

May 9, 2014

Stellus Capital Investment Corporation Reports Results for its first fiscal quarter ended March 31, 2014

Houston, Texas, May 9, 2014 (BUSINESS WIRE) – Stellus Capital Investment Corporation (NYSE:SCM) (“Stellus” or “the Company”) today announced financial results for its first fiscal quarter ended March 31, 2014.

HIGHLIGHTS

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

Portfolio results	As of March 31, 2014	
Total assets	\$310.7	
Investment portfolio, at fair value	\$296.6	
Net assets	\$175.5	
Weighted average yield on debt investments	10.7%	
Net asset value per share	\$14.49	
	Quarter ended March 31, 2014	Quarter ended March 31, 2013
<u>Portfolio activity</u>		
Total investments made, at cost	\$40.6	\$31.2
Number of new investments	5	4
Repayments of investments, including amortization	\$22.4	\$25.2
Number of portfolio companies at end of period	28	19
<u>Operating results</u>		
Total investment income	\$7.8	\$6.4
Net investment income	\$3.8	\$3.7
Net investment income per share	\$0.31	\$0.31
Regular dividends declared per share	\$0.34	\$0.34
Special dividends paid per share	\$0.065	\$0
Net increase in net assets from operations	\$4.3	\$5.5
Net increase in net assets from operations per share	\$0.36	\$0.46
Weighted average shares outstanding during the period	12,103,986	12,035,531

“We are pleased to report the first quarter results in which we have increased our investment portfolio and continued our monthly dividend payments of \$0.1133 per share.”, said Robert T. Ladd, Chief Executive Officer of Stellus.

Portfolio and Investment Activity

We completed the first quarter of 2014 with a portfolio of \$296.6 million (at fair value) invested in 28 companies. As of March 31, 2014, our portfolio included approximately 25% of first lien debt, 35% of second lien debt, 38% of mezzanine debt and 2% of equity investments at fair value. Our debt portfolio consisted of 43% fixed rate investments and 57% floating rate (subject to interest rate floors), such as LIBOR. The average size of our portfolio company investments was \$10.6 million and our largest portfolio company investment was approximately \$22.3 million. The weighted average yield on all of our debt investments as of March 31, 2014 was approximately 10.7%.

During the three months ended March 31, 2014, we made \$40.6 million of investments in five new portfolio companies and received \$22.4 million of proceeds, including \$0.4 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 March 31, 2014 and 2013 totaled \$7.8 million and \$6.4 million, respectively, most of which was interest income from portfolio investments.

Operating expenses for the three months ended March 31, 2014 totaled \$4.1 million. For the three months ended March 31, 2013, operating expenses, net of incentive fee waiver totaled \$2.8 million. For the three months ended March 31, 2014 and 2013, base management fees totaled \$1.3 million and \$0.9 million, incentive fees totaled \$0.8 million and \$0.7 million (net of \$0.3 million of fees waived by the manager), fees and expenses related to our credit facility totaled \$1.1 million and \$0.6 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 \$0.4 million, all respectively.

Net investment income was \$3.8 million and \$3.7 million, or \$0.31 and \$0.31 per common share based on weighted average common shares outstanding for the three months ended March 31, 2014 and 2013, respectively.

The Company's investment portfolio had a net change in unrealized appreciation for the three months ended March 31, 2014 and 2013, of \$0.5 million and \$0.9, respectively. For the three months ended March 31, 2014 and 2013, the Company had realized gains of \$0.1 million and \$0.9 million, respectively.

Our net increase in net assets resulting from operations totaled \$4.3 million and \$5.5 million, or \$0.36 and \$0.46 per common share based on weighted average common shares outstanding for the three months ended March 31, 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 March 31, 2014 and 2013, our credit facility provided for borrowings in an aggregate amount up to \$135 million on a committed basis and had an accordion feature which allowed for potential future expansion of the facility size to \$150 million. On May 6, 2014, we exercised the remainder of the accordion on the facility which increased the committed amount from \$135 million to \$150 million. In addition, we added a new bank to our lending group bringing the total to six banks. As of March 31, 2014 and December 31, 2013, we had \$130 million and \$110 million, respectively, in outstanding borrowings under the credit facility.

For the three months ended March 31, 2014 our operating activities used cash of \$14.6 million primarily in connection with the acquisition of new investments and our financing activities provided cash of \$7.6 million, primarily from net borrowings under the credit facility. For the three months ended March 31, 2013 our operating activities provided cash of \$2.9 million primarily from the sales and repayments of investments and our financing activities provided used of \$30.0 million, primarily from net repayments under the credit facility and a short-term loan.

Distributions

During the three months ended March 31, 2014 and 2013, we declared distributions of \$0.34 per share (\$4.1 million) for each quarter. Separately, we paid a special dividend of \$0.065 (\$0.8 million) in January 2014. 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

During the three months ended March 31, 2014, we made \$40.6 million of investments in five new portfolio companies. During the same period the Company received \$22.0 million from repayments and sales of investments and \$0.4 million of amortization on existing loans. New investment transactions and repayments which occurred during the three months ended March 31, 2014 are summarized as follows:

- On January 31, 2014, we made a \$6.4 million investment in the unsecured term loan of SKOPOS. We also invested \$0.7 million in the company's equity.
- On January 31, 2014, we made a \$6.0 million investment in the first lien term loan of T2 Systems.
- On January 31, 2014, we made a \$2.5 million investment in the second lien term loan of Vandelay Industries.
- On January 31, 2014, we received full repayment on our second lien loan of Ascend Learning at par resulting in total proceeds of \$10.0 million.
- On February 25, 2014, we realized our second lien loan of Transaction Network Services (TNS) at 101.5% of par, resulting in total proceeds of \$2.6 million.
- On February 28, 2014, we realized \$3.0 million of our \$8.0 million investment in the second lien term loan of Telecommunications Management, LLC. at 101.5% of par, resulting in total proceeds of \$3.0 million.
- On February 28, 2014, we realized our second lien loan to Aderant North America, Inc. at 101.5% of par, resulting in total proceeds of \$1.5 million.
- On March 10, 2014, we made the following investments in Momentum Telecom, Inc.: (a) a \$21.1 million in the first lien term loan; (b) \$2.5 million in the unfunded revolver; and (c) \$1.0 million in the company's equity.
- On March 14, 2014, we made a \$2.9 million investment in the first lien term loan of Glori Energy, Inc.
- On March 31, 2014, we sold \$5.0 million of the first lien term loan of Momentum Telecom, Inc. to a third party at our cost of 98% of par, resulting in total proceeds of \$4.9 million. We also sold \$0.6 million of the unfunded revolver of the company.

Events Subsequent to March 31, 2014

Since March 31, 2014, we made one new investment of \$4.0 million and follow-on investments totaling of \$0.1 million in one company and sold two investments totaling \$4 million of funded amounts which brings the investment portfolio to approximately \$296 million (at estimated fair value) and the average investment per company to \$10.2 million as of May 7, 2014.

- On each of April 3, 2014 and April 11, 2014, we invested \$33,333 in the equity of SKOPOS. We invested an additional \$66,667 in the equity of SKOPOS on April 30, 2014.
- 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 22, 2014, we made a \$4.0 million investment in the subordinated term loan and \$50,000 in the equity of OG Systems, LLC.
- On April 22, 2014, we sold \$4.0 million of the 2nd lien term loan of Atkins Nutritionals, Inc. to a third party at 100.5% of par, resulting in total proceeds of \$4.0 million.

Credit Facility

On May 6, 2014, we increased the committed amount under our Credit Facility from \$135 million to \$150 million and added an additional lender bringing the total number of banks in the facility to six. The outstanding balance under the Credit Facility as of May 7, 2014 was \$105.6 million.

Dividends

On April 26, 2014, the Company's board of directors declared a regular monthly dividend of \$0.1133 per share for the months of April 2014, May 2014 and June 2014.

Notes Offering

On April 29, 2014, the Company priced a public offering of \$25.0 million in aggregate principal amount of 6.50% notes due 2019 (the "Notes"). The Notes will mature on April 30, 2019, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 30, 2016. The Notes bear interest at a rate of 6.50% per year payable quarterly on February 15, May 15, August 15 and November 15, of each year, beginning August 15, 2014. The Company used all of the net proceeds from this offering to repay a portion of the amount outstanding under the Credit Facility.

Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on May 9, 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) 452-4023 (domestic). Use passcode 3769801. Starting approximately twenty-four hours after the conclusion of the call, a replay will be available through May 17, 2014 by dialing (888) 203-1112 and entering passcode 3769801. The replay will also be available on the company's website.

STELLUS CAPITAL INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$295,630,180 and \$277,004,466, respectively)	\$ 296,600,769	\$ 277,504,510
Cash and cash equivalents	6,639,754	13,663,542
Interest receivable	5,408,582	4,713,912
Deferred offering costs	266,250	205,165
Receivable for affiliated transaction	43,450	43,450
Prepaid loan structure fees	1,441,481	1,586,405
Prepaid expenses	323,882	411,321
Total Assets	<u>\$ 310,724,168</u>	<u>\$ 298,128,305</u>
LIABILITIES		
Credit facility payable	130,000,000	110,000,000
Short-term loan	—	9,000,000
Dividends payable	1,372,009	—
Base management fees payable	1,268,404	1,176,730
Incentive fees payable	1,244,518	1,056,942
Accrued offering costs	54,828	—
Interest payable	260,857	234,051
Directors' fees payable	86,000	96,000
Unearned revenue	181,233	146,965
Administrative services payable	396,823	263,226
Other accrued expenses and liabilities	379,448	262,877
Total Liabilities	<u>135,244,120</u>	<u>122,236,791</u>
Commitments and contingencies (Note 7)		
Net Assets	<u>\$ 175,480,048</u>	<u>\$ 175,891,514</u>
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,109,528 and 12,099,022 shares issued and outstanding, respectively)	\$ 12,110	\$ 12,099
Paid-in capital	175,760,700	175,614,738
Accumulated undistributed net realized gain	353,028	1,027,392
Distributions in excess of net investment income	(1,616,379)	(1,262,659)
Unrealized appreciation on investments and cash equivalents	970,589	499,944
Net Assets	<u>\$ 175,480,048</u>	<u>\$ 175,891,514</u>
Total Liabilities and Net Assets	<u>\$ 310,724,168</u>	<u>\$ 298,128,305</u>
Net Asset Value Per Share	<u>\$ 14.49</u>	<u>\$ 14.54</u>

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
INVESTMENT INCOME		
Interest income	\$ 7,687,334	\$ 6,324,725
Other income	161,912	121,715
Total Investment Income	<u>7,849,246</u>	<u>6,446,440</u>
OPERATING EXPENSES		
Management fees	\$ 1,268,404	\$ 884,003
Valuation fees	151,639	90,000
Administrative services expenses	268,767	171,041
Incentive fees	829,092	986,504
Professional fees	217,989	115,946
Directors' fees	86,000	89,000
Insurance expense	119,083	116,970
Interest expense and other fees	1,078,955	566,540
Other general and administrative expenses	68,273	42,418
Total Operating Expenses	<u>4,088,202</u>	<u>3,062,422</u>
Waiver of Incentive Fees	—	(303,364)
Total expenses, net of fee waivers	<u>4,088,202</u>	<u>2,759,058</u>
Net Investment Income	<u>3,761,044</u>	<u>3,687,382</u>
Net Realized Gain on Investments and Cash Equivalents	<u>112,072</u>	<u>902,922</u>
Net Change in Unrealized Appreciation on Investments and Cash Equivalents	<u>470,645</u>	<u>941,814</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 4,343,761</u>	<u>\$ 5,532,118</u>
Net Investment Income Per Share	<u>\$ 0.31</u>	<u>\$ 0.31</u>
Net Increase in Net Assets Resulting from Operations Per Share	<u>\$ 0.36</u>	<u>\$ 0.46</u>
Weighted Average Shares of Common Stock Outstanding	<u>12,103,986</u>	<u>12,035,531</u>
Dividends declared per share	<u>\$ 0.40</u>	<u>\$ 0.34</u>

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 3,761,044	\$ 3,687,382
Net realized gain on investments and cash equivalents	112,072	902,922
Net change in unrealized appreciation on investments and cash equivalents	470,645	941,814
Net Increase in Net Assets Resulting from Operations	<u>4,343,761</u>	<u>5,532,118</u>
Stockholder distributions	<u>(4,901,200)</u>	<u>(4,091,908)</u>
Capital share transactions		
Reinvestments of stockholder distributions	<u>145,973</u>	<u>214,707</u>
Net increase in net assets resulting from capital share transactions	<u>145,973</u>	<u>214,707</u>
Total increase (decrease) in net assets	<u>(411,466)</u>	<u>1,654,917</u>
Net assets at beginning of period	<u>175,891,514</u>	<u>173,845,955</u>
Net assets at end of period (includes \$1,616,379 and \$1,279,512 of distributions in excess of net investment income)	<u>\$ 175,480,048</u>	<u>\$ 175,500,872</u>

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 4,343,761	\$ 5,532,118
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchases of investments	(40,550,138)	(31,486,000)
Proceeds from sales and repayments of investments	22,404,877	25,227,431
Net change in unrealized (appreciation) depreciation on investments	(470,545)	(940,288)
Increase in investments due to PIK	(215,228)	(265,426)
Amortization of premium and accretion of discount, net	(153,075)	(84,027)
Amortization of loan structure fees	144,924	124,152
Net realized gain on investments	(112,150)	(905,747)
Changes in other assets and liabilities		
Increase in interest receivable	(694,670)	(895,643)
Decrease in prepaid expenses and fees	87,439	93,977
Increase in payable for investments purchased	—	5,050,000
Increase in management fees payable	91,674	356,969
Decrease in directors' fees payable	(10,000)	—
Increase in incentive fees payable	187,576	683,140
Increase in administrative services payable	133,597	108,324
Increase in interest payable	26,806	100,955
Increase in unearned revenue	34,268	—
Increase in other accrued expenses and liabilities	116,571	239,682
Net cash provided by (used in) operating activities	<u>(14,634,313)</u>	<u>2,939,617</u>
Cash flows from financing activities		
Offering costs paid	(6,257)	(147,123)
Stockholder distributions paid	(3,383,218)	(3,877,201)
Borrowings under credit facility	44,000,000	27,000,000
Repayments of credit facility	(24,000,000)	(30,000,000)
Borrowings under short-term loan	—	26,999,726
Repayments of short-term loan	(9,000,000)	(50,000,869)
Net cash provided by (used in) financing activities	<u>7,610,525</u>	<u>(30,025,467)</u>
Net decrease in cash and cash equivalents	<u>(7,023,788)</u>	<u>(27,085,850)</u>
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>\$ 6,639,754</u>	<u>\$ 35,045,836</u>
Supplemental and non-cash financing activities		
Accrued deferred offering costs	54,828	—
Shares issued pursuant to Dividend Reinvestment Plan	145,973	214,707
Interest expense paid	960,837	531,014

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 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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