

**SCHEDULE 14A  
(RULE 14a-101)**

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**Information Required in Proxy Statement**

**Schedule 14A Information**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

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Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- x Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

**Capitala Finance Corp.**

(Name of Registrant as Specified in Its Charter)

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Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously Paid:

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(2) Form, schedule or registration statement No.:

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(3) Filing party:

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(4) Date filed:

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**CAPITALA FINANCE CORP.**  
**4201 Congress St., Suite 360**  
**Charlotte, NC 28209**  
**(704) 376-5502**

, 2015

Dear Stockholder:

You are cordially invited to attend the 2015 Annual Meeting of Stockholders of Capitala Finance Corp. (the "Company") to be held on May 5, 2015 at 8:30 a.m., Eastern Time, at the Company's office located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

The notice of annual meeting and proxy statement accompanying this letter provide an outline of the business to be conducted at the meeting. At the meeting, you will be asked to: (i) elect two directors of the Company; (ii) ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015; and (iii) approve a proposal to authorize the Company to sell shares of its common stock at a price or prices below the Company's then current net asset value per share in one or more offerings, in each case subject to the approval of its board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto (including, without limitation, that the number of shares issued does not exceed 25% of the Company's then outstanding common stock immediately prior to each such offering). I will provide a presentation on the business and will also be available to respond to stockholders' questions.

It is important that your shares be represented at the annual meeting. If you are unable to attend the meeting in person, I urge you to complete, date and sign the enclosed proxy card and promptly return it in the envelope provided. If you prefer, you can save time by voting through the Internet as described in the proxy statement and on the enclosed proxy card. Your vote and participation in the governance of the Company is very important to us.

Sincerely yours,



Joseph B. Alala, III  
Chairman, Chief Executive Officer and President

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 5, 2015.**

Our proxy statement and annual report on Form 10-K for the year ended December 31, 2014 are available on the Internet at <http://www.astproxyportal.com/ast/18514/>.

The following information applicable to the Annual Meeting may be found in the proxy statement and accompanying proxy card:

- The date, time and location of the meeting;
  - A list of the matters intended to be acted on and our recommendations regarding those matters;
  - Any control/identification numbers that you need to access your proxy card; and
  - Information about attending the meeting and voting in person.
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**CAPITALA FINANCE CORP.**  
**4201 Congress St., Suite 360**  
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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON MAY 5, 2015**

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To the Stockholders of Capitala Finance Corp.:

The 2015 Annual Meeting of Stockholders of Capitala Finance Corp. (the "Company") will be held at the Company's office located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209 on May 5, 2015 at 8:30 a.m., Eastern Time, for the following purposes:

1. To elect two directors of the Company, who will each serve for a term of three years, or until his successor is duly elected and qualified;
2. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015;
3. To approve a proposal to authorize the Company to sell shares of its common stock at a price or prices below the Company's then current net asset value per share in one or more offerings, in each case subject to the approval of its board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto (including, without limitation, that the number of shares issued does not exceed 25% of the Company's then outstanding common stock immediately prior to each such offering); and
4. To transact such other business as may properly come before the meeting.

You have the right to receive notice of and to vote at the meeting if you were a stockholder of record at the close of business on February 27, 2015. If you are unable to attend, please sign the enclosed proxy card and return it promptly in the self-addressed envelope provided or through the Internet. Please refer to the voting instructions provided on your proxy card. In the event there are not sufficient votes for a quorum or to approve the proposals at the time of the annual meeting, the annual meeting may be adjourned in order to permit further solicitation of proxies by the Company.

By Order of the Board of Directors,



John F. McGlinn  
Corporate Secretary

Charlotte, North Carolina  
, 2015

**This is an important meeting. To ensure proper representation at the meeting, please complete, sign, date and return the proxy card in the enclosed self-addressed envelope or through the Internet. Even if you vote your shares prior to the meeting, you still may attend the meeting and vote your shares in person if you wish to change your vote.**

**CAPITALA FINANCE CORP.**  
**4201 Congress St., Suite 360**  
**Charlotte, NC 28209**  
**(704) 376-5502**

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**PROXY STATEMENT**  
**2015 Annual Meeting of Stockholders**

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This Proxy Statement is furnished in connection with the solicitation of proxies by the board of directors of Capitala Finance Corp. (“Capitala Finance,” the “Company,” “we,” “us” or “our”) for use at the Company’s 2015 Annual Meeting of Stockholders (the “Meeting”) to be held on May 5, 2015 at 8:30 a.m., Eastern Time, at the Company’s office located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209 and at any postponements or adjournments thereof. This Proxy Statement, the accompanying proxy card and the Company’s Annual Report for the fiscal year ended December 31, 2014, are first being sent to stockholders on or about \_\_\_\_\_, 2015.

We encourage you to vote your shares, either by voting in person at the Meeting or by granting a proxy (i.e., authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card or vote through the Internet, and the Company receives it in time for voting at the Meeting, the persons named as proxies will vote your shares in the manner that you specify. **If you give no instructions on the proxy card, the shares covered by the proxy card will be voted FOR the election of the nominees as directors and FOR the other matters listed in the accompanying Notice of Annual Meeting of Stockholders.**

If you are a “stockholder of record” (i.e., you hold shares directly in your name), you may revoke a proxy at any time before it is exercised by notifying the proxy tabulator, American Stock Transfer & Trust Company, LLC (“AST”), in writing, by submitting a properly executed, later-dated proxy, or by voting in person at the Meeting. Please send your notification to Capitala Finance Corp., c/o American Stock Transfer & Trust Company, LLC 6201 15<sup>th</sup> Avenue, Brooklyn, NY 11219, and submit a properly executed, later-dated proxy or vote in person at the Meeting. Any stockholder of record attending the Meeting may vote in person whether or not he or she has previously voted his or her shares. If your shares are held for your account by a broker, bank or other institution or nominee (“Broker Shares”), you may vote such shares at the Meeting only if you obtain proper written authority from your institution or nominee and present it at the Annual Meeting. All of our directors are encouraged to attend the Meeting. Stockholders have no dissenters’ or appraisal rights in connection with any of the proposals described herein.

Stockholders of record may also vote via the Internet. Specific instructions to be followed by stockholders of record interested in voting via the Internet are shown on the enclosed proxy card. The Internet voting procedures are designed to authenticate the stockholder’s identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

**Purpose of Meeting**

At the Meeting, you will be asked to vote on the following proposals:

1. To elect two directors of the Company, who will each serve for a term of three years, or until his successor is duly elected and qualified;
2. To ratify the selection of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2015;
3. To approve a proposal to authorize the Company to sell shares of its common stock at a price or prices below the Company’s then current net asset value per share in one or more offerings, in each case subject to the approval of its board of directors and compliance with the conditions set forth in the proxy statement (including, without limitation, that the number of shares issued does not exceed 25% of the Company’s then outstanding common stock immediately prior to each such offering); and
4. To transact such other business as may properly come before the meeting.

## **Voting Securities**

You may vote your shares, in person or by proxy, at the Meeting only if you were a stockholder of record at the close of business on February 27, 2015 (the "Record Date"). There were 12,974,420 shares of the Company's common stock outstanding on the Record Date. Each share of the common stock is entitled to one vote.

## **Quorum Required**

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of the holders entitled to cast a majority of the shares of common stock of the Company entitled to be cast on the record date will constitute a quorum. Abstentions will be treated as shares present for quorum purposes. Broker shares for which a nominee has not received voting instructions from the record holder and does not have discretionary authority to vote the shares on certain proposals (which are considered "Broker Non-Votes" with respect to such proposals) will be treated as shares present for quorum purposes. If a quorum is not present at the Meeting, the stockholders who are represented may adjourn the Meeting until a quorum is present. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

## **Vote Required**

*Election of Directors.* The election of a director requires the affirmative vote of a plurality of the votes cast at the Meeting in person or by proxy. Stockholders may not cumulate their votes. If you vote "Withhold Authority" with respect to a nominee, your shares will not be voted with respect to the person indicated. Abstentions and Broker Non-Votes will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

*Ratification of Independent Registered Public Accounting Firm.* The affirmative vote of a majority of the votes cast at the Meeting in person or by proxy is required to ratify the appointment of Ernst & Young LLP to serve as the Company's independent registered public accounting firm. Abstentions and Broker Non-Votes will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

*Approval of a Proposal to Authorize the Company to Sell Shares of its Common Stock at a Price or Prices Below the Company's then Current Net Asset Value Per Share in One or More Offerings, in Each Case Subject to the Approval of its Board of Directors and Compliance with the Conditions Set Forth in the Proxy Statement (Including, Without Limitation, that the Number of Shares Issued Does Not Exceed 25% of the Company's then Outstanding Common Stock Immediately Prior to Each Such Offering).* The affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Meeting that are not held by affiliated persons of the Company is required to approve this proposal. For purposes of this proposal, the Investment Company Act of 1940, as amended (the "1940 Act"), defines "a majority of the outstanding shares" as: (1) 67% or more of the voting securities present at the Meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of the Company, whichever is the less. Abstentions and Broker Non-Votes will have the effect of a vote against this proposal.

*Additional Solicitation.* If there are not enough votes to approve any proposals at the Meeting, the stockholders who are represented may adjourn the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

Also, a stockholder vote may be taken on one or more of the proposals in this Proxy Statement prior to any such adjournment if there are sufficient votes for approval of such proposal(s).

## **Information Regarding This Solicitation**

Our board of directors is making this proxy solicitation and the Company will bear the expense of the solicitation of proxies for the Meeting, including the cost of preparing, printing and mailing this Proxy Statement, the accompanying Notice of Annual Meeting of Stockholders, and proxy card. If brokers, trustees, or fiduciaries and other institutions or nominees holding shares in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to, and obtain proxies from, such beneficial owners, we will reimburse such persons for their reasonable expenses in so doing. In addition, we will indemnify them against any losses arising out of that firm's proxy soliciting services on our behalf.

In addition to the solicitation of proxies by the use of the mail, proxies may be solicited in person and/or by telephone or facsimile transmission by directors, officers or employees of the Company and/or officers or employees of Capitala Investment Advisors, LLC ("Capitala Investment Advisors"), the Company's investment adviser. Capital Investment Advisors and Capitala Advisors Corp. (the "Administrator"), the Company's administrator, are both located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209. No additional compensation will be paid to directors, officers or regular employees of the Company or Capitala Investment Advisors for such services. The Company has also retained AST Fund Solutions, LLC to assist in the solicitation of proxies for the annual meeting for a fee of approximately \$15,000, plus reimbursement of certain out of pocket expenses.

Stockholders may also provide their voting instructions through the Internet. This option requires stockholders to input the Control Number which is located on each proxy card. After inputting this number, stockholders will be prompted to provide their voting instructions. Stockholders will have an opportunity to review their voting instructions and make any necessary changes before submitting their voting instructions and terminating their Internet link. Stockholders who vote via the Internet, in addition to confirming their voting instructions prior to submission, will also receive an e-mail confirming their instructions upon request.

If a stockholder wishes to participate in the Meeting, but does not wish to give a proxy electronically, the stockholder may still submit the proxy card originally sent with this Proxy Statement or attend in person.

Any proxy given pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. Any such notice of revocation should be provided in writing and signed by the stockholder in the same manner as the proxy being revoked and delivered to the Company's proxy tabulator.

## **Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth, as of the Record Date, the beneficial ownership of each current director, the nominee for director, the Company's executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ("SEC") and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon reports filed by such persons with the SEC and other information obtained from such persons, if available.

Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has sole voting and investment power and has the same address as the Company. Our address is 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

Name of Beneficial Owner	Number of Shares Beneficially Owned <sup>(1)</sup>	Percentage of Class <sup>(2)</sup>
<b>Interested Directors</b>		
Joseph B. Alala, III <sup>(3)(6)</sup>	711,039	5.5%
M. Hunt Broyhill <sup>(4)</sup>	318,676	2.5%
<b>Independent Directors</b>		
R. Charles Moyer	5,853	*
H. Paul Chapman	7,500	*
Larry W. Carroll	50,000	*
<b>Executive Officers</b>		
John F. McGlinn <sup>(5)(6)</sup>	180,580	1.4%
Stephen A. Arnall	4,850	*
Richard G. Wheelahan, III	4,372	*
<b>Executive Officers and Directors as a Group</b>	<b>1,282,870</b>	<b>9.9%</b>

\* Represents less than one percent.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Assumes no other purchases or sales of our common stock since the most recently available SEC filings. This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that we have with regard to the present intent of the beneficial owners of our common stock listed in this table.

(2) Based on a total of 12,974,420 shares of our common stock issued and outstanding on the Record Date.

(3) Mr. Alala, by virtue of his position as manager thereof, may be deemed to beneficially own (i) 100 shares held by Capitala Investment Advisors, LLC; (ii) 972 shares held by CapitalSouth Corporation; (iii) 2,705 shares held by Capitala Transaction Corp.; (iv) 255,773 shares held by Capitala Restricted Shares I, LLC; and (v) 130,573 shares held by Capitala Private Investments LLC. The address for all of these entities is 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

(4) Mr. Broyhill, by virtue of his position as manager thereof, may be deemed to beneficially own (i) 58,455 shares held by BMC Fund Inc.; (ii) 134,857 shares held by Claron Investments, LP; (iii) 38,764 shares held by Broyhill Investments, Inc.; (iv) 6,993 shares held by Hibriten Investments of N.C. Limited Partnership; and (v) 13,580 shares held by Broyhill Family Foundation Inc. The address for all of these entities is 800 Golfview Park, PO Box 500, Lenior, NC 28645.

(5) Mr. McGlinn has indirect beneficial ownership of 112,500 shares held by Capitala Restricted Shares I, LLC.

(6) The shares held by Capitala Restricted Shares I, LLC may be used as compensation for advisory personnel and other persons performing advisory and administrative functions on behalf of Capitala Investment Advisors, LLC and Capitala Advisors Corp.

Set forth below is the dollar range of equity securities beneficially owned by each of our directors as of the Record Date. We are not part of a “family of investment companies,” as that term is defined in the Investment Company Act of 1940, as amended (the “1940 Act”).

<u>Name of Director</u>	<b>Dollar Range of Equity Securities in Capitala Finance<sup>(1)(2)</sup></b>
<u>Interested Directors</u>	
Joseph B. Alala, III	Over \$100,000
M. Hunt Broyhill	Over \$100,000
<u>Independent Directors</u>	
R. Charles Moyer	Over \$100,000
Larry W. Carroll	Over \$100,000
H. Paul Chapman	Over \$100,000

(1) Dollar ranges are as follows: None, \$1 – \$10,000, \$10,001 – \$50,000, \$50,001 – \$100,000, or Over \$100,000.

(2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$[ ] on the Record Date on the NASDAQ Global Select Market. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.



## PROPOSAL I: ELECTION OF DIRECTORS

Pursuant to the Company's charter and bylaws, the board of directors is divided into three classes. Directors are elected for a staggered term of three years each, with a term of office of one of the three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected or until his successor is duly elected and qualified.

Mr. M. Hunt Broyhill and Mr. Larry W. Carroll have each been nominated for election for a three year term expiring in 2018. Each of Messrs. Broyhill and Carroll is not being proposed for election pursuant to any agreement or understanding between either Mr. Broyhill or Mr. Carroll and the Company.

A stockholder can vote for or withhold his or her vote from each nominee. **In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy "FOR" the election of each nominee named below. If either nominee should decline or be unable to serve as a director, it is intended that the proxy will vote for the election of such person as is nominated by the board of directors as a replacement.** The board of directors has no reason to believe that either of the persons named below will be unable or unwilling to serve.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF THE NOMINEES NAMED IN THIS PROXY STATEMENT.**

### Information about the Nominees and Directors

As described below under "Committees of the Board of Directors — Nominating and Corporate Governance Committee," the board of directors has identified certain desired attributes for director nominees. Each of our directors and the director nominees has demonstrated high character and integrity, superior credentials and recognition in his respective field and the relevant expertise and experience upon which to be able to offer advice and guidance to our management. Each of our directors and the director nominees also has sufficient time available to devote to the affairs of the Company, is able to work with the other members of the board of directors and contribute to the success of the Company and can represent the long-term interests of the Company's stockholders as a whole. Our directors and the director nominees have been selected such that the board of directors represents a range of backgrounds and experience.

Certain information, as of the Record Date, with respect to the nominees for election at the Meeting, as well as each of the current directors, is set forth below, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that each person holds, the year in which each person became a director of the Company, and a discussion of their particular experience, qualifications, attributes or skills that lead us to conclude, as of the Record Date, that such individual should serve as a director of the Company, in light of the Company's business and structure.

The business address of the nominees and the directors listed below is 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

### Nominees for Directors

Mr. Broyhill is an “interested person” of the Company as defined in the 1940 Act due to his indirect controlling interest in Capitala Investment Advisors. Mr. Carroll is not an “interested person” of the Company as defined in the 1940 Act.

#### Nominees for Class II Directors — Term Expiring 2018

<u>Name, Address and Age<sup>(1)</sup></u>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years</u>
<b>Interested Director</b>				
M. Hunt Broyhill, 51	Director	Class II Director since 2013; Term expires 2015.	Chief Executive Officer of Broyhill Asset Management, LLC, a private wealth management firm; President and Chairman of the board of directors of BMC Fund, Inc. a registered closed-end management investment company; President and director of Broyhill Investments, Inc., a private investment company; and also holds several senior positions within the Broyhill family offices.	Chairman of the board of directors of BMC Fund, Inc. and director of Broyhill Investments, Inc.

Mr. Broyhill’s history with us, familiarity with our investment platform, and extensive knowledge of the financial services industry and the investment valuation process in particular qualify him to serve on our Board of Directors.

#### **Independent Director**

Larry W. Carroll, 63	Director	Class II Director since 2013; Term expires 2015.	President of Carroll Financial Associates, Inc., a financial planning and investment management firm.	Director of Park Sterling Corporation and its wholly owned subsidiary, Park Sterling Bank; and Director of Carroll Financial Associates, Inc.
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Mr. Carroll’s expertise in the financial services industry and capital markets, as well as his experience serving on the Board of Directors of other financial services companies, provides our Board of Directors with the valuable insight of an experienced financial manager.

## Current Directors

*Mr. Alala is an “interested person” of the Company as defined in the 1940 Act due to his position as chief executive officer and president of the Company and as the managing partner and chief investment officer of Capitala Investment Advisors. Dr. Moyer and Mr. Chapman are not “interested persons” of the Company as defined in the 1940 Act.*

### Class III Directors — Term Expiring 2016

Name, Address and Age <sup>(1)</sup>	Position(s) Held with Company	Terms of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Director or Nominee for Director During Past 5 Years <sup>(2)</sup>
<b>Interested Director</b>				
Joseph B. Alala, III, 45	Chief Executive Officer, President, and Chairman of the Board of Directors.	Class III Director since 2013; Term expires 2016.	Chief Executive Officer and President of Capitala Finance; and Managing Partner and Chief Investment Officer of Capitala Investment Advisors.	Member of Board of Governors of the Small Business Investor Alliance; Serves on the boards of directors of some of our portfolio companies; and Member of Princeton University’s Track & Field’s Trustee Board.

Mr. Alala’s intimate knowledge of the business and operations of the Company and our portfolio, extensive familiarity with the financial industry and the investment management process in particular, and experience as a director of other organizations not only gives the board of directors valuable insight but also positions him well to serve as the chairman of our Board of Directors.

#### **Independent Director**

H. Paul Chapman, 63	Director	Class III Director since 2013; Term expires 2016.	Partner at KPMG LLP, an accounting firm (1974 – 2013).	Mr. Chapman has served on the boards of directors of a variety of charitable and community organizations.
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Mr. Chapman’s experience as an auditor, including his extensive knowledge of accounting and financial reporting, as well as his experience as a director of other organizations, qualifies him to serve on our Board of Directors.

**Class I Director — Term Expiring 2017**

<u>Name, Address and Age<sup>(1)</sup></u>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years</u>
<b>Independent Director</b> R. Charles Moyer, 69	Director	Class I Director since 2013; Term expires 2017.	Professor of Finance at the University of Louisville; Dean Emeritus of the Babcock Graduate School of Management, Wake Forest University.	Director of Kentucky Seed Capital Fund; Director of Summit Biosciences Inc; and Director of King Pharmaceuticals Inc. (2000 – 2011).

Dr. Moyer’s extensive knowledge of risk management, corporate finance and corporate governance, as well as his tenure on the Board of Directors of King Pharmaceuticals Inc., qualifies him to serve on our Board of Directors.

(1) The business address of the director nominee and other directors is c/o Capitala Finance Corp. 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

**Information about Executive Officers Who Are Not Directors**

*The following information, as of the Record Date, pertains to our executive officers who are not directors of the Company.*

<u>Name, Address, and Age<sup>(1)</sup></u>	<u>Position(s) Held with Company</u>	<u>Principal Occupation(s) During Past 5 Years</u>
John F. (“Jack”) McGlinn, 46	Chief Operating Officer, Secretary and Treasurer	Chief Operating Officer, Secretary and Treasurer of Capitala Finance since February 2013 and serves as a director of Capitala Investment Advisors. Mr. McGlinn joined the predecessor to Capitala Investment Advisors in 2000 and manages our Raleigh, North Carolina office. Prior to joining the predecessor to Capitala Investment Advisors, Mr. McGlinn was president and chief financial officer of a medical products manufacturer and an accountant for PricewaterhouseCoopers LLP.
Stephen A. Arnall, 53	Chief Financial Officer	Chief Financial Officer of Capitala Finance since May 2013. Prior to joining Capitala Finance, Mr. Arnall was an executive vice president and the chief financial officer of Park Sterling Bank from 2006 to 2010 and treasurer of Park Sterling Bank from 2010 to 2013. Mr. Arnall was also the executive vice president and chief financial officer of The Scottish Bank from 1998 to 2006.
Richard G. Wheelahan, III, 34	Chief Compliance Officer	Chief Compliance Officer of Capitala Finance since July 2013. Mr. Wheelahan is also the chief compliance officer and a director of Capitala Investment Advisors and has served as an associate, and subsequently, a vice president of the predecessor to Capitala Investment Advisors since March 2010. Prior to joining us, Mr. Wheelahan was a transactional attorney with Moore & Van Allen PLLC’s corporate practice group and Mayer Brown LLP’s leveraged finance practice group.

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(1) The business address of the executive officers is c/o Capitala Finance Corp. 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209.

### **Director Independence**

In accordance with rules of the NASDAQ Stock Market, our board of directors annually determines each director's independence. We do not consider a director independent unless the board of directors has determined that he has no material relationship with us. We monitor the relationships of our directors and officers through a questionnaire each director completes no less frequently than annually and updates periodically as information provided in the most recent questionnaire changes.

Our governance guidelines require any director who has previously been determined to be independent to inform the Chairman of the board of directors, the Chairman of the Nominating and Corporate Governance Committee and our Corporate Secretary of any change in circumstance that may cause his or her status as an independent director to change. The board of directors limits membership on the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee to independent directors.

In order to evaluate the materiality of any such relationship, the board of directors uses the definition of director independence set forth in the rules promulgated by the NASDAQ Stock Market. Rule 5605(a)(2) provides that a director of a BDC, shall be considered to be independent if he or she is not an "interested person" of the Company, as defined in Section 2(a)(19) of the 1940 Act.

The board of directors has determined that each of the directors is independent and has no relationship with us, except as a director and stockholder, with the exception of Joseph B. Alala, III, as a result of his positions as the Chief Executive Officer and President of the Company and the managing partner and chief investment officer of Capitala Investment Advisors, and M. Hunt Broyhill, as a result of his indirect controlling interest in Capitala Investment Advisors.

### **Board Leadership Structure**

Our Board of Directors monitors and performs an oversight role with respect to the business and affairs of Capitala Finance, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of service providers to Capitala Finance. Among other things, our Board of Directors approves the appointment of our investment adviser and officers, reviews and monitors the services and activities performed by our investment adviser and executive officers and approves the engagement, and reviews the performance of, our independent public accounting firm.

Under Capitala Finance's bylaws, our Board of Directors may designate a chairman to preside over the meetings of the Board of Directors and meetings of the stockholders and to perform such other duties as may be assigned to him by the board. We do not have a fixed policy as to whether the chairman of the board should be an independent director and believe that we should maintain the flexibility to select the chairman and reorganize the leadership structure, from time to time, based on the criteria that is in the best interests of Capitala Finance and its stockholders at such times.

Mr. Alala serves as the chairman of our Board of Directors. Mr. Alala is an "interested person" of Capitala Finance as defined in Section 2(a)(19) of the 1940 Act because he is on the investment committee of our investment adviser and is a managing member of our investment adviser. We believe that Mr. Alala's history with us, familiarity with Capitala Finance's investment platform, and extensive knowledge of the financial services industry and the investment valuation process in particular qualify him to serve as the chairman of our Board of Directors. We believe that Capitala Finance is best served through this existing leadership structure, as Mr. Alala's relationship with Capitala Finance's investment adviser provides an effective bridge and encourages an open dialogue between management and the Board of Directors, ensuring that both groups act with a common purpose.

We are aware of the potential conflicts that may arise when a non-independent director is chairman of the board, but believe these potential conflicts are offset by our strong corporate governance policies. Our corporate governance policies include regular meetings of the independent directors in executive session without the presence of interested directors and management, a designated lead independent director, the

establishment of audit, nominating and corporate governance and compensation committees comprised solely of independent directors and the appointment of a chief compliance officer, with whom the independent directors meet regularly without the presence of interested directors and other members of management, for administering our compliance policies and procedures. Larry W. Carroll currently serves as designated lead independent director.

We recognize that different board leadership structures are appropriate for companies in different situations. We intend to re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet Capitala Finance's needs.

### **Board's Role In Risk Oversight**

Our Board of Directors performs its risk oversight function primarily through (1) its three standing committees, which report to the entire Board of Directors and are comprised solely of independent directors, and (2) active monitoring by our chief compliance officer and our compliance policies and procedures.

As described below in more detail under "Committees of the Board of Directors," the audit committee, the nominating and corporate governance committee and the compensation committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The audit committee's risk oversight responsibilities include overseeing Capitala Finance's accounting and financial reporting processes, Capitala Finance's systems of internal controls regarding finance and accounting, Capitala Finance's valuation process, and audits of Capitala Finance's financial statements. The nominating and corporate governance committee's risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management. The compensation committee's risk oversight responsibilities include reviewing and recommending to our Board of Directors for approval the Investment Advisory Agreement (the "Advisory Agreement") between the Company and Capitala Investment Advisors and the Administration Agreement (the "Administration Agreement") between the Company and the Administrator, and, to the extent that we compensate our executive officers directly in the future, reviewing and evaluating the compensation of our executive officers and making recommendations to the board of directors regarding such compensation.

Our Board of Directors also performs its risk oversight responsibilities with the assistance of the chief compliance officer. The Board of Directors will annually review a written report from the chief compliance officer discussing the adequacy and effectiveness of the compliance policies and procedures of Capitala Finance and its service providers. The chief compliance officer's annual report will address, at a minimum, (a) the operation of the compliance policies and procedures of Capitala Finance and its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the chief compliance officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee our compliance activities and risks. In addition, the chief compliance officer will meet separately in executive session with the independent directors at least once each year.

We believe that our Board of Director's role in risk oversight is effective, and appropriate given the extensive regulation to which we will be already subject as a BDC. As a BDC, we are required to comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness is limited such that our asset coverage must equal at least 200% immediately after each time we incur indebtedness, we generally have to invest at least 70% of our gross assets in "qualifying assets" and we are not generally permitted to invest in any portfolio company in which one of our affiliates currently has an investment.

We recognize that different board roles in risk oversight are appropriate for companies in different situations. We intend to re-examine the manners in which the board administers its oversight function on an ongoing basis to ensure that they continue to meet Capitala Finance's needs.

## **Committees of the Board of Directors**

An audit committee, a nominating and corporate governance committee and a compensation committee have been established by our Board of Directors. During 2014, our board of directors held five Board of Directors meetings, ten Audit Committee meetings, one Nominating and Corporate Governance Committee meeting, and zero Compensation Committee meetings. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and of the respective committees on which they serve. We require each director to make a diligent effort to attend all board and committee meetings as well as each annual meeting of our stockholders.

### ***Audit Committee***

The audit committee operates pursuant to a charter approved by our Board of Directors, a copy of which is available at <http://investor.capitalagroup.com/>. The charter sets forth the responsibilities of the audit committee. The audit committee's responsibilities include establishing guidelines and making recommendations to our Board of Directors regarding the valuation of our loans and investments, selecting the independent registered public accounting firm for Capitala Finance, reviewing with such independent registered public accounting firm the planning, scope and results of their audit of Capitala Finance's financial statements, pre-approving the fees for services performed, reviewing with the independent registered public accounting firm the adequacy of internal control systems, reviewing Capitala Finance's annual financial statements and periodic filings and receiving Capitala Finance's audit reports and financial statements. The audit committee is currently composed of Messrs. Chapman, Carroll and Moyer, all of whom are considered independent under the rules of the NASDAQ Global Select Market and are not "interested persons" of Capitala Finance as that term is defined in Section 2(a)(19) of the 1940 Act. Mr. Chapman serves as chairman of the audit committee. Our Board of Directors has determined that Mr. Chapman is an "audit committee financial expert" as that term is defined under Item 407 of Regulation S-K, as promulgated under the Exchange Act. Mr. Chapman meets the current independence and experience requirements of Rule 10A-3 of the Exchange Act.

### ***Nominating and Corporate Governance Committee***

The nominating and corporate governance committee operates pursuant to a charter approved by our Board of Directors, a copy of which is available at <http://investor.capitalagroup.com/>. The members of the nominating and corporate governance committee are Messrs. Chapman, Carroll and Moyer, all of whom are considered independent under the rules of the NASDAQ Global Select Market and are not "interested persons" of Capitala Finance as that term is defined in Section 2(a)(19) of the 1940 Act. Mr. Moyer serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the Board of Directors or a committee thereof, developing and recommending to the Board of Directors a set of corporate governance principles and overseeing the evaluation of the Board of Directors and our management. The nominating and corporate governance committee currently does not consider nominees recommended by our stockholders.

The nominating and corporate governance committee seeks candidates who possess the background, skills and expertise to make a significant contribution to the Board of Directors, Capitala Finance and its stockholders. In considering possible candidates for election as a director, the nominating committee will take into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

- are of high character and integrity;
- are accomplished in their respective fields, with superior credentials and recognition;
- have relevant expertise and experience upon which to be able to offer advice and guidance to management;
- have sufficient time available to devote to the affairs of Capitala Finance;
- are able to work with the other members of the Board of Directors and contribute to the success of Capitala Finance;

- can represent the long-term interests of Capitala Finance’s stockholders as a whole; and
- are selected such that the Board of Directors represents a range of backgrounds and experience.

The nominating and corporate governance committee has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees. In determining whether to recommend a director nominee, the nominating and corporate governance committee considers and discusses diversity, among other factors, with a view toward the needs of the Board of Directors as a whole. The nominating and corporate governance committee generally conceptualizes diversity expansively to include, without limitation, concepts such as race, gender, national origin, differences of viewpoint, professional experience, education, skill and other qualities that contribute to the board of directors, when identifying and recommending director nominees. The nominating and corporate governance committee believes that the inclusion of diversity as one of many factors considered in selecting director nominees is consistent with the nominating and corporate governance committee’s goal of creating a Board of Directors that best serves the needs of Capitala Finance and the interests of its shareholders.

#### **Compensation Committee**

The Compensation Committee operates pursuant to a charter approved by our board of directors, a copy of which is available on our website at <http://investor.capitalagroup.com/>. The charter sets forth the responsibilities of the Compensation Committee. The Compensation Committee is responsible for annually reviewing and recommending for approval to our board of directors the Advisory Agreement and the Administration Agreement. In addition, although we do not directly compensate our executive officers currently, to the extent that we do so in the future, the Compensation Committee would also be responsible for reviewing and evaluating their compensation and making recommendations to the board of directors regarding their compensation. Lastly, the compensation committee would produce a report on our executive compensation practices and policies for inclusion in our proxy statement if required by applicable proxy rules and regulations and, if applicable, make recommendations to the board of directors on our executive compensation practices and policies. The Compensation Committee has the authority to engage compensation consultants and to delegate their duties and responsibilities to a member or to a subcommittee of the compensation committees. The members of the Compensation Committee are Messrs. Chapman, Carroll and Moyer, all of whom are considered independent under the rules of the NASDAQ Global Select Market and are not “interested persons” of Capitala Finance as that term is defined in Section 2(a)(19) of the 1940 Act. Mr. Carroll serves as Chairman of the Compensation Committee.

#### **Communication with the Board of Directors**

Stockholders with questions about the Company are encouraged to contact the Company’s investor relations department. However, if stockholders believe that their questions have not been addressed, they may communicate with the Company’s board of directors by sending their communications to Capitala Finance Corp., c/o John F. McGlenn, Corporate Secretary, 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209. All stockholder communications received in this manner will be delivered to one or more members of the board of directors.

#### **Code of Ethics**

The Company has adopted a code of ethics which applies to, among others, its senior officers, including its Chief Executive Officer and its Chief Financial Officer, as well as every officer, director and employee of the Company. The Company’s code can be accessed via its website at <http://investor.capitalagroup.com>. The Company intends to disclose amendments to or waivers from a required provision of the code on Form 8-K.



## Compensation of Directors

The following table sets forth compensation of the Company's directors, for the year ended December 31, 2014.

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	All Other Compensation <sup>(2)</sup>	Total
<b>Interested Directors</b>			
Joseph B. Alala, III	—	—	—
M. Hunt Broyhill	—	—	—
<b>Independent Directors</b>			
R. Charles Moyer	\$ 120,000	—	\$ 120,000
Larry W. Carroll	\$ 120,000	—	\$ 120,000
H. Paul Chapman	\$ 125,000	—	\$ 125,000

(1) For a discussion of the independent directors' compensation, see below.

(2) We do not maintain a stock or option plan, non-equity incentive plan or pension plan for our directors.

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 also receive \$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. No compensation is expected to be paid to directors who are "interested persons" of Capitala Finance, as such term is defined in Section 2(a)(19) of the 1940 Act.

## Compensation of Executive Officers

None of our officers receives direct compensation from Capitala Finance. However, Mr. Alala, through his financial interest in Capitala Investment Advisors, will be entitled to a portion of any investment advisory fees paid by Capitala Finance to Capitala Investment Advisors under the Advisory Agreement. Our other executive officers will be paid by our Administrator, subject to reimbursement by us of our allocable portion of such compensation for services rendered by such persons to Capitala Finance under the Administration Agreement. To the extent that our Administrator outsources any of its functions, we will reimburse our Administrator for the fees associated with such functions without profit or benefit to our Administrator.

The Advisory Agreement was initially approved by the Board of Directors of Capitala Finance on June 10, 2013. Unless earlier terminated, the Advisory Agreement will remain in effect for a period of two years from the date it was executed, which was September 24, 2013, and will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not parties to such agreement or who are not "interested persons" of any such party, as such term is defined in Section 2(a)(19) of the 1940 Act. The Advisory Agreement will automatically terminate in the event of its assignment. The Advisory Agreement may also be terminated by either party without penalty upon not less than 60 days' written notice to the other party.

## Indemnification Agreements

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

## **Certain Relationships and Transactions**

We have entered into the Advisory Agreement with Capitala Investment Advisors. Mr. Alala, our chief executive officer, president and chairman of our Board of Directors, is the managing partner and chief investment officer of Capitala Investment Advisors, and Mr. Broyhill, a member of our Board of Directors, has an indirect controlling interest in Capitala Investment Advisors.

In addition, Capitala Investment Advisors' investment team manages CapitalSouth Partners SBIC Fund IV, L.P. ("Fund IV"), a private investment limited partnership providing financing solutions to companies that generate between \$5 million and \$50 million in annual revenues and have between \$1 million and \$5 million in annual earnings before interest, taxes, depreciation and amortization. Fund IV had its first closing in March 2013 and obtained approval for its Small Business Investment Company license from the U.S. Small Business Administration in April 2013. In addition to Fund IV, affiliates of Capitala Investment Advisors manage several other affiliated funds. Capitala Investment Advisors and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Capitala Investment Advisors or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Capitala Investment Advisors' allocation procedures. We will not co-invest in transactions with other entities affiliated with Capitala Investment Advisors unless we obtain an exemptive order from the SEC or do so in accordance with existing regulatory guidance. We do not expect to make co-investments, or otherwise compete for investment opportunities, with Fund IV because its focus and investment strategy differ from our own.

We have entered into a license agreement with Capitala Investment Advisors, pursuant to which Capitala Investment Advisors has agreed to grant us a non-exclusive, royalty-free license to use the name "Capitala."

We have entered into the Administration Agreement with our Administrator. 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. Mr. Alala, our chief executive officer, president and chairman of our Board of Directors, is the chief executive officer, president and a director of our Administrator, and Mr. Broyhill, a member of our Board of Directors, is the trustee of a trust that has a controlling interest in our Administrator.

## **Board Consideration of the Investment Advisory Agreement**

At an in-person meeting of our Board of Directors held on June 10, 2013, our Board of Directors unanimously voted to approve the Advisory Agreement between the Company and Capitala Investment Advisors. In its consideration of the approval of the Advisory Agreement, the Board of Directors focused on information it had received relating to, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by Capitala Investment Advisors;
- comparative data with respect to advisory fees or similar expenses paid by other BDCs with similar investment objectives;
- our historical and projected operating expenses and expense ratio compared to BDCs with similar investment objectives;
- any existing and potential sources of indirect income to Capitala Investment Advisors or Capitala Advisors Corp. from their relationships with us and the profitability of those relationships, including through the Advisory Agreement and the Administration Agreement;
- information about the services to be performed and the personnel performing such services under the Advisory Agreement;
- the organizational capability and financial condition of Capitala Investment Advisors and its affiliates;

- Capitala Investment Advisors' practices regarding the selection and compensation of brokers that may execute our portfolio transactions and the brokers' provision of brokerage and research services to Capitala Investment Advisors; and
- the possibility of obtaining similar services from other third party service providers or through an internally managed structure.

Based on the information reviewed and the discussions, the Board of Directors, including a majority of the non-interested directors, concluded that fees payable to Capitala Investment Advisors pursuant to the Advisory Agreement were reasonable in relation to the services to be provided. The Board of Directors did not assign relative weights to the above factors or the other factors considered by it. In addition, the Board of Directors did not reach any specific conclusion on each factor considered, but conducted an overall analysis of these factors. Individual members of the Board of Directors may have given different weights to different factors.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the SEC and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based solely on a review of copies of such reports and written representations delivered to the Company by such persons, the Company believes that there were no violations of Section 16(a) by such persons during 2014.

**PROPOSAL II: RATIFICATION OF SELECTION  
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee and the independent directors of the board of directors have selected Ernst & Young LLP (“E&Y”) to serve as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2015. This selection is subject to ratification or rejection by the stockholders of the Company.

E&Y has advised us that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its affiliates. It is expected that a representative of E&Y will be present at the Meeting and will have an opportunity to make a statement if he or she chooses and will be available to answer questions.

**Table below in thousands**

	Fiscal Year Ended December 31, 2014	Fiscal Year Ended December 31, 2013
Audit Fees	\$ 617.0	\$ 493.8
Audit-Related Fees	—	—
Tax Fees	27.5	22.5
All Other Fees	—	—
<b>Total Fees:</b>	<u>\$ 644.5</u>	<u>\$ 516.3</u>

*Audit Fees:* Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and quarterly reviews and services that are normally provided by E&Y in connection with statutory and regulatory filings.

*Audit-Related Fees:* Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.” These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

*Tax Services Fees:* Tax services fees consist of fees billed for professional tax services. These services also include assistance regarding federal, state, and local tax compliance.

*All Other Fees:* Other fees would include fees for products and services other than the services reported above.

**Audit Committee Report**

The Audit Committee of our board of directors operates under a written charter adopted by the board of directors. The Audit Committee is currently composed of Messrs. Chapman, Carroll and Moyer.

Management is responsible for the Company’s internal controls and the financial reporting process. The Company’s independent registered public accounting firm is responsible for performing an independent audit of the Company’s financial statements in accordance with auditing standards generally accepted in the United States and expressing an opinion on the conformity of those audited financial statements in accordance with accounting principles generally accepted in the United States. The Audit Committee’s responsibility is to monitor and oversee these processes. The Audit Committee is also directly responsible for the appointment, compensation and oversight of the Company’s independent registered public accounting firm.

*Pre-Approval Policy*

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by E&Y. The policy requires that the Audit Committee pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor’s independence. Any requests for audit, audit-related, tax and other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the

Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

#### *Review with Management*

The Audit Committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States.

#### *Review and Discussion with Independent Registered Public Accounting Firm*

The Audit Committee has reviewed and discussed the Company's audited financial statements with management and E&Y, with and without management present. The Audit Committee included in its review results of E&Y's examinations, the Company's internal controls, and the quality of the Company's financial reporting. The Audit Committee also reviewed the Company's procedures and internal control processes designed to ensure full, fair and adequate financial reporting and disclosures, including procedures for certifications by the Company's chief executive officer and chief financial officer that are required in periodic reports filed by the Company with the SEC. The Audit Committee is satisfied that the Company's internal control system is adequate and that the Company employs appropriate accounting and auditing procedures.

The Audit Committee also has discussed with E&Y matters relating to E&Y's assessment about the quality, as well as the acceptability, of the Company's accounting principles as applied in its financial reporting as required by Public Company Accounting Oversight Board Auditing Standard 16 (Communications with Audit Committees). In addition, the Audit Committee has discussed with E&Y their independence from management and the Company, as well as the matters in the written disclosures received from E&Y and required by Public Company Accounting Oversight Board Rule 3520 (Auditor Independence). The Audit Committee received a letter from E&Y confirming their independence and discussed it with them. The Audit Committee discussed and reviewed with E&Y the Company's critical accounting policies and practices, other material written communications to management, and the scope of E&Y's audits and all fees paid to E&Y during the fiscal year. The Audit Committee has adopted guidelines requiring review and pre-approval by the Audit Committee of audit and non-audit services performed by E&Y for the Company. The Audit Committee has reviewed and considered the compatibility of E&Y's performance of non-audit services with the maintenance of E&Y's independence as the Company's independent registered public accounting firm.

#### *Conclusion*

Based on the Audit Committee's discussion with management and the independent registered public accounting firm, the Audit Committee's review of the audited financial statements, the representations of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that the board of directors include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC. The Audit Committee also recommended the selection of Ernst & Young LLP to serve as the independent registered public accounting firm for the year ending December 31, 2015.

Respectfully Submitted,  
The Audit Committee  
H. Paul Chapman  
R. Charles Moyer  
Larry W. Carroll

Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted for ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2015.

The material contained in the foregoing Audit Committee Report is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR THE YEAR ENDING DECEMBER 31, 2015.**

**PROPOSAL III:  
APPROVAL TO AUTHORIZE THE COMPANY TO SELL SHARES OF ITS COMMON STOCK AT  
A PRICE OR PRICES BELOW THE COMPANY'S THEN CURRENT NET ASSET VALUE  
PER SHARE IN ONE OR MORE OFFERINGS, IN EACH CASE SUBJECT TO THE APPROVAL OF ITS BOARD OF  
DIRECTORS AND COMPLIANCE WITH THE CONDITIONS SET FORTH IN  
THE PROXY STATEMENT.**

The Company is a closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. The 1940 Act prohibits the Company from selling shares of its common stock at a price below the then current net asset value ("NAV") per share of such stock, exclusive of sales compensation, unless its stockholders approve such a sale and the Company's board of directors make certain determinations. Shares of the Company's common stock have traded at a price below their NAV since they have begun trading on the NASDAQ Global Select Market.

Pursuant to this provision, the Company is seeking the approval of its common stockholders so that it may, in one or more public or private offerings of its common stock, sell or otherwise issue shares of its common stock, not exceeding 25% of its then outstanding common stock immediately prior to each such offering, at a price below its then current NAV, subject to certain conditions discussed below. The Company's board of directors believes that having the flexibility for the Company to sell its common stock below NAV in certain instances is in the best interests of stockholders. If the Company were unable to access the capital markets as attractive investment opportunities arise, the Company's ability to grow over time and continue to pay dividends to stockholders could be adversely affected.

While the Company has no immediate plans to sell shares of its common stock below NAV, it is seeking stockholder approval now in order to maintain access to the markets if the Company determines it should sell shares of common stock below NAV. These sales typically must be undertaken quickly. The final terms of any such sale will be determined by the board of directors at the time of sale. Also, because the Company has no immediate plans to sell any shares of its common stock, it is impracticable to describe the transaction or transactions in which such shares of common stock would be sold. Instead, any transaction where the Company sells such shares of common stock, including the nature and amount of consideration that would be received by the Company at the time of sale and the use of any such consideration, will be reviewed and approved by the board of directors at the time of sale. There will be no limit on the percentage below net asset value per share at which shares may be sold by the Company under this proposal. However, the Company does not presently intend to sell shares of its common stock at a price that is more than 20% lower than the Company's then current NAV, absent extenuating circumstances, including, but not limited to, circumstances that would require the Company to raise equity capital in order to avoid defaulting on its debt obligations. If this proposal is approved, no further authorization from the stockholders will be solicited prior to any such sale in accordance with the terms of this proposal. If approved, as required under the 1940 Act, the authorization would be effective for securities sold during a period beginning on the date of such stockholder approval and expiring on the earlier of the anniversary of the date of the Meeting or the date of the Company's 2016 Annual Meeting of Stockholders. Since the Company's initial public offering on September 25, 2013, the Company has not sold any shares of its common stock at a price below the Company's then current NAV.

Generally, common stock offerings by BDCs are priced based on the market price of the currently outstanding shares of common stock, less a small discount of approximately 5% (which may be higher or lower depending on market conditions). Accordingly, even when shares of the Company's common stock trade at a market price below NAV, this proposal would permit the Company to offer and sell shares of its common stock in accordance with pricing standards that market conditions generally require, subject to the conditions described below in connection with any offering undertaken pursuant to this proposal. This Proxy Statement is not an offer to sell securities. Securities may not be offered or sold in the United States absent registration with the SEC or an applicable exemption from SEC registration requirements.

## **1940 Act Conditions for Sales below NAV**

The Company's ability to issue shares of its common stock at a price below NAV is governed by the 1940 Act. If stockholders approve this proposal, the Company will only sell shares of its common stock at a price below NAV per share if the following conditions are met:

- a majority of the Company's directors who are not "interested persons" of the Company as defined in the 1940 Act, and who have no financial interest in the sale, shall have approved the sale and determined that it is in the best interests of the Company and its stockholders; and
- a majority of such directors, who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any underwriting commission or discount, which could be substantial.

## **Board Approval**

On February 26, 2015, the Company's board of directors, including a majority of the non-interested directors who have no financial interest in this proposal, approved this proposal as in the best interests of the Company and its stockholders and is recommending that the Company's stockholders vote in favor of this proposal to offer and sell shares of the Company's common stock at prices that may be less than NAV. In evaluating this proposal, the Company's board of directors, including the non-interested directors, considered and evaluated factors including the following, as discussed more fully below:

- possible long-term benefits to the Company's stockholders; and
- possible dilution to the Company's NAV

Prior to approving this proposal, the Company's board of directors met to consider and evaluate material that our management provided on the merits of our possibly raising additional capital and the merits of publicly offering shares of the Company's common stock at a price below NAV. The Company's board of directors considered the objectives of a possible offering, the mechanics of an offering, establishing size parameters for an offering, the possible effects of dilution, common stock trading volume, and other matters, including that the Company's common stock has frequently traded both above and below NAV in recent quarters. The board of directors evaluated a full range of offering sizes. However, the board of directors has not yet drawn any definite conclusions regarding the size of a contemplated capital raise at this time, to the extent the Company's common stock were to trade below NAV. In determining whether or not to offer and sell common stock, including below NAV, the board of directors has a duty to act in the Company's best interests and its stockholders and must comply with the other requirements of the 1940 Act.

## **Reasons to Offer Common Stock below NAV**

The Company's board of directors believes that having the flexibility for the Company to sell its common stock below NAV in certain instances is in the Company's best interests and the best interests of its stockholders. If the Company were unable to access the capital markets when attractive investment opportunities arise, the Company's ability to grow over time and to continue to pay dividends to stockholders could be adversely affected. In reaching that conclusion, the Company's board of directors considered the following possible benefits to its stockholders:

### *Current Market Conditions Have Created Attractive Opportunities*

Current market opportunities have created, and we believe will continue to create for the foreseeable future, favorable opportunities to invest, including opportunities that, all else being equal, may increase the Company's NAV over the longer-term, even if financed with the issuance of common stock below NAV. Stockholder approval of this proposal, subject to the conditions detailed below, is expected to provide the Company with the flexibility to invest in such opportunities. We believe that current market conditions provide attractive opportunities to use capital.



Market conditions also have beneficial effects for capital providers, including reduced competition, more favorable pricing of credit risk, more conservative capital structures and more creditor-friendly contractual terms. Accordingly, we believe that the Company could benefit from access to capital in this constrained credit market and that the current environment should provide attractive investment opportunities. The Company's ability to take advantage of these opportunities will depend upon its access to capital.

*Greater Investment Opportunities Due to Larger Capital Resources*

The Company's board of directors believes that additional capital raised through an offering of shares of its common stock may help it generate additional deal flow. Based on discussions with management, the Company's board of directors believes that greater deal flow, which may be achieved with more capital, would enable the Company to be a more significant participant in the private debt and equity markets and to compete more effectively for attractive investment opportunities. Management has represented to the Company's board of directors that such investment opportunities may be funded with proceeds of an offering of shares of the Company's common stock. However, management has not identified specific companies in which to invest the proceeds of an offering given that specific investment opportunities will change depending on the timing of an offering, if any.

*Higher Market Capitalization and Liquidity May Make the Company's Common Stock More Attractive to Investors*

If the Company issues additional shares, its market capitalization and the amount of its publicly tradable common stock will increase, which may afford all holders of its common stock greater liquidity. A larger market capitalization may make the Company's stock more attractive to a larger number of investors who have limitations of the size of companies in which they invest. Furthermore, a larger number of shares outstanding may increase the Company's trading volume, which could decrease the volatility in the secondary market price of its common stock.

*Maintenance or Possible Increase of Distributions*

A larger and more diversified portfolio could provide the Company with more consistent cash flow, which may support the maintenance and growth of its distributions. The Company generally made distributions to its stockholders quarterly from the fourth quarter of 2013 through the third quarter of 2014 and began making distributions to its stockholders monthly in the fourth quarter of 2014. For the year ended December 31, 2014 the Company declared total distributions of \$1.88 per share of its common stock. Although management will continue to seek to generate income sufficient to pay the Company's distributions in the future, the proceeds of future offerings, and the investments thereof, could enable the Company to maintain and possibly grow its distributions, which may include a return of capital.

*Reduced Expenses Per Share*

An offering that increases the Company's total assets may reduce its expenses per share due to the spreading of fixed expenses over a larger asset base. The Company must bear certain fixed expenses, such as certain administrative, governance and compliance costs that do not generally vary based on its size. On a per share basis, these fixed expenses will be reduced when supported by a larger asset base.

*Status as a BDC and RIC and Maintaining a Favorable Debt-to-Equity Ratio*

As a BDC and a RIC, for tax purposes, the Company is dependent on its ability to raise capital through the sale of common stock. RICs generally must distribute substantially all of their earnings from dividends, interest and short-term gains to stockholders as dividends in order to achieve pass-through tax treatment, which prevents the Company from using those earnings to support new investments. Further, for the same reason BDCs, in order to borrow money or issue preferred stock, must maintain a debt to equity ratio of not more than 1:1, which requires the Company to finance its investments with at least as much common equity as debt and preferred stock in the aggregate. Therefore, to continue to build the Company's investment portfolio, and thereby support maintenance and growth of the Company's distributions, the Company endeavors to maintain consistent access to capital through the public and private equity markets enabling it to take advantage of investment opportunities as they arise.

Exceeding the required 1:1 debt-to-equity ratio would have severe negative consequences for a BDC, including an inability to pay distributions, possible breaches of debt covenants and failure to qualify for tax treatment as a RIC. Although the Company does not currently expect that it will exceed the required 1:1 debt-to-equity ratio, the markets the Company operates in and the general economy remain volatile and uncertain. Even though the underlying performance of a particular portfolio company may not indicate impairment or an inability to repay indebtedness in full, the volatility in the debt capital markets may continue to impact the valuations of debt investments negatively and result in further unrealized write-downs of debt investments. Any such asset write-downs, as well as unrealized write-downs based on the underlying performance of the Company's portfolio companies, if any, will negatively impact its stockholders' equity and the resulting debt-to-equity ratio. Issuing new equity will improve the Company's debt-to-equity ratio. In addition to meeting legal requirements applicable to BDCs, having a more favorable debt-to-equity ratio will also generally strengthen the Company's balance sheet and give it more flexibility in its operations.

#### *Trading History*

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that the Company's shares of common stock will trade at a discount from net asset value, or at premiums that are unsustainable over the long term, are separate and distinct from the risk that the Company's net asset value will decrease. Since the Company's initial public offering on September 25, 2013, its shares of common stock have traded at a discount to the net assets attributable to those shares. As of [REDACTED], 2015, the Company's shares of common stock traded at a discount equal to approximately [REDACTED] % of the net assets attributable to those shares based upon its net asset value as of December 31, 2014. It is not possible to predict whether the shares that may be offered pursuant to this approval will trade at, above, or below net asset value. The following table lists the high and low closing sales prices for our common stock for each fiscal quarter since our initial public offering, such sales prices as a percentage of NAV per share and quarterly distributions per share.

<u>Fiscal Year Ended</u>	<u>NAV Per Share<sup>(2)</sup></u>	<u>Sales Price</u>		<u>Premium or (Discount) of High Sales Price to NAV<sup>(3)</sup></u>	<u>Premium or (Discount) of Low Sales Price to NAV<sup>(3)</sup></u>	<u>Declared Distributions Per Share<sup>(4)</sup></u>
		<u>High</u>	<u>Low</u>			
<b>December 31, 2015</b>						
First Quarter (through [REDACTED], 2015)	*	\$ [REDACTED]	\$ [REDACTED]	*	*	\$ [REDACTED]
<b>December 31, 2014</b>						
Fourth Quarter	\$ [REDACTED]	\$ 19.30	\$ 17.60	[REDACTED]	[REDACTED]	\$ 0.47
Third Quarter	\$ 19.89	\$ 19.49	\$ 17.60	(2.01)%	(11.51)%	\$ 0.47
Second Quarter	\$ 20.34	\$ 19.87	\$ 17.65	(2.31)%	(13.23)%	\$ 0.47
First Quarter	\$ 20.33	\$ 20.25	\$ 19.00	(0.39)%	(6.54)%	\$ 0.47
<b>December 31, 2013</b>						
Fourth Quarter	\$ 20.71	\$ 20.20	\$ 17.91	(2.46)%	(13.52)%	\$ 0.47
Third Quarter <sup>(1)</sup>	\$ 20.79	\$ 19.32	\$ 18.41	(7.07)%	(11.45)%	\$ —

(1) From September 25, 2013 to September 30, 2013.

(2) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(3) Calculated as of the respective high or low intraday sales price divided by the quarter end NAV and subtracting 1.

(4) Represents the distribution paid for the specified quarter.

\* Not determinable at the time of filing.

## Key Stockholder Considerations

### *Dilution*

Before voting on this proposal or giving proxies with regard to this matter, stockholders should consider the dilutive effect of the issuance of shares of the Company's common stock at a price that is less than the NAV per share and the expenses associated with such issuance on the NAV per outstanding share of the Company's common stock. Any sale of common stock at a price below NAV would result in an immediate dilution to existing common stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a disproportionately greater decrease in a stockholder's interest in the earnings and assets of the Company and voting interest in the Company than the increase in the assets of the Company resulting from such issuance. There will be no limit on the percentage below net asset value per share at which shares may be sold by the Company under this proposal. However, the Company does not presently intend to sell shares of its common stock at a price that is more than 20% lower than the Company's then current NAV, absent extenuating circumstances. The board of directors of the Company will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share and will consider again such dilutive effect when considering whether to authorize any specific issuance of shares of common stock below NAV.

In addition, stockholders should consider the risk that the approval of this proposal could cause the market price of the Company's common stock to decline in anticipation of sales of its common stock below NAV, thus causing the Company's shares to trade at a discount to NAV. The 1940 Act establishes a connection between common share sale price and NAV because, when stock is sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares reduces net asset value per share. Stockholders should also consider that they will have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock will dilute such stockholders' holdings of common stock as a percentage of shares outstanding to the extent stockholders do not purchase sufficient shares in the offering or otherwise to maintain their percentage interest. Further, if current stockholders of the Company do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then-current NAV, their voting power will be diluted.

The precise extent of any such dilution cannot be estimated before the terms of a common stock offering are set. As a general proposition, however, the amount of potential dilution will increase as the size of the offering increases. Another factor that will influence the amount of dilution in an offering is the amount of net proceeds that we receive from such offering. The board of directors would expect that the net proceeds to us will be equal to the price that investors pay per share, less the amount of any underwriting discounts and commissions, typically 95% of the market price.

As discussed above, it should be noted that the maximum number of shares issuable below NAV that could result in such dilution is limited to 25% of the Company's then outstanding common stock immediately prior to each such offering. As a result, the maximum amount of dilution to existing stockholders will be limited to no more than 20% of the Company's then current NAV, assuming the Company were to issue the maximum number of shares at no more than par value, or \$0.01 per share.

#### *Examples of Dilutive Effect of the Issuance of Shares Below NAV*

The following table illustrates the level of net asset value dilution that would be experienced by a nonparticipating stockholder in four different hypothetical offerings of different sizes and levels of discount from net asset value per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 common shares outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current net asset value and net asset value per share are thus \$10,000,000 and \$10.00, respectively. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after offering expenses and commission (a 5% discount from net asset value); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after offering expenses and commissions (a 10% discount

from net asset value); (3) an offering of 200,000 shares (20% of the outstanding shares) at \$8.00 per share after offering expenses and commissions (a 20% discount from net asset value); and (4) an offering of 250,000 shares (25% of the outstanding shares) at \$0.01 per share after offering expenses and commissions (a 100% discount from net asset value).

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount			Example 3 20% Offering at 20% Discount			Example 4 25% Offering at 100% Discount		
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change		
<i>Offering Price</i>													
Price per Share to the Public	—	\$ 10.00	—	\$ 9.47	—	\$ 8.42	—	\$ 0.01	—	\$ 0.01	—	—	
Net Proceeds per Share to Issuer	—	\$ 9.50	—	\$ 9.00	—	\$ 8.00	—	\$ 0.01	—	\$ 0.01	—	—	
<i>Decrease to NAV</i>													
Total Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%	1,250,000	25.00%	1,250,000	25.00%	25.00%	
NAV per Share	\$ 10.00	\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.67	(3.30)%	\$ 8.00	(20.00)%	\$ 8.00	(20.00)%	(20.00)%	
<i>Dilution to Stockholder</i>													
Shares Held by Stockholder A	10,000	10,000	—	10,000	—	10,000	—	10,000	—	10,000	—	—	
Percentage Held by Stockholder A	1.00%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%	0.80%	(20.00)%	0.80%	(20.00)%	(20.00)%	
<b>Total Asset Values</b>													
Total NAV Held by Stockholder A	\$ 100,000	\$ 99,800	(0.20)%	\$ 99,100	(0.90)%	\$ 96,700	(3.30)%	\$ 80,020	(19.98)%	\$ 80,020	(19.98)%	(19.98)%	
Total Investment by Stockholder A <sup>(1)</sup>	\$ 100,000	\$ 100,000	—	\$ 100,000	—	\$ 100,000	—	\$ 100,000	—	\$ 100,000	—	—	
Total Dilution to Stockholder A <sup>(2)</sup>	—	\$ (200)	—	\$ (900)	—	\$ (3,300)	—	\$ (19,980)	—	\$ (19,980)	—	—	
<b>Per Share Amounts</b>													
NAV per Share held by Stockholder A	—	\$ 9.98	—	\$ 9.91	—	\$ 9.67	—	\$ 8.00	—	\$ 8.00	—	—	
Investment per Share held by Stockholder A <sup>(3)</sup>	\$ 10.00	\$ 10.00	—	\$ 10.00	—	\$ 10.00	—	\$ 10.00	—	\$ 10.00	—	—	
Dilution per Share held by Stockholder A <sup>(4)</sup>	—	\$ (0.02)	—	\$ (0.09)	—	\$ (0.33)	—	\$ (2.00)	—	\$ (2.00)	—	—	
Percentage Dilution to Stockholder A <sup>(5)</sup>	—	—	(0.20)%	—	(0.90)%	—	(3.30)%	—	(19.98)%	—	(19.98)%	(19.98)%	

(1) Assumed to be \$10.00 per Share.

(2) Represents total NAV less total investment.

(3) Assumed to be \$10.00 per Share on Shares held prior to sale.

(4) Represents NAV per Share less Investment per Share.

(5) Represents Dilution per Share divided by Investment per Share.

#### Other Considerations

In reaching its recommendation to the stockholders of the Company to approve this proposal, the board of directors considered a possible source of conflict of interest due to the fact that the proceeds from the issuance of additional shares of our common stock will increase the management fees that we pay to Capitala Investment Advisors as such fees are partially based on the amount of our gross assets, as well as the effect of the following factors:

- the costs and benefits of a common stock offering below NAV compared to other possible means for raising capital or concluding not to raise capital;
- the size of a common stock offering in relation to the number of shares outstanding;
- the general condition of the securities markets; and
- any impact on operating expenses associated with an increase in capital.

The board of directors, including a majority of the non-interested directors who have no financial interest in this proposal, concluded that the benefits to the stockholders from increasing our capital base outweighed any detriment, including from increased management fees, especially considering that the management fees would increase regardless of whether we offer shares of common stock below NAV or above NAV, or dilution to existing stockholders.

*Potential Investors*

The Company has not yet solicited any potential buyers of the shares that it may elect to issue in any future offering in order to comply with the federal securities laws. No shares are earmarked for management or other affiliated persons of the Company. However, members of management and other affiliated persons may participate in a common stock offering on the same terms as others.

**Required Vote.**

Approval of this proposal requires the affirmative vote of (1) a majority of the outstanding voting securities as of the Record Date; and (2) a majority of the outstanding voting securities as of the Record Date that are not held by affiliated persons of the Company, which includes directors, officers, employees, and 5% stockholders. For purposes of this proposal, the 1940 Act defines “a majority of the outstanding voting securities” as: (1) 67% or more of the voting securities present at the Meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (2) 50% of the outstanding voting securities of the Company, whichever is less. Abstentions and broker non-votes will have the effect of a vote against this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE PROPOSAL TO AUTHORIZE THE COMPANY TO SELL SHARES OF ITS COMMON STOCK AT A PRICE OR PRICES BELOW THE COMPANY’S THEN CURRENT NET ASSET VALUE PER SHARE IN ONE OR MORE OFFERINGS, IN EACH CASE SUBJECT TO THE APPROVAL OF ITS BOARD OF DIRECTORS AND COMPLIANCE WITH THE CONDITIONS SET FORTH IN THE PROXY STATEMENT.**

## OTHER BUSINESS

The board of directors knows of no other business to be presented for action at the Meeting. If any matters do come before the Meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the Meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the Meeting unless certain securities law requirements are met.

## AVAILABLE INFORMATION

We are required to file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549. This information will also be available free of charge by contacting us at Capitala Finance Corp. 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209, by telephone at (704) 376-5502, or on our website at <http://www.capitalagroup.com>.

## SUBMISSION OF STOCKHOLDER PROPOSALS

The Company expects that the 2016 Annual Meeting of Stockholders will be held in May 2016, but the exact date, time, and location of such meeting have yet to be determined. A stockholder who intends to present a proposal at that annual meeting must submit the proposal in writing to the Company at its address of 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209, and the Company must receive the proposal no later than \_\_\_\_\_, 2015, in order for the proposal to be considered for inclusion in the Company's proxy statement for that meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the meeting.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph) but is instead sought to be presented directly at next year's annual meeting, SEC rules permit management to vote proxies in its discretion if (a) the Company receives notice of the proposal before the close of business on \_\_\_\_\_, 2016, and advises stockholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) does not receive notice of the proposal before the close of business on \_\_\_\_\_, 2016.

Notices of intention to present proposals at the 2016 annual meeting should be addressed to John F. McGlenn, Corporate Secretary, Capitala Finance Corp., 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

The Company's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Company's Chief Compliance Officer. Persons who are uncomfortable submitting complaints to the Chief Compliance Officer, including complaints involving the Chief Compliance Officer, may submit complaints directly to the Company's Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The Chief Compliance Officer may be contacted at:

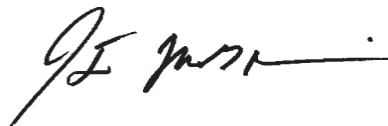
Chief Compliance Officer  
Capitala Finance Corp.  
4201 Congress Street, Suite 360  
Charlotte, North Carolina 28209

The Audit Committee Chair may be contacted at:

H. Paul Chapman  
Audit Committee Chair  
Capitala Finance Corp.  
4201 Congress Street, Suite 360  
Charlotte, North Carolina 28209

**You are cordially invited to attend the 2015 Annual Meeting of Stockholders in person. Whether or not you plan to attend the Meeting, you are requested to complete, date, sign and promptly return the accompanying proxy card in the enclosed postage-paid envelope or through the Internet.**

By Order of the Board of Directors



John F. McGlenn  
Corporate Secretary

Charlotte, North Carolina  
, 2015

#### **PRIVACY NOTICE**

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to non-public personal information about our stockholders to employees of our investment adviser and its affiliates with a legitimate business need for the information. We will maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
CAPITALA FINANCE CORP.  
FOR THE ANNUAL MEETING OF STOCKHOLDERS  
MAY 5, 2015**

The undersigned stockholder of Capitala Finance Corp. (the "Company") acknowledges receipt of the Notice of Annual Meeting of Stockholders of the Company and hereby appoints Joseph B. Alala, III, Stephen A. Arnall, and Richard G. Wheelahan, III, and each of them, and each with full power of substitution, to act as attorneys and proxies for the undersigned to vote all the shares of common stock of the Company which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the Company's office located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209 on May 5, 2015, at 8:30 a.m., Eastern Time, and at all postponements or adjournments thereof, as indicated on this proxy.

**THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED BELOW; where no choice is specified, it will be voted FOR Proposals 1, 2 and 3, and in the discretion of the proxies with respect to matters described in Proposal 4.**

Please vote, sign and date this proxy on the reverse side and return it promptly in the enclosed envelope.

(CONTINUED ON REVERSE SIDE)

**ANNUAL MEETING OF STOCKHOLDERS  
CAPITALA FINANCE CORP.  
MAY 5, 2015**

**VOTE BY INTERNET** — <http://www.astproxyportal.com/ast/18514/>

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by Capitala Finance Corp. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage paid envelope we have provided or return it to Capitala Finance Corp., c/o American Stock Transfer & Trust Company, LLC 6201 15<sup>th</sup> Avenue, Brooklyn, NY 11219.

**PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD  
IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE  
Please Detach and Mail in the Envelope Provided**

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1, 2 AND 3.**

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|---|-----------------------|-----------------------|-----------------------|
| 1. The election of each of the following persons (except as marked to the contrary) as a director, who will each serve as a director of Capitala Finance Corp. until 2018, or until his successor is duly elected and qualified.  | FOR                   | WITHHOLD<br>AUTHORITY | NOMINEE               |
|   | <input type="radio"/> | <input type="radio"/> | M. Hunt               |
|   | <input type="radio"/> | <input type="radio"/> | Broyhill              |
|   | <input type="radio"/> | <input type="radio"/> | Larry W.<br>Carroll   |
| 2. The ratification of the selection of Ernst & Young LLP as the independent registered public accounting firm for Capitala Finance Corp. for the fiscal year ending December 31, 2015.   | FOR                   | AGAINST               | ABSTAIN               |
|   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 3. To approve a proposal to authorize Capitala Finance Corp. to sell shares of its common stock at a price or prices below Capitala Finance Corp.'s then current net asset value per share in one or more offerings, in each case subject to the approval of its board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto (including, without limitation, that the number of shares issued does not exceed 25% of Capitala Finance Corp.'s then outstanding common stock immediately prior to each such offering). | FOR                   | AGAINST               | ABSTAIN               |
|   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4. To vote upon such other business as may properly come before the Meeting or any postponement or adjournment thereof.   |                       |                       |                       |

**IMPORTANT:** Please sign your names exactly as shown hereon and date your proxy in the blank provided. For joint accounts, each joint owner should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If the signer is a corporation or partnership, please sign in full corporate or partnership name by a duly authorized officer or partner.

<b>SIGNATURE</b>	<b>DATE</b>	<b>SIGNATURE</b>	<b>DATE</b>
_____	_____	_____	_____
IF HELD JOINTLY			

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