

Stellus Capital Investment Corp
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

x

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

..

OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 1-35730

STELLUS CAPITAL INVESTMENT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of November 2, 2016 was 12,479,957.

STELLUS CAPITAL INVESTMENT CORPORATION

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PART I — FINANCIAL INFORMATION**STELLUS CAPITAL INVESTMENT CORPORATION****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (unaudited)**

	September 30, 2016	December 31, 2015
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$362,534,225 and \$364,212,459, respectively)	\$ 352,701,256	\$ 349,017,697
Cash and cash equivalents	8,640,005	10,875,790
Receivable for sales and repayments of investments	3,561,582	10,000
Interest receivable	4,158,012	4,720,031
Deferred offering costs	—	261,761
Accounts receivable	—	7,684
Prepaid expenses	147,344	475,449
Total Assets	\$ 369,208,199	\$ 365,368,412
LIABILITIES		
Notes Payable, net of deferred financing costs	\$ 24,518,185	\$ 24,381,108
Credit facility payable, net of prepaid loan structure fees	106,590,075	108,197,373
SBA Debentures, net of prepaid loan fees	63,260,043	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,574,354	1,518,779
Incentive fees payable	1,437,030	607,956
Interest payable	408,237	570,189
Unearned revenue	21,773	36,877
Administrative services payable	239,576	397,799
Deferred tax liability	19,607	381,723
Other accrued expenses and liabilities	319,301	195,676
Total Liabilities	\$ 199,802,163	\$ 200,717,308
Commitments and contingencies (Note 5)		
Net Assets	\$ 169,406,036	\$ 164,651,104
NET ASSETS		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,958 and 12,479,960 shares issued and outstanding, respectively)	\$ 12,480	\$ 12,480
Paid-in capital	180,994,732	180,994,752
Accumulated undistributed net realized loss	(895,809)	—
Distributions in excess of net investment income	(852,791)	(779,643)
Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$19,607 and \$381,723, respectively.	(9,852,576)	(15,576,485)

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Net Assets	\$ 169,406,036	\$ 164,651,104
Total Liabilities and Net Assets	\$ 369,208,199	\$ 365,368,412
Net Asset Value Per Share	\$ 13.57	\$ 13.19

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
INVESTMENT INCOME				
Interest income	\$ 9,773,863	\$ 8,509,804	\$ 28,477,016	\$ 25,776,147
Other income	428,890	93,009	816,739	231,219
Total Investment Income	\$ 10,202,753	\$ 8,602,813	\$ 29,293,755	\$ 26,007,366
OPERATING EXPENSES				
Management fees	\$ 1,574,354	\$ 1,462,024	\$ 4,673,568	\$ 4,322,488
Valuation fees	157,179	139,266	357,346	328,065
Administrative services expenses	244,303	224,836	782,230	800,863
Incentive fees	1,110,297	954,908	3,121,395	2,914,633
Professional fees	177,410	92,320	564,724	454,675
Directors' fees	73,000	76,000	251,000	260,000
Insurance expense	119,323	119,417	355,376	354,603
Interest expense and other fees	2,037,782	1,557,629	5,932,814	4,522,176
Deferred offering costs	—	—	261,761	—
Other general and administrative expenses	100,362	156,782	340,406	391,330
Total Operating Expenses	\$ 5,594,010	\$ 4,783,182	\$ 16,640,620	\$ 14,348,833
Net Investment Income	\$ 4,608,743	\$ 3,819,631	\$ 12,653,135	\$ 11,658,533
Net Realized Gain (Loss) on Investments and Cash Equivalents	\$ (898,189)	\$ 2,146	\$ (895,809)	\$ 294,863
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	\$ 6,176,947	\$ (4,593,553)	\$ 5,361,794	\$ (3,216,547)
Net Tax Benefit for Unrealized Appreciation/ Depreciation on Investments	\$ 39,965	\$ 147,439	\$ 362,116	\$ 33,181
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 9,927,466	\$ (624,337)	\$ 17,481,236	\$ 8,770,030
Net Investment Income Per Share	\$ 0.37	\$ 0.31	\$ 1.01	\$ 0.93
Net Increase (Decrease) in Net Assets Resulting from Operations Per Share	\$ 0.80	\$ (0.05)	\$ 1.40	\$ 0.70
Weighted Average Shares of Common Stock Outstanding	12,479,958	12,479,962	12,479,959	12,479,962
Distributions Per Share	\$ 0.34	\$ 0.34	\$ 1.02	\$ 1.02

STELLUS CAPITAL INVESTMENT CORPORATION**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (unaudited)**

	For the nine months Ended September 30, 2016	For the nine months ended September 30, 2015
Increase in Net Assets Resulting from Operations		
Net investment income	\$ 12,653,135	\$ 11,658,533
Net realized gain (loss) on investments and cash equivalents	(895,809)	294,863
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	5,361,794	(3,216,547)
Net tax benefit for unrealized appreciation/depreciation on investments	362,116	33,181
Net Increase in Net Assets Resulting from Operations	\$ 17,481,236	\$ 8,770,030
Stockholder distributions from:		
Net investment income	(12,726,304)	(12,726,816)
Total Distributions	\$(12,726,304)	\$(12,726,816)
Total increase (decrease) in net assets	\$ 4,754,932	\$(3,956,786)
Net assets at beginning of period	\$ 164,651,104	\$ 173,949,452
Net assets at end of period (includes \$852,791 and \$1,847,907 of distributions in excess of net investment income, respectively)	\$ 169,406,036	\$ 169,992,666

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 17,481,236	\$ 8,770,030
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(37,392,617)	(85,108,716)
Proceeds from sales and repayments of investments	35,618,611	76,333,638
Net change in unrealized depreciation (appreciation) on investments	(5,361,794)	3,216,547
Deferred tax benefit	(362,116)	(33,181)
Increase in investments due to PIK	(165,110)	(387,975)
Amortization of premium and accretion of discount, net	(830,040)	(759,387)
Amortization of loan structure fees	392,702	392,297
Amortization of deferred financing costs	244,197	163,619
Amortization of loan fees on SBIC debentures	137,077	136,646
Net realized (gain) loss on investments	895,809	(294,863)
Deferred offering cost	261,761	—
Changes in other assets and liabilities		
Decrease in interest receivable	562,019	736,112
Decrease (increase) in accounts receivable	7,684	(6,988)
Decrease in prepaid expenses and fees	328,105	278,779
Increase in management fees payable	55,575	102,005
Increase in incentive fees payable	829,074	7,762
Decrease in administrative services payable	(158,223)	(211,504)
Decrease in interest payable	(161,952)	(20,273)
Decrease in unearned revenue	(15,104)	(116,869)
Increase in other accrued expenses and liabilities	123,625	123,073
Net cash provided by operating activities	\$ 12,490,519	\$ 3,320,752
Cash flows from financing activities		
Proceeds from SBA Debentures	—	9,750,000
Financing costs paid on SBA Debentures	—	(561,437)
Stockholder distributions paid	(12,726,304)	(12,726,816)
Borrowings under credit facility	28,250,000	86,500,000
Repayments of credit facility	(30,250,000)	(82,250,000)
Net cash provided (used) by financing activities	\$ (14,726,304)	\$ 711,747
Net increase (decrease) in cash and cash equivalents	(2,235,785)	4,032,499

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Cash and cash equivalents balance at beginning of period	10,875,790	2,046,563
Cash and cash equivalents balance at end of period	\$ 8,640,005	\$ 6,079,062
Supplemental and non-cash financing activities		
Interest expense paid	\$ 5,315,790	\$ 3,844,890

Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

Investments	Footnotes	Lien	Coupon	LIBOR floor	Cash	PIK	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	Fair Value
Non-controlled, non-affiliate investments											
<u>Abrasive Products & Equipment, LLC, et al</u>											
Term Loan (SBIC)	(2)(3)	Second Lien	L+10.50%	1.00%	11.50%		3/5/2020	Deer Park, TX Chemicals, Plastics, & Rubber	\$5,325,237	\$5,247,795	\$5,325,237
APE Holdings, LLC Class A Units	(4)	Equity							375,000 units	375,000	400,000
Total										5,622,795	5,725,237
<u>Apex Environmental Resources Holdings, LLC</u>											
Common Units	(4)	Equity						Amsterdam, OH	517 shares	517	517
Preferred Units	(4)	Equity						Environmental Industries	517 shares	517,439	517,439
Total										517,956	517,956
<u>Atkins Nutritionals Holdings II, Inc.</u>											
Term Loan	(3)	Second Lien	L+8.50%	1.25%	9.75%		4/3/2019	Denver, CO Beverage, Food, & Tobacco Hauppauge, NY	\$8,000,000	7,921,378	\$8,000,000
<u>Binder & Binder National</u>											

Social Security Disability Advocates, LLC

Term Loan	(4)(6)(7)	Unsecured	17.00%	15.00%	2.00%	2/27/2016	Services: Consumer	\$13,200,354	13,200,354	7
	(8)									

Calero Software, LLC et al

Rochester, NY

Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	6/5/2019	Telecommunications	\$7,500,000	7,416,056	7
Managed Mobility Holdings, LLC	(4)	Equity						8,932 units	525,000	1
Partnership Units										
Total										7,941,056

C.A.R.S. Protection Plus, Inc.

Murrysville, PA

Term Loan	(3)	First Lien	L+8.50%	0.50%	9.00%	12/31/2020	Automotive	\$118,046	115,972	1
Term Loan (SBIC)	(2)(3)	First Lien	L+8.50%	0.50%	9.00%	12/31/2020		\$9,207,579	9,029,261	9
CPP Holdings LLC	(4)	Equity						149,828 shares	149,828	2
Common Shares, Class A										
Total										9,295,061

Catapult Learning, LLC et al

Camden, NJ

Term Loan	(3)(14)	First Lien	L+6.50%	1.00%	9.03%	7/16/2020	Education	\$12,500,000	12,399,190	1
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Colford Capital Holdings, LLC

New York, NY

Delay Draw Term Loan #1	(5)	Unsecured	12.00%	12.00%	5/31/2018	Finance	\$12,500,000	12,385,868	1
Delay Draw Term Loan #2	(5)	Unsecured	12.00%	12.00%	5/31/2018		\$2,000,000	1,977,036	1
Delay Draw Term Loan #4	(5)	Unsecured	12.00%	12.00%	5/31/2018		\$5,000,000	4,953,819	4

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Colford Capital Holding, LLC Preferred Units Total	(4)(5)	Equity						38,893 units	557,143	6
									19,873,866	2
<u>Doskocil</u>										
<u>Manufacturing</u>										
<u>Company,</u>										
Arlington, TX										
<u>Inc.</u>										
<u>(Petmate)</u>										
Term Loan (SBIC)	(2)(14)	First Lien	L+6.00%	1.00%	9.43%	11/10/2020	Consumer goods: non-durable	\$8,750,000	8,619,584	8
<u>Douglas</u>										
<u>Products &</u>										
<u>Packaging</u>										
<u>Company,</u>										
Liberty, MO										
<u>LLC</u>										
Term Loan (SBIC)	(2)(12)	Second Lien	L+10.50%	0.50%	11.34%	12/31/2020	Chemicals, Plastics, & Rubber	\$9,000,000	8,870,179	9
Fumigation Holdings, Inc. Class A Common Stock Total	(4)	Equity						250 shares	250,000	4
									9,120,179	9

Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

**Eating
Recovery
Center,
LLC**

Denver, CO

Term Loan ERC Group Holdings LLC Class A Units Total	(6)	Unsecured	13.00%	12.00%	1.00%	6/28/2018	Healthcare & Pharmaceuticals	\$18,400,000	18,252,384	18,261,000
Term Loan (3)	(3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020	Software	\$11,657,850	11,509,367	11,447,000
Term Loan (SBIC) Empirix Holdings I, Inc. Common Shares, Class A Empirix Holdings I, Inc. Common Shares, Class B Total	(2)(3)(4)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020		\$9,750,000	9,624,854	9,574,000
Empirix Holdings I, Inc. Common Shares, Class A Empirix Holdings I, Inc. Common Shares, Class B Total	(4)	Equity						1,304 shares	1,304,232	1,567,000
Empirix Holdings I, Inc. Common Shares, Class B Total	(4)	Equity						1,317,406 shares	13,174	15,829,000
Total									19,907,658	20,733,000

**Empirix
Inc.**

Billerica, MA

Term Loan (3)	(3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020	Software	\$11,657,850	11,509,367	11,447,000
Term Loan (SBIC) Empirix Holdings I, Inc. Common Shares, Class A Empirix Holdings I, Inc. Common Shares, Class B Total	(2)(3)(4)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020		\$9,750,000	9,624,854	9,574,000
Empirix Holdings I, Inc. Common Shares, Class A Empirix Holdings I, Inc. Common Shares, Class B Total	(4)	Equity						1,304 shares	1,304,232	1,567,000
Empirix Holdings I, Inc. Common Shares, Class B Total	(4)	Equity						1,317,406 shares	13,174	15,829,000
Total									22,451,627	22,605,000

**Energy
Labs, Inc**

Houston, TX

(2)(12)(14) First Lien	P+5.50%	2.00%	12.03%	9/29/2021		\$5,300,000	5,194,000	5,194,000
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Term Loan (SBIC) Energy Labs Holding Corp Common Units (4)						Energy: Oil & Gas	500 shares	500,000	500,000	
								5,694,000	5,694,000	
<u>EOS Fitness OPCO Holdings, LLC</u>						Phoenix, AZ				
Term Loan (SBIC) EOS Fitness Holdings, LLC Class A Preferred Units (4)	(2)(3)	First Lien	L+8.75%	0.75%	9.50%	12/30/2019	Hotel, Gaming, & Leisure	\$3,353,059	3,305,881	3,332,500
EOS Fitness Holdings, LLC Class A Preferred Units (4)	(4)	Equity						118 shares	117,670	67,988
EOS Fitness Holdings, LLC Class B Common Units (4)	(4)	Equity						3,017 shares	3,020	1,743
Total									3,426,571	3,402,221
<u>Furniture Factory Outlet, LLC</u>							Fort Smith, AR			
Term Loan (12)	(12)	First Lien	L+9.00%	0.50%	9.84%	6/10/2021	Consumer goods: non-durable	\$9,937,500	9,748,928	9,746,800
Furniture Factory Holdings, LLC (6)	(6)	Unsecured	11.00%		11.00%	2/3/2021		\$122,823	122,823	122,823
Term Loan Sun Furniture Factory, LP Common (4)	(4)	Equity						13,445 Shares	94,569	89,254

Stellus Capital Investment Corporation**Consolidated Schedule of Investments – (unaudited)****September 30, 2016****Grupo****HIMA****San Pablo,****Inc., et al**

San Juan, PR

Term Loan	(3)	First Lien	L+7.00%	1.50%	8.50%	1/31/2018	Healthcare & Pharmaceuticals	\$4,825,000	4,794,990	4,705,650
Term Loan		Second Lien	13.75%		13.75%	7/31/2018		\$4,000,000	3,914,403	3,535,590
Total									8,709,393	8,241,240

Hollander**Sleep****Products,****LLC**

Boca Raton, FL

Term Loan	(3)	First Lien	L+8.00%	1.00%	9.00%	10/21/2020	Services: Consumer	\$7,286,790	7,207,398	7,286,790
Dream II Holdings, LLC Class A LP/LLC Units	(4)	Equity						250,000 units	242,304	141,712
Total									7,449,702	7,428,502

Hostway**Corporation**

Chicago, IL

Term Loan	(3)	Second Lien	L+8.75%	1.25%	10.00%	12/13/2020	High Tech Industries	\$6,750,000	6,656,780	5,548,500
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HUF**Worldwide,****LLC**

Los Angeles, CA

Revolver	(9)(12)	First Lien	L+9.00%	0.50%	9.65%	10/22/2019	Retail	\$375,000	375,000	375,000
Term Loan	(12)	First Lien	L+9.00%	0.50%	9.65%	10/22/2019		\$4,770,680	4,704,863	4,770,680
Term Loan (SBIC)	(2)(12)	First Lien	L+9.00%	0.50%	9.65%	10/22/2019		\$8,019,677	7,914,054	8,019,677
HUF Holdings,	(4)	Equity						556,948 units	556,090	470,258

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MTC Parent, LP Class A-2 (4) Common Units Total		Equity						750,000 shares	750,000	1,157,520
NetMotion Wireless, Inc., et al										10,887,558
							Milpitas, CA			
Term Loan (3)(13)		Second Lien	L+10.50%	1.00%	11.50%	8/19/2020	Services: Business	\$9,000,000	8,862,689	9,090,000
Term Loan (2)(3)(13) (SBIC)		Second Lien	L+10.50%	1.00%	11.50%	8/19/2020		\$1,000,000	984,743	1,010,000
Endpoint Security Holdings, LLC (6)		Unsecured	15.00%			15.00%	10/3/2016	\$117,646	117,646	117,646
Endpoint Security Holdings, LLC (4)		Equity						9,174 shares	293,103	293,103
Class A Common Stock Endpoint Security Holdings, LLC (4)		Equity						9,174 shares	706,897	706,897
Class B Common Stock Total										10,965,078

Stellus Capital Investment Corporation**Consolidated Schedule of Investments – (unaudited)****September 30, 2016**

<u>OG Systems, LLC</u>										Chantilly, Virginia		
Term Loan	(3)(6)	Unsecured	L+11.00%	1.00%	11.00%	1.00%	1/22/2020	Services: Government	\$4,028,288	3,976,228	3,940,000	
<u>OGS Holdings, Inc. Series A Convertible Preferred Stock</u>												
	(4)	Equity							11,521 shares	50,000	59,800	
Total										4,026,228	4,000,000	
<u>Refac Optical Group, et al</u>										Blackwood, NJ		
Revolver	(10)(11)	First Lien	L+7.50%		8.03%		9/30/2018	Retail	\$400,000	400,000	400,000	
Term A Loan	(11)	First Lien	L+7.50%		8.03%		9/30/2018		\$1,633,046	1,633,046	1,633,046	
Term B Loan	(6)(11)	First Lien	L+10.25%		9.03%	1.75%	9/30/2018		\$6,388,073	6,388,073	6,388,073	
Total										8,421,119	8,421,119	
<u>Securus Technologies Holdings, Inc.</u>										Dallas, TX		
Term Loan	(3)	Second Lien	L+7.75	1.25%	9.00%		4/30/2021	Telecommunications	\$8,500,000	8,453,811	8,210,000	
<u>Sitel Worldwide Corporation</u>										Nashville, TN		
Term Loan	(3)	Second Lien	L+9.50	1.00%	10.50%		9/18/2022	Services: Business	\$10,000,000	9,820,148	9,980,000	
<u>Skopos Financial, LLC</u>										Irving, TX		
Term Loan	(5)	Unsecured	12.00%		12.00%		1/31/2019	Finance	\$20,000,000	19,770,124	19,600,000	

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Skopos Financial Group, LLC (4)(5) Class A Units Total	Equity						1,120,684 units	1,162,544	982,2	
<u>SPM Capital, LLC</u>										
						Bloomington, MN				
Term Loan (3)	First Lien	L+5.50	1.50%	7.00%	10/31/2017	Healthcare & Pharmaceuticals	\$6,404,654	6,372,262	6,369	
<u>SQAD, LLC</u>										
Term Loan (SBIC) (2)(6)	Unsecured	12.25%		11.00%	1.25%	4/30/2019	Media: Broadcasting & Subscription	\$7,222,170	7,151,331	7,199
<u>SQAD Holdco, Inc.</u>										
Preferred Shares, Series A (SBIC) SQAD Holdco, Inc. Common Shares (SBIC) Total	(2)(4)	Equity					5,624 shares	562,368	799,8	
	(2)(4)	Equity					5,800 shares	62,485	88,8	
<u>Stratose Intermediate Holdings, II, LLC et al</u>										
						Atlanta, GA				
Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	7/26/2022	Services: Business	\$15,000,000	14,696,437	15,000	
<u>360 Holdings III Corp</u>										
						Irvine, CA				
Term Loan (3)	First Lien	L+9.00%	1.00%	10.00%	10/1/2021	Consumer goods: non-durable Sikeston, MO	\$3,960,000	3,816,145	3,960	
Atmosphere Aggregator Holdings, LP Common Units Atmosphere Aggregator Holdings II, LP Common Units Total	(4)	Equity					750,000 units	750,000	1,798	
	(4)	Equity					254,250 units	254,250	609,5	
								15,700,687	17,400	

**Telecommunications
Management,
LLC**

Term Loan (3)	Second Lien	L+8.00%	1.00%	9.00%	10/30/2020	Media: Broadcasting & Subscription	\$5,000,000	4,968,894	4,910,000
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**U.S. Auto
Sales, Inc. et
al**

Term Loan (3)(5)	Second Lien	L+10.50%	1.00%	11.50%	6/8/2020	Finance	\$4,500,000	4,464,554	4,464,554
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Lawrenceville, GA

USASF Blocker II, LLC (4)(5)	Equity						441 units	441,000	495,200
Common Units USASF Blocker LLC (4)(5)	Equity						9,000 units	9,000	10,100
Common Units Total								4,914,554	4,970,000

Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

VandelayIndustriesFinance,LLC, et al

Term Loan	(6)	Second Lien	11.75%	10.75%	1.00%	11/12/2019	La Vergne, TN Construction & Building	\$2,500,000	2,484,313	2,500,000
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VisionMediaManagement&Fulfillment,LLC

Term Loan (SBIC)	(2)(3)(14)	First Lien	L+8.50%	1.00%	10.36%	1/27/2021	Valencia, CA Media: Broadcasting & Subscription	\$1,585,374	1,555,049	1,585,374
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WiseHoldingCorporation

Term Loan	(3)(14)	Unsecured	L+10.00%	1.00%	11.00%	12/31/2021	Salt Lake City, UT Beverage, Food, & Tobacco	\$1,250,000	1,231,861	1,250,000
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WCI Holdings, LLC

Class A Preferred LP/LLC Units	(4)	Equity						55 units	55,550	69,102
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WCI Holdings, LLC

Class B LP/LLC Common Units	(4)	Equity						3,044 units	3,044	3,786
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WCI Holdings, LLC

Class B LP/LLC Common Units	(4)	Equity						3,044 units	3,044	3,786
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WCI Holdings, LLC

Total									1,290,455	1,322,888
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Zemax, LLC						Redmond, WA				
Term Loan (SBIC) Zemax Software Holdings, LLC Preferred LP/LLC Units (SBIC) Zemax Software Holdings, LLC Common LP/LLC Units (SBIC) Total	(2)(3)	Second Lien	L+10.00%	1.00%	11.00%	4/23/2020	Software	\$3,962,500	3,905,428	3,902,403
	(2)(4)	Equity						24,500 units	245,000	236,377
	(2)(4)	Equity						5,000 shares	5,000	4,824
									4,155,428	4,143,604
Total Non-controlled, non-affiliated investments Net Investments LIABILITIES IN EXCESS OF OTHER ASSETS NET ASSETS									362,534,225	352,701,256
									362,534,225	352,701,256
										(183,295,220)
										169,406,036

(1) See Note 1 of the Notes to Financial Statements for a discussion of the methodologies used to value securities in the portfolio.

(2) The Company's obligations to the lenders of the Credit Facility are secured by a first priority security interest in all non-controlled non-affiliated investments and cash, but exclude \$5,724,876 of cash and \$93,723,983 of investments (at par) that are held by Stellus Capital SBIC LP. See Note 1 of the Notes to the Consolidated Financial Statements for a discussion.

(3) These loans have LIBOR Floors which are higher than the current applicable LIBOR rates; therefore, the floors are in effect.

(4) Security is non-income producing.

(5) The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. The Company may not acquire any non-qualifying assets unless, at the time of the acquisition, qualifying assets represent at least 70% of the Company's total assets. Qualifying assets represent approximately 84% of the Company's total assets.

(6) Represents a payment-in-kind security. At the option of the issuer, interest can be paid in cash or cash and PIK. The percentage of PIK shown is the maximum PIK that can be elected by the issuer.

(7) Investment has been on non-accrual status since January 1, 2014. The coupon rate on this investment includes 2% default interest.

(8) This loan is in default.

(9) Excluded from the investment is an undrawn commitment in an amount not to exceed \$875,000, with an interest rate of LIBOR plus 9.00% and a maturity of October 22, 2019. This investment is accruing an unused commitment fee of 0.50% per annum.

Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

Excluded from the investment is an undrawn commitment in an amount not to exceed \$1,600,000, with an interest (10) rate of LIBOR plus 7.50% and a maturity of September 30, 2018. This investment is accruing an unused commitment fee of 0.50% per annum.

Variable rate loans bear interest at a rate that may be determined by reference to either LIBOR (which can include (11) one-, two-, three- or six-month LIBOR) or an alternate base rate (which can include the Federal Funds Effective Rate or the Prime Rate), at the borrower's option, which rates reset periodically based on the terms of the loan agreement.

(12) These loans have LIBOR floors which are lower than the applicable LIBOR rates; therefore, the floors are not in effect.

(13) The coupon rate on this investment includes 2% default interest.

(14) These loans are last-out term loans with contractual base rates higher than the applicable LIBOR rates; therefore, the floors are not in effect.

Abbreviation Legend

L — LIBOR

PIK — Payment-In-Kind

Stellus Capital Investment Corporation

Consolidated Schedule of Investments
December 31, 2015

Investments	Footnotes	Lien	Coupon	LIBOR floor	Cash	PIK	Maturity	Headquarters/ Industry	Principal Amount/ Shares	An Co
Non-controlled, non-affiliated investments										
<u>Abrasive Products & Equipment, LLC, et al</u>										
								Deer Park, TX		
Term Loan (SBIC)	(2)(3)	Second Lien	L+10.50%	1.00%	11.50%		3/5/2020	Chemicals, Plastics, & Rubber	\$4,507,500	\$4,
APE Holdings, LLC Class A Units	(4)	Equity							375,000 units	375,
Total										4,8
<u>PE II Apex Environmental, LLC</u>										
								Amsterdam, OH		
Term Loan	(3)	First Lien	L+9.50%	0.50%	10.00%		10/30/2020	Environmental Industries	\$750,000	735,
Term Loan (SBIC)	(2)(3)	First Lien	L+9.50%	0.50%	10.00%		10/30/2020		\$9,750,000	9,5
Apex Environmental Resources Holdings, LLC Common Units	(4)	Equity							295 shares	295,
Apex Environmental Resources Holdings, LLC Preferred Units	(4)	Equity							295 shares	295,
Total										10,
<u>Atkins Nutritionals Holdings II, Inc.</u>										
								Denver, CO		
Term Loan	(3)	Second Lien	L+8.50%	1.25%	9.75%		4/3/2019	Beverage, Food, & Tobacco	\$8,000,000	7,9
<u>Binder & Binder National Social Security Disability Advocates, LLC</u>										
								Hauppauge, NY		
Debtor-In-Possession Loan	(15)	First Lien	12.00%		12.00%		3/31/2016	Services: Consumer	\$4,500,000	4,4
Term Loan	(4)(6)(7)	Unsecured	17.00%		15.00%	2.00%	2/27/2016		\$13,200,354	13,
Total										17,

Blackhawk Mining, LLC

Lexington, KY

Term Loan		First Lien	13.50%		13.50%	10/28/2020	Metals & Mining	\$4,474,770	4,2
Blackhawk Mining, LLC Class B Units	(4)	Equity						36 units	214
Total									4,4

Calero Software, LLC et al

Rochester, NY

Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	6/5/2019	Telecommunications	\$7,500,000	7,3
Managed Mobility Holdings, LLC Partnership Units	(4)	Equity						8,932 units	52
Total									7,9

C.A.R.S. Protection Plus, Inc.

Murrysville, PA

Term Loan	(14)	First Lien	L+8.50%	0.50%	9.11%	12/31/2020	Services: Automotive	\$125,000	12
Term Loan (SBIC) CPP Holdings LLC	(2)(14)	First Lien	L+8.50%	0.50%	9.11%	12/31/2020		\$9,750,000	9,5
Common Shares, Class A	(4)	Equity						149,828 shares	14
Total									9,8

Catapult Learning, LLC et al

Camden, NJ

Term Loan	(3)(14)(16)	First Lien	L+6.50%	1.00%	9.08%	7/16/2020	Education	\$12,500,000	12,
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Colford Capital Holdings, LLC

New York, NY

Delay Draw Term Loan #1	(5)	Unsecured	12.00%		12.00%	5/31/2018	Finance	\$12,500,000	12,
Delay Draw Term Loan #2	(5)	Unsecured	12.00%		12.00%	5/31/2018		\$2,000,000	1,9
Delay Draw Term Loan #4	(5)	Unsecured	12.00%		12.00%	5/31/2018		\$5,000,000	4,9
Colford Capital Holding, LLC Preferred Units	(4)(5)	Equity						35,945 units	55
Total									19,

Stellus Capital Investment Corporation

Consolidated Schedule of Investments

December 31, 2015

Doskocil
Manufacturing
Company,
Inc.
(Petmate)

Arlington, TX

Term Loan (2)(3)(16)	First Lien	L+6.00%	1.00%	9.50%	11/10/2020	Consumer goods: non-durable	\$8,750,000	8,600,852	8,600,852
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Douglas
Products &
Packaging
Company,
LLC

Liberty, MO

Term Loan (2)(14)	Second Lien	L+10.50%	0.50%	11.11%	12/31/2020	Chemicals, Plastics, & Rubber	\$9,000,000	8,853,102	8,658,000
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Fumigation Holdings, Inc. Class A Common Stock	(4)	Equity					250 shares	250,000	334,846
Total								9,103,102	8,992,852

Eating
Recovery
Center,
LLC

Denver, CO

Term Loan (6)	Unsecured	13.00%	12.00%	1.00%	6/28/2018	Healthcare & Pharmaceuticals	\$18,400,000	18,199,005	17,924,000
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ERC Group Holdings LLC Class A Units	(4)	Equity					17,820 units	1,674,649	2,795,030
Total								19,873,654	20,719,030

Empirix
Inc.

Billerica, MA

Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020	Software	\$11,657,850	11,484,965	11,336,300
(2)(3)		L+9.50%	1.00%	10.50%	5/1/2020		\$9,750,000	9,604,846	9,481,120

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Term Loan (SBIC) Empirix Holdings I, Inc. Common Shares, Class A	(4)	Equity					1,304 shares	1,304,232	540,667	
Empirix Holdings I, Inc. Common Shares, Class B	(4)	Equity					1,317,406 shares	13,174	5,461	
Total								22,407,217	21,363,6	
<u>EOS</u>										
<u>Fitness</u>										
<u>OPCO</u>										
<u>Holdings,</u>										
<u>LLC</u>										
Term Loan (SBIC) EOS Fitness Holdings, LLC Class A Preferred Units	(2)(3)	First Lien	L+8.75%	0.75%	9.50%	12/30/2019	Hotel, Gaming, & Leisure	\$3,465,000	3,407,044	3,348,42
EOS Fitness Holdings, LLC Class A Preferred Units	(4)	Equity					118 shares	117,670	83,596	
EOS Fitness Holdings, LLC Class B Common Units	(4)	Equity					3,017 shares	3,020	2,144	
Total								3,527,734	3,434,16	
<u>GK</u>										
<u>Holdings,</u>										
<u>Inc.</u>										
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	1/30/2022	Services: Business	\$5,000,000	4,909,192	4,760,84
<u>Glori</u>										
<u>Energy</u>										
<u>Production</u>										
<u>Inc.</u>										
Term Loan	(3)	First Lien	L+10.00%	1.00%	11.00%	3/14/2017	Energy: Oil & Gas	\$1,741,917	1,726,895	1,467,38
<u>Grupo</u>										
<u>HIMA San</u>										
<u>Pablo, Inc.,</u>										

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et al									
Term Loan (3)	First Lien	L+7.00%	1.50%	8.50%	1/31/2018	Healthcare & Pharmaceuticals	\$4,862,500	4,816,445	4,764,12
Term Loan	Second Lien	13.75%		13.75%	7/31/2018		\$4,000,000	3,885,629	3,838,74
Total								8,702,074	8,602,86
Hollander Sleep Products, LLC									
Boca Raton, FL									
Term Loan (3)	First Lien	L+8.00%	1.00%	9.00%	10/21/2020	Services: Consumer	\$7,443,750	7,350,520	7,130,89
Dream II Holdings, LLC Class A Units	Equity						250,000 units	242,304	259,346
Total								7,592,824	7,390,24
Hostway Corporation									
Chicago, IL									
Term Loan (3)	Second Lien	L+8.75%	1.25%	10.00%	12/13/2020	High Tech Industries	\$6,750,000	6,644,181	6,581,98
Los Angeles, CA									
Term Loan (3)	First Lien	L+9.00%	0.50%	9.50%	10/22/2019	Retail	\$4,838,524	4,760,081	4,785,64

Stellus Capital Investment Corporation

Consolidated Schedule of Investments

December 31, 2015

Term Loan (SBIC)	(2)(3)	First Lien	L+9.00%	0.50%	9.50%	10/22/2019		\$8,133,726	8,004,462	8,044,826
HUF Holdings, LLC	(4)	Equity						556,948 units	556,090	384,110
Common Class A Units										
Total									13,320,633	13,214,576
<u>Livingston International, Inc.</u>							Toronto, Ontario			
Term Loan	(3)(5)	Second Lien	L+7.75%	1.25%	9.00%	4/18/2020	Transportation: Cargo	\$6,841,739	6,746,827	5,660,744
<u>Momentum Telecom Inc., et al</u>							Birmingham, AL			
Term Loan	(3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019	Media: Broadcasting & Subscription	\$7,702,069	7,584,195	7,464,720
Term Loan (SBIC)	(2)(3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019		\$9,684,225	9,540,113	9,385,794
MBS Holdings, Inc. Series E Preferred Stock	(4)	Equity						2,774,695 shares	1,000,000	1,095,986
MBS Holdings, Inc. Series F Preferred Stock	(4)	Equity						399,308 shares	206,682	206,682
Total									18,330,990	18,153,182
<u>MTC Intermediate Holdco, Inc.</u>							Oak Brook, IL			
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	5/31/2022	Services: Finance	\$575,000	563,602	563,602
Term Loan (SBIC)	(2)(3)	Second Lien	L+9.50%	1.00%	10.50%	5/31/2022		\$9,750,000	9,556,727	9,556,727

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MTC Parent, LP Class A-2 Common Units Total	(4)	Equity						750,000 shares	750,000	750,000	
NetMotion Wireless, Inc., et al										10,870,329	
							Milpitas, CA				
Term Loan	(3)	Second Lien	L+10.50%	1.00%	11.50%	8/19/2020	Services: Business	\$9,000,000	8,842,425	8,755,915	
Term Loan (SBIC)	(2)(3)	Second Lien	L+10.50%	1.00%	11.50%	8/19/2020		\$1,000,000	982,492	972,879	
Endpoint Security Holdings, LLC	(6)	Unsecured	15.00%			15.00%	10/3/2016	\$105,501	103,885	103,391	
Endpoint Security Holdings, LLC Class A Common Stock	(4)	Equity						9,174 shares	293,103	281,233	
Endpoint Security Holdings, LLC Class B Common Stock Total	(4)	Equity						9,174 shares	706,897	678,268	
OG Systems, LLC							Chantilly, Virginia			10,928,802	
Term Loan	(3)(6)	Unsecured	L+11.00%	1.00%	11.00%	1.00%	1/22/2020	Services: Government	\$4,028,288	3,966,918	3,913,652
OGS Holdings, Inc. Series A Convertible Preferred Stock Total	(4)	Equity						11,521 shares	50,000	49,253	
Refac Optical Group, et al							Blackwood, NJ			4,016,918	
Revolver Term A Loan	(10)(11)	First Lien	L+7.50%		7.92%		9/30/2018	Retail	\$400,000	400,000	398,270
Term B Loan	(11)	First Lien	L+7.50%		7.92%		9/30/2018		\$2,159,427	2,159,427	2,150,087
Term B Loan	(6)(11)	First Lien	L+10.25%		8.92%	1.75%	9/30/2018		\$6,342,590	6,342,590	6,314,455

Total
Securus
Technologies
Holdings,
Inc.

8,902,017 8,862,812

Dallas, TX