

# STELLUS

## CAPITAL

INVESTMENT CORPORATION

August 11, 2014

### Stellus Capital Investment Corporation Reports Results for Its Second Fiscal Quarter Ended June 30, 2014

HOUSTON--(BUSINESS WIRE)-- Stellus Capital Investment Corporation (NYSE:SCM) ("Stellus" or "the Company") today announced financial results for its second fiscal quarter ended June 30, 2014.

#### HIGHLIGHTS

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

Portfolio results	As of June 30, 2014	
Total assets	\$299.3	
Investment portfolio, at fair value	\$281.0	
Net assets	\$177.4	
Weighted average yield on debt investments	10.9%	
Net asset value per share	\$14.37	
	Quarter ended June 30, 2014	Quarter ended June 30, 2013
<u>Portfolio activity</u>		
Total investments made, at cost	\$11.0	\$80.8
Number of new investments	5	8
Repayments of investments, including amortization	\$25.9	\$22.5
Number of portfolio companies at end of period	27	25
<u>Operating results</u>		
Total investment income	\$8.0	\$7.3
Net investment income	\$3.7	\$4.0
Net investment income per share	\$0.31	\$0.33
Regular dividends declared per share	\$0.34	\$0.34
Net increase in net assets from operations	\$2.7	\$4.5
Net increase in net assets from operations per share	\$0.22	\$0.37
Weighted average shares outstanding during the period	12,132,851	12,050,618

"We had a productive second quarter in which we received approval for our SBIC license, issued \$25 million of unsecured bonds, upsized our bank credit facility, and issued equity through our ATM program," said Robert T. Ladd, Chief Executive Officer of Stellus.

#### Portfolio and Investment Activity

We completed the second quarter of 2014 with a portfolio of \$281.0 million (at fair value) invested in 27 companies. As of June 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 \$10.4 million and our largest portfolio company investment was approximately \$22.4 million (at fair value). The weighted average yield on all of our debt investments as of June 30, 2014 was approximately 10.9%.

During the three months ended June 30, 2014, we made \$11.0 million of investments in one new portfolio company and four

existing companies and received \$25.9 million of proceeds from the repayment or sale of investments, including \$0.3 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 June 30, 2014 and 2013 totaled \$8.0 million and \$7.3 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended June 30, 2014 totaled \$4.3 million. For the three months ended June 30, 2013, operating expenses, net of incentive fee waiver totaled \$3.4 million. For the three months ended June 30, 2014 and 2013, base management fees totaled \$1.3 million and \$1.0 million, incentive fees totaled \$0.9 million and \$0.9 million (net of \$0.2 million of fees waived by the manager), fees and expenses related to our borrowings totaled \$1.4 million and \$0.7 million (including commitment and other loan fees), administrative expenses totaled \$0.3 million and \$0.2 million and other expenses totaled \$0.4 million and \$0.5 million, all respectively.

Net investment income was \$3.7 million and \$4.0 million, or \$0.31 and \$0.33 per common share based on weighted average common shares outstanding for the three months ended June 30, 2014 and 2013, respectively.

The Company's investment portfolio had a net change in unrealized appreciation (depreciation) for the three months ended June 30, 2014 and 2013, of (\$1.3) million and \$0.4 million, respectively. For the three months ended June 30, 2014 and 2013, the Company had realized gains of \$0.3 million and \$0.1 million, respectively.

Our net increase in net assets resulting from operations totaled \$2.7 million and \$4.5 million, or \$0.22 and \$0.37 per common share based on weighted average common shares outstanding for the three months ended June 30, 2014 and 2013, respectively.

### *Liquidity and Capital Resources*

Our liquidity and capital resources are derived from our committed credit facility 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 June 30, 2014, our credit facility provided for borrowings in an aggregate amount up to \$150 million on a committed basis. As of June 30, 2014 and December 31, 2013, we had \$91 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 June 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 June 30, 2014, we issued approximately \$3.3 million in common stock, net of 1.5% commission to the broker-dealer on shares sold and offering costs.

For the six months ended June 30, 2014 our operating activities provided cash of \$4.8 million primarily in connection with the net repayments of investments and our financing activities used cash of \$8.3 million, primarily from repayments under the credit facility. For the six months ended June 30, 2013 our operating activities used cash of \$60.2 million primarily from the purchases of investments and our financing activities provided cash of \$9.1 million, primarily from the issuance of \$25 million in unsecured bonds offset by repayments under the credit facility.

### *Distributions*

During the three months ended June 30, 2014 and 2013, we declared distributions of \$0.34 per share (\$4.1 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 June 30, 2014, we made \$11.0 million of investments in one new portfolio company and four existing portfolio companies. During the same period the Company received \$25.9 million from repayments and sales of investments, of which \$0.3 million represents amortization on existing loans. New investment transactions and repayments which occurred during the three months ended June 30, 2014 are summarized as follows:

- On each of April 3, 2014 and April 11, 2014 we invested \$33,333 in the equity of Skopos Financial, LLC. We invested an additional \$66,667 in equity on April 30, 2014. On June 12, 2014, we made an additional \$5.9 million investment in the unsecured term loan of Skopos Financial, LLC.
- On April 4, 2014 we sold \$1.9 million of the unfunded revolver of Momentum Telecom, Inc. to a third party and retained a portion of the economics of the revolver.
- On April 14, 2014 we invested \$27,514 in the equity of ERC Group Holdings, LLC.
- On April 22, 2014, we realized \$4.0 of our \$17.0 million investment in the second lien term loan of Atkins Nutritional, Inc. at 100.5% of par, resulting in proceeds of \$4.0 million.
- On April 22, 2014, we made a \$3.9 million investment in the subordinated term loan of OG Systems, LLC. We also invested \$50,000 in the company's equity.
- On May 21, 2014, we received full repayment Varel International Energy Funding Corp. at 103% of par, resulting in total proceeds of \$9.6 million.
- On June 7, 2014, the unfunded commitment of \$12.5 million to Colford Capital Holdings, LLC expired. On June 9, 2014 we made a \$5 million commitment in a new delayed draw term loan of Colford, of which we funded \$1.0 million on June 30, 2014.
- On June 17, 2014, we received full repayment on our first lien loan of ConvergeOne Holdings Corp. at par, resulting in total proceeds of \$12.1 million.

### *Events Subsequent to June 30, 2014*

Since June 30, 2014, we made one follow-on investment of \$2.1 million in one company which brings the investment portfolio to approximately \$283 million (at estimated fair value) and the average investment per company to \$10.5 million as of August 1, 2014.

- On July 31, 2014, we invested \$2 million in the mezzanine debt and \$137,000 in the common stock of SQAD, LLC.

### *Dividends*

On July 7, 2014, the Company's board of directors declared a regular monthly dividend of \$0.1133 per share for the months of July 2014, August 2014 and September 2014.

### *Credit Facility*

The outstanding balance under the Credit Facility as of August 1, 2014 was \$87 million.

### *Equity Raised*

During the period from July 1, 2014 to August 1, 2014, we sold 24,245 shares of our common stock at an average price of \$14.76 per share and raised \$357,893 of gross proceeds under the at-the-market program. Net proceeds were \$350,619 after payment of 1.5% commission to the broker-dealer on shares sold and offering costs.

### **Conference Call Information**

Stellus Capital Investment Corporation will host a conference call to discuss these results on August 12, 2014, 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) 466-4462 (domestic). Use passcode 3297895. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through August 20, 2014 by dialing

(888) 203-1112 and entering passcode 3297895. The replay will also be available on the company's website.

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	<b>June 30, 2014 (Unaudited)</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$281,326,930 and \$277,004,466, respectively)	\$ 280,978,839	\$ 277,504,510
Cash and cash equivalents	10,165,883	13,663,542
Receivable for sales and repayments of investments	38,021	—
Receivable for Fund shares sold	226,451	—
Interest receivable	5,176,226	4,713,912
Deferred offering costs	241,617	205,165
Deferred financing costs	886,012	—
Accounts receivable	31,013	—
Receivable for affiliated transaction	—	43,450
Prepaid loan structure fees	1,367,982	1,586,405
Prepaid expenses	193,004	411,321
<b>Total Assets</b>	<b><u>\$ 299,305,048</u></b>	<b><u>\$ 298,128,305</u></b>
<b>LIABILITIES</b>		
Notes Payable	25,000,000	—
Credit facility payable	91,000,000	110,000,000
Short-term loan	—	9,000,000
Dividends payable	1,396,677	—
Base management fees payable	1,293,336	1,176,730
Incentive fees payable	2,179,258	1,056,942
Accrued offering costs	172,289	—
Interest payable	397,508	234,051
Directors' fees payable	—	96,000
Unearned revenue	135,396	146,965
Administrative services payable	275,019	263,226
Other accrued expenses and liabilities	96,137	262,877
<b>Total Liabilities</b>	<b><u>121,945,620</u></b>	<b><u>122,236,791</u></b>
<b>Commitments and contingencies (Note 7)</b>		
<b>Net Assets</b>	<b><u>\$ 177,359,428</u></b>	<b><u>\$ 175,891,514</u></b>
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,342,825 and 12,099,022 shares issued and outstanding, respectively)	\$ 12,343	\$ 12,099
Paid-in capital	179,068,976	175,614,738
Accumulated undistributed net realized gain	678,413	1,027,392
Distributions in excess of net investment income	(2,052,213)	(1,262,659)
Unrealized appreciation (depreciation) on investments and cash equivalents	(348,091)	499,944
<b>Net Assets</b>	<b><u>\$ 177,359,428</u></b>	<b><u>\$ 175,891,514</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 299,305,048</u></b>	<b><u>\$ 298,128,305</u></b>
<b>Net Asset Value Per Share</b>	<b><u>\$ 14.37</u></b>	<b><u>\$ 14.54</u></b>

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
<b>INVESTMENT INCOME</b>				
Interest income	\$ 7,672,379	\$ 6,710,905	\$15,359,713	\$13,035,629
Other income	340,330	630,322	502,242	752,038
<b>Total Investment Income</b>	<u>8,012,709</u>	<u>7,341,227</u>	<u>15,861,955</u>	<u>13,787,667</u>
<b>OPERATING EXPENSES</b>				
Management fees	\$ 1,293,336	\$ 1,041,199	\$ 2,561,740	\$ 1,925,202
Valuation fees	64,498	113,710	216,137	203,710
Administrative services expenses	275,167	228,535	543,934	399,576
Incentive fees	934,740	1,068,939	1,763,832	2,055,443
Professional fees	66,038	107,516	284,027	223,462
Directors' fees	118,000	89,000	204,000	178,000
Insurance expense	120,407	118,268	239,490	235,238
Interest expense and other fees	1,352,967	718,219	2,431,922	1,284,759
Other general and administrative expenses	82,694	85,026	150,967	127,444
<b>Total Operating Expenses</b>	<u>\$ 4,307,847</u>	<u>\$ 3,570,412</u>	<u>\$ 8,396,049</u>	<u>\$ 6,632,834</u>
Waiver of Incentive Fees	—	(201,843)	—	(505,207)
<b>Total expenses, net of fees waivers</b>	<u>4,307,847</u>	<u>3,368,569</u>	<u>8,396,049</u>	<u>6,127,627</u>
<b>Net Investment Income</b>	<u>\$ 3,704,862</u>	<u>\$ 3,972,658</u>	<u>\$ 7,465,906</u>	<u>\$ 7,660,040</u>
<b>Net Realized Gain on Investments and Cash Equivalents</b>	<u>\$ 325,385</u>	<u>\$ 99,995</u>	<u>\$ 437,457</u>	<u>\$ 1,002,917</u>
<b>Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents</b>	<u>\$(1,318,680)</u>	<u>\$ 404,942</u>	<u>\$ (848,035)</u>	<u>\$ 1,346,756</u>
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>\$ 2,711,567</u>	<u>\$ 4,477,595</u>	<u>\$ 7,055,328</u>	<u>\$10,009,713</u>
<b>Net Investment Income Per Share</b>	<u>\$ 0.31</u>	<u>\$ 0.33</u>	<u>\$ 0.62</u>	<u>\$ 0.64</u>
<b>Net Increase in Net Assets Resulting from Operations Per Share</b>	<u>\$ 0.22</u>	<u>\$ 0.37</u>	<u>\$ 0.58</u>	<u>\$ 0.83</u>
<b>Weighted Average Shares of Common Stock Outstanding</b>	<u>12,132,851</u>	<u>12,050,618</u>	<u>12,118,498</u>	<u>12,043,117</u>
<b>Distributions Per Share</b>	<u>\$ 0.34</u>	<u>\$ 0.34</u>	<u>\$ 0.74</u>	<u>\$ 0.68</u>

**STELLUS CAPITAL INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)**

	For the six months ended June 30, 2014	For the six months ended June 30, 2013
<b>Increase in Net Assets Resulting from Operations</b>		
Net investment income	\$ 7,465,906	\$ 7,660,040
Net realized gain on investments and cash equivalents	437,457	1,002,917
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(848,035)	1,346,756
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>7,055,328</u>	<u>10,009,713</u>

<b>Stockholder distributions</b>	(9,041,896)	(8,189,000)
<b>Capital share transactions</b>		
Issuance of common stock	3,334,474	—
Reinvestments of stockholder distributions	187,492	439,889
Sales load	(50,017)	—
Offering costs	(17,467)	—
<b>Net increase in net assets resulting from capital share transactions</b>	<u>3,454,482</u>	<u>439,889</u>
<b>Total increase in net assets</b>	<u>1,467,914</u>	<u>2,260,602</u>
<b>Net assets at beginning of period</b>	<u>175,891,514</u>	<u>173,845,955</u>
<b>Net assets at end of period (includes \$2,061,991 and \$1,403,946 of distributions in excess of net investment income)</b>	<u>\$ 177,359,428</u>	<u>\$ 176,106,557</u>

**STELLUS CAPITAL INVESTMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	<u>For the six months ended June 30, 2014</u>	<u>For the six months ended June 30, 2013</u>
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 7,055,328	\$ 10,009,713
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(51,538,484)	(112,467,250)
Proceeds from sales and repayments of investments	48,302,237	48,792,161
Net change in unrealized (appreciation) depreciation on investments	848,135	(1,345,238)
Increase in investments due to PIK	(363,565)	(523,926)
Amortization of premium and accretion of discount, net	(318,341)	(184,489)
Amortization of loan structure fees	296,169	—
Net realized gain on investments	(442,332)	(1,005,830)
Changes in other assets and liabilities		
Increase in interest receivable	(462,314)	(1,536,774)
Amortization of deferred financing costs	28,558	—
Decrease in receivable for affiliated transaction	43,450	—
Increase in accounts receivable	(31,013)	—
Decrease in prepaid expenses and fees	218,317	486,084
Decrease in payable for investments purchased	—	(4,750,000)
Increase in management fees payable	116,606	514,165
Increase (decrease) in directors' fees payable	(96,000)	59,548
Increase in incentive fees payable	1,122,316	1,250,375
Increase in administrative services payable	11,793	—
Increase in interest payable	163,457	130,604
Decrease in unearned revenue	(11,569)	—
Increase (decrease) in other accrued expenses and liabilities	(97,025)	319,447
<b>Net cash provided by (used in) operating activities</b>	<u>4,845,723</u>	<u>(60,251,410)</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes issued	25,000,000	—
Financing costs paid for notes issued	(889,742)	—
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)	(147,123)

Stockholder distributions paid	(7,457,727)	(7,749,111)
Borrowings under credit facility	72,000,000	82,000,000
Repayments of credit facility	(91,000,000)	(29,000,000)
Repayments of short-term loan	(9,000,000)	(72,000,669)
Borrowings under short-term loan	—	35,999,625
Net cash provided by (used in) financing activities	(8,343,382)	9,102,722
Net decrease in cash and cash equivalents	(3,497,659)	(51,148,688)
Cash and cash equivalents balance at beginning of period	13,663,542	62,131,686
Cash and cash equivalents balance at end of period	\$ 10,165,883	\$ 10,982,998
<b>Supplemental and non-cash financing activities</b>		
Accrued deferred offering costs	172,289	—
Shares issued pursuant to Dividend Reinvestment Plan	187,492	439,889
Interest expense paid	1,941,863	870,980

### ***About Stellus Capital Investment Corporation***

The Company is an externally-managed, closed-end, non-diversified management investment 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](http://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](http://www.stelluscapital.com) under the Stellus Capital Investment Corporation link.

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