

STELLUS

CAPITAL

INVESTMENT CORPORATION

November 6, 2015

Stellus Capital Investment Corporation Reports Results for Its Third Fiscal Quarter Ended September 30, 2015

HOUSTON, TX -- (Marketwired) -- 11/06/15 -- Stellus Capital Investment Corporation (NYSE: SCM) ("Stellus" or "the Company") today announced financial results for its third fiscal quarter ended September 30, 2015.

HIGHLIGHTS

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

	As of September 30,	
	2015	
Portfolio results		
Total assets	\$337.0	
Investment portfolio, at fair value	\$323.0	
Net assets \$170.0	\$170.0	
Weighted average yield on debt investments	10.6%	
Net asset value per share	\$13.62	
	Quarter ended	Quarter ended
	September 30, 2015	September 30, 2014
<u>Portfolio activity</u>		
Total investments made, at par	\$25.5	\$7.0
Number of new investments	5	3
Repayments of investments, including amortization	\$22.5	\$1.2
Number of portfolio companies at end of period	35	28
<u>Operating results</u>		
Total investment income	\$8.6	\$7.8
Net investment income	\$3.8	\$5.3
Net investment income per share	\$0.31	\$0.42
Regular dividends declared per share	\$0.34	\$0.34
Net increase (decrease) in net assets from operations	(\$0.6)	\$2.1
Net increase (decrease) in net assets from operations per share	(\$0.05)	\$0.17

"We are pleased to report that our originations exceeded payoffs during the third quarter. We are seeing a number of interesting opportunities and we are continuing to access SBA-guaranteed debentures," said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the third quarter of 2015 with a portfolio of \$323.0 million (at fair value) invested in 35 companies. As of September 30, 2015, our portfolio included approximately 30% of first lien debt, 44% of second lien debt, 23% of mezzanine debt and 3% of equity investments at fair value. Our debt portfolio consisted of 27% fixed rate investments and 73% floating rate investments (subject to interest rate floors). The average size of our portfolio company investments was \$9.2 million and our largest portfolio company investment was approximately \$21.6 million at fair value. The weighted average yield on all of our debt investments as of September 30, 2015 was approximately 10.6%.

During the three months ended September 30, 2015, we made \$25.5 million of investments in two new portfolio companies and three existing portfolio companies and received \$22.5 million of proceeds from the repayment of investments, including \$1.3 million from amortization of certain other investments.

This compares to the portfolio as of December 31, 2014, which had a fair value of \$316.0 million invested in 32 companies comprising 24% of first lien debt, 32% of second lien debt, 41% of mezzanine debt and 3% of equity investments at fair value. As of December 31, 2014, our debt investments had a weighted average yield of 10.9% and consisted of 44% fixed rate investments and 56% floating rate investments (subject to interest rate floors).

Results of Operations

Investment income for the three months ended September 30, 2015 and 2014 totaled \$8.6 million and \$7.8 million, respectively, most of which was interest income from portfolio investments.

Operating expenses, net of fee waiver for the three months ended September 30, 2015 and 2014, totaled \$4.8 million and \$2.6 million, respectively. For the same respective periods, base management fees totaled \$1.5 million and \$1.3 million, incentive fees totaled \$1.0 million and \$0.4 million, fees and expenses related to our borrowings totaled \$1.5 million and \$1.4 million (including interest and amortization of deferred financing costs), administrative expenses totaled \$0.2 million and \$0.3 million and other expenses totaled \$0.6 million and \$0.6. The Advisor waived no incentive fees for the three months ended September 30, 2015. The Advisor voluntarily waived incentive fees of \$1.4 million during the three months ended September 30, 2014.

Net investment income was \$3.8 million and \$5.3 million, or \$0.31 and \$0.42 per common share based on weighted average common shares outstanding for the three months ended September 30, 2015 and 2014.

The Company's investment portfolio had a net change in unrealized depreciation for the three months ended September 30, 2015 and 2014, of \$4.6 million and \$3.0 million, respectively. For the three months ended September 30, 2015 and 2014 the Company had realized gains of \$2 thousand and \$4 thousand, respectively.

Our net increase (decrease) in net assets resulting from operations totaled (\$0.6) million and \$2.1 million, or (\$0.05) and \$0.17 per common share based on weighted average common shares outstanding for the three months ended September 30, 2015 and 2014, respectively.

Liquidity and Capital Resources

As of September 30, 2015 and 2014, our credit facility provided for borrowings in an aggregate amount up to \$120 million and \$150 million, respectively, on a committed basis. As of September 30, 2015, our credit facility had an accordion feature which allowed for potential future expansion of the facility size to \$195 million. As of September 30, 2015 and December 31, 2014, we had \$110.8 million and \$106.5 million, respectively, in outstanding borrowings under the credit facility.

For the nine months ended September 30, 2015, our operating activities provided cash of \$3.3 million primarily in connection with cash interest received and repayments of our investments. For the same period, our financing activities provided cash of \$0.7 million, primarily related to the issuance of SBA debentures.

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 repayments of our investments, and our financing activities used cash of \$11.6 million, primarily due to repayments on the credit facility.

Distributions

During the three months ended September 30, 2015 and 2014, we declared distributions of \$0.34 per share (\$4.2 million) for each quarter. Tax characteristics of all distributions 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

New investment transactions and repayments which occurred during the three months ended September 30, 2015 are summarized as follows:

- On July 8, 2015, we received full repayment on our second lien term loan of Telular Corp. at par plus a 1% prepayment premium, resulting in total proceeds of \$7.6 million.
- On August 6, 2015, we made a \$12.5 million investment in the first lien loan of Catapult Learning, LLC, a leading provider of specialized education services.
- On August 10, 2015, we funded \$2.4 million under the delay draw term loan of Software Paradigms International, reducing our unfunded commitment to \$0.4 million.
- On August 17, 2015, we received full repayment on the unsecured term loan of Snowman Holdings, LLC at par, resulting in proceeds of \$11.2 million.

- On August 20, 2015, we made a \$0.6 million equity investment in an existing portfolio company, Colford Capital Holdings, LLC.
- On August 27, 2015, we received a partial repayment on the second lien term loan of Calero Software LLC resulting in proceeds of \$2.5 million, and made an additional equity investment of \$25.0 thousand.
- On September 24, 2015, we made a \$10.0 million investment in the second lien term loan of Sitel Worldwide Corporation, a leading outsourced provider of marketing services, with a focus on the technology, e-commerce, insurance, and consumer goods markets.

Events Subsequent to September 30, 2015

On October 9, 2015, we received full repayment on our second lien term loan of Help/Systems Holding Inc. at par, resulting in total proceeds of \$15.0 million.

On October 29, 2015, we invested \$10.5 million in the first lien debt and \$0.3 million in the equity of Apex Environmental, LLC.

Credit Facility

The outstanding balance under our credit facility as of November 3, 2015 was \$94.5 million.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on November 6, 2015, 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) 417-8533 (domestic). Use passcode 2970643. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through November 14, 2015 by dialing (888) 203-1112 and entering passcode 2970643. The replay will also be available on the company's website.

PART I - FINANCIAL INFORMATION

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$332,172,782 and \$321,955,480, respectively)	\$ 322,966,189	\$ 315,965,434
Cash and cash equivalents	6,079,062	2,046,563
Interest receivable	4,346,553	5,082,665
Deferred offering costs	261,761	261,761
Deferred financing costs	665,337	828,956
Accounts receivable	7,684	696
Prepaid loan fees on SBA debentures	1,106,738	681,947
Prepaid loan structure fees	1,382,333	1,774,630
Prepaid expenses	140,504	419,283
Total Assets	\$ 336,956,161	\$ 327,061,935
LIABILITIES		
Notes Payable	\$ 25,000,000	\$ 25,000,000
Credit facility payable	110,750,000	106,500,000
SBA Debentures	26,000,000	16,250,000
Dividends payable	1,413,982	1,413,983
Base management fees payable	1,462,024	1,360,019
Incentive fees payable	1,129,318	1,121,556
Interest payable	325,931	346,204
Unearned revenue	40,534	157,403
Administrative services payable	380,240	591,744
Deferred tax liability	254,941	288,122
Other accrued expenses and liabilities	206,525	83,452

Total Liabilities	\$	166,963,495	\$	153,112,483
Commitments and contingencies (Note 7)				
Net Assets	\$	169,992,666	\$	173,949,452
NET ASSETS				
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,962 and 12,479,962 shares issued and outstanding, respectively)	\$	12,480	\$	12,480
Paid-in capital		180,994,764		180,994,783
Accumulated undistributed net realized gain		294,863		-
Distributions in excess of net investment income		(1,847,907)		(779,643)
Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$254,941 and \$288,122, respectively.		(9,461,534)		(6,278,168)
Net Assets	\$	169,992,666	\$	173,949,452
Total Liabilities and Net Assets	\$	336,956,161	\$	327,061,935
Net Asset Value Per Share	\$	13.62	\$	13.94

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	<i>For the three months ended September 30, 2015</i>	<i>For the three months ended September 30, 2014</i>	<i>For the nine months ended September 30, 2015</i>	<i>For the nine months ended September 30, 2014</i>
INVESTMENT INCOME				
Interest income	\$ 8,509,804	\$ 7,766,986	\$ 25,776,147	\$ 23,126,699
Other income	93,009	55,511	231,219	557,753
Total Investment Income	\$ 8,602,813	\$ 7,822,497	\$ 26,007,366	\$ 23,684,452
OPERATING EXPENSES				
Management fees	\$ 1,462,024	\$ 1,281,231	\$ 4,322,488	\$ 3,842,971
Valuation fees	139,266	128,815	328,065	344,952
Administrative services expenses	224,836	312,870	800,863	856,804
Incentive fees	954,908	410,134	2,914,633	2,173,966
Professional fees	92,320	115,463	454,675	399,490
Directors' fees	76,000	86,000	260,000	290,000
Insurance expense	119,417	121,730	354,603	361,220
Interest expense and other fees	1,557,629	1,409,565	4,522,176	3,841,487
Other general and administrative expenses	156,782	105,418	391,330	256,385
Total Operating Expenses	\$ 4,783,182	\$ 3,971,226	\$ 14,348,833	\$ 12,367,275
Waiver of Incentive Fee	-	(1,399,226)	-	(1,399,226)
Total Operating Expenses, net of fee waivers	\$ 4,783,182	\$ 2,572,000	\$ 14,348,833	\$ 10,968,049
Net Investment Income	\$ 3,819,631	\$ 5,250,497	\$ 11,658,533	\$ 12,716,403
Net Realized Gain on Investments and Cash Equivalents	\$ 2,146	\$ 3,907	\$ 294,863	\$ 441,364
Net Change in Unrealized Depreciation on Investments and Cash Equivalents	\$ (4,593,553)	\$ (2,955,085)	\$ (3,216,547)	\$ (3,803,120)
Benefit (provision) for taxes on unrealized gain on investments	\$ 147,439	\$ (185,888)	\$ 33,181	\$ (185,888)
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (624,337)	\$ 2,113,431	\$ 8,770,030	\$ 9,168,759
Net Investment Income Per Share	\$ 0.31	\$ 0.42	\$ 0.93	\$ 1.04
Net Increase (Decrease) in Net Assets Resulting from Operations Per Share	\$ (0.05)	\$ 0.17	\$ 0.70	\$ 0.75

**Weighted Average Shares of
Common Stock Outstanding
Distributions Per Share**

	12,479,962		12,404,485		12,479,962		12,214,875
\$	0.34	\$	0.34	\$	1.02	\$	1.09

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	<i>For the nine months ended September 30, 2015</i>	<i>For the nine months ended September 30, 2014</i>
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 11,658,533	\$ 12,716,403
Net realized gain on investments and cash equivalents	294,863	441,364
Net change in unrealized depreciation on investments and cash equivalents	(3,216,547)	(3,803,120)
Benefit (provision) for taxes on unrealized appreciation on investments	33,181	(185,888)
Net Increase in Net Assets Resulting from Operations	\$ 8,770,030	\$ 9,168,759
Stockholder distributions		
Net investment income	(12,726,816)	(12,473,610)
Net realized capital gains	-	(786,436)
Total Distributions	\$ (12,726,816)	\$ (13,260,046)
Capital share transactions		
Issuance of common stock	-	5,087,335
Reinvestments of stockholder distributions	-	313,113
Sales load	-	(75,510)
Offering costs	-	(29,904)
Net increase in net assets resulting from capital share transactions	\$ -	\$ 5,295,034
Total increase (decrease) in net assets	\$ (3,956,786)	\$ 1,203,747
Net assets at beginning of period	\$ 173,949,452	\$ 175,891,514
Net assets at end of period (includes \$1,847,907 and \$1,019,866 of distributions in excess of net investment income, respectively)	\$ 169,992,666	\$ 177,095,261

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	<i>For the nine months ended September 30, 2015</i>	<i>For the nine months ended September 30, 2014</i>
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 8,770,030	\$ 9,168,759
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(85,108,716)	(58,454,022)
Proceeds from sales and repayments of investments	76,333,638	49,485,710
Net change in unrealized depreciation on investments	3,216,547	3,803,220
Deferred tax provision (benefit)	(33,181)	185,888
Increase in investments due to PIK	(387,975)	(538,457)
Amortization of premium and accretion of discount, net	(759,387)	(488,829)
Amortization of loan structure fees	392,297	452,054
Amortization of deferred financing costs	163,619	74,964
Amortization of loan fees on SBIC debentures	136,646	-
Net realized gain on investments	(294,863)	(446,239)
Changes in other assets and liabilities		
Decrease (increase) in interest receivable	736,112	(643,642)
Decrease in receivable for affiliated transaction	-	43,450
Increase in accounts receivable	(6,988)	(31,013)
Decrease in prepaid expenses and fees	278,779	29,522

Increase in management fees payable	102,005	104,501
Decrease in directors' fees payable	-	(10,000)
Increase (decrease) in incentive fees payable	7,762	(841,055)
Increase (decrease) in administrative services payable	(211,504)	288,157
Increase (decrease) in interest payable	(20,273)	102,224
Decrease in unearned revenue	(116,869)	(17,417)
Increase (decrease) in other accrued expenses and liabilities	123,073	(161,558)
Net cash provided by operating activities	<u>\$ 3,320,752</u>	<u>\$ 2,106,217</u>
Cash flows from financing activities		
Proceeds from notes issued	-	25,000,000
Proceeds from SBA Debentures	9,750,000	-
Financing costs paid on notes issued	-	(997,317)
Financing costs paid on SBA Debentures	(561,437)	-
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)
Stockholder distributions paid	(12,726,816)	(11,533,709)
Borrowings under credit facility	86,500,000	78,000,000
Repayments of credit facility	(82,250,000)	(98,000,000)
Repayments of short-term loan	-	(9,000,000)
Net cash provided by (used in) financing activities	<u>\$ 711,747</u>	<u>\$ (11,605,696)</u>
Net increase (decrease) in cash and cash equivalents	4,032,499	(9,499,479)
Cash and cash equivalents balance at beginning of period	2,046,563	13,663,542
Cash and cash equivalents balance at end of period	<u>\$ 6,079,062</u>	<u>\$ 4,164,063</u>
Supplemental and non-cash financing activities		
Accrued deferred offering costs	\$ -	\$ 4,752
Shares issued pursuant to Dividend Reinvestment Plan	\$ -	\$ 313,113
Interest expense paid	\$ 3,844,890	\$ 3,206,081

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.

Contact

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