

STELLUS

CAPITAL

INVESTMENT CORPORATION

August 7, 2015

Stellus Capital Investment Corporation Reports Results for Its Second Fiscal Quarter Ended June 30, 2015

HOUSTON, TX -- (Marketwired) -- 08/07/15 -- Stellus Capital Investment Corporation (NYSE: SCM) ("Stellus" or "the Company") today announced financial results for its second fiscal quarter ended June 30, 2015.

HIGHLIGHTS

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

	As of June 30, 2015	
Portfolio results		
Total assets	\$338.5	
Investment portfolio, at fair value	\$324.4	
Net assets	\$174.9	
Weighted average yield on debt investments	10.7%	
Net asset value per share	\$14.01	
	Quarter ended	Quarter ended
	June 30, 2015	June 30, 2014
Portfolio activity		
Total investments made, at par	\$38.9	\$11.0
Number of new investments	6	5
Repayments of investments, including amortization	\$36.6	\$25.9
Number of portfolio companies at end of period	35	27
Operating results		
Total investment income	\$8.7	\$8.0
Net investment income	\$4.0	\$3.7
Net investment income per share	\$0.32	\$0.31
Realized Gains per share	\$0.02	\$0.03
Regular dividends declared per share	\$0.34	\$0.34
Net increase in net assets from operations	\$4.0	\$2.7
Net increase in net assets from operations per share	\$0.32	\$0.22

"In the second quarter we covered our dividend through earnings of \$0.34 per share. Our originations of \$39 million exceeded the payoffs during the quarter, which were greater than normal," said Robert T. Ladd, Chief Executive Officer of the Company.

Portfolio and Investment Activity

We completed the second quarter of 2015 with a portfolio of \$324.4 million (at fair value) invested in 35 companies. As of June 30, 2015, our portfolio included approximately 26% of first lien debt, 43% of second lien debt, 27% of mezzanine debt and 4% of equity investments at fair value. Our debt portfolio consisted of 68% floating rate investments (subject to interest rate floors) and 32% fixed rate investments. The average size of our portfolio company investments was \$9.3 million and our largest portfolio company investment was approximately \$22.6 million at fair value. The weighted average yield on all of our debt investments as of June 30, 2015 was approximately 10.7%.

During the three months ended June 30, 2015, we made \$38.9 million of investments in four new portfolio companies and two

existing portfolio companies and received \$36.6 million of proceeds from the repayment or sale of investments, including \$2.2 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 June 30, 2015 and 2014 totaled \$8.7 million and \$8.0 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended June 30, 2015 and 2014, totaled \$4.7 million and \$4.3 million, respectively. For the same respective periods, base management fees totaled \$1.4 million and \$1.3 million, incentive fees totaled \$1.0 million and \$0.9 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 \$0.3 million and \$0.3 million and other expenses totaled \$0.5 million and \$0.4 million.

Net investment income was \$4.0 million and \$3.7 million, or \$0.32 and \$0.31 per common share based on weighted average common shares outstanding for the three months ended June 30, 2015 and 2014, respectively.

The Company's investment portfolio had a net change in unrealized depreciation for the three months ended June 30, 2015 and 2014, of \$0.2 million and \$1.3 million, respectively. For the three months ended June 30, 2015 and 2014 the Company had realized gains of \$0.3 million and \$0.3 million, respectively.

Our net increase in net assets resulting from operations totaled \$4.0 million and \$2.7 million, or \$0.32 and \$0.22 per common share based on weighted average common shares outstanding for the three months ended June 30, 2015 and 2014, respectively.

Liquidity and Capital Resources

As of June 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 June 30, 2015, our credit facility had an accordion feature which allowed for potential future expansion of the facility size to \$195 million. As of June 30, 2015 and December 31, 2014, we had \$107.0 million and \$106.5 million, respectively, in outstanding borrowings under the credit facility.

For the six months ended June 30, 2015, our operating activities provided cash of \$2.6 million primarily in connection with cash interest received and repayments of our investments. For the same period, our financing activities provided cash of \$1.2 million, primarily related to the issuance of SBA debentures, which increased from \$16 million to \$26 million during the quarter.

For the six months ended June 30, 2014 our operating activities provided cash of \$4.8 million primarily in connection with cash interest received and repayments of our investments, and our financing activities used cash of \$8.3 million, primarily due to repayments on the credit facility.

Distributions

During the three months ended June 30, 2015 and 2014, we declared distributions of \$0.34 per share (\$4.2 million and \$4.1 million, respectively) 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 June 30, 2015 are summarized as follows:

- On May 22, 2015, we received a paydown of \$2.5 million from Huf Worldwide, LLC and reduced our unfunded revolver commitment from \$1.75 million to \$1.25 million. We made an additional \$56 thousand equity investment in Huf Holdings, LLC.
- On May 29, 2015, we received full repayment on the unsecured senior subordinated note of Woodstream Corporation at par, resulting in total proceeds of \$9.1 million. We also received full repayment on the unsecured senior subordinated note of Woodstream Group at par, resulting in total proceeds of \$0.9 million.
- On June 8, 2015, we made a \$4.5 million investment in the second lien term loan of U.S. Auto Sales, Inc., a leading

integrated used car retailer and subprime auto finance company. We also invested \$0.5 million in the equity of the company.

- On June 12, 2015, we received full repayment on the unsecured term loan of ATX Networks Holding Intermediate Corp at par, resulting in total proceeds of \$21.9 million.
- On June 23, 2015, we made a \$7.1 million investment in the first lien loan of Software Paradigms International, Inc., a leading provider of outsourced IT and merchandise planning software and services, with a \$2.8 million unfunded revolver commitment.
- On June 23, 2015, we funded \$0.5 million of the Huf Worldwide, LLC revolver.
- On June 25, 2015, we made an additional \$5.0 million term loan in an existing portfolio company, Colford Capital Holdings, LLC.
- On June 30, 2015, we made a \$9.0 million investment in the second lien term loan of Douglas Products and Packaging Company, LLC, a leading manufacturer of specialty chemicals. We also invested \$0.25 million in the equity of the company.
- On June 30, 2015, we made an \$11.25 million investment in the second lien loan of Stratose Intermediate Holdings II, LLC, a leading provider of out-of-network claims cost management solutions. We also invested \$0.75 million in the equity of the company.

Events Subsequent to June 30, 2015

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 term loan of Catapult Learning, LLC.

Credit Facility

The outstanding balance under the Credit Facility as of August 6, 2015 was \$108.3 million.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on August 7, 2015, at 10:00 a.m. Central Daylight 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) 427-9411 (domestic). Use passcode 6337121. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through August 15, 2015 by dialing (888) 203-1112 and entering passcode 6337121. 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

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$329,007,464 and \$321,955,480, respectively)	\$ 324,394,424	\$ 315,965,434
Cash and cash equivalents	5,829,698	2,046,563
Receivable for sales and repayments of investments	75,358	-
Interest receivable	4,093,194	5,082,665
Deferred offering costs	261,761	261,761
Deferred financing costs	711,783	828,956
Accounts receivable	186,032	696
Prepaid loan fees on SBA debentures	1,165,534	681,947
Prepaid loan structure fees	1,514,536	1,774,630
Prepaid expenses	283,114	419,283
Total Assets	\$ 338,515,434	\$ 327,061,935
LIABILITIES		
Notes Payable	\$ 25,000,000	\$ 25,000,000

Credit facility payable	107,000,000	106,500,000
SBA Debentures	26,000,000	16,250,000
Dividends payable	1,413,983	1,413,983
Base management fees payable	1,446,330	1,360,019
Incentive fees payable	1,228,851	1,121,556
Interest payable	389,431	346,204
Directors' fees payable	184,000	-
Unearned revenue	44,190	157,403
Administrative services payable	371,327	591,744
Deferred Tax Liability	402,379	288,122
Other accrued expenses and liabilities	175,637	83,452
Total Liabilities	<u>\$ 163,656,128</u>	<u>\$ 153,112,483</u>
Commitments and contingencies		
Net Assets	<u>\$ 174,859,306</u>	<u>\$ 173,949,452</u>
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	292,717	-
Distributions in excess of net investment income	(1,425,235)	(779,643)
Net Unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$402,379 and \$288,122, respectively.	(5,015,420)	(6,278,168)
Net Assets	<u>\$ 174,859,306</u>	<u>\$ 173,949,452</u>
Total Liabilities and Net Assets	<u>\$ 338,515,434</u>	<u>\$ 327,061,935</u>
Net Asset Value Per Share	<u>\$ 14.01</u>	<u>\$ 13.94</u>

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	<i>For the three months ended June 30, 2015</i>	<i>For the three months ended June 30, 2014</i>	<i>For the six months ended June 30, 2015</i>	<i>For the six months ended June 30, 2014</i>
INVESTMENT INCOME				
Interest income	\$ 8,635,047	\$ 7,672,379	\$ 17,266,343	\$ 15,359,713
Other income	55,415	340,330	138,210	502,242
Total Investment Income	<u>8,690,462</u>	<u>8,012,709</u>	<u>17,404,553</u>	<u>15,861,955</u>
OPERATING EXPENSES				
Management fees	\$ 1,446,330	\$ 1,293,336	\$ 2,860,464	\$ 2,561,740
Valuation fees	41,324	64,498	188,799	216,137
Administrative services expenses	296,827	275,167	576,027	543,934
Incentive fees	998,871	934,740	1,959,725	1,763,832
Professional fees	67,794	66,038	362,355	284,027
Directors' fees	95,000	118,000	184,000	204,000
Insurance expense	118,242	120,407	235,186	239,490
Interest expense and other fees	1,514,055	1,352,967	2,964,547	2,431,922
Other general and administrative expenses	116,532	82,694	234,548	150,967
Total Operating Expenses	<u>\$ 4,694,975</u>	<u>\$ 4,307,847</u>	<u>\$ 9,565,651</u>	<u>\$ 8,396,049</u>
Net Investment Income	<u>\$ 3,995,487</u>	<u>\$ 3,704,862</u>	<u>\$ 7,838,902</u>	<u>\$ 7,465,906</u>
Net Realized Gain on Investments and Cash Equivalents	<u>\$ 289,548</u>	<u>\$ 325,385</u>	<u>\$ 292,717</u>	<u>\$ 437,457</u>
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	<u>\$ (236,062)</u>	<u>\$ (1,318,680)</u>	<u>\$ 1,377,006</u>	<u>\$ (848,035)</u>
Provision for taxes on unrealized gain on investments	<u>\$ (47,980)</u>	<u>\$ -</u>	<u>\$ (114,258)</u>	<u>\$ -</u>

Net Increase in Net Assets Resulting from Operations	\$ 4,000,993	\$ 2,711,567	\$ 9,394,367	\$ 7,055,328
Net Investment Income Per Share	\$ 0.32	\$ 0.31	\$ 0.63	\$ 0.62
Net Increase in Net Assets Resulting from Operations Per Share	\$ 0.32	\$ 0.22	\$ 0.75	\$ 0.58
Weighted Average Shares of Common Stock Outstanding	12,479,962	12,132,851	12,479,962	12,118,498
Distributions Per Share	\$ 0.34	\$ 0.34	\$ 0.68	\$ 0.74

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 7,838,902	\$ 7,465,906
Net realized gain on investments and cash equivalents	292,717	437,457
Net change in unrealized appreciation on investments and cash equivalents	1,377,006	(848,035)
Provision for taxes on unrealized appreciation on investments	(114,258)	-
Net Increase in Net Assets Resulting from Operations	<u>9,394,367</u>	<u>7,055,328</u>
Stockholder distributions		
Net investment income	(8,484,513)	(8,255,460)
Net realized capital gains	-	(786,436)
Total Distributions	<u>(8,484,513)</u>	<u>(9,041,896)</u>
Capital share transactions		
Issuance of common stock	-	3,334,474
Reinvestments of stockholder distributions	-	187,492
Sales load	-	(50,017)
Offering costs	-	(17,467)
Net increase in net assets resulting from capital share transactions	<u>-</u>	<u>3,454,482</u>
Total increase in net assets	<u>909,854</u>	<u>1,467,914</u>
Net assets at beginning of period	<u>173,949,452</u>	<u>175,891,514</u>
Net assets at end of period (includes \$1,425,235 and \$2,052,213 of distributions in excess of net investment income)	\$ 174,859,306	\$ 177,359,428

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 9,394,367	\$ 7,055,328
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(59,970,381)	(51,538,484)
Proceeds from sales and repayments of investments	53,942,696	48,302,237
Net change in unrealized (appreciation) depreciation on investments	(1,377,006)	848,135
Deferred tax provision	114,258	-
Increase in investments due to PIK	(337,295)	(363,565)

Amortization of premium and accretion of discount, net	(469,646)	(318,341)
Amortization of loan structure fees	260,094	296,169
Amortization of deferred financing costs	117,173	28,558
Amortization of loan fees on SBIC debentures	77,851	-
Net realized gain on investments	(292,717)	(442,332)
Changes in other assets and liabilities		
Decrease (increase) in interest receivable	989,471	(462,314)
Decrease in receivable for affiliated transaction	-	43,450
Increase in accounts receivable	(185,336)	(31,013)
Decrease in prepaid expenses and fees	136,169	218,317
Increase in management fees payable	86,311	116,606
Increase (decrease) in directors' fees payable	184,000	(96,000)
Increase in incentive fees payable	107,295	1,122,316
Increase (decrease) in administrative services payable	(220,417)	11,793
Increase in interest payable	43,227	163,457
Decrease in unearned revenue	(113,213)	(11,569)
Increase (decrease) in other accrued expenses and liabilities	92,185	(97,025)
Net cash provided by operating activities	<u>2,579,086</u>	<u>4,845,723</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	-	(889,742)
Financing costs paid on SBA Debentures	(561,438)	-
Proceeds from the issuance of common stock	-	3,125,288
Sales load for common stock issued	-	(50,017)
Offering costs paid for common stock issued	-	(71,184)
Stockholder distributions paid	(8,484,513)	(7,457,727)
Borrowings under credit facility	53,750,000	72,000,000
Repayments of credit facility	(53,250,000)	(91,000,000)
Repayments of short-term loan	-	(9,000,000)
Net cash provided by (used in) financing activities	<u>1,204,049</u>	<u>(8,343,382)</u>
Net decrease in cash and cash equivalents	3,783,135	(3,497,659)
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>\$ 5,829,698</u>	<u>\$ 10,165,883</u>
Supplemental and non-cash financing activities		
Accrued deferred offering costs	-	172,289
Shares issued pursuant to Dividend Reinvestment Plan	-	187,492
Interest expense paid	2,461,204	1,941,863

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.

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