

STELLUS

CAPITAL

INVESTMENT CORPORATION

November 6, 2014

Stellus Capital Investment Corporation Reports Results for Its Third Fiscal Quarter Ended September 30, 2014

HOUSTON, TX -- (Marketwired) -- 11/06/14 -- Stellus Capital Investment Corporation (NYSE: SCM) ("Stellus" or "the Company") today announced financial results for its third fiscal quarter ended September 30, 2014.

HIGHLIGHTS

(\$ in millions, except data relating to per share amounts and number of portfolio companies)

	As of September 30, 2014	
Portfolio results		
Total assets	\$	296.4
Investment portfolio, at fair value	\$	284.1
Net assets	\$	177.1
Weighted average yield on debt investments		11.0%
Net asset value per share	\$	14.20

	Quarter ended September 30, 2014		Quarter ended September 30, 2013	
Portfolio activity				
Total investments made, at cost	\$	6.9	\$	16.8
Number of new investments		3		2
Repayments of investments, including amortization	\$	1.2	\$	35.4
Number of portfolio companies at end of period		28		23
Operating results				
Total investment income	\$	7.8	\$	7.9
Net investment income	\$	5.3 ⁽¹⁾	\$	4.1
Net investment income per share	\$	0.42 ⁽¹⁾	\$	0.34
Regular dividends declared per share	\$	0.34	\$	0.34
Net increase in net assets from operations	\$	2.1	\$	3.8
Net increase in net assets from operations per share	\$	0.17	\$	0.32
Weighted average shares outstanding during the period		12,404,485		12,066,548

1. Includes waiver of \$1.4 million of incentive fees for the period from January 1, 2014 through September 30, 2014.

"Although we had a modest level of originations during the third quarter, since quarter-end we have made investments totaling \$30.7 million, \$13 million of which we funded by issuing SBA-guaranteed debentures," said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the third quarter of 2014 with a portfolio of \$284.1 million (at fair value) invested in 28 companies. As of September 30, 2014, our portfolio included approximately 18% of first lien debt, 36% of second lien debt, 43% of mezzanine debt and 3% of equity investments at fair value. Our debt portfolio consisted of 47% fixed rate investments and 53% floating rate (subject to interest rate floors), such as LIBOR. The average size of our portfolio company investments was \$10.3 million (at cost) and our largest portfolio company investment was approximately \$23.1 million (at fair value). The weighted average yield on all of our debt investments as of September 30, 2014 was approximately 11.0%.

During the three months ended September 30, 2014, we made \$6.9 million of investments in one new portfolio company and two existing companies and received \$1.2 million of proceeds from the repayment of investments, including \$0.5 million from amortization of certain other investments.

This compares to the portfolio as of December 31, 2013, which had a fair value of \$277.5 million invested in 26 companies comprising 17% first lien debt, 43% second lien debt, 38% mezzanine debt and 2% equity. As of December 31, 2013, our debt investments had a weighted average yield of 11.4% and consisted of 42% fixed rate investments and 58% floating rate (subject to interest rate floors), such as LIBOR.

Results of Operations

Investment income for the three months ended September 30, 2014 and 2013 totaled \$7.8 million and \$7.9 million, respectively, most of which was interest income from portfolio investments.

During the current quarter, while under no obligation to do so, we waived \$1.4 million of incentive fees accrued during the nine months ended September 30, 2014. Such waiver in no way implies that we will waive incentive fees in any future period. Operating expenses, net of incentive fee waiver for the three months ended September 30, 2014 totaled \$2.6 million. For the three months ended September 30, 2013, operating expenses, net of incentive fee waiver totaled \$3.8 million. For the three months ended September 30, 2014 and 2013, base management fees totaled \$1.3 million and \$1.1 million, fees and expenses related to our borrowings totaled \$1.4 million and \$1.0 million (including commitment and other loan fees), administrative expenses totaled \$0.3 million and \$0.2 million and other expenses totaled \$0.6 million and \$0.8 million, all respectively. For the three months ended September 30, 2014 and 2013, incentive fees totaled (\$1.0) million and \$0.7 million (net of \$1.4 million and \$0.2 million of fees waived by the manager, respectively). The incentive fees waived during the quarter ended September 30, 2014 related to incentive fees accrued during the nine months ended September 30, 2014.

Net investment income was \$5.3 million and \$4.1 million, or \$0.42 and \$0.34 per common share based on weighted average common shares outstanding for the three months ended September 30, 2014 and 2013, respectively.

The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the three months ended September 30, 2014 and 2013, of (\$3.0) million and \$0.3 million, respectively. For the three months ended September 30, 2014 and 2013, the Company had realized gains of \$4 thousand and \$5 thousand, respectively.

Our net increase in net assets resulting from operations totaled \$2.1 million and \$3.8 million, or \$0.17 and \$0.32 per common share based on weighted average common shares outstanding for the three months ended September 30, 2014 and 2013, respectively.

Liquidity and Capital Resources

Our liquidity and capital resources are derived from our committed credit facility, bonds, SBA guaranteed debentures, and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from any future public and private offerings of securities to finance our investment activities.

As of September 30, 2014, our credit facility provided for borrowings in an aggregate amount up to \$150 million on a committed basis. As of September 30, 2014 and December 31, 2013, we had \$90 million and \$110 million, respectively, in outstanding borrowings under the credit facility.

On May 5, 2014, the Company closed a public offering of \$25.0 million in aggregate principal amount of 6.50% bonds. The net proceeds to the Company from the sales of the bonds, after underwriting discounts and offering expenses, were approximately \$24.1 million. The Company used all of the net proceeds from this offering to pay down the credit facility. As of September 30, 2014, the carrying amount of the notes was \$25.0 million.

On June 5, 2014, we established an at-the-market program through which we may sell, from time to time, and at our sole discretion up to \$50 million of our common stock. During the quarter ended September 30, 2014, we issued approximately \$1.7 million in common stock, net of 1.5% commission to the broker-dealer on shares sold and offering costs.

For the nine months ended September 30, 2014, our operating activities provided cash of \$2.1 million primarily in connection with cash interest received and our financing activities used cash of \$11.6 million, primarily from repayments under the credit facility. For the nine months ended September 30, 2013, our operating activities used cash of \$37.6 million primarily from the purchases of investments and our financing activities used cash of \$0.9 million, primarily from the repayment of short-term loans.

Distributions

During the three months ended September 30, 2014 and 2013, we declared distributions of \$0.34 per share (\$4.2 million) and \$0.34 per share (\$4.1 million), respectively. Tax characteristics of all distributions made in the current year will be reported to stockholders on Form 1099-DIV after the end of the calendar year. None of these dividends are expected to include a return of capital.

Recent Portfolio Activity

During the three months ended September 30, 2014, we made \$6.9 million (at cost) of investments in one new portfolio company and two existing portfolio companies. During the same period the Company received \$1.2 million from repayments and sales of investments, of which \$0.5 million represents amortization on existing loans. New investment transactions and repayments that occurred during the three months ended September 30, 2014 are summarized as follows:

- On July 31, 2014, we invested an additional \$2.0 million in the unsecured term loan of SQAD, LLC. In addition, we invested \$12,485 in the company's common equity and \$112,368 in Series A Preferred equity.
- On September 5, 2014, we made a \$4.4 million investment in the second lien term loan of Abrasive Products & Equipment. We also invested \$0.4 million in the company's equity.
- On September 5, 2014, we received repayment of \$0.7 million of the revolving term loan of Refac Optical Group at par.
- On September 8, 2014, we invested \$33,333 in the equity of Skopos Financial, LLC.

Events Subsequent to September 30, 2014

Since September 30, 2014, we made three new investments totaling \$28.1 million (at par) and one follow-on investment of \$2.6 million (at par) which brings the investment portfolio to approximately \$314.8 million (at estimated fair value) and the average investment per company to \$10.2 million as of October 31, 2014.

- On October 3, 2014, we invested \$2.5 million in the unsecured debt of Skopos Financial, LLC. We invested an additional \$66,667 in the equity of the Company on October 30, 2014.
- On October 21, 2014, we invested \$7.5 million in the first lien debt of Hollander Sleep Products, LLC and \$250,000 in the common stock of Dream II Holdings, LLC.
- On October 22, 2014, we invested \$15.6 million in the first lien debt and committed \$1.75 million in the unfunded revolver of Huf Worldwide, LLC and invested \$500,000 in the preferred stock of Huf Holdings LLC.
- On October 23, 2014, we invested \$4.0 million in the second lien debt of and \$250,000 in the common and preferred stock of Zemax Software Holdings, LLC.

Dividends

On October 14, 2014, the Company's board of directors declared a regular monthly dividend of \$0.1133 per share for each of the months of October 2014, November 2014 and December 2014.

Credit Facility

The outstanding balance under the Credit Facility as of November 3, 2014 was \$102 million.

SBA Debentures

On each of October 14, 2014, and October 17, 2014, the SBIC Subsidiary issued \$6.5 million of SBA-guaranteed debentures for a total of \$13.0 million.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on November 7, 2014, at 10:00 a.m. Central Standard Time. The conference call will be led by Robert T. Ladd, chief executive officer, and W. Todd Huskinson, chief financial officer, chief compliance officer, treasurer, and secretary.

For those wishing to participate by telephone, please dial (888) 455-2260 (domestic). Use passcode 8257325. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through November 20, 2014 by dialing (888) 203-1112 and entering passcode 8257325. The replay will also be available on the company's website.

Consolidated Statements of Assets and Liabilities

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$287,408,278 and \$277,004,466, respectively)	\$ 284,105,102	\$ 277,504,510
Cash and cash equivalents	4,164,063	13,663,542
Receivable for sales and repayments of investments	38,021	-
Interest receivable	5,357,554	4,713,912
Deferred offering costs	261,760	205,165
Deferred financing costs	844,606	-
Accounts receivable	31,013	-
Receivable for affiliated transaction	-	43,450
Prepaid loan structure fees	1,212,098	1,586,405
Prepaid expenses	381,799	411,321
Total Assets	\$ 296,396,016	\$ 298,128,305
LIABILITIES		
Notes Payable	25,000,000	-
Credit facility payable	90,000,000	110,000,000
Short-term loan	-	9,000,000
Dividends payable	1,413,224	-
Base management fees payable	1,281,231	1,176,730
Incentive fees payable	215,887	1,056,942
Accrued offering costs	4,752	-
Interest payable	336,275	234,051
Directors' fees payable	86,000	96,000
Unearned revenue	129,548	146,965
Administrative services payable	551,383	263,226
Deferred Tax Liability	185,888	-
Other accrued expenses and liabilities	96,567	262,877
Total Liabilities	119,300,755	122,236,791
Net Assets	\$ 177,095,261	\$ 175,891,514
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,473,293 and 12,099,022 shares issued and outstanding, as of September 30, 2014 and December 31, 2013, respectively)	\$ 12,473	\$ 12,099
Paid-in capital	180,909,398	175,614,738
Accumulated undistributed net realized gain	682,320	1,027,392
Distributions in excess of net investment income	(1,019,866)	(1,262,659)
Net Unrealized appreciation (depreciation) on investments and cash equivalents, net of provision for taxes of \$185,888 and \$0, as of September 30, 2014 and December 31, 2013, respectively	(3,489,064)	499,944
Net Assets	177,095,261	175,891,514
Total Liabilities and Net Assets	\$ 296,396,016	\$ 298,128,305
Net Asset Value Per Share	\$ 14.20	\$ 14.54

**Stellus Capital Investment Corporation
Consolidated Statement of Operations (unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest income	\$ 7,766,986	\$ 7,604,636	\$ 23,126,699	\$ 20,640,265
Other income	55,511	312,995	557,753	1,065,033
Total Investment Income	7,822,497	7,917,631	23,684,452	21,705,298
OPERATING EXPENSES				
Management fees	1,281,231	1,140,675	3,842,971	3,065,877
Valuation fees	128,815	154,785	344,952	358,495
Administrative services expenses	312,870	220,249	856,804	619,825
Incentive fees	410,134	914,412	2,173,966	2,969,855

Professional fees	115,463	254,533	399,490	477,995
Directors' fees	86,000	76,000	290,000	254,000
Insurance expense	121,730	119,695	361,220	354,933
Interest expense and other fees	1,409,565	968,674	3,841,487	2,253,433
Other general and administrative expenses	105,418	102,388	256,385	229,832
Total Operating Expenses	3,971,226	3,951,411	12,367,275	10,584,245
Waiver of Incentive Fees	(1,399,226)	(167,775)	(1,399,226)	(672,982)
Total operating expenses, net of fees waivers	2,572,000	3,783,636	10,968,049	9,911,263
Net Investment Income	5,250,497	4,133,995	12,716,403	11,794,035
Net Realized Gain on Investments and Cash Equivalents	3,907	5,061	441,364	1,007,978
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	(2,955,085)	(313,635)	(3,803,120)	1,033,121
Benefit/(Provision) for taxes on unrealized gain on investments	(185,888)	0	(185,888)	0
Net Increase in Net Assets Resulting from Operations	\$ 2,113,431	\$ 3,825,421	\$ 9,168,759	\$ 13,853,134
Net Investment Income Per Share	\$ 0.42	\$ 0.34	\$ 1.04	\$ 0.98
Net Increase in Net Assets Resulting from Operations Per Share	\$ 0.17	\$ 0.32	\$ 0.75	\$ 1.15
Weighted Average Shares of Common Stock Outstanding	12,404,485	12,066,548	12,214,875	12,051,013
Distributions Per Share	\$ 0.34	\$ 0.34	\$ 1.09	\$ 1.02

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 12,716,403	\$ 11,794,035
Net realized gain on investments and cash equivalents	441,364	1,007,978
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(3,803,120)	1,033,121
Benefits/(Provision) for taxes on unrealized gain on investments	(185,888)	-
Net Increase in Net Assets Resulting from Operations	9,168,759	13,835,134
Stockholder distributions	(13,260,046)	(12,291,447)
Capital share transactions		
Issuance of common stock	5,087,335	-
Reinvestments of stockholder distributions	313,113	669,803
Sales load	(75,510)	-
Offering costs	(29,904)	-
Net increase in net assets resulting from capital share transactions	5,295,034	669,803
Total increase in net assets	1,203,747	2,213,490
Net assets at beginning of period	175,891,514	173,845,955
Net assets at end of period (includes \$1,019,866 and \$1,372,398 of distributions in excess of net investment income)	\$ 177,095,261	\$ 176,059,445

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the nine months For the nine months

	<i>ended</i> <u>September 30, 2014</u>	<i>ended</i> <u>September 30, 2013</u>
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 9,168,759	\$ 13,835,134
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(58,454,022)	(129,073,679)
Proceeds from sales and repayments of investments	49,485,710	84,105,057
Net change in unrealized (appreciation) depreciation on investments	3,803,220	(1,031,604)
Increase in investments due to PIK	(538,457)	(854,644)
Amortization of premium and accretion of discount, net	(488,829)	(308,299)
Amortization of loan structure fees	452,054	419,927
Amortization of deferred financing costs	74,964	-
Net realized gain on investments	(446,239)	(1,010,884)
Changes in other assets and liabilities		
Increase in interest receivable	(643,642)	(1,576,787)
Decrease in receivable for affiliated transaction	43,450	-
Increase in accounts receivable	(31,013)	-
Decrease in prepaid expenses and fees	29,522	384,904
Increase (decrease) in payable for investments purchased	-	(4,750,000)
Increase in management fees payable	104,501	613,642
Increase (decrease) in directors' fees payable	(10,000)	46,548
Increase (decrease) in incentive fees payable	(841,055)	1,262,914
Increase in administrative services payable	288,157	-
Increase in interest payable	102,224	225,682
Decrease in unearned revenue	(17,417)	-
Increase in deferred tax liability	185,888	-
Increase (decrease) in other accrued expenses and liabilities	(161,558)	91,632
Net cash provided by (used in) operating activities	<u>2,106,217</u>	<u>(37,620,457)</u>
Cash flows from financing activities		
Proceeds from notes issued	25,000,000	-
Financing costs paid for credit facility and notes issued	(997,317)	(156,672)
Proceeds from the issuance of common stock	5,116,989	-
Sales load for common stock issued	(75,510)	-
Offering costs paid for common stock issued	(116,149)	(147,123)
Stockholder distributions paid	(11,533,709)	(11,621,644)
Borrowings under credit facility	78,000,000	105,000,000
Repayments of credit facility	(98,000,000)	(58,000,000)
Repayments of short-term loan	(9,000,000)	(76,000,643)
Borrowings on short-term loan	-	39,999,633
Net cash used in financing activities	<u>(11,605,696)</u>	<u>(926,449)</u>
Net decrease in cash and cash equivalents	(9,499,479)	(38,545,906)
Cash and cash equivalents balance at beginning of period	13,663,542	62,131,686
Cash and cash equivalents balance at end of period	<u>\$ 4,164,063</u>	<u>\$ 23,585,780</u>
Supplemental and non-cash financing activities		
Accrued deferred offering costs	\$ 4,752	\$ -
Value of shares issued pursuant to Dividend Reinvestment Plan	\$ 313,113	\$ 669,803
Interest expense paid	\$ 3,206,081	\$ 1,559,812

About Stellus Capital Investment Corporation

The Company is an externally-managed, closed-end, non-diversified investment management company that has elected to be regulated as a business development company under the Investment Company Act of 1940. The Company's investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation by investing primarily in private middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, and corresponding equity investments. The Company's investment activities are managed by its investment adviser, Stellus Capital Management. To learn more about Stellus Capital Investment Corporation, visit www.stelluscapital.com under the Stellus Capital Investment Corporation link.

Forward Looking Statements

Statements included herein may contain "forward-looking statements" which relate to future performance or financial condition. Statements other than statements of historical facts included in this press release may constitute forward-looking statements and are not guarantees of future performance or results and involve a number of assumptions, risks and uncertainties, which change over time. Actual results may differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including those described from time to time in filings by the Company with the Securities and Exchange Commission. The Company undertakes no duty to update any forward-looking statement made herein. All forward-looking statements speak only as of the date of this press release.

Available Information

Stellus' filings with the Securities and Exchange Commission, press releases, earnings release, and other financial information are available on its website at www.stelluscapital.com under the Stellus Capital Investment Corporation link.

Contacts

Stellus Capital Investment Corporation

W. Todd Huskinson

(713) 292-5414

Chief Financial Officer

thuskinson@stelluscapital.com

Source: Stellus Capital Investment Corporation

News Provided by Acquire Media