/2027	4,339	4,316	4,289	(21)
Wealth Enhancement Group, LLC (Revolver)	Financials	6.75%	L + 5.75%	1.00%	10/02/2027	108	105	105	(22)
Total First Lien/Senior Secured Debt							97,045	90,786	
Second Lien/Senior Secured Debt - 14.9%									
American Academy Holdings, LLC	Healthcare	14.50% PIK	—	—	03/01/2028	3,219	3,124	3,123	
BLST Operating Company, LLC	Online Merchandise Retailer	10.00%	L + 8.50%	1.50%	08/28/2025	1,780	1,780	1,780	(8)(26)
Ivanti Software, Inc.	Information Technology	7.75%	L + 7.25%	0.50%	12/01/2028	7,000	6,965	6,930	(26)
Mandolin Technology Intermediate Holdings, Inc.	Information Technology	7.00%	L + 6.50%	0.50%	07/23/2029	4,000	3,972	3,975	
Total Second Lien/Senior Secured Debt							15,841	15,808	
Subordinated Debt - 6.7%									
Lucky Bucks, LLC	Consumer Discretionary	12.50% PIK	—	—	05/29/2028	2,062	2,023	2,008	
Tubular Textile Machinery, Inc.	Textile Equipment Manufacturer	5.00%	—	—	10/29/2027	5,094	5,094	5,107	
Total Subordinated Debt							7,117	7,115	
Collateralized Loan Obligations - 6.8%									
JMP Credit Advisors CLO IV Ltd.	Financials	9.64%	—	—	07/17/2029	7,891	3,602	3,236	(19)(24)
JMP Credit Advisors CLO V Ltd.	Financials	13.60%	—	—	07/17/2030	7,320	4,504	3,963	(19)(24)
Total Collateralized Loan Obligations							8,106	7,199	
Preferred Stock and Units - 2.7%									
Alternative Biomedical Solutions, LLC - Series A	Healthcare	—	—	—	—	14,656	1,275	479	
Alternative Biomedical Solutions, LLC - Series B	Healthcare	—	—	—	—	50,964	3,946	—	
Alternative Biomedical Solutions, LLC - Series C	Healthcare	—	—	—	—	78,900	—	—	
Jurassic Quest Holdings, LLC	Entertainment	—	—	—	—	467,784	480	420	(6)
MicroHoldco, LLC	General Industrial	—	—	—	—	740,237	749	645	
Taylor Precision Products, Inc. - Series C	Household Product Manufacturer	—	—	—	—	379	758	758	
U.S. BioTek Laboratories, LLC - Class A	Testing Laboratories	—	—	—	—	500	540	607	
Total Preferred Stock and Units		—	—	—	—		7,748	2,909	
Common Stock and Membership Units - 12.7%		—	—	—	—				
Alternative Biomedical Solutions, LLC	Healthcare	—	—	—	—	20,092	800	—	
Alternative Biomedical Solutions, LLC - Membership Unit Warrants	Healthcare	—	—	—	—	49,295	—	—	
American Clinical Solutions, LLC - Class A	Healthcare	—	—	—	—	6,030,384	3,198	5,687	(6)
BLST Operating Company, LLC - Class A	Online Merchandise Retailer	—	—	—	—	217,013	286	4,174	(6)
Burke America Parts Group, LLC	Home Repair Parts Manufacturer	—	—	—	—	14	5	3,055	(6)
Freedom Electronics, LLC	Electronic Machine Repair	—	—	—	—	181,818	182	230	
U.S. BioTek Laboratories, LLC - Class C	Testing Laboratories	—	—	—	—	578	1	378	
Total Common Stock and Membership Units							4,472	13,524	
Total Investments in Non-Control, Non-Affiliate Portfolio Companies							140,329	137,341	

Logan Ridge Finance Corporation
Consolidated Schedule of Investments - Continued
(in thousands, excepts for units/shares)
March 31, 2022
(unaudited)

Investment (1), (2), (3), (4), (5)	Industry	Interest Rate (+)	Reference Rate and Spread (+)	Floor (+)	Maturity	Par/Shares (++)	Cost	Fair Value	Footnotes
Investments in Affiliated Portfolio Companies - 59.0%^									
First Lien/Senior Secured Debt - 5.9%									
MMI Holdings, LLC	Medical Device Distributor	12.00%	—	—	04/01/2022	2,600	2,600	2,600	
RAM Payment, LLC (First Out)	Financial Services	6.50%	L + 5.00%	1.50%	01/04/2024	983	983	983	(26)
RAM Payment, LLC (Last Out)	Financial Services	9.86%	—	—	01/04/2024	2,666	2,666	2,666	(10)(26)
Total First Lien/Senior Secured Debt							6,249	6,249	
Second Lien/Senior Secured Debt - 16.4%									
Eastport Holdings, LLC	Business Services	13.50%	L + 13.00%	0.50%	04/30/2022	16,500	16,445	16,500	(26)
MMI Holdings, LLC	Medical Device Distributor	6.00%	—	—	04/01/2022	400	388	400	
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	15.00%	—	—	09/12/2023	3	4	3	(9)
V12 Holdings, Inc.	Data Processing & Digital Marketing	—	—	—	—	509	490	509	(11)
Total Second Lien/Senior Secured Debt							17,327	17,412	
Preferred Stock and Units - 10.4%									
GA Communications, Inc. - Series A-1	Advertising & Marketing Services	—	—	—	—	1,998	3,477	4,390	
LJS Partners, LLC	QSR Franchisor	—	—	—	—	202,336	437	871	
MMI Holdings, LLC	Medical Device Distributor	6.00% PIK	—	—	—	1,000	1,816	1,898	(23)
RAM Payment, LLC	Financial Services	8.00% PIK	—	—	—	86,000	1,083	3,849	(23)
Total Preferred Stock and Units							6,813	11,008	
Common Stock and Membership Units - 26.4%									
Burgaflex Holdings, LLC - Class A	Automobile Part Manufacturer	—	—	—	—	1,253,198	1,504	2,254	
Burgaflex Holdings, LLC - Class B	Automobile Part Manufacturer	—	—	—	—	1,085,073	362	2,148	
Eastport Holdings, LLC	Business Services	—	—	—	—	3,262,609	3,263	15,956	
GA Communications, Inc. - Series B-1	Advertising & Marketing Services	—	—	—	—	200,000	2	—	
LJS Partners, LLC	QSR Franchisor	—	—	—	—	2,593,234	1,224	7,307	
MMI Holdings, LLC	Medical Device Distributor	—	—	—	—	45	—	64	
Nth Degree Investment Group, LLC	Business Services	—	—	—	—	6,088,000	6,088	—	
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	—	—	—	—	15,068,000	6,958	251	
Total Common Stock and Membership Units							19,401	27,980	
Total Investments in Affiliated Portfolio Companies^							49,790	62,649	
Investments in Controlled Portfolio Companies - 6.5%^^									
First Lien/Senior Secured Debt - 3.4%									
Vology, Inc.	Information Technology	10.50%	L + 8.50%	2.00%	03/31/2022	3,635	3,635	3,628	
Total First Lien/Senior Secured Debt							3,635	3,628	
Preferred Stock and Units - 3.1%									
Vology, Inc. - Class A	Information Technology	—	—	—	—	9,041,810	5,215	3,287	
Total Preferred Stock and Units							5,215	3,287	
Common Stock and Membership Units - 00.0%									
Vology, Inc - Class S						5,363,982	—	—	
Total Common Stock and Membership Units							—	—	
Total Investments in Controlled Portfolio Companies^^							8,850	6,915	
Total Investments - 194.9%							$ 198,969	$ 206,905	

^ As defined in the Investment Company Act, the investment is deemed to be an "affiliated person" of the Company because the Company owns, either directly or indirectly, 5% or more of the portfolio company's outstanding voting securities.

^^ As defined in the Investment Company Act, the investment is deemed to be a "controlled affiliated person" of the Company because the Company owns, either directly or indirectly, 25% or more of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.

(+) Represents the actual interest rate for partially or fully funded debt in effect as of the reporting date. Variable rate loans bear interest at a rate that may be determined by the larger of the floor of the reference to either LIBOR ("L"), SOFR or alternate base rate (commonly known as the U.S. Prime Rate ("P"), unless otherwise noted) at the borrower's option, which reset periodically based on the terms of the credit agreement. L loans are typically indexed to 12 month, 6 month, 3 month, 2 month, or 1 month L rates. As of March 31, 2022, rates for the 12 month, 6 month, 3 month and 1 month L are 2.10%, 1.47%, 0.96% and 0.45%, respectively. As of March 31, 2022, rates for the 3 month and 1 month SOFR are 0.68% and 0.30%, respectively. As of March 31, 2022, P was 3.50%. For investments with multiple reference rates or alternate base rates, the interest rate shown is the weighted average interest rate in effect at March 31, 2022.

(++) Par amount is presented for debt investments, while the number of shares or units owned is presented for equity investments.

(1) All investments valued using unobservable inputs (Level 3), unless otherwise noted.

(2) All investments valued by the Logan Ridge Finance Corporation's (the "Company") board of directors.

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

(4) Percentages are based on net assets as of March 31, 2022.

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

(6) Investment is held through our Taxable Subsidiary (See Note 1).

(7) Non-accrual investment.

(8) 1.0% of interest rate payable in cash. 9.0% of interest rate payable in cash or paid-in-kind at borrower's election. The borrower is currently paying all interest in cash.

(9) 15.0% of interest rate payable in cash or paid-in-kind at borrower's election.

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

(11) The investment has been exited or sold. The residual value reflects estimated earnout, escrow, or other proceeds expected post-closing.

(12) The investment has a $2.2 million unfunded commitment.

(13) The investment has a $2.5 million unfunded commitment.

(14) The investment has a $0.9 million unfunded commitment.

See accompanying notes to consolidated financial statements.

(15) The investment has a $2.1 million unfunded commitment.
(16) The investment has a $1.0 million unfunded commitment.
(17) The investment has a $0.4 million unfunded commitment.
(18) The investment has a $0.9 million unfunded commitment.
(19) Collateralized loan obligations are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
(20) The investment has a $1.5 million unfunded commitment.
(21) The investment has a $2.7 million unfunded commitment.
(22) The investment has a $0.3 million unfunded commitment.
(23) The equity investment is income producing, based on rate disclosed
(24) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of March 31, 2022, qualifying assets represent 96.9% of the Company's total assets and non-qualifying assets represent 3.1% of the Company's total assets
(25) The Company is in liquidation. The fair value represents Management's estimate of future expected proceeds on the term loan, which Management believes approximates the exit price. The Company received a cash payment of $0.5 million during the fourth quarter of 2021, which reduced the cost basis of the term loan.
(26) All or a portion of this security is pledged as collateral under the KeyBank Credit Facility and held through the Company's wholly-owned subsidiary Capitala Business Lending, LLC.

See accompanying notes to consolidated financial statements.

Logan Ridge Finance Corporation
Consolidated Schedule of Investments
(in thousands, except for units/shares)
December 31, 2021

Investment (1), (2), (3), (4), (5)	Industry	Interest Rate (+)	Reference Rate and Spread (+)	Floor (+)	Maturity	Par/Shares (++)	Cost	Fair Value	Footnotes
Investments in Non-Control, Non-Affiliate Portfolio Companies - 121.5%									
First Lien/Senior Secured Debt - 82.5%									
Accordion Partners LLC	Industrials	6.50%	L + 5.50%	1.00%	09/24/2027	$ 13,965	$ 13,736	$ 13,719	(12)
Accordion Partners LLC (Revolver)	Industrials	—	L + 5.50%	1.00%	09/30/2026	—	(71)	(68)	(13)
Accurate Background, LLC	Information Technology	7.00%	L + 6.00%	1.00%	03/26/2027	2,999	2,740	2,760	
Alternative Biomedical Solutions, LLC	Healthcare	8.00%	—	—	12/18/2022	7,119	7,119	6,824	
American Clinical Solutions, LLC	Healthcare	7.00%	—	—	12/31/2022	3,500	3,500	3,468	
AP Core Holdings II, LLC	Information Technology	6.25%	L + 5.50%	0.75%	07/21/2027	1,234	1,217	1,236	
AP Core Holdings II, LLC	Information Technology	6.25%	L + 5.50%	0.75%	07/21/2027	1,250	1,232	1,254	
BigMouth, Inc.	Consumer Products	—	—	—	11/14/2021	1,513	758	623	(7)(25)
Bradshaw International, Inc.	Consumer Discretionary	6.75%	L + 5.75%	1.00%	10/21/2027	506	493	493	
Bradshaw International, Inc. (Revolver)	Consumer Discretionary	6.75%	L + 5.75%	1.00%	10/21/2026	200	177	177	(14)
Critical Nurse Staffing, LLC	Healthcare	7.00%	L + 6.00%	1.00%	10/30/2026	5,923	5,806	5,805	(15)
Critical Nurse Staffing, LLC (Revolver)	Healthcare	—	L + 6.00%	1.00%	10/30/2026	—	(17)	(17)	(16)
Freedom Electronics, LLC (First Out)	Electronic Machine Repair	7.00%	L + 5.00%	2.00%	12/20/2023	2,588	2,588	2,588	(26)
Freedom Electronics, LLC (Last Out)	Electronic Machine Repair	8.67%	—	—	12/20/2023	5,647	5,647	5,647	(10)(26)
HUMC Opco, LLC	Healthcare	9.00%	—	—	01/14/2022	4,673	4,673	4,619	(26)
J5 Infrastructure Partners, LLC (Revolver)	Wireless Deployment Services	—	L + 6.50%	1.80%	12/20/2024	—	—	—	(17)
JO ET Holdings Limited	Information Technology	14.00%	L + 6.00%, 7.00 PIK	1.00%	12/15/2026	1,000	980	980	
Jurassic Quest Holdings, LLC	Entertainment	9.50%	L + 7.50%	2.00%	05/01/2024	8,355	8,355	8,397	(26)
Keg Logistics LLC	Consumer Discretionary	7.00%	L + 6.00%	1.00%	11/23/2027	7,535	7,424	7,422	
Keg Logistics LLC (Revolver)	Consumer Discretionary	7.00%	L + 6.00%	1.00%	11/23/2027	—	(13)	(13)	(18)
Lucky Bucks, LLC	Consumer Discretionary	6.25%	L + 5.50%	0.75%	07/21/2027	3,000	2,944	2,939	
Marble Point Credit Management LLC	Financials	7.00%	L + 6.00%	1.00%	08/11/2028	5,801	5,651	5,656	
Marble Point Credit Management LLC (Revolver)	Financials	7.00%	L + 6.00%	1.00%	08/11/2028	—	(24)	(62)	(19)
Premier Imaging, LLC	Healthcare	7.00%	L + 6.00%	1.00%	12/29/2028	2,063	2,023	2,023	(20)
Rotolo Consultants, Inc.	Industrials	9.00%	L + 8.00%	1.00%	12/21/2026	1,000	990	990	
Sequoia Healthcare Management, LLC	Healthcare Management	12.80%	—	—	01/14/2022	11,935	11,935	7,002	(7)
Wealth Enhancement Group, LLC	Financials	6.75%	L + 5.75%	1.00%	10/02/2027	3,725	3,699	3,686	(21)
Wealth Enhancement Group, LLC (Revolver)	Financials	6.75%	L + 5.75%	1.00%	10/02/2027	168	166	164	(22)
Total First Lien/Senior Secured Debt							93,728	88,312	
Second Lien/Senior Secured Debt - 11.9%									
BLST Operating Company, LLC	Online Merchandise Retailer	10.00%	L + 8.50%	1.50%	08/28/2025	1,780	1,780	1,780	(8)(26)
Ivanti Software, Inc.	Information Technology	7.75%	L + 7.25%	0.50%	12/01/2028	7,000	6,965	7,018	(26)
Mandolin Technology Intermediate Holdings, Inc.	Information Technology	7.00%	L + 6.50%	0.50%	07/23/2029	4,000	3,971	3,980	
Total Second Lien/Senior Secured Debt							12,716	12,778	
Subordinated Debt - 4.7%									
Tubular Textile Machinery, Inc.	Textile Equipment Manufacturer	5.00%	—	—	10/29/2027	5,050	5,050	5,050	
Total Subordinated Debt							5,050	5,050	
Preferred Stock and Units - 2.5%									
Alternative Biomedical Solutions, LLC - Series A	Healthcare	—	—	—	—	13,811	1,275	542	
Alternative Biomedical Solutions, LLC - Series B	Healthcare	—	—	—	—	48,025	3,943	—	
Alternative Biomedical Solutions, LLC - Series C	Healthcare	—	—	—	—	78,900	—	—	
Jurassic Quest Holdings, LLC	Entertainment	—	—	—	—	467,784	480	497	(6)
MicroHoldco, LLC	General Industrial	—	—	—	—	740,237	749	645	
Taylor Precision Products, Inc. - Series C	Household Product Manufacturer	—	—	—	—	379	758	287	
U.S. BioTek Laboratories, LLC - Class A	Testing Laboratories	—	—	—	—	500	540	609	
U.S. BioTek Laboratories, LLC - Class D	Testing Laboratories	—	—	—	—	78	78	101	
Total Preferred Stock and Units		—	—	—	—		7,823	2,681	
Common Stock and Membership Units - 19.8%		—	—	—	—				
Alternative Biomedical Solutions, LLC	Healthcare	—	—	—	—	20,092	800	—	
Alternative Biomedical Solutions, LLC - Membership Unit Warrants	Healthcare	—	—	—	—	49,295	—	—	
American Clinical Solutions, LLC - Class A	Healthcare	—	—	—	—	6,030,384	3,198	5,587	(6)
BLST Operating Company, LLC - Class A	Online Merchandise Retailer	—	—	—	—	217,013	286	4,171	(6)
Burke America Parts Group, LLC	Home Repair Parts Manufacturer	—	—	—	—	14	5	3,062	(6)
Freedom Electronics, LLC	Electronic Machine Repair	—	—	—	—	181,818	182	230	
JMP CLO IV Ltd.	Financials	17.72%	—	—	07/17/2029	7,891	3,592	3,474	(24)(27)
JMP CLO V Ltd.	Financials	20.89%	—	—	07/17/2030	7,320	4,448	4,243	(24)(27)
U.S. BioTek Laboratories, LLC - Class C	Testing Laboratories	—	—	—	—	578	1	403	
Total Common Stock and Membership Units							12,512	21,170	
Total Investments in Non-Control, Non-Affiliate Portfolio Companies							131,829	129,991	

See accompanying notes to consolidated financial statements.

Logan Ridge Finance Corporation
Consolidated Schedule of Investments - Continued
(in thousands, excepts for units/shares)
December 31, 2021

Investment (1), (2), (3), (4), (5)	Industry	Interest Rate (+)	Reference Rate and Spread (+)	Floor (+)	Maturity	Par/Shares (++)	Cost	Fair Value	Footnotes
Investments in Affiliated Portfolio Companies - 57.3%^									
First Lien/Senior Secured Debt - 5.9%									
MMI Holdings, LLC	Medical Device Distributor	12.00%	—	—	01/31/2022	2,600	2,600	2,600	
RAM Payment, LLC (First Out)	Financial Services	6.50%	L + 5.00%	1.50%	01/04/2024	998	998	998	(26)
RAM Payment, LLC (Last Out)	Financial Services	9.86%	—	—	01/04/2024	2,706	2,706	2,706	(10)(26)
Total First Lien/Senior Secured Debt							6,304	6,304	
Second Lien/Senior Secured Debt - 16.3%									
Eastport Holdings, LLC	Business Services	13.50%	L + 13.00%	0.50%	04/30/2022	16,500	16,451	16,500	(26)
MMI Holdings, LLC	Medical Device Distributor	6.00%	—	—	01/31/2022	400	388	400	
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	15.00%	—	—	09/12/2023	3	3	3	(9)
V12 Holdings, Inc.	Data Processing & Digital Marketing	—	—	—	—	509	490	509	(11)
Total Second Lien/Senior Secured Debt							17,332	17,412	
Preferred Stock and Units - 10.1%									
GA Communications, Inc. - Series A-1	Advertising & Marketing Services	—	—	—	—	1,998	3,477	4,394	
LJS Partners, LLC	QSR Franchisor	—	—	—	—	202,336	437	843	
MMI Holdings, LLC	Medical Device Distributor	6.00% PIK	—	—	—	1,000	1,786	1,898	(23)
RAM Payment, LLC	Financial Services	8.00% PIK	—	—	—	86,000	1,066	3,726	(23)
Total Preferred Stock and Units							6,766	10,861	
Common Stock and Membership Units - 25.0%									
Burgaflex Holdings, LLC - Class A	Automobile Part Manufacturer	—	—	—	—	1,253,198	1,504	1,193	
Burgaflex Holdings, LLC - Class B	Automobile Part Manufacturer	—	—	—	—	1,085,073	362	1,528	
Eastport Holdings, LLC	Business Services	—	—	—	—	—	3,263	16,319	
GA Communications, Inc. - Series B-1	Advertising & Marketing Services	—	—	—	—	200,000	2	185	
LJS Partners, LLC	QSR Franchisor	—	—	—	—	2,593,234	1,224	7,164	
MMI Holdings, LLC	Medical Device Distributor	—	—	—	—	45	—	63	
Nth Degree Investment Group, LLC	Business Services	—	—	—	—	6,088,000	6,088	—	
Sierra Hamilton Holdings Corporation	Oil & Gas Engineering and Consulting Services	—	—	—	—	15,068,000	6,958	330	
Total Common Stock and Membership Units							19,401	26,782	
Total Investments in Affiliated Portfolio Companies^							49,803	61,359	
Investments in Controlled Portfolio Companies - 6.4%^^									
First Lien/Senior Secured Debt - 3.4%									
Vology, Inc.	Information Technology	10.50%	L + 8.50%	2.00%	03/31/2022	3,635	3,635	3,635	
Total First Lien/Senior Secured Debt							3,635	3,635	
Preferred Stock and Units - 3.0%									
Vology, Inc. - Class A	Information Technology	—	—	—	—	9,041,810	5,215	3,204	
Total Preferred Stock and Units							5,215	3,204	
Total Investments in Controlled Portfolio Companies^^							8,850	6,839	
Total Investments - 185.2%							$ 190,482	$ 198,189	

^ As defined in the Investment Company Act, the investment is deemed to be an"affiliated person" of the Company because the Company owns, either directly or indirectly, 5% or more of the portfolio company's outstanding voting securities.

^^ As defined in the Investment Company Act, the investment is deemed to be a "controlled affiliated person" of the Company because the Company owns, either directly or indirectly, 25% or more of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.

(+) Represents the actual interest rate for partially or fully funded debt in effect as of the reporting date. Variable rate loans bear interest at a rate that may be determined by the larger of the floor of the reference to either LIBOR ("L") or alternate base rate (commonly known as the U.S. Prime Rate ("P"), unless otherwise noted) at the borrower's option, which reset periodically based on the terms of the credit agreement. L loans are typically indexed to 12 month, 6 month, 3 month, 2 month, or 1 month L rates. As of December 31, 2021, rates for the 12 month, 6 month, 3 month, 2 month and 1 month L are 0.58%, 0.34%, 0.21%, 0.15% and 0.10%, respectively. As of December 31, 2021, P was 3.25%. For investments with multiple reference rates or alternate base rates, the interest rate shown is the weighted average interest rate in effect at December 31, 2021.

(++) Par amount is presented for debt investments, while the number of shares or units owned is presented for equity investments.

(1) All investments valued using unobservable inputs (Level 3), unless otherwise noted.

(2) All investments valued by the Company's board of directors.

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

(4) Percentages are based on net assets as of December 31, 2021.

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

(6) Investment is held through our Taxable Subsidiary (See Note 1).

(7) Non-accrual investment.

(8) 1.0% interest rate payable in cash. 9.0% interest rate payable in cash or paid-in-kind at borrower's election.

(9) 15.0% interest rate payable in cash or paid-in-kind at borrower's election.

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

(11) The investment has been exited or sold. The residual value reflects estimated earnout, escrow, or other proceeds expected post-closing.

(12) The investment has a $4.0 million unfunded commitment.

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

(14) The investment has a $0.7 million unfunded commitment.

(15) The investment has a $2.1 million unfunded commitment.

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

(17) The investment has a $3.5 million unfunded commitment.

(18) The investment has a $0.9 million unfunded commitment.

See accompanying notes to consolidated financial statements.

(19) The investment has a $2.5 million unfunded commitment.

(20) The investment has a $1.9 million unfunded commitment.

(21) The investment has a $3.3 million unfunded commitment.

(22) The investment has a $0.2 million unfunded commitment

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

(24) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of December 31, 2021, qualifying assets represent 96.2% of the Company’s total assets and non-qualifying assets represent 3.2% of the Company’s total assets.

(25) The Company is in liquidation. The fair value represents Management’s estimate of future expected proceeds on the term loan, which Management believes approximates the exit price. The Company received a cash payment of $0.5 million during the fourth quarter of 2021, which reduced the cost basis of the term loan.

(26) All or a portion of this security is pledged as collateral under the KeyBank Credit Facility and held through the Company's wholly-owned subsidiary Capitala Business Lending, LLC.

(27) CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund’s investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.

See accompanying notes to consolidated financial statements.

Note 1. Organization

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

The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company offers customized financing to business owners, management teams, and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion, and other growth initiatives. The Company invests in first lien loans, and, to a lesser extent, second lien loans and equity securities issued by lower middle-market and traditional middle-market companies.

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

On September 24, 2013, the Company acquired 100% of the limited partnership interests in Fund II, Fund III, and Florida Sidecar and each of their respective general partners, as well as certain assets from Fund I and Fund III Parent, in exchange for an aggregate of 8,974,420 shares of the Company’s common stock (the “Formation Transactions”). Fund II, Fund III, and Florida Sidecar became the Company’s wholly owned subsidiaries. Fund II and Fund III retained their small business investment company ("SBIC") licenses, continued to hold their existing investments at the time of the IPO and have continued to make new investments. The IPO consisted of the sale of 4,000,000 shares of the Company’s common stock at a price of $20.00 per share, resulting in net proceeds to the Company of $74.25 million, after deducting underwriting fees and commissions totaling $4.0 million and offering expenses totaling $1.75 million. The other costs of the IPO were borne by the limited partners of the Legacy Funds. During the fourth quarter of 2017, Florida Sidecar transferred all of its assets to the Company and was legally dissolved as a standalone partnership. On March 1, 2019, Fund II repaid its outstanding debentures guaranteed by the SBA (the “SBA-guaranteed debentures”) and relinquished its SBIC license. On June 10, 2021, Fund III repaid its SBA-guaranteed debentures and relinquished its SBIC license. As of March 31, 2022, there were no SBA-guaranteed debentures outstanding.

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

Capitala Business Lending, LLC (“CBL”), a wholly-owned subsidiary of the Company, was established on October 30, 2020, for the sole purpose of holding certain investments pledged as collateral under the Company's line of credit with KeyBank National Association (the “KeyBank Credit Facility”). See Note 8 for more details about the KeyBank Credit Facility. The financial statements of CBL are consolidated with those of Logan Ridge Finance Corporation.

Definitive Agreement

On April 20, 2021, Capitala Investment Advisors, LLC (“Capitala”), the Company’s former investment adviser, entered into a definitive agreement (the “Definitive Agreement”) with the Investment Advisor and Mount Logan Capital Inc. (“MLC”), both affiliates of BC Partners Advisors L.P. (“BC Partners”) for U.S. regulatory purposes, whereby Mount Logan acquired certain assets related to Capitala’s business of providing investment management services to the Company (the “Transaction”), through which the Investment Advisor became the Company’s investment adviser pursuant to an investment advisory agreement (the “Investment Advisory Agreement”) with the Company. At a special meeting of the Company’s stockholders (the “Special Meeting”) held on May 27, 2021, the Company’s stockholders approved the Investment Advisory Agreement. The transactions contemplated by the Definitive Agreement closed on July 1, 2021 (the “Closing”).

As part of the Transaction, the Investment Advisor entered into a two-year contractual fee waiver (the “Fee Waiver”) with the Company to waive, to the extent necessary, any capital gains fee under the Investment Advisory Agreement that exceeds what would have been paid to Capitala in the aggregate over such two-year period under the prior advisory agreement.

On the date of the Closing, the Company changed its name from Capitala Finance Corp. to Logan Ridge Finance Corporation and on July 2, 2021, the Company’s common stock began trading on the NASDAQ Global Select Market under the symbol “LRFC.” The Company’s 5.75% Convertible Notes due 2022 and 6.00% Notes due 2022 continue to trade under the symbols “CPTAG” and “CPTAL,” respectively.

On July 1, 2021, in connection with the Closing, the Company’s then-current interested directors and the Company’s then-current independent directors resigned as members of the Board and Ted Goldthorpe, the Chairman and Chief Executive Officer of the Company, along with Alexander Duka, George Grunebaum, and Robert Warshauer, were appointed as members of the Board (the “Directors”). The Directors were appointed by the Board to fill the vacancies created by the resignations described above and the Directors were appointed to the class of directors as determined by the Board in accordance with the Company’s organizational documents. The Company’s stockholders will have the opportunity to vote for each of the Directors when his class of directors is up for reelection.

All of the Company’s then-current officers resigned at the Closing and the Board appointed Ted Goldthorpe as the Company’s Chief Executive Officer and President, Jason Roos as the Company’s Chief Financial Officer, Treasurer and Secretary, Patrick Schafer as the Company’s Chief Investment Officer and David Held as the Company’s Chief Compliance Officer. On November 9, 2021, Jason Roos was replaced as Secretary and Treasurer of the Company by Brandon Satoren, who was also appointed as Chief Accounting Officer. Mr. Roos continues to serve as Chief Financial Officer of the Company.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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

The Company's financial statements as of March 31, 2022 and December 31, 2021 and for the periods ended March 31, 2022 and 2021 are presented on a consolidated basis. The effects of all intercompany transactions between the Company and its subsidiaries (Fund II, Fund III, CBL, and the Taxable Subsidiaries) have been eliminated in consolidation. All financial data and information included in these consolidated financial statements have been presented on the basis described above. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial results as of and for the periods presented.

The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Additionally, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the U.S. Securities and Exchange Commission ("SEC") on March 14, 2022.

Use of Estimates in the Preparation of Financial Statements

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

Consolidation

As provided under ASC 946, the Company will generally not consolidate its investment in a company other than a substantially wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly owned investment company subsidiaries (Fund II, Fund III, CBL, and the Taxable Subsidiaries) in its consolidated financial statements.

Segments

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

Cash and Cash Equivalents

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

Investment Classification

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

Valuation of Investments

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

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

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

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

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

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

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

Enterprise Value Waterfall Approach

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

Income Approach

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

Asset Approach

The asset approach values an investment based on the value of the underlying collateral securing the investment.

Revenue Recognition

The Company's revenue recognition policies are as follows:

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

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

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

Dividend income and paid-in-kind dividends: Dividend income is recognized on the date dividends are declared. The Company holds preferred equity investments in the portfolio that contain a PIK dividend provision. PIK dividends, which represent contractually deferred dividends added to the equity balance, are recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company will typically cease accrual of PIK dividends when the fair value of the equity investment is less than the cost basis of the investment or when it is otherwise determined by management that PIK dividends are unlikely to be collected.

If management determines that a decline in fair value is temporary in nature and PIK dividends are more likely than not to be collected, management may elect to continue accruing PIK dividends.

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

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

General and Administrative Expenses

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

Deferred Financing Fees

Costs incurred to issue the Company's debt obligations are capitalized and are amortized over the term of the debt agreements under the effective interest method. Deferred financing fees are presented as a direct deduction from the carrying amount of the corresponding debt liability in the Statement of Assets and Liabilities.

Earnings per share

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

Commitments and Contingencies

As of March 31, 2022, the Company had outstanding unfunded commitments related to debt investments in existing portfolio companies of $0.4 million to American Academy Holdings, LLC, $4.7 million to Accordion Partners LLC, $0.9 million to Bradshaw International, Inc., $3.1 million to Critical Nurse Staffing, LLC, $0.9 million to Keg Logistics LLC, $1.5 million to Premiere Imaging, LLC, and $3.0 million to Wealth Enhancement Group, LLC. As of December 31, 2021, the Company had outstanding unfunded commitments related to debt investments in existing portfolio companies of $9.0 million to Accordion Partners LLC, $0.7 million to Bradshaw International, Inc., $3.1 million to Critical Nursing Staffing, LLC, $3.5 million to J5 Infrastructure Partners, LLC, $0.9 million to Keg Logistics LLC, $2.5 million to Marble Point Credit Management LLC, $1.9 million to Premiere Imaging, LLC, and $3.5 million to Wealth Enhancement Group, LLC.

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

In the ordinary course of business, the Company may directly or indirectly be a defendant or plaintiff in legal actions with respect to bankruptcy, insolvency, or other types of proceedings. Such lawsuits may involve claims that could adversely affect the value of certain financial instruments owned by the Company or result in direct losses to the Company. The nature of litigation can make it difficult to predict the impact a particular lawsuit will have on the Company. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the proceeding is in its early stages; the damages sought are unspecified, unsupportable, unexplained or uncertain; discovery has not started or is not complete; there are significant facts in dispute; and there are other parties who may share in any ultimate liability.

In management's opinion, no direct losses with respect to litigation contingencies were probable as of March 31, 2022 and December 31, 2021. Management is of the opinion that the ultimate resolution of such claims, if any, will not materially affect the Company's business, financial position, results of operations, or liquidity. Furthermore, in management's opinion, it is not possible to estimate a range of reasonably possible losses with respect to litigation contingencies.

Income Taxes

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

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

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

The tax years ended December 31, 2020, 2019, and 2018 remain subject to examination by U.S. federal, state, and local tax authorities. No interest expense or penalties have been assessed for the three months ended March 31, 2022 and 2021. If the Company was required to recognize interest and penalties, if any, related to unrecognized tax benefits this would be recognized as income tax expense in the consolidated statements of operations.

For U.S. federal income tax purposes, as of March 31, 2022, the aggregate net unrealized appreciation for all securities was $2.5 million. As of March 31, 2022, gross unrealized appreciation was $39.8 million and gross unrealized depreciation was $37.3 million. The aggregate cost of securities for U.S. federal income tax purposes was $204.4 million as of March 31, 2022. For U.S. federal income tax purposes, as of December 31, 2021, the aggregate net unrealized appreciation for all securities was $3.6 million. As of December 31, 2021, gross unrealized appreciation was $38.6 million and gross unrealized depreciation was $35.0 million. The aggregate cost of securities for U.S. federal income tax purposes was $194.6 million as of December 31, 2021.

The Company's Taxable Subsidiaries record deferred tax assets or liabilities related to temporary book versus tax differences on the income or loss generated by the underlying equity investments held by the Taxable Subsidiaries. As of March 31, 2022 and December 31, 2021, the Company recorded a net deferred tax asset of zero. For the three months ended March 31, 2022 and 2021, the Company recorded a tax provision of zero. As of March 31, 2022 and December 31, 2021, the valuation allowance on the Company's deferred tax asset was $2.5 million and $2.5 million, respectively. During the three months ended March 31, 2022, there was no change in the valuation allowance recognized by the Company. During the three months ended March 31, 2021, the Company recognized an decrease in the valuation allowance of $(1.0) million.

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

ASC Topic 740 — *Income Taxes* ("ASC 740"), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions deemed to meet a "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. As of March 31, 2022 and December 31, 2021, there were no uncertain tax positions.

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

Distributions

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

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

Company Investment Risk, Concentration of Credit Risk and Liquidity Risk

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

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

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

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

Note 3. Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update 2020-04, Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions, subject to meeting certain criteria, that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. Management continues to assess the impact that the adoption of this guidance will have on the Company's financial position, results of operations and cash flows.

Note 4. Investments and Fair Value Measurements

The Company's investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company offers customized financing to business owners, management teams, and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion, and other growth initiatives. The Company invests in first lien loans, and, to a lesser extent, second lien loans and equity securities issued by lower middle-market and traditional middle-market companies. As of March 31, 2022, our portfolio consisted of investments in 42 portfolio companies with a fair value of approximately $206.9 million.

Most of the Company's debt investments are structured as first lien loans. First lien loans may contain some minimum amount of principal amortization, excess cash flow sweep feature, prepayment penalties, or any combination of the foregoing. First lien loans are secured by a first priority lien in existing and future assets of the borrower and may take the form of term loans, delayed draw facilities, or revolving credit facilities. Unitranche debt, a form of first lien loan, typically involves issuing one debt security that blends the risk and return profiles of both senior secured and subordinated debt, bifurcating the loan into a first-out tranche and last-out tranche. As of March 31, 2022, 8.2% of the fair value of our first lien loans consisted of last-out loans. As of December 31, 2021, 8.5% of the fair value of our first lien loans consisted of last-out loans. In some cases, first lien loans may be subordinated, solely with respect to the payment of cash interest, to an asset based revolving credit facility.

The Company also invests in debt instruments structured as second lien loans. Second lien loans are loans which have a second priority security interest in all or substantially all of the borrower's assets, and in some cases, may be subject to the interruption of cash interest payments upon certain events of default, at the discretion of the first lien lender.

During the three months ended March 31, 2022, we made approximately $16.4 million of investments and had approximately $8.4 million in repayments and sales, resulting in net deployment of approximately $8.0 million for the period. During the three months ended March 31, 2021, the Company made no investments and had approximately $29.9 million in repayments and sales, resulting in net repayments and sales of approximately $29.9 million for the period.

As of March 31, 2022, the Company's Board approved the fair value of the Company's investment portfolio of approximately $206.9 million in good faith in accordance with the Company's valuation procedures. The Company's Board approved the fair value of the Company's investment portfolio as of March 31, 2022 with input from a third-party valuation firm and the Investment Advisor based on information known or knowable as of the valuation date, including trailing and forward looking data.

The composition of our investments as of March 31, 2022, at amortized cost and fair value was as follows (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First Lien Debt	$ 106,929	53.7 %	$ 100,663	48.7 %
Second Lien Debt	33,168	16.7 %	33,220	16.1 %
Subordinated Debt	7,117	3.6 %	7,115	3.4 %
Collateralized Loan Obligations	8,106	4.1 %	7,199	3.5 %
Equity	43,649	21.9 %	58,708	28.3 %
Total	$ 198,969	100.0 %	$ 206,905	100.0 %

The composition of our investments as of December 31, 2021, at amortized cost and fair value was as follows (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First Lien Debt	$ 103,667	54.4 %	$ 98,251	49.6 %
Second Lien Debt	30,048	15.8 %	30,190	15.2 %
Subordinated Debt	5,050	2.6 %	5,050	2.6 %
Equity	51,717	27.2 %	64,698	32.6 %
Total	$ 190,482	100.0 %	$ 198,189	100.0 %

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

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

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

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

The Company employs the valuation policy approved by the Board that is consistent with ASC 820 (see Note 2). Consistent with the Company's valuation policy, the Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

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

The following table presents the fair value measurements of investments, by major class, as of March 31, 2022, according to the fair value hierarchy (dollars in thousands):

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
First Lien Debt	$ —	$ —	$ 100,663	$ 100,663
Second Lien Debt	—	—	33,220	33,220
Subordinated Debt	—	—	7,115	7,115
Collateralized Loan Obligations	—	—	7,199	7,199
Equity	—	—	58,708	58,708
Total	$ —	$ —	$ 206,905	$ 206,905

The following table presents fair value measurements of investments, by major class, as of December 31, 2021, according to the fair value hierarchy (dollars in thousands):

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
First Lien Debt	$ —	$ —	$ 98,251	$ 98,251
Second Lien Debt	—	—	30,190	30,190
Subordinated Debt	—	—	5,050	5,050
Equity	—	—	64,698	64,698
Total	$ —	$ —	$ 198,189	$ 198,189

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the three months ended March 31, 2022 (dollars in thousands):

	First Lien Debt	**Second Lien Debt**	**Subordinated Debt**	**Collateralized Loan Obligations**	**Equity**	**Total**
Balance as of January 1, 2022	$ 98,251	$ 30,190	$ 5,050	$ 7,717	$ 56,981	$ 198,189
Repayments/sales	(8,096)	—	—	(276)	(29)	(8,401)
Purchases	11,285	3,086	2,022	—	—	16,393
Payment-in-kind interest and dividends accrued	—	38	44	—	50	132
Accretion of original issue discount	60	(5)	1	343	—	399
Net realized gain (loss) on investments	13	—	—	—	(49)	(36)
Net unrealized (depreciation) appreciation on investments	(850)	(89)	(2)	(585)	1,755	229
Balance as of March 31, 2022	$ 100,663	$ 33,220	$ 7,115	$ 7,199	$ 58,708	$ 206,905

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the three months ended March 31, 2021 (dollars in thousands):

	First Lien Debt	Second Lien Debt	Subordinated Debt	Equity	Total
Balance as of January 1, 2021	$ 167,418	$ 39,209	$ —	$ 67,572	$ 274,199
Repayments/sales	(29,847)	(59)	—	—	(29,906)
Purchases	—	—	—	—	—
Payment-in-kind interest and dividends accrued	126	—	—	44	170
Accretion of original issue discount	31	46	—	—	77
Net realized (loss) gain on investments	(12,023)	—	—	(2,000)	(14,023)
Net unrealized appreciation (depreciation) on investments	12,353	(43)	—	14,092	26,402
Balance as of March 31, 2021	$ 138,058	$ 39,153	$ —	$ 79,708	$ 256,919

The net change in unrealized appreciation on investments held was $0.2 million and $12.7 million for the three months ended March 31, 2022 and 2021, respectively, and is included in net change in unrealized appreciation on investments on the consolidated statements of operations.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of March 31, 2022 were as follows:

	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range of Input (Weighted Average) [(2)]
First lien debt	1.7	Market	Broker/Dealer Quote	N/A
First lien debt	91.9	Income	Required Rate of Return	5.5% – 15.1% (9.2%)
First lien debt	7.1	Enterprise Market Value and Asset[(1)]	Revenue Multiple	0.3x
Second lien debt	6.9	Market	Broker/Dealer Quote	N/A
Second lien debt	25.9	Income and Asset[(1)]	Required Rate of Return	1.5% – 15.3% (11.7%)
Second lien debt	0.4	Enterprise Market Value	Revenue Multiple	4.7x
Subordinated debt	7.1	Income	Required Rate of Return	4.9% – 15.2% (7.3%)
Collateralized loan obligations	7.2	Income	Required Rate of Return	19.5% – 22.2% (20.7%)
Equity	54.7	Enterprise Market Value and Asset[(1)]	EBITDA Multiple	2.0x – 10.0x (6.8x)
Equity	4.0	Enterprise Market Value	Revenue Multiple	0.4x – 0.5x (0.4x)
	206.9			

(1) $0.8 million of first lien debt, less than $0.1 million of second lien debt and $0.8 million of equity and warrants were valued using the asset approach.
(2) The weighted averages disclosed in the table above were weighted by their relative fair value.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of December 31, 2021 were as follows:

	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range (Weighted Average)[(2)]
First lien debt	$ 2.5	Market	Broker/Dealer Quote	N/A
First lien debt	88.1	Income	Required Rate of Return	6.2% – 14.6% (7.4%)
First lien debt	7.6	Enterprise Market Value and Asset(1)	Revenue Multiple	0.3x
Second lien debt	29.8	Income and Asset(1)	Required Rate of Return	1.2% – 11.5% (9.7%)
Second lien debt	0.4	Enterprise Market Value	Revenue Multiple	4.7x
Subordinated debt	5.1	Income	Required Rate of Return	5.0%
Equity	53.2	Enterprise Market Value and Asset(1)	EBITDA Multiple	1.9x – 10.0x (6.4x)
Equity	3.7	Enterprise Market Value and Asset(1)	Revenue Multiple	0.4x – 0.7x (0.4x)
Equity	7.7	Income	Required Rate of Return	17.4x – 20.4x (19.1x)
	$ 198.2			

(1) $0.6 million in first lien debt, $0.1 million in second lien debt, and $0.6 million in equity and warrants were valued using the asset approach.
(2) The weighted averages disclosed in the table above were weighted by their relative fair value.

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

Note 5. Transactions With Affiliated Companies

During the three months ended March 31, 2022, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows (dollars in thousands):

Company [4]	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income [1]	December 31, 2021 Fair Value	Gross Additions [2]	Gross Reductions [3]	Realized Gain/(Loss)	Unrealized Appreciation (Depreciation)	March 31, 2022 Fair Value
Affiliate investments									
Burgaflex Holdings, LLC	Common Stock Class B (1,085,073 shares)	$ —	$ —	$ 1,528	$ —	$ (335)	$ —	$ 1,061	$ 2,254
Burgaflex Holdings, LLC	Common Stock Class A (1,253,198 shares)	—	—	1,193	336	—	—	619	2,148
			—	2,721	336	(335)	—	1,680	4,402
Eastport Holdings, LLC	Second Lien Debt (13.5% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 6/01/22)	16,500	559	16,500	—	(6)	—	6	16,500
Eastport Holdings, LLC	Membership Units (22.9% ownership)	—	—	16,319	—	—	—	(363)	15,956
			559	32,819	—	(6)	—	(357)	32,456
GA Communications, Inc.	Series A-1 Preferred Stock (1,998 shares)	—	—	4,394	—	—	—	(4)	4,390
GA Communications, Inc.	Series B-1 Common Stock (200,000 shares)	—	—	185	—	—	—	(185)	—
			—	4,579	—	—	—	(189)	4,390
LJS Partners, LLC	Preferred Units (202,336 units)	—	—	843	—	—	—	28	871
LJS Partners, LLC	Common Membership Units (2,593,234 units)	—	—	7,164	—	—	—	143	7,307
			—	8,007	—	—	—	171	8,178
MMI Holdings, LLC	First Lien Debt (12.0% Cash, Due 1/31/22)	2,600	79	2,600	—	—	—	—	2,600
MMI Holdings, LLC	Second Lien Debt (6.0% Cash, Due 1/31/22)	400	6	400	—	—	—	—	400
MMI Holdings, LLC [5]	Preferred Units (1,000 units, 6.0% PIK Dividend)	—	30	1,898	30	—	—	(30)	1,898
MMI Holdings, LLC	Common Membership Units (45 units)	—	—	63	—	—	—	1	64
			115	4,961	30	—	—	(29)	4,962
Nth Degree Investment Group, LLC	Membership Units (6,088,000 Units)	—	—	—	—	—	—	—	—
			—	—	—	—	—	—	—
RAM Payment, LLC	First Lien Debt (6.5% Cash (1 month LIBOR + 5.0%), 1.5% Floor), Due 1/4/24)	998	16	998	—	(15)	—	—	983
RAM Payment, LLC	First Lien Debt (9.8% Cash, Due 1/4/24)	2,706	67	2,706	—	(40)	—	—	2,666
RAM Payment, LLC [5]	Preferred Units (86,000 units, 8.0% PIK Dividend)	—	17	3,726	17	—	—	106	3,849
			100	7,430	17	(55)	—	106	7,498
Sierra Hamilton Holdings Corporation	Second Lien Debt (15.0%, Due 9/12/23)	3	—	3	—	—	—	—	3
Sierra Hamilton Holdings Corporation	Common Stock (15,068,000 shares)	—	—	330	—	—	—	(79)	251
			—	333	—	—	—	(79)	254
V12 Holdings, Inc.	Second Lien Debt	—	—	509	—	—	—	—	509
			—	509	—	—	—	—	509
Total Affiliate investments			$ 774	$ 61,359	$ 383	$ (396)	$ —	$ 1,303	$ 62,649
Control investments									
Vology, Inc.	First Lien Debt (10.5% Cash (1 month LIBOR + 8.5%, 2.0% Floor), Due 3/31/22)	$ 3,586	$ 95	$ 3,635	$ —	$ —	$ —	$ (7)	3,628
Vology, Inc.	Class A Preferred Units (9,041,810 Units)	—	—	3,204	—	—	—	83	3,287
Vology, Inc.	Membership Units (5,363,982 Units)	—	—	—	—	—	—	—	—
Total Control investments			$ 95	$ 6,839	$ —	$ —	$ —	$ 76	$ 6,915

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

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

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

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

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

During the year ended December 31, 2021, the Company had investments in portfolio companies designated as affiliates under the 1940 Act. Transactions with affiliates were as follows (dollars in thousands):

Company [4]	Type of Investment	Principal Amount	Amount of Interest, Fees or Dividends Credited to Income [1]	December 31, 2020 Fair Value	Gross Additions [2]	Gross Reductions [3]	Realized Gain/(Loss)	Unrealized Appreciation (Depreciation)	December 31, 2021 Fair Value
Affiliate investments									
Burgaflex Holdings, LLC	First Lien Debt (12.0% Cash, 3.0% PIK, Due 3/23/21)	$ —	$ 152	$ 13,597	$ —	$ (13,597)	$ —	$ —	$ —
Burgaflex Holdings, LLC	Common Stock Class B (1,085,073 shares)	—	—	1,338	—	—	—	190	1,528
Burgaflex Holdings, LLC	Common Stock Class A (1,253,198 shares)	—	—	—	—	—	—	1,193	1,193
			152	14,935	—	(13,597)	—	1,383	2,721
City Gear, LLC	Membership Unit Warrants		—	2,011	—	(2,215)	2,215	(2,011)	—
			—	2,011	—	(2,215)	2,215	(2,011)	—
Eastport Holdings, LLC	Second Lien Debt (13.5% Cash (3 month LIBOR + 13.0%, 0.5% Floor), Due 4/30/22)	16,500	2,402	16,500	123	—	—	(123)	16,500
Eastport Holdings, LLC	Membership Units (22.9% ownership)	—	—	20,294	—	—	—	(3,975)	16,319
			2,402	36,794	123	—	—	(4,098)	32,819
GA Communications, Inc.	Series A-1 Preferred Stock (1,998 shares)	—	—	4,066	—	—	—	328	4,394
GA Communications, Inc.	Series B-1 Common Stock (200,000 shares)	—	—	146	—	—	—	39	185
			—	4,212	—	—	—	367	4,579
LJS Partners, LLC	Preferred Units (202,336 units)	—	—	756	—	—	—	87	843
LJS Partners, LLC	Common Membership Units (2,593,234 units)	—	24	3,951	—	—	—	3,213	7,164
			24	4,707	—	—	—	3,300	8,007
MMI Holdings, LLC	First Lien Debt (12.0% Cash, Due 1/31/22)	2,600	316	2,600	—	—	—	—	2,600
MMI Holdings, LLC	Second Lien Debt (6.0% Cash, Due 1/31/22)	400	24	400	—	—	—	—	400
MMI Holdings, LLC [5]	Preferred Units (1,000 units, 6.0% PIK Dividend)	—	110	1,815	110	—	—	(27)	1,898
MMI Holdings, LLC	Common Membership Units (45 units)	—	—	204	—	—	—	(141)	63
			450	5,019	110	—	—	(168)	4,961
Navis Holdings, Inc.	First Lien Debt (9.0% Cash, 2.0% PIK, Due 6/30/23)	—	993	10,882	181	(11,212)	—	149	—
Navis Holdings, Inc.	Class A Preferred Stock (1,000 shares)	—	100	986	—	(1,000)	—	14	—
Navis Holdings, Inc.	Common Stock (60,000 shares)	—	—	—	—	(260)	260	—	—
			1,093	11,868	181	(12,472)	260	163	—
Nth Degree Investment Group, LLC	Membership Units (6,088,000 Units)	—	—	—	—	—	—	—	—
			—	—	—	—	—	—	—
RAM Payment, LLC	First Lien Debt (6.5% Cash (1 month LIBOR + 5.0%), 1.5% Floor), Due 1/4/24)	983	126	2,451	—	(1,455)	—	2	998
RAM Payment, LLC	First Lien Debt (9.8% Cash, Due 1/4/24)	2,666	517	6,646	—	(3,939)	—	(1)	2,706
RAM Payment, LLC [5]	Preferred Units (86,000 units, 8.0% PIK Dividend)	—	124	2,874	69	—	—	783	3,726
			767	11,971	69	(5,394)	—	784	7,430
Sierra Hamilton Holdings Corporation	Second Lien Debt (15.0%, Due 9/12/23)	3	108	441	12	(450)	—	—	3
Sierra Hamilton Holdings Corporation	Common Stock (15,068,000 shares)	—	—	977	—	—	—	(647)	330
			108	1,418	12	(450)	—	(647)	333
V12 Holdings, Inc.	Second Lien Debt	—	—	490	—	—	—	19	509
			—	490	—	—	—	19	509
Total Affiliate investments			$ 4,996	$ 93,425	$ 495	$ (34,128)	$ 2,475	$ (908)	$ 61,359
Control investments									
Vology, Inc.	First Lien Debt (10.5% Cash (1 month LIBOR + 8.5%, 2.0% Floor), Due 3/31/22)	$ 3,635	$ 389	$ 3,732	$ —	$ (97)	$ —	$ -	3,635
Vology, Inc.	Class A Preferred Units (9,041,810 Units)	—	—	4,687	—	—	—	(1,483)	3,204
Vology, Inc.	Membership Units (5,363,982 Units)	—	—	—	—	—	—	—	—
Total Control investments			$ 389	$ 8,419	$ —	$ (97)	$ —	$ (1,483)	$ 6,839

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

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

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

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

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

Note 6. Agreements

On July 1, 2021, the Company entered into an investment advisory agreement (the "Investment Advisory Agreement") with the Investment Advisor, which was approved by the Company's stockholders on May 27, 2021. Unless earlier terminated in accordance with its terms, the Investment Advisory Agreement will remain in effect until July 1, 2023, a period of two years from the date it first became effective and will remain in effect from year-to-year thereafter if approved annually by the Board or by a majority of our outstanding voting securities, including, in either case, by a majority of our directors who are not "interested persons" as such term is defined in Section 2(a)(19) of the 1940 Act ("Independent Directors"). Subject to the overall supervision of the Board, the Investment Advisor manages our day-to-day operations and provides investment advisory and management services to us. Under the terms of the Investment Advisory Agreement, the Investment Advisor:

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

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

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

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

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

The incentive fee consists of the following two parts:

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

- no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle of 2.0%;
- 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.5% in any calendar quarter (10.0% annualized). The Company refers to this portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.5%) as the "catch-up." The "catch-up" is meant to provide the Investment Advisor with 20% of the pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.5% in any calendar quarter; and
- 20% of the amount of the pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Advisor (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to the Investment Advisor).

The second part of the incentive fee will be determined and payable in arrears as of the end of each calendar year, commencing on December 31, 2021, and will equal 20.0% of the Company's realized capital gains, if any, on a cumulative basis with respect to each of the investments in the Company's portfolio from the fiscal quarter ending on or immediately prior to July 1, 2021 through the end of each calendar year beginning with the calendar year ending December 31, 2021, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis from September 30, 2021 through the end of each calendar year beginning with the calendar year ending December 31, 2021, less the aggregate amount of any previously paid capital gain fees under the Investment Advisory Agreement. Any realized capital gains, realized capital losses and unrealized capital depreciation with respect to the Company's portfolio as of the end of the fiscal quarter ending on or immediately prior to July 1, 2021 shall be excluded from the calculations of the capital gains fee. In the event that the Investment Advisory Agreement shall terminate as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying a capital gains fee.

The Company will defer cash payment of the portion of any incentive fee otherwise earned by the Investment Advisor that would, when taken together with all other incentive fees paid to the Investment Advisor during the most recent 12 full calendar month period ending on or prior to the date such payment is to be made, exceed 20% of the sum of (a) the pre-incentive fee net investment income during such period, (b) the net unrealized appreciation or depreciation during such period and (c) the net realized capital gains or losses during such period. Any deferred incentive fees will be carried over for payment in subsequent calculation periods to the extent such payment is payable under the Investment Advisory Agreement. As of March 31, 2022 and December 31, 2021, the Company had incentive fees payable to the Investment Advisor of zero and zero related to fees earned in prior years but deferred under the incentive fee deferral mechanism.

As part of the Transaction, the Investment Advisor entered into a two-year contractual fee waiver (the “Fee Waiver”) with the Company to waive, to the extent necessary, any capital gains fee under the Investment Advisory Agreement that exceeds what would have been paid to Capitala in the aggregate over such two-year period under the prior advisory agreement.

For the three months ended March 31, 2022 and 2021, the Company incurred $1.0 million and $1.4 million in base management fees, respectively. The Company did not earn an incentive fee related to pre-incentive fee net investment income or capital gains for the both three months ended March 31, 2022 and 2021.

On July 1, 2021, the Company entered into the Administration Agreement, pursuant to which the Administrator has agreed to furnish the Company with office facilities, equipment and clerical, bookkeeping, and record keeping services at such facilities. The Administrator also performs or oversees the performance of the required administrative services, which include, among other things, being responsible for the financial records that the Company is required to maintain and preparing reports to our stockholders. In addition, the Administrator assists in determining and publishing the net asset value, oversees the preparation and filing of the tax returns and the printing and dissemination of reports to the stockholders, and generally oversees the payment of the expenses and the performance of administrative and professional services rendered to the Company by others.

Payments under the Administration Agreement are equal to an amount based upon the allocable portion of the Administrator’s overhead in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the allocable portion of the compensation of the chief financial officer, the chief compliance officer, and their respective administrative support staff. Under the Administration Agreement, the Administrator will also provide, on the Company’s behalf, managerial assistance to those portfolio companies that request such assistance. Unless terminated earlier in accordance with its terms, the Administration Agreement will remain in effect until July 1, 2021, a period of two years from the date it first became effective and will remain in effect from year-to-year thereafter if approved annually by the Board. To the extent that the Administrator outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without any incremental profit to our Administrator. Stockholder approval is not required to amend the Administration Agreement.

For the three months ended March 31, 2022 and 2021, the Company accrued $0.1 million and $0.4 million, respectively, for the Company’s allocable portion of the Administrator’s overhead.

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

Note 7. Related Party Transactions

As of March 31, 2022 and December 31, 2021, the Company had $1.0 million and $1.1 million of management and incentive fees payable. These amounts are reflected in the accompanying consolidated statements of assets and liabilities under the caption “Management and incentive fees payable.”

Note 8. Borrowings

SBA-guaranteed Debentures

The Company, through its wholly owned subsidiary Fund III, historically used debenture leverage provided through the SBA to fund a portion of its investment portfolio. As of December 31, 2021, the Company had no SBA-guaranteed debentures outstanding. On June 10, 2021, Fund III repaid all of its remaining SBA-guaranteed debentures. On June 10, 2014, the Company received an exemptive order from the SEC exempting the Company, Fund II, and Fund III from certain provisions of the 1940 Act (including an exemptive order granting relief from the asset coverage requirements for certain indebtedness issued by Fund II and Fund III as SBICs) and from certain reporting requirements mandated by the Securities Exchange Act of 1934, as amended, with respect to Fund II and Fund III.

On March 1, 2019, Fund II repaid its outstanding SBA-guaranteed debentures and relinquished its SBIC license. On June 10, 2021, Fund III repaid its SBA-guaranteed debentures and relinquished its SBIC license.

As of March 31, 2022 and December 31, 2021, there were no SBA-guaranteed debentures outstanding.

The following table summarizes the historical interest expense and annual charges, deferred financing costs, average outstanding balance, and average stated interest and annual charge rate on the SBA-guaranteed debentures for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Interest expense and annual charges	$ —	$ 661
Deferred financing costs	—	139
Total interest and financing expenses	$ —	$ 800
Average outstanding balance	$ —	$ 84,111
Average stated interest and annual charge rate	N/A	3.17 %

2022 Notes

On May 16, 2017, the Company issued $70.0 million in aggregate principal amount of 6.0% fixed-rate notes due May 31, 2022 (the "2022 Notes"). On May 25, 2017, the Company issued an additional $5.0 million in aggregate principal amount of the 2022 Notes pursuant to a partial exercise of the underwriters' overallotment option. The 2022 Notes will mature on May 31, 2022 and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after May 31, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest on the 2022 Notes is payable quarterly. The Notes are listed on the NASDAQ Global Select Market under the trading symbol "CPTAL" with a par value of $25.00 per share.

On November 1, 2021, the Company notified the Trustee for the Company's 2022 Notes, of the Company's election to redeem $50.0 million aggregate principal amount of the 2022 Notes outstanding. The redemption was completed on December 6, 2021.

As of March 31, 2022 and December 31, 2021, the Company had $22.8 million, respectively, in aggregate principal amount of 2022 Notes outstanding.

The following table summarizes the interest expense, deferred financing costs, average outstanding balance, and average stated interest rate on the 2022 Notes for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Interest expense	$ 392	$ 1,093
Deferred financing costs	27	144
Total interest and financing expenses	$ 419	$ 1,237
Average outstanding balance	$ 22,833	$ 72,833
Average stated interest rate	6.0 %	6.0 %

2022 Convertible Notes

On May 26, 2017, the Company issued $50.0 million in aggregate principal amount of 5.75% fixed-rate convertible notes due May 31, 2022 (the "2022 Convertible Notes"). On June 26, 2017, the Company issued an additional $2.1 million in aggregate principal amount of the 2022 Convertible Notes pursuant to a partial exercise of the underwriters' overallotment option.

The 2022 Convertible Notes are convertible, at the holder's option, into shares of the Company's common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date. The conversion rate for the 2022 Convertible Notes was initially 1.5913 shares per $25.00 principal amount of 2022 Convertible Notes (equivalent to an initial conversion price of approximately $15.71 per share of common stock). The initial conversion premium is approximately 14.0%. As a result of the reverse stock split, the conversion rate for the 2022 Convertible Notes is 0.2652 shares per $25.00 principal amount of 2022 Convertible Notes (equivalent to a conversion price of approximately $94.26) effective August 21, 2020. Upon conversion, the Company will deliver shares of its common stock (and cash in lieu of fractional shares). The conversion rate is subject to adjustment if certain events occur as outlined in the supplemental indenture relating to the 2022 Convertible Notes. The Company has determined that the embedded conversion option in the 2022 Convertible Notes is not required to be separately accounted for as a derivative under U.S. GAAP.

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

As of March 31, 2022 and December 31, 2021, the Company had $52.1 million, respectively in 2022 Convertible Notes outstanding.

The following table summarizes the interest expense, deferred financing costs, average outstanding balance, and average stated interest rate on the 2022 Convertible Notes for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Interest expense	$ 749	$ 749
Deferred financing costs	100	94
Total interest and financing expenses	$ 849	$ 843
Average outstanding balance	$ 52,088	$ 52,088
Average stated interest rate	5.75 %	5.75 %

2026 Notes

On October 29, 2021, the Company issued $50.0 million in aggregate principal amount of 5.25% fixed-rate notes due October 30, 2026 (the "2026 Notes") at 98.00% pursuant to a supplemental indenture with U.S. Bank National Association (the "Trustee"), which supplements that certain base indenture, dated as of June 16, 2014. The 2026 Notes were issued in a private placement exempt from registration under the Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The net proceeds to the Company were approximately $48.8 million, after deducting estimated offering expenses. The Notes will mature on October 30, 2026 and may be redeemed in whole or in part at the Company's option at any time or from time to time at the redemption prices set forth in the Indenture. The Notes bear interest at a rate of 5.25% per year payable semi-annually on April 30 and October 30 of each year, commencing on April 30, 2022. The Notes are general unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Notes, rank pari passu with all existing and future unsecured unsubordinated indebtedness issued by the Company, rank effectively junior to any of the Company's secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness, and rank structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries, financing vehicles or similar facilities.

In connection with the offering, the Company entered into a Registration Rights Agreement, dated as of October 29, 2021 (the "Registration Rights Agreement"), with the purchasers of the 2026 Notes. Pursuant to the Registration Rights Agreement, the Company is obligated to file with the Securities and Exchange Commission a registration statement relating to an offer to exchange the 2026 Notes for new notes issued by the Company that are registered under the Securities Act and otherwise have terms substantially identical to those of the 2026 Notes, and to use its commercially reasonable efforts to cause such registration statement to be declared effective.

As of March 31, 2022 and December 31, 2021, the Company had $50.0 million, respectively in 2026 Notes outstanding.

The following table summarizes the interest expense, deferred financing costs, average outstanding balance, and average stated interest rate on the 2026 Notes for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	**2021**
Interest expense	$ 705	$ —
Deferred financing costs	29	—
Total interest and financing expenses	$ 734	$ —
Average outstanding balance	$ 50,000	$ —
Average stated interest rate	5.25 %	N/A

Bond Repurchase Program

On July 30, 2020, the Board approved a bond repurchase program which authorizes the Company to repurchase up to an aggregate of $10.0 million worth of the Company's outstanding 2022 Notes and/or 2022 Convertible Notes (the "Bond Repurchase Program"). The Bond Repurchase Program expired on July 30, 2021. The Company did not repurchase approximately any of the 2022 Notes or 2022 Convertible Notes during the three months ended March 31, 2021.

KeyBank Credit Facility

On October 30, 2020, Capitala Business Lending, LLC("CBL"), a direct, wholly owned, consolidated subsidiary of the Company, entered into a senior secured revolving credit agreement ("the KeyBank Credit Facility"), with the Investment Advisor a the time, as collateral manager, the lenders from time to time parties thereto (each a “Lender”), KeyBank National Association, as administrative agent, and U.S. Bank National Association, as custodian. Under the KeyBank Credit Facility, the Lenders have agreed to extend credit to CBL in an aggregate principal amount of up to $25.0 million as of October 30, 2020. CBL may, on any business day prior to October 28, 2022, request an increase in the aggregate principal amount from $25.0 million to $100.0 million in accordance with the terms and in the manner described in the KeyBank Credit Facility. The period during which the Lenders may make loans to CBL under the KeyBank Credit Facility commenced on October 30, 2020 and will continue through October 28, 2022, unless there is an earlier termination or event of default. The KeyBank Credit Facility matures on October 28, 2023, unless there is an earlier termination or event of default. Borrowings under the KeyBank Credit Facility bear interest at one-month LIBOR plus 3.5%, subject to a minimum interest rate of 4.25%. The Company will also pay an unused commitment fee at a rate of 1.75% per annum on the unutilized portion of the aggregate commitments under the KeyBank Credit Facility. As of March 31, 2022 and December 31, 2021, there were no outstanding draws on KeyBank Credit Facility. The KeyBank Credit Facility is secured by the investments and other assets held by CBL, the Company’s wholly owned subsidiary. The KeyBank Credit Facility includes customary affirmative and negative covenants, including certain limitations on the incurrence of additional indebtedness and liens, as well as usual and customary events of default for revolving credit facilities of this nature. As of March 31, 2022 and December 31, 2021, assets pledged to secure the KeyBank Credit Facility had a fair value of $45.2 million and $57.7 million, respectively.

The following table summarizes the interest expense, deferred financing costs, unused commitment fees, average outstanding balance, and average stated interest rate on the KeyBank Credit Facility for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	**2021**
Interest expense	$ 28	$ —
Deferred financing costs	48	48
Unused commitment fees	110	109
Total interest and financing expenses	$ 186	$ 157
Average outstanding balance	$ —	$ —
Average stated interest rate	N/A	N/A

Financial Instruments Disclosed, But Not Carried, At Fair Value

The following table presents the outstanding principal and fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of March 31, 2022, and the level of each financial liability within the fair value hierarchy (dollars in thousands):

	Outstanding Principal	Fair Value	Level 1	Level 2	Level 3
2022 Notes	$ 22,833	$ 22,861	$ 22,861	$ —	$ —
2022 Convertible Notes	52,088	52,213	52,213	—	—
2026 Notes	50,000	50,000	—	—	50,000
Total	$ 124,921	$ 125,074	$ 75,074	$ —	$ 50,000

The following table presents the outstanding principal and fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of December 31, 2021, and the level of each financial liability within the fair value hierarchy (dollars in thousands):

	Outstanding Principal	Fair Value	Level 1	Level 2	Level 3
2022 Notes	$ 22,833	$ 23,285	$ 23,285	$ —	$ —
2022 Convertible Notes	52,088	52,983	52,983	—	—
2026 Notes	50,000	50,000	—	—	50,000
Total	$ 124,921	$ 126,268	$ 76,268	$ —	$ 50,000

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

The estimated fair value of the 2026 Notes approximates the par value.

Note 9. Directors' Fees

Our Independent Directors receive an annual fee of $50,000. They also receive $5,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Board meeting and $5,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of $10,000 and each chairman of any other committee receives an annual fee of $5,000 for their additional services, if any, in these capacities. For the three months ended March 31, 2022, the Company recognized directors' fees expense of $0.1 million. For the three months ended March 31, 2021, the Company recognized directors' fees expense of $0.1 million. No compensation is expected to be paid to directors who are "interested persons" of the Company, as such term is defined in Section 2(a)(19) of the 1940 Act.

Note 10. Earnings Per Share

In accordance with the provisions of ASC Topic 260 - *Earnings per Share* ("ASC 260"), basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares of the Company's common stock outstanding during the period. Other potentially dilutive shares of the Company's common stock, and the related impact to earnings, are considered when calculating diluted earnings per share. For the three months ended March 31, 2022 and 2021, 0.6 million in convertible shares related to the 2022 Convertible Notes were considered anti-dilutive.

The following information sets forth the computation of the weighted average basic and diluted net increase (decrease) in net assets per share resulting from operations for the three months ended March 31, 2022 and 2021 (dollars in thousands, except share and per share data):

	For the Three Months Ended March 31,	
	2022 [(1)]	2021
Net (decrease) increase in net assets resulting from operations - basic	$ (858)	$ 12,354
Weighted average common stock outstanding – basic	2,711,068	2,711,068
Net (decrease) increase in net assets per share resulting from operations - basic	$ (0.32)	$ 4.56
Net (decrease) increase in net assets resulting from operations - diluted	(858)	12,354
Adjustment for interest on the 2022 Convertible Notes and incentive fees, net	—	843
Adjusted net (decrease) increase in net assets resulting from operations - diluted	(858)	13,197
Weighted average common stock outstanding – diluted	2,711,068	2,711,068
Adjustment for dilutive effect of the 2022 Convertible Notes	—	552,579
Adjusted weighted average common stock outstanding - diluted	2,711,068	3,263,647
Net (decrease) increase in net assets per share resulting from operations - diluted	$ (0.32)	$ 4.04

(1) In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. For the three months ended March 31, 2022, conversion of the 0.6 million in convertible shares was not assumed as the effect on diluted earnings per share would be anti-dilutive.

Note 11. Distributions

The Company's distributions are recorded on the record date. Stockholders have the option to receive payment of the distribution in cash, shares of the Company's common stock, or a combination of cash and shares of common stock. Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. Accordingly, distributions may be subject to reclassification based on future dividends and operating results and will not be determined until the end of the year. The Company's Board determined not to declare a distribution for the quarters ended March 31, 2022 and 2021.

Note 12. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2022 and 2021 (dollars in thousands, except share and per share data):

	For the Three Months Ended March 31, 2022	2021
Per share data:		
Net asset value at beginning of year	$ 39.48	$ 40.19
Net investment loss[1]	(0.39)	(0.29)
Net realized loss on investments[1]	(0.01)	(5.17)
Net change in unrealized appreciation on investments[1]	$ 0.08	10.02
Other[2]	—	(0.01)
Net asset value at end of year	$ 39.16	$ 44.74
Net assets at end of period	$ 106,171	$ 121,301
Shares outstanding at end of period	2,711,068	2,711,068
Per share market value at end of period	$ 22.57	$ 15.44
Total return based on market value[3]	(1.83)%	7.15%
Ratio/Supplemental data:		
Ratio of net investment (loss) income to average net assets[4]	(4.00)%	(2.76)%
Ratio of interest and financing expenses to average net assets[4]	8.32%	10.70%
Ratio of other operating expenses to average net assets[4]	8.37%	9.41%
Ratio of total expenses including tax provision, net of fee waivers, to average net assets[4]	16.69%	20.11%
Portfolio turnover rate[5]	4.15%	—%
Average debt outstanding[6]	$ 124,921	$ 209,032
Average debt outstanding per common share	$ 46.08	$ 77.10
Asset coverage ratio per unit[7]	$ 1,843	$ 1,971

(1) Based on daily weighted average balance of shares of the Company's common stock outstanding during the period.

(2) Includes the impact of different share amounts used in calculating per share data based on weighted average shares of the Company's common stock outstanding during the period and certain per share data based on shares of the Company's common stock outstanding as of a period end or transaction date. Also includes the impact of shares of the Company's common stock issued under the Company's DRIP.

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

(4) Ratio is annualized.

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

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

(7) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. We have excluded our SBA-guaranteed debentures from the asset coverage calculation as of March 31, 2021 pursuant to the exemptive relief granted by the SEC in June 2014 that permits us to exclude such debentures from the definition of senior securities in the 150% asset coverage ratio we are required to maintain under the 1940 Act. There were no SBA-guaranteed debentures outstanding as of March 31, 2022. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.

Note 13. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no other subsequent events that occurred during such period that would be required to be recognized in the consolidated financial statements as of March 31, 2022, other than as set forth below.

On April 1, 2022, the Company entered into a Note Purchase Agreement (the "Purchase Agreement") governing the issuance of $15.0 million in aggregate principal amount of 5.25% Convertible Notes due 2032 (the "Convertible Notes") in a transaction exempt from registration pursuant to Section 4(a)(2) of the Securities Act. The Convertible Notes have not been registered under the Securities Act or any state securities laws and may not be reoffered or resold in the United States absent registration or an applicable exemption from such registration requirements. The Convertible Notes were delivered and paid for on April 1, 2022. The Convertible Notes will mature on April 1, 2032 (the "Maturity Date"). The net proceeds to the Company were $13,650,000, after deducting estimated offering expenses. Capitalized terms used but not defined herein have the meanings ascribed to them in the Purchase Agreement.

The Company obtained an Investment Grade rating from a Nationally Recognized Statistical Rating Organization ("NRSRO") with respect to the Convertible Notes. The Convertible Notes have a fixed interest rate of 5.25% per annum payable semi-annually on March 31 and September 30 of each year, commencing on September 30, 2022, subject to a step up of 0.75% per annum to the extent that the Convertible Notes are downgraded below Investment Grade by an NRSRO or the

Convertible Notes no longer maintain a rating from an NRSRO. The Company will also be required to pay an additional interest rate of 2.0% per annum (x) on any overdue payment of interest and (y) during the continuance of an Event of Default. The Company intends to use the net proceeds from the offering of the Convertible Notes for general corporate purposes, which may include repaying outstanding indebtedness, making opportunistic investments and paying corporate expenses. In addition, on the occurrence of a Change in Control Repurchase Event or Delisting Event, the Company will generally be required to make an offer to purchase the outstanding Convertible Notes at a price equal to 100% of the principal amount of such Convertible Notes plus accrued and unpaid interest to the repurchase date.

On May 10, 2022, CBL, a direct, wholly owned, consolidated subsidiary of the Company, amended its existing senior secured revolving credit agreement (the “Amended KeyBank Credit Facility"), dated as of October 30, 2020 (and amended as of July 1, 2021) with the Investment Advisor as collateral manager, the lenders from time to time parties thereto (each a “Lender”), KeyBank National Association, as administrative agent, and U.S. Bank National Association, as custodian. Under the Amended KeyBank Credit Facility, the Lender agreed to extend credit to CBL in an initial commitment equal to an aggregate principal amount of $75.0 million. CBL may borrow up to an additional $125.0 million through an incremental uncommitted accordion feature in accordance with the terms and in the manner described in the Amended KeyBank Credit Facility.

The period during which the Lender may make loans to CBL under the Amended KeyBank Credit Facility and will continue through May 12, 2025, unless there is an earlier termination or event of default (the “Commitment Termination Date”). The Amended KeyBank Credit Facility will mature on May 10, 2027, unless there is an earlier termination or event of default. Borrowings under the Amended KeyBank Credit Facility will bear interest at a floating forward-looking term rate equal to term SOFR plus an applicable margin of 2.90% until the Commitment Termination Date and 3.25% thereafter. The Company will also pay an unused commitment fee, depending on the level of utilization, at a rate of 1.00%, 0.65%, or 0.35% per annum on the unutilized portion of the aggregate commitments under the Amended KeyBank Credit Facility.

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

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

Except as otherwise specified, references to "we," "us," "our," "Logan Ridge," or the "Company", refer to Logan Ridge Finance Corporation.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about the Company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipates," "expects," "intends," "plans," "will," "may," "continue," "believes," "seeks," "estimates," "would," "could," "should," "targets," "projects," and variations of these words and similar expressions are intended to identify forward-looking statements.

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

- our future operating results and the impact of the COVID-19 pandemic thereon;
- our business prospects and the prospects of our portfolio companies, including our and their ability to achieve our respective objectives as a result of the current COVID-19 pandemic;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies and the impact of the COVID-19 pandemic thereon.

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

- an economic downturn, due to the COVID-19 pandemic or otherwise, could impair our portfolio companies' ability to continue to operate or repay their borrowings, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities and the impact of the COVID-19 pandemic thereon;
- interest rate volatility could adversely affect our results, particularly if we use leverage as part of our investment strategy; and
- the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability, and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and in this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise, unless required by law or U.S. Securities and Exchange Commission ("SEC") rule or regulation.

Overview

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

We provide capital to lower and traditional middle-market companies in the United States (''U.S.''), with a non-exclusive emphasis on the Southeast, Southwest, and Mid-Atlantic regions. We invest primarily in companies with a history of earnings growth and positive cash flow, proven management teams, products or services with competitive advantages, and industry-appropriate margins. We primarily invest in companies with between $5.0 million and $50.0 million in trailing twelve-month earnings before interest, tax, depreciation, and amortization (''EBITDA'').

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

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally must invest at least 70% of our total assets in "qualifying assets," including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 150%, if certain requirements are met, after such borrowing, with certain limited exceptions. As of March 31, 2022, our asset coverage ratio was 184%. To maintain our regulated investment company ("RIC") status, we must meet specified source-of-income and asset diversification requirements. To maintain our RIC tax treatment under subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") for U.S. federal income tax purposes, we must distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, for the taxable year.

Corporate History

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

On September 24, 2013, the Company acquired 100% of the limited partnership interests in Fund II, Fund III, and Florida Sidecar and each of their respective general partners, as well as certain assets from Fund I and Fund III Parent, in exchange for an aggregate of 8,974,420 shares of the Company's common stock (the "Formation Transactions"). Fund II, Fund III, and Florida Sidecar became the Company's wholly owned subsidiaries. Fund II and Fund III retained their small business investment company ("SBIC") licenses issued by the U.S. Small Business Administration ("SBA"), and continued to hold their existing investments at the time of IPO and have continued to make new investments after the IPO. The IPO consisted of the sale of 4,000,000 shares of the Company's common stock at a price of $20.00 per share resulting in net proceeds to the Company of $74.25 million, after deducting underwriting fees and commissions totaling $4.0 million and offering expenses totaling $1.75 million. The other costs of the IPO were borne by the limited partners of the Legacy Funds. During the fourth quarter of 2017, Florida Sidecar transferred all of its assets to the Company and was legally dissolved as a standalone partnership. On March 1, 2019, Fund II repaid its outstanding debentures guaranteed by the SBA ("SBA-guaranteed debentures") and relinquished its SBIC license. On June 10, 2021, Fund III repaid its SBA-guaranteed debentures and relinquished its SBIC license.

At the time of the Formation Transactions, our portfolio consisted of: (1) approximately $326.3 million in investments; (2) an aggregate of approximately $67.1 million in cash, interest receivable and other assets; and (3) liabilities of approximately $202.2 million of SBA-guaranteed debentures payable. Fund III, our subsidiary, is licensed under the Small Business Investment Act, of 1958, as amended, and has elected to be regulated as BDC under the 1940 Act. Fund II, our subsidiary, was licensed under the SBIC Act until March 1, 2019 and has elected to be regulated as a BDC under the 1940 Act.

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

Capitala Business Lending, LLC ("CBL"), a wholly-owned subsidiary of ours, was established on October 30, 2020, for the sole purpose of holding certain investments pledged as collateral under a senior secured revolving credit agreement with KeyBank National Association (the "KeyBank Credit Facility"). See "Financial Condition, Liquidity and Capital Resources" for more details. The financial statements of CBL are consolidated with those of Logan Ridge Finance Corporation.

Definitive Agreement

On April 20, 2021, Capitala Investment Advisors, LLC ("Capitala"), the Company's former investment adviser, entered into a definitive agreement (the "Definitive Agreement") with the Investment Advisor and Mount Logan Capital Inc. ("MLC"), both affiliates of BC Partners Advisors L.P. ("BC Partners") for U.S. regulatory purposes, whereby Mount Logan acquired certain assets related to Capitala's business of providing investment management services to the Company (the "Transaction"), through which the Investment Advisor became the Company's investment adviser pursuant to an investment advisory agreement (the "Investment Advisory Agreement") with the Company. At a special meeting of the Company's stockholders (the "Special Meeting") held on May 27, 2021, the Company's stockholders approved the Investment Advisory Agreement. The transactions contemplated by the Definitive Agreement closed on July 1, 2021 (the "Closing").

As part of the Transaction, the Investment Advisor entered into a two-year contractual fee waiver (the "Fee Waiver") with the Company to waive, to the extent necessary, any capital gains fee under the Investment Advisory Agreement that exceeds what would have been paid to Capitala in the aggregate over such two-year period under the prior advisory agreement.

On the date of the Closing, the Company changed its name from Capitala Finance Corp. to Logan Ridge Finance Corporation and on July 2, 2021, the Company's common stock began trading on the NASDAQ Global Select Market under the symbol "LRFC." The Company's 5.75% Convertible Notes due 2022 and 6.00% Notes due 2022 continue to trade under the symbols "CPTAG" and "CPTAL," respectively.

On July 1, 2021, in connection with the Closing, the Company's then-current interested directors and the Company's then-current independent directors resigned as members of the Board and Ted Goldthorpe, the Chairman and Chief Executive Officer of the Company, along with Alexander Duka, George Grunebaum, and Robert Warshauer, were appointed as members of the Board (the "Directors"). The Directors were appointed by the Board to fill the vacancies created by the resignations described above and the Directors were appointed to the class of directors as determined by the Board in accordance with the Company's organizational documents. The Company's stockholders will have the opportunity to vote for each of the Directors when his class of directors is up for reelection.

All of the Company's then-current officers resigned at the Closing and the Board appointed Ted Goldthorpe as the Company's Chief Executive Officer and President, Jason Roos as the Company's Chief Financial Officer, Treasurer and Secretary, Patrick Schafer as the Company's Chief Investment Officer and David Held as the Company's Chief Compliance Officer. On November 9, 2021, Jason T. Roos was replaced as Secretary and Treasurer of the Company by Brandon Satoren, who was also appointed as Chief Accounting Officer. Mr. Roos continues to serve as Chief Financial Officer of the Company.

Basis of Presentation

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

The Company's financial statements as of March 31, 2022 and December 31, 2021 and for the periods ended March 31, 2022 and 2021 are presented on a consolidated basis. The effects of all intercompany transactions between the Company and its subsidiaries (Fund II, Fund III, CBL, and the Taxable Subsidiaries) have been eliminated in consolidation. All financial data and information included in these consolidated financial statements have been presented on the basis described above. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial results as of and for the periods presented.

The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Additionally, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 14, 2022.

Consolidation

As provided under ASC 946, the Company will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly owned investment company subsidiaries (Fund II, Fund III, CBL, and the Taxable Subsidiaries) in its consolidated financial statements.

Revenues

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

Expenses

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

- the cost of our organization;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of our shares and other securities;
- interest payable on debt, if any, to finance our investments;
- fees payable to third parties relating to, or associated with, making investments (such as legal, accounting, and travel expenses incurred in connection with making investments), including fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- costs associated with our reporting and compliance obligations under the 1940 Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other applicable federal and state securities laws and ongoing stock exchange listing fees;
- federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- costs of proxy statements, stockholders' reports and other communications with stockholders;
- fidelity bond, directors' and officers' liability insurance, errors and omissions liability insurance and other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, telephone and staff;
- fees and expenses associated with independent audits and outside legal costs; and
- all other expenses incurred by either our Administrator or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of any costs of compensation and related expenses of our chief compliance officer, our chief financial officer, and their respective administrative support staff.

Critical Accounting Policies and Use of Estimates

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

Valuation of Investments

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

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

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

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

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

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

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

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

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

Valuation Techniques

Enterprise Value Waterfall Approach

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

Income Approach

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

Asset Approach

The asset approach values an investment based on the value of the underlying collateral securing the investment.

Revenue Recognition

The Company's revenue recognition policies are as follows:

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

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

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

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

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

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

Income Taxes

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

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

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

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

The tax years ended December 31, 2021, 2020, 2019, and 2018 remain subject to examination by U.S. federal, state, and local tax authorities. No interest expense or penalties have been assessed for the periods ended March 31, 2022 and 2021. If the Company was required to recognize interest and penalties, if any, related to unrecognized tax benefits this would be recognized as income tax expense in the consolidated statements of operations.

The Company's Taxable Subsidiaries record deferred tax assets or liabilities related to temporary book versus tax differences on the income or loss generated by the underlying equity investments held by the Taxable Subsidiaries. As of March 31, 2022, and December 31, 2021, the Company recorded a net deferred tax asset of zero. For the three months ended March 31, 2022 and 2021, the Company recorded a deferred tax provision of zero. As of March 31, 2022 and December 31, 2021, the valuation allowance on the Company's deferred tax asset was $2.5 million and $2.5 million, respectively. During the three months ended March 31, 2022, there was no change in the valuation allowance recognized by the Company. During the three months ended March 31, 2021, the Company recognized a decrease in the valuation allowance of $1.0 million.

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

ASC Topic 740 — *Income Taxes* ("ASC 740"), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's U.S. federal income tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions deemed to meet a "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. As of March 31, 2022 and December 31, 2021, there were no uncertain tax positions.

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

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

The Company has concluded that it was not necessary to record a liability for any such tax positions as of March 31, 2022 and December 31, 2021. However, the Company's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of, and changes to, tax laws, regulations and interpretations thereof.

Portfolio and Investment Activity

The Company's investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company offers customized financing to business owners, management teams and financial sponsors for change of ownership transactions, recapitalizations, strategic acquisitions, business expansion and other growth initiatives. The Company invests primarily in first lien loans, and, to a lesser extent, second lien loans and equity securities issued by lower middle-market companies and traditional middle-market companies. As of March 31, 2022, our portfolio consisted of investments in 42 portfolio companies with a fair value of approximately $206.9 million.

Most of the Company's debt investments are structured as first lien loans. First lien loans may contain some minimum amount of principal amortization, excess cash flow sweep feature, prepayment penalties, or any combination of the foregoing. First lien loans are secured by a first priority lien in existing and future assets of the borrower and may take the form of term loans, delayed draw facilities, or revolving credit facilities. Unitranche debt, a form of first lien loan, typically involves issuing one debt security that blends the risk and return profiles of both senior secured and subordinated debt, bifurcating the loan into a first-out tranche and last-out tranche. As of March 31, 2022, 8.2% of the fair value of our first lien loans consisted of last-out loans. As of December 31, 2021, 8.5% of the fair value of our first lien loans consisted of last-out loans. In some cases, first lien loans may be subordinated, solely with respect to the payment of cash interest, to an asset based revolving credit facility.

The Company also invests in debt instruments structured as second lien loans. Second lien loans are loans which have a second priority security interest in all or substantially all of the borrower's assets, and in some cases, may be subject to the interruption of cash interest payments upon certain events of default, at the discretion of the first lien lender.

During the three months ended March 31, 2022, we made approximately $16.4 million of investments and had approximately $8.4 million in repayments and sales, resulting in net deployment of approximately $8.0 million for the period. During the three months ended March 31, 2021, we made no investments and had approximately $29.9 million in repayments and sales, resulting in net repayments and sales of approximately $29.9 million for the period.

As of March 31, 2022, our debt investment portfolio, which represented 68.1% of the fair value of our total portfolio, had a weighted average annualized yield of approximately 8.3% (excluding non-accruals and collateralized loan obligations). As of March 31, 2022, 24.3% of the fair value of our debt investment portfolio was bearing a fixed rate of interest. As of December 31, 2021, our debt investment portfolio, which represented 67.4% of the fair value of our total portfolio, had a weighted average annualized yield of approximately 8.1% (excluding non-accruals and collateralized loan obligations). As of December 31, 2021, 22.8% of the fair value of our debt investment portfolio was bearing a fixed rate of interest.

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

As of March 31, 2022, the Board approved the fair value of our investment portfolio of approximately $206.9 million in good faith in accordance with our valuation procedures. The Board approved the fair value of our investment portfolio as of March 31, 2022 with input from a third-party valuation firm and the Investment Advisor based on information known or knowable as of the valuation date, including trailing and forward-looking data.

As of March 31, 2022, we had debt investments in two portfolio companies on non-accrual status with an aggregate amortized cost of $12.7 million and an aggregate fair value of $7.0 million, which represented 6.4% and 3.4% of the investment portfolio, respectively. As of December 31, 2021, we had debt investments in two portfolio companies on non-accrual status with aggregate amortized cost of $12.7 million and an aggregate fair value of $7.6 million, which represented 6.7% and 3.8% of the investment portfolio, respectively.

The following table summarizes the amortized cost and the fair value of investments as of March 31, 2022 (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First Lien Debt	$ 106,929	53.7 %	$ 100,663	48.7 %
Second Lien Debt	33,168	16.7 %	33,220	16.1 %
Subordinated Debt	7,117	3.6 %	7,115	3.4 %
Collateralized Loan Obligations	8,106	4.1 %	7,199	3.5 %
Equity and Warrants	43,649	21.9 %	58,708	28.3 %
Total	$ 198,969	100.0 %	$ 206,905	100.0 %

The following table summarizes the amortized cost and the fair value of investments as of December 31, 2021 (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First Lien Debt	$ 103,667	54.4 %	$ 98,251	49.6 %
Second Lien Debt	30,048	15.8 %	30,190	15.2 %
Subordinated Debt	5,050	2.6 %	5,050	2.6 %
Equity and Warrants	51,717	27.2 %	64,698	32.6 %
Total	$ 190,482	100.0 %	$ 198,189	100.0 %

The following table shows the portfolio composition by industry grouping at fair value as of March 31, 2022 and December 31, 2021 (dollars in thousands):

	March 31, 2022		December 31, 2021	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Healthcare	$ 35,509	17.2 %	$ 28,852	14.6 %
Business Services	32,456	15.7 %	32,819	16.6 %
Information Technology	25,605	12.4 %	24,066	12.1 %
Financials	19,679	9.5 %	17,162	8.7 %
Consumer Discretionary	12,809	6.2 %	11,017	5.6 %
Industrials	10,062	4.9 %	14,640	7.4 %
Entertainment	8,643	4.2 %	8,894	4.5 %
Electronic Machine Repair	8,395	4.1 %	8,465	4.3 %
QSR Franchisor	8,178	4.0 %	8,007	4.0 %
Financial Services	7,498	3.6 %	7,430	3.7 %
Healthcare Management	6,247	3.0 %	7,002	3.5 %
Online Merchandise Retailer	5,954	2.9 %	5,951	3.0 %
Textile Equipment Manufacturer	5,107	2.5 %	5,050	2.5 %
Medical Device Distributor	4,961	2.4 %	4,961	2.5 %
Automobile Part Manufacturer	4,402	2.1 %	2,722	1.4 %
Advertising & Marketing Services	4,390	2.1 %	4,579	2.3 %
Home Repair Parts Manufacturer	3,055	1.5 %	3,062	1.5 %
Testing Laboratories	986	0.5 %	1,113	0.6 %
Consumer Products	803	0.4 %	623	0.3 %
Household Product Manufacturer	758	0.4 %	287	0.1 %
General Industrial	645	0.3 %	645	0.3 %
Data Processing & Digital Marketing	509	0.3 %	509	0.3 %
Oil & Gas Engineering and Consulting Services	254	0.1 %	333	0.2 %
Total	$ 206,905	100.0 %	$ 198,189	100.0 %

Results of Operations

Operating results for the three months ended March 31, 2022 and 2021 were as follows (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Total investment income	$ 3,337	$ 4,926
Total expenses, net of incentive fee waiver	4,388	5,709
Net investment loss	(1,051)	(783)
Net realized loss on investments	(36)	(14,023)
Net change in unrealized appreciation on investments	229	27,160
Net (decrease) increase in net assets resulting from operations	$ (858)	$ 12,354

Investment income

The composition of our investment income for the three months ended March 31, 2022 and 2021 was as follows (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Interest income	$ 3,197	$ 4,592
Other income	8	9
Payment-in-kind interest and dividend income	132	170
Dividend income	—	155
Total investment income	$ 3,337	$ 4,926

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

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

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

For the three months ended March 31, 2022, total investment income decreased by $1.6 million, or 32.3%, compared to the three months ended March 31, 2021. The decrease from the prior period was driven by a decrease in interest income from $4.6 million for the three months ended March 31, 2021 to $3.2 million for the three months ended March 31, 2022. The decline in interest income is primarily due to lower average outstanding debt investments for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. PIK income declined from $0.2 million for the three months ended March 31, 2021 to $0.1 million for the three months ended March 31, 2022. The decrease in PIK income was due to a decline in investments with a contractual PIK rate. Dividend income decreased from $0.2 million for the three months ended March 31, 2021 to zero for the three months ended March 31, 2022, primarily due to non-recurring dividends received from portfolio companies during the three months ended March 31, 2021

Operating expenses

The composition of our expenses for the three months ended March 31, 2022 and 2021 was as follows (dollars in thousands):

	For the Three Months Ended March 31,			
	2022		2021	
Interest and financing expenses	$	2,188	$	3,037
Base management fee		1,027		1,398
Directors' fees		103		103
Administrative service fees		120		350
General and administrative expenses		950		821
Total expenses	$	4,388	$	5,709

For the three months ended March 31, 2022, operating expenses decreased by $1.3 million, or 23.2%, compared to the three months ended March 31, 2021. Interest and financing expenses decreased from $3.0 million for the three months ended March 31, 2021 to $2.2 million for the three months ended March 31, 2022 due primarily to lower average outstanding debt during the three months ended March 31, 2022 compared to the three months ended March 31, 2021. Base management fees declined from $1.4 million for the three months ended March 31, 2021 to $1.0 million for the three months ended March 31, 2022, due to lower average assets under management. Administrative services fees declined from $0.4 million for the three months ended March 31, 2021 to $0.1 million for the three months ended March 31, 2022, due to efficiencies generated by the size and scale of the Investment Advisor's platform. General and administrative expenses increased from $0.8 million for the three months ended March 31, 2021 to $1.0 million for the three months ended March 31, 2022, primarily due to accelerated one-time prepaid financing costs during the three months ended March 31, 2022 as well as higher professional fees.

Net realized loss on sales of investments

During the three months ended March 31, 2022, we recognized $36 thousand of net realized losses on our portfolio investments. During the three months ended March 31, 2021 we recognized $14.0 million of net realized losses on our portfolio investments.

Net unrealized appreciation (depreciation) on investments

Net change in unrealized (depreciation) appreciation on investments reflects the net change in the fair value of our investment portfolio. For the three months ended March 31, 2022 and 2021, we recognized $0.2 million and $27.2 million of net change in unrealized appreciation investments, respectively.

Changes in net assets resulting from operations

For the three months ended March 31, 2022, we recorded a net decrease in net assets resulting from operations of $0.9 million. Based on the weighted average shares of common stock outstanding for the three months March 31, 2022, our per share net decrease in net assets resulting from operations was $0.32.

For the three months ended March 31, 2021, we recorded a net increase in net assets resulting from operations of $12.4 million. Based on the weighted average shares of common stock outstanding for the three months ended March 31, 2021, our per share net increase in net assets resulting from operations was $4.56.

Financial Condition, Liquidity and Capital Resources

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

Since our IPO, we have raised approximately $136.0 million in net proceeds from equity offerings through March 31, 2022.

KeyBank Credit Facility

On October 30, 2020, Capitala Business Lending, LLC ("CBL"), a direct, wholly owned, consolidated subsidiary of the Company, entered into a senior secured revolving credit agreement (the “KeyBank Credit Facility") with the Company’s investment adviser at the time (as collateral manager), the lenders from time to time parties thereto (each, a “Lender”), KeyBank National Association (as administrative agent), and U.S. Bank National Association (as custodian). Under the KeyBank Credit Facility, the Lenders have agreed to extend credit to CBL in an aggregate principal amount of up to $25.0 million. On January 1, 2021, the KeyBank Credit Facility was amended to replace the collateral manager with the Company’s Investment Advisor. CBL may, on any business day prior to October 28, 2022, request an increase in the aggregate principal amount from $25.0 million to $100.0 million in accordance with the terms and in the manner described in the KeyBank Credit Facility. The period during which the Lenders may make loans to CBL under the KeyBank Credit Facility commenced on October 30, 2020 and will continue through October 28, 2022, unless there is an earlier termination or event of default. The KeyBank Credit Facility matures on October 28, 2023, unless there is an earlier termination or event of default. Borrowings under the KeyBank Credit Facility bear interest at one- month LIBOR plus 3.5%. The KeyBank Credit Facility includes customary affirmative and negative covenants, including certain limitations on the incurrence of additional indebtedness and liens, as well as usual and customary events of default for revolving credit facilities of this nature. As of March 31, 2022, there were no outstanding draws on the KeyBank Credit Facility.

2026 Notes

On October 29, 2021, we issued $50.0 million in aggregate principal amount of 5.25% fixed rate notes due October 30, 2026 (the "2026 Notes") at 98.00% pursuant to a supplemental indenture with U.S. Bank National Association (the "Trustee"), which supplements that certain base indenture, dated as of June 16, 2014. The 2026 Notes were issued in a private placement exempt from registration under the Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The net proceeds to the Company were approximately $48.8 million, after deducting estimated offering expenses. The Notes will mature on October 30, 2026 and may be redeemed in whole or in part at the Company's option at any time or from time to time at the redemption prices set forth in the Indenture. The Notes bear interest at a rate of 5.25% per year payable semi-annually on April 30 and October 30 of each year, commencing on April 30, 2022. The Notes are general unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Notes, rank *pari passu* with all existing and future unsecured unsubordinated indebtedness issued by the Company, rank effectively junior to any of the Company's secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness, and rank structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries, financing vehicles or similar facilities.

In connection with the offering, the Company entered into a Registration Rights Agreement, dated as of October 29, 2021 (the "Registration Rights Agreement"), with the purchasers of the 2026 Notes. Pursuant to the Registration Rights Agreement, the Company is obligated to file with the Securities and Exchange Commission a registration statement relating to an offer to exchange the 2026 Notes for new notes issued by the Company that are registered under the Securities Act and otherwise have terms substantially identical to those of the 2026 Notes, and to use its commercially reasonable efforts to cause such registration statement to be declared effective.

As of March 31, 2022, the Company had approximately $50.0 million in aggregate principal amount of 2026 Notes outstanding.

2022 Notes

On May 16, 2017, we issued $70.0 million in aggregate principal amount of 6.0% fixed-rate notes due May 31, 2022 (the "2022 Notes"). On May 25, 2017, we issued an additional $5.0 million in aggregate principal amount of the 2022 Notes pursuant to a partial exercise of the underwriters' overallotment option. The 2022 Notes will mature on May 31, 2022 and may be redeemed in whole or in part at any time or from time to time at our option on or after May 31, 2019 at a redemption price equal to 100% of the outstanding principal, plus accrued and unpaid interest. Interest on the 2022 Notes is payable quarterly. The 2022 Notes are listed on the NASDAQ Global Select Market under the trading symbol "CPTAL" with a par value of $25.00 per share.

On November 1, 2021, the Company notified the Trustee for the Company's 2022 Notes, of the Company's election to redeem $50.0 million aggregate principal amount of the 2022 Notes outstanding. The redemption was completed on December 6, 2021. As of March 31, 2022, the Company had approximately $22.8 million in aggregate principal amount of 2022 Notes outstanding.

2022 Convertible Notes

On May 26, 2017, we issued $50.0 million in aggregate principal amount of 5.75% fixed-rate convertible notes due May 31, 2022 (the "2022 Convertible Notes"). On June 26, 2017, we issued an additional $2.1 million in aggregate principal amount of the 2022 Convertible Notes pursuant to a partial exercise of the underwriters' overallotment option. Interest on the 2022 Convertible Notes is payable quarterly. The 2022 Convertible Notes are listed on the NASDAQ Capital Market under the trading symbol "CPTAG" with a par value of $25.00 per share. As of March 31, 2022, the Company had approximately $52.1 million in aggregate principal amount of 2022 Convertible Notes outstanding.

Bond Repurchase Program

On July 30, 2020, the Board approved a bond repurchase program which authorizes the Company to repurchase up to an aggregate of $10.0 million worth of the Company's outstanding 2022 Notes and/or 2022 Convertible Notes (the "Bond Repurchase Program"). The Bond Repurchase Program expired on July 30, 2021. During the three months ended March 31, 2021, the Company did not purchase any of the 2022 Notes or the 2022 Convertible Notes.

Asset Coverage Ratio

We are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 150% if certain requirements are met, after such borrowing, with certain limited exceptions. As of March 31, 2022, our asset coverage ratio was 184%. If our asset coverage ratio falls below 150% due a decline in the fair market of our portfolio, we may be limited in our ability to raise additional debt.

Cash and Cash Equivalents

As of March 31, 2022, we had $15.8 million in cash and cash equivalents.

Contractual Obligations

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

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

A summary of our significant contractual payment obligations as of March 31, 2022 are as follows (dollars in millions):

	Contractual Obligations Payments Due by Period				
	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years	Total
2022 Notes	$ 22.8	$ —	$ —	$ —	$ 22.8
2022 Convertible Notes	52.1	—	—	—	52.1
2026 Notes	—	—	50.0	—	50.0
Total Contractual Obligations	$ 74.9	$ —	$ 50.0	$ —	$ 124.9

Distributions

In order to qualify as a RIC and to avoid corporate-level U.S. federal income tax on the income we timely distribute to our stockholders, we are required to distribute at least 90% of our net ordinary income and our net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute an amount at least equal to the sum of 98% of our net ordinary income (during the calendar year) plus 98.2% of our net capital gain income (during each 12-month period ending on October 31) plus any net ordinary income and capital gain net income that we recognized for preceding years, but were not distributed during such years, and on which we paid no U.S. federal income tax to avoid a U.S. federal excise tax. We made quarterly distributions to our stockholders for the first four full quarters subsequent to our IPO. To the extent we had income available, we made monthly distributions to our stockholders from October 30, 2014 until March 30, 2020. As announced on April 1, 2020, distributions, if any, will be made on a quarterly basis effective for the second quarter of 2020. Our stockholder distributions, if any, will be determined by our Board on a quarterly basis. Any distributions to our stockholders will be declared out of assets legally available for distribution. The Company’s Board determined not to declare a distribution for the first quarter of 2022 and 2021.

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

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

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

The Company's Board determined not to declare a distribution for any quarter of 2021 and through March 31, 2022.

Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. There were no distributions for the year ended December 31, 2021. Distributions may be subject to reclassification based on future dividends and operating results and will not be determined until the end of the year.

Related Parties

On July 1, 2021, we entered into the Investment Advisory Agreement with the Investment Advisor. The Company is externally managed by the Investment Advisor, an affiliate of BC Partners, pursuant to the Investment Advisory Agreement. Mr. Goldthorpe, an interested member of the Board, has a direct or indirect pecuniary interest in the Investment Advisor. The Investment Advisor is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Investment Advisor is an affiliate of BC Partners Advisors L.P. for U.S. regulatory purposes. Mount Logan Capital Inc. is the ultimate control person of the Investment Advisor.

Under the Investment Advisory Agreement, fees payable to the Investment Advisor equal (i) the Base Management Fee and (ii) the Incentive Fee. Unless earlier terminated as described below, the Investment Advisory Agreement will remain in effect from year-to-year if approved annually by a majority of the Board or by the holders of a majority of the outstanding shares, and, in each case, a majority of the independent directors.

Pursuant to the Administration Agreement, the Administrator provides administrative services to the Company necessary for the operations of the Company, which include providing to the Company office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities and such other services as the Administrator, subject to review by the Board, shall from time to time deem to be necessary or useful to perform its obligations under the applicable Administration Agreement. The Administrator also provides to the Company portfolio collection functions for and is responsible for the financial and other records that the Company is required to maintain and prepares, prints and disseminates reports to the Company's stockholders and reports and all other materials filed with the SEC.

For providing these services, facilities and personnel, the Company reimburses the Administrator the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including the Company's allocable portion of the costs of compensation and related expenses of its chief financial officer and chief compliance officer and their respective staffs.

On October 23, 2018, the SEC issued an order granting an application for exemptive relief to an affiliate of our Investment Advisor that allows BDCs managed by the Investment Advisor, including Logan Ridge, to co-invest, subject to the satisfaction of certain conditions, in certain private placement transactions, with other funds managed by the Investment Advisor or its affiliates and any future funds that are advised by the Investment Advisor or its affiliated investment advisers. Under the terms of the exemptive order, in order for Logan Ridge to participate in a co-investment transaction, a "required majority" (as defined in Section 57(0) of the 1940 Act) of Logan Ridge's independent directors; must conclude that (i) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to Logan Ridge and its stockholders and do not involve overreaching with respect of Logan Ridge or its stockholders on the part of any person concerned, and (ii) the proposed transaction is consistent with the interests of Logan Ridge's stockholders and is consistent with Logan Ridge's investment objectives and strategies and certain criteria established by the Board. We believe this relief may not only enhance our ability to further our investment objectives and strategies, but may also increase favorable investment opportunities for us, in part by allowing us to participate in larger investments, together with our co-investment affiliates, than would be available to us in the absence of such relief.

Prior to July 1, 2021, we were party to an administration agreement with our then administrator, Capitala Advisors Corp. As administrator, Capitala Advisors Corp. provided us with the office facilities and administrative services necessary to conduct our day-to-day operations. On July 1, 2021, we entered into a new Administration Agreement with our current Administrator, BC Partners Management LLC. Pursuant to the terms of the Administration Agreement, our Administrator provides us with the office facilities and administrative services necessary to conduct our day-to-day operations.

Off-Balance Sheet Arrangements

As of March 31, 2022, the Company had outstanding unfunded commitments related to debt investments in existing portfolio companies of $0.4 million to American Academy Holdings, LLC, $4.7 million to Accordion Partners LLC, $0.9 million to Bradshaw International, Inc., $3.1 million to Critical Nurse Staffing, LLC, $0.9 million to Keg Logistics LLC, $1.5 million to Premiere Imaging, LLC, and $3.0 million to Wealth Enhancement Group, LLC. As of December 31, 2021, the Company had outstanding unfunded commitments related to debt investments in existing portfolio companies of $9.0 million to Accordion Partners LLC, $0.7 million to Bradshaw International, Inc., $3.1 million to Critical Nursing Staffing, Inc., $3.5 million to J5 Infrastructure Partners, LLC, $0.9 million to Keg Logistics LLC, $2.5 million to Marble Point Credit Management LLC, $1.9 million to Premiere Imaging, LLC, and $3.5 million to Wealth Enhancement Group, LLC.

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

Recent Developments

On April 1, 2022, the Company entered into a Note Purchase Agreement (the “Purchase Agreement”) governing the issuance of $15.0 million in aggregate principal amount of 5.25% Convertible Notes due 2032 (the “Convertible Notes”) in a transaction exempt from registration pursuant to Section 4(a)(2) of the Securities Act. The Convertible Notes have not been registered under the Securities Act or any state securities laws and may not be reoffered or resold in the United States absent registration or an applicable exemption from such registration requirements. The Convertible Notes were delivered and paid for on April 1, 2022. The Convertible Notes will mature on April 1, 2032 (the “Maturity Date”). The net proceeds to the Company were $13,650,000, after deducting estimated offering expenses. Capitalized terms used but not defined herein have the meanings ascribed to them in the Purchase Agreement.

The Company obtained an Investment Grade rating from a Nationally Recognized Statistical Rating Organization (“NRSRO”) with respect to the Convertible Notes. The Convertible Notes have a fixed interest rate of 5.25% per annum payable semi-annually on March 31 and September 30 of each year, commencing on September 30, 2022, subject to a step up of 0.75% per annum to the extent that the Convertible Notes are downgraded below Investment Grade by an NRSRO or the Convertible Notes no longer maintain a rating from an NRSRO. The Company will also be required to pay an additional interest rate of 2.0% per annum (x) on any overdue payment of interest and (y) during the continuance of an Event of Default. The Company intends to use the net proceeds from the offering of the Convertible Notes for general corporate purposes, which may include repaying outstanding indebtedness, making opportunistic investments and paying corporate expenses. In addition, on the occurrence of a Change in Control Repurchase Event or Delisting Event, the Company will generally be required to make an offer to purchase the outstanding Convertible Notes at a price equal to 100% of the principal amount of such Convertible Notes plus accrued and unpaid interest to the repurchase date.

On May 10, 2022, CBL, a direct, wholly owned, consolidated subsidiary of the Company, amended its existing senior secured revolving credit agreement (the “Amended KeyBank Credit Facility"), dated as of October 30, 2020 (and amended as of July 1, 2021) with the Investment Advisor as collateral manager, the lenders from time to time parties thereto (each a “Lender”), KeyBank National Association, as administrative agent, and U.S. Bank National Association, as custodian. Under the Amended KeyBank Credit Facility, the Lender agreed to extend credit to CBL in an initial commitment equal to an aggregate principal amount of $75.0 million. CBL may borrow up to an additional $125.0 million through an incremental uncommitted accordion feature in accordance with the terms and in the manner described in the Amended KeyBank Credit Facility.

The period during which the Lender may make loans to CBL under the Amended KeyBank Credit Facility and will continue through May 12, 2025, unless there is an earlier termination or event of default (the “Commitment Termination Date”). The Amended KeyBank Credit Facility will mature on May 10, 2027, unless there is an earlier termination or event of default. Borrowings under the Amended KeyBank Credit Facility will bear interest at a floating forward-looking term rate equal to term SOFR plus an applicable margin of 2.90% until the Commitment Termination Date and 3.25% thereafter. The Company will also pay an unused commitment fee, depending on the level of utilization, at a rate of 1.00%, 0.65%, or 0.35% per annum on the unutilized portion of the aggregate commitments under the Amended KeyBank Credit Facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments and cash and cash equivalents. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts subject to the requirements of the 1940 Act. For the three months ended March 31, 2022, we did not engage in hedging activities.

As of March 31, 2022, we held 28 securities bearing a variable rate of interest. Our variable rate investments represent approximately 75.7% of the fair value of our total debt investments. As of March 31, 2022, 100.0% of the variable rate securities were yielding interest at a rate equal to the established interest rate floor. As of March 31, 2022, we had nothing outstanding on our KeyBank Credit Facility, which has a variable rate of interest at one-month LIBOR + 3.5%. Our KeyBank Credit Facility is subject to an interest rate floor such that the minimum interest rate is 4.25%. As of March 31, 2022, all of our other interest paying liabilities, consisting of $22.8 million in 2022 Notes, $52.1 million in 2022 Convertible Notes and $50.0 million in 2026 Notes were bearing interest at a fixed rate.

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In addition, in a prolonged low interest rate environment, including a reduction of LIBOR to zero, the difference between the total interest income earned on interest earning assets and the total interest expense incurred on interest bearing liabilities may be compressed, reducing our net interest income and potentially adversely affecting our operating results.

Based on our March 31, 2022 consolidated statement of assets and liabilities, the following table shows the annual impact on net income (excluding the potential related incentive fee impact) of base rate changes in interest rates (considering interest rate floors for variable rate securities) assuming no changes in our investment and borrowing structure (dollars in thousands):

Basis Point Change	Increase (decrease) in interest income	(Increase) decrease in interest expense	Increase (decrease) in net income
Up 300 basis points	$ 2,258	$ —	$ 2,258
Up 200 basis points	1,374	—	1,374
Up 100 basis points	605	—	605
Down 100 basis points	(135)	—	(135)
Down 200 basis points	(135)	—	(135)
Down 300 basis points	(135)	—	(135)

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2022 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company's internal control over financial reporting that occurred during the first quarter of 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "Annual Report on Form 10-K"), which could materially affect our business, financial condition and/or operating results. The risks described in the Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes from the risk factors set forth in the Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Description of Document
3.1	Articles of Amendment and Restatement [(1)]
3.2	Articles of Amendment [(4)]
3.3	Certificate of Limited Partnership of CapitalSouth Partners Fund II Limited Partnership [(2)]
3.4	Certificate of Limited Partnership of CapitalSouth Fund III, L.P. (f/k/a CapitalSouth Partners SBIC Fund III, L.P.) [(2)]
3.5	Bylaws [(1)]
3.6	Form of Amended and Restated Limited Partnership Agreement of CapitalSouth Partners Fund II Limited Partnership [(3)]
3.7	Form of Amended and Restated Agreement of Limited Partnership of Certificate of Limited Partnership of CapitalSouth Fund III, L.P. (f/k/a CapitalSouth Partners SBIC Fund III, L.P.) [(3)]
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
(1)	Previously filed in connection with the Pre-Effective Amendment No. 1 to Logan Ridge Finance Corporation’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 Logan Ridge Finance Corporation’s registration statement on Form N-2 (File No. 333-188956) filed on September 17, 2013.
(3)	Previously filed in connection with Pre-Effective Amendment No. 5 to Logan Ridge Finance Corporation’s registration statement on Form N-2 (File No. 333-188956) filed on September 24, 2013.
(4)	Previously filed in connection with Logan Ridge Finance Corporation's report on Form 8-K on August 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 thereunto duly authorized.

Date: May 12, 2022	By	/s/ Ted Goldthorpe
		Ted Goldthorpe
		Chief Executive Officer and President
		(Principal Executive Officer)
		Logan Ridge Finance Corporation
Date: May 12, 2022	By	/s/ Jason Roos
		Jason Roos
		Chief Financial Officer
		(Principal Financial Officer)
		Logan Ridge Finance Corporation

Exhibit 31.1

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

I, Ted Goldthorpe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Logan Ridge Finance Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 12, 2022

/s/ Ted Goldthorpe
Ted Goldthorpe
Chief Executive Officer and President
(Principal Executive Officer)
Logan Ridge Finance Corporation

Exhibit 31.2

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

I, Jason Roos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Logan Ridge Finance Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2022

/s/ Jason Roos
Jason Roos
Chief Financial Officer
(Principal Financial Officer)
Logan Ridge Finance Corporation

Exhibit 32.1

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

I, Ted Goldthorpe, Chief Executive Officer and President, in connection with the Quarterly Report of Logan Ridge Finance Corporation (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Quarterly Report”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2022

/s/ Ted Goldthorpe
Ted Goldthorpe
Chief Executive Officer and President
(Principal Executive Officer)
Logan Ridge Finance Corporation

Exhibit 32.2

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

I, Jason Roos, Chief Financial Officer, in connection with the Quarterly Report of Logan Ridge Finance Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Quarterly Report"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2022

/s/ Jason Roos
Jason Roos
Chief Financial Officer
(Principal Financial Officer)
Logan Ridge Finance Corporation