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)

Maryland 46-0937320 (State or other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

4400 Post Oak Parkway, Suite 2200

Houston, Texas 77027

(Address of Principal Executive Offices) (Zip Code)

(713) 292-5400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes "No"

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer " Accelerated filer x Non-accelerated filer " Smaller reporting company " (do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes "No x

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

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PART I — FINANCIAL INFORMATION

STELLUS CAPITAL INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (unaudited)

	September 30,	December 31,
	2016	2015
ASSETS		
Non-controlled, non-affiliated investments, at fair value (amortized cost of	\$352,701,256	\$349,017,697
\$362,534,225 and \$364,212,459, respectively)	\$332,701,230	\$ 349,017,097
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,	\$12,480	\$12,480
12,479,958 and 12,479,960 shares issued and outstanding, respectively)	\$12,400	\$12,400
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	(9,852,576	(15,576,485)
for taxes of \$19,607 and \$381,723, respectively.	(9,032,370	(13,370,463)

 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

1

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

For the For the For the three months three months nine months nine months ended ended ended ended September 30, Se	
INVESTMENT INCOME	
Interest income \$9,773,863 \$8,509,804 \$28,477,016 \$25,776	,147
Other income 428,890 93,009 816,739 231,21	9
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,	188
Valuation fees 157,179 139,266 357,346 328,06	5
Administrative services expenses 244,303 224,836 782,230 800,86	3
Incentive fees 1,110,297 954,908 3,121,395 2,914,	533
Professional fees 177,410 92,320 564,724 454,67	5
Directors' fees 73,000 76,000 251,000 260,00	0
Insurance expense 119,323 119,417 355,376 354,60	3
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 100,362 156,782 340,406 391,33	0
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 \$\((895,809 \) \) \$294,86	3
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	

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	2010	_010
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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Cash flows from operating activities	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
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	Ψ17,401,230	Ψ0,770,030
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	
Deferred tax benefit	(362,116	
Increase in investments due to PIK	(165,110	(387,975)
Amortization of premium and accretion of discount, net	(830,040	
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

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

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

National

Investments Footnotes Lien		Coupon	LIBOR floor	R Cash	PIK	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortized Cost	dF V
Non-controlled,										
non-affiliate(2)										
investments <u>Abrasive</u>										
Products &										
Equipment,							Deer Park, TX			
LLC, et al										
Term Loan (2)(3) (SBIC)	Second Lien	L+10.50%	61.00%	11.50%	6	3/5/2020	Chemicals, Plastics, & Rubber	\$5,325,237	\$5,247,795	; \$:
APE Holdings, LLC Class (4)	Equity							375,000 units	375,000	43
A Units										
Total									5,622,795	5.
Apex Environmental										
Environmental Resources										
Holdings,										
LLC										
Common	Eanity						Amatandam OU	517 charas	517	5
Units (4)	Equity						Amsterdam, OH	517 shares	317	5
Preferred (4)	Equity						Environmental	517 shares	517.439	5
Units	Dquity						Industries	01/ 01.01		
Total									517,956	5
<u>Atkins</u> Nutritionals										
Holdings II,							Denver, CO			
Inc.										
Term Loan (3)	Second Lien	L+8.50%	1.25%	9.75%		4/3/2019	Beverage, Food, & Tobacco	\$8,000,000	7,921,378	8.
<u>Binder &</u> <u>Binder</u>							Hauppauge, NY			

		9	3		'	'				
Social Security Disability Advocates, LLC Term Loan	(4)(6)(7) (8)	Unsecured	117.00%		15.00% 2.00%	% 2/27/2016	Services: Consumer	· \$13,200,35 ²	13,200,354	17
Calero Software, LLC et al							Rochester, NY			
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	6/5/2019	Telecommunication	s\$7,500,000	7,416,056	7
Managed Mobility Holdings, LLC Partnership Units	(4)	Equity						8,932 units	525,000	1
Total									7,941,056	7
C.A.R.S. Protection							Murrysville, PA			
Plus, Inc.							ividity svinie, 171			
Term Loan		First Lien	L+8.50%	0.50%	9.00%	12/31/2020	Automotive	\$118,046	115,972	1
Term Loan (SBIC) CPP Holdings	(2)(3)	First Lien	L+8.50%	0.50%	9.00%	12/31/2020	0	\$9,207,579	9,029,261	9
LLC Common Shares,	(4)	Equity						149,828 shares	149,828	2
Class A Total									9,295,061	9
Catapult Learning, LLC et al							Camden, NJ			
Term Loan Colford	(3)(14)	First Lien	L+6.50%	1.00%	9.03%	7/16/2020	Education	\$12,500,000	12,399,190) 1
<u>Capital</u> <u>Holdings,</u> <u>LLC</u>							New York, NY			
Delay Draw Term Loan #1	(5)	Unsecured	d12.00%		12.00%	5/31/2018	Finance	\$12,500,000)12,385,868	3 1
Delay Draw Term Loan #2	(5)	Unsecured	d12.00%		12.00%	5/31/2018		\$2,000,000	1,977,036	1
Delay Draw Term Loan #4		Unsecured	d12.00%		12.00%	5/31/2018		\$5,000,000	4,953,819	4

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

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$Consolidated \ Schedule \ of \ Investments - (unaudited)$

September 30, 2016

Eating Recovery Center,							Denver, CO			
LLC Term Loan ERC	(6)	Unsecured	113.00%		12.00% 1.00%	6/28/2018	Healthcare & Pharmaceuticals	\$18,400,000	18,252,384	18,261
Group Holdings LLC Class A	(4)	Equity						17,820 units	1,655,274	2,471,9
Units Total <u>Empirix</u> Inc.							Billerica, MA		19,907,658	20,733
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020	Software	\$11,657,850	11,509,367	11,447
Term Loan (SBIC)	(2)(3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020		\$9,750,000	9,624,854	9,574,3
Empirix Holdings I, Inc. Common Shares, Class A	(4)	Equity						1,304 shares	1,304,232	1,567,0
Empirix Holdings I, Inc. Common Shares, Class B	(4)	Equity						1,317,406 shares	13,174	15,829
Total									22,451,627	22,605
Energy Labs, Inc	(2)(12)(14))First Lien	P+5.50%	2.00%	12.03%	9/29/2021	Houston, TX	\$5,300,000	5,194,000	5,194,0

		Lugar i lillig. Otelii	us Oapitai i	investinent oorp	10111110 Q			
Term Loan (SBIC) Energy Labs Holding Corp Common	(4)				Energy: Oil & Gas	500 shares	500,000	500,00
Units							5 604 000	5 604 (
EOS Fitness OPCO Holdings, LLC					Phoenix, AZ		5,694,000	5,694,0
Term Loan (SBIC) EOS Fitness	(2)(3)	First Lien L+8.75% 0.7	75%9.50%	12/30/2019	Hotel, Gaming, & Leisure	\$3,353,059	3,305,881	3,332,5
Holdings, LLC Class A Preferred Units EOS Fitness	(4)	Equity				118 shares	117,670	67,988
Holdings, LLC Class B Common Units	(4)	Equity				3,017 share:	s3,020	1,743
Total							3,426,571	3,402,2
Furniture Factory Outlet, LLC					Fort Smith, AR			
Term Loan Furniture	(12)	First Lien L+9.00% 0.5	50% 9.84%	6/10/2021	Consumer goods: non-durable	\$9,937,500	9,748,928	9,746,8
Factory Holdings, LLC Term Loan	(6)	Unsecured 11.00%		11.00% 2/3/2021		\$122,823	122,823	122,82
Sun Furniture Factory, LP Common	(4)	Equity				13,445 Shares	94,569	89,254

LP/LLC									
Units									
Total								9,966,320	9,958,9
<u>GK</u>									
Holdings,						Cary, NC			
Inc.									
Term	(3)	Second	I ±0 50%	1.00% 10.50%	1/30/2022	Services:	\$5,000,000	4 017 424	4 070
Loan	(3)	Lien	LT9.30 //	1.00 /6 10.50 /6	173072022	Business	\$5,000,000	4,717,424	4,575,0
<u>Glori</u>									
Energy						Houston, TX			
Production	<u>1</u>					Houston, 1A			
Inc.									
Term	(3)	Eirst Lian	I + 10 00%	1.00% 11.00%	3/14/2017	Energy: Oil &	\$1,651,500	1 6/6 100	1 556 1
Loan	(3)	riist Lien	L+10.00%	1.00% 11.00%	3/14/2017	Gas	\$1,031,300	1,040,100	1,330,
Good									
Source						Comlahad CA			
Solutions,						Carlsbad, CA			
Inc.									
Term						Davaraga Food			
Loan	(2)(12)(14)	First Lien	L+7.25%	0.50% 11.25%	7/15/2021	Beverage, Food, & Tobacco	\$1,200,000	1,176,705	1,176,
(SBIC)						& Tobacco			
Term		Einst Lian	I +7 250/	0.50% 11.25%	7/15/2021		¢1 250 000	1 222 704	1 222 1
Loan		riist Lien	L+1.23%	0.30% 11.23%	//13/2021		\$1,350,000	1,323,794	1,323,
Good									
Source									
Holding,	(4)	E anita					150 ahama	150 275	150.27
LLC	(4)	Equity					159 shares	159,375	159,37
Class A									
Preferred									
Good									
Source									
Holding,	(4)	E anita					4 492 abassa	. 0	0
LLC	(4)	Equity					4,482 shares	SU	0
Class B									
Preferred									
TD 4 1								2 (50 074	2 (50 (

6

Total

2,659,874 2,659,

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

Grupo HIMA San Pablo Inc., et al	<u>L</u>					San Juan, PR			
Term Loan	(3)	First Lien	L+7.00%	1.50% 8.50%	1/31/2018	Healthcare & Pharmaceuticals	\$4,825,000	04,794,990	4,705,654
Term Loan		Second Lien	13.75%	13.75%	7/31/2018		\$4,000,000	03,914,403	3,535,59
Total		Lien						8,709,393	8,241,245
<u>Hollander</u> <u>Sleep</u>	<u>:</u>								
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	07,207,398	7,286,790
Dream II Holdings, LLC Class A LP/LLC	(4)	Equity					250,000 units	242,304	141,712
Units Total								7,449,702	7,428,502
<u>Hostway</u> <u>Corporati</u>	ion					Chicago, IL			
Term Loan	(3)	Second Lien	L+8.75%	1.25% 10.00%	12/13/2020	High Tech Industries	\$6,750,000	06,656,780	5,548,500
<u>HUF</u> <u>Worldwid</u> <u>LLC</u>	<u>le,</u>					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 Term	(12)	First Lien	L+9.00%	0.50% 9.65%	10/22/2019)	\$4,770,680	04,704,863	4,770,680
Loan (SBIC)	(2)(12)	First Lien	L+9.00%	0.50% 9.65%	10/22/2019)	\$8,019,677	77,914,054	8,019,67
HUF Holdings,	(4)	Equity					556,948 units	556,090	470,258

		9	2g. C	7101140	Gapital IIIVool	о. со. р				
LLC										
Common Class A										
Units										
Total									13,550,007	713,635,61
Keais										
Records							Houston, TX			!
<u>Service,</u> <u>LLC</u>										
<u>LLC</u> Term		Second					Services:			
Loan	(12)	Lien	L+10.25%	0.50%	10.78%	12/30/2021	Business	\$1,250,000	1,225,817	1,250,000
<u>KidKraft,</u>	•						Dallas, TX			
<u>Inc.</u>										1
Term	(6)	Second	12.00%		11.00% 1.00%	3/30/2022	Consumer	\$9,200,000	9,016,000	9,016,000
Loan Livingstor		Lien					Goods: Durable		•	·
<u>Internatio</u>							Toronto, Ontario)		
<u>Inc.</u> Term		Second					Transportation:			
Loan	(3)(5)	Lien	L+8.25%	1.25%	9.50%	4/18/2020	Cargo	\$6,841,739	6,760,628	6,638,00:
Momentu	<u>m</u>									!
<u>Telecom</u> <u>Inc., et al</u>							Birmingham, AL	_		
Term							Media:			<u> </u>
Loan	(3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019	Broadcasting &	\$7,016,214	6,930,414	6,879,549
							Subscription			
Term Loan	(2)(3)	Circt I ien	L+8.50%	1 00%	0.50%	3/10/2019		\$9,423,534	0 207 140	0 230 978
(SBIC)	(4)(3)	Lligt Tien	L+0.50 %	1.00 /	9.30%	3/10/2017		Φ Ͻ, ϮΔϽ,ϽϽ·ι	9,507,170	7,437,71
MBS										
Holdings.										
Inc. Series	s ₍₄₎	Equity						2,774,695	1,000,000	1 196 551
Ľ	(4)	Equity						shares	1,000,000	1,170,55
Preferred Stock										
Stock MBS										
Holdings.										
Inc. Series	S	- ·, .						399,308	226.600	2.47.206
Г	(4)	Equity						shares	206,682	247,306
Preferred										
Stock									:= 444.024	
Total <u>MTC</u>									17,444,236)17,563,30
<u>MTC</u> <u>Intermedi</u>	ate									
Holdco,	<u>acc</u>						Oak Brook, IL			
Inc.										
Term	(3)	Second	L+9.50%	1 00%	10 50%	5/31/2022	Finance	\$575,000	564 562	575,000
Loan	(3)	Lien	L17.50 %	1.00 /0	10.50 %	313112022	Timanec	Ψυ 1υ,000	307,302	373,000
Term	(2)(2)	Second	L+9.50%	1 00%	10.500/-	5/31/2022		¢0.750.000	10 572 006	0.750.000
Loan (SBIC)	(2)(3)	Lien	L+9.3070	1.0070	10.30%	3/31/2022		\$9,750,000	9,314,770	9,730,000
(~=)										F

MTC								
Parent, LF)					750,000		
Class A-2	(4)	Equity				750,000	750,000	1,157,52
Common						shares		
Units								
Total							10,887,558	311,482,52
NetMotion	<u>1</u>							
Wireless,					Milpitas, CA			
Inc., et al								
Term	(3)(13)	Second	L+10.50% 1.00% 11.50%	8/19/2020	Services:	\$0,000,000	08,862,689	0.000.000
Loan	(3)(13)	Lien	L+10.30701.007011.3070	0/17/2020	Business	\$5,000,000	J0,00 <u>2,</u> 009	9,090,000
Term		Second						
Loan	(2)(3)(13)	Lien	L+10.50% 1.00% 11.50%	8/19/2020		\$1,000,000	0984,743	1,010,000
(SBIC)		Licii						
Endpoint								
Security	(6)	Unsecured	A15 000%	15.00% 10/3/2016		\$117,646	117 646	117,646
Holdings,	(0)	Unsecured	113.00%	13.00% 10/3/2010		\$117,040	11/,040	11/,040
LLC								
Endpoint								
Security								
Holdings,						0.174		
LLC	(4)	Equity				9,174	293,103	293,103
Class A		• •				shares		
Common								
Stock								
Endpoint								
Security								
Holdings,						~ . - .		
LLC	(4)	Equity				9,174	706,897	706,897
Class B	(')	Lquity				shares	700,02.	700,02.
Common								
Stock								
Total							10,965,078	211 217 6
Total							10,703,070	511,217,0-

Consolidated Schedule of Investments – (unaudited)

September 30, 2016

<u>OG</u>									
Systems, LLC						Chantilly, Virginia			
Term Loan	(3)(6)	Unsecured	dL+11.00%	1.00% 11.00%	1.00% 1/22/2020	Services: Government	\$4,028,288	3,976,228	3,948
OGS						Government			
Holdings,									
Inc. Series							11,521		
A	(4)	Equity					shares	50,000	59,8
Convertible							Shares		
Preferred									
Stock Total								4,026,228	4.00
Refac								4,020,228	4,00
<u>Optical</u>						Blackwood, NJ			
Group, et al						Black Wood, 110			
Revolver		First Lien	L+7.50%	8.03%	9/30/2018	Retail	\$400,000	400,000	400,0
Term A	(11)	First Lian	L+7.50%	8.03%	9/30/2018		\$1,633,046	1 633 046	1.633
Loan	(11)	THSt LICH	L+7.30%	8.03%	9/30/2016		\$1,033,040	1,033,040	1,05.
Term B	(6)(11)	First Lien	L+10.25%	9.03%	1.75% 9/30/2018		\$6,388,073	6.388.073	6,388
Loan	(-)()			2,000			+ 0,0 00,0 0		•
Total								8,421,119	8,42
Securus Technologie	c								
Holdings.	<u>5</u>					Dallas, TX			
Inc.									
Term Loan	(3)	Second Lien	L+7.75	1.25% 9.00%	4/30/2021	Telecommunications	s\$8,500,000	8,453,811	8,218
<u>Sitel</u>									
<u>Worldwide</u>						Nashville, TN			
Corporation	<u>1</u>								
Term Loan	(3)	Second Lien	L+9.50	1.00% 10.50%	9/18/2022	Services: Business	\$10,000,000	9,820,148	9,984
<u>Skopos</u>									
Financial,						Irving, TX			
LLC	(5)	I I a a a a a a a a a a a a a a a a a a	112 000	12 000	1/21/2010	Lineare	¢20,000,000	10 770 10	110.7
Term Loan	(3)	Unsecured	112.00%	12.00%	1/31/2019	rinance	\$20,000,000	119,770,124	+ 19,6.

Skopos Financial Group, LLC (4)(5) Class A	Equity				1,120,684 units	1,162,544	982,2
Units Total						20,932,668	320,59
<u>SPM</u> Capital,				Bloomington, MN			
<u>Capital,</u> <u>LLC</u>				_			
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
SQAD, LLC				Tarrytown, NY			
Term Loan (SBIC) SQAD	Unsecured 12.25%	11.00% 1.25%	4/30/2019	Media: Broadcasting & Subscription	\$ \$7,222,170	7,151,331	7,199
Holdco, Inc. Preferred Shares, (2)(4)	Equity				5,624 shares	s 562,368	799,8
Snares, Series A (SBIC) SQAD Holdco, Inc.							
Common (2)(4)	Equity				5,800 shares	s 62,485	88,86
Shares (SBIC)							
Total						7,776,184	8,088
<u>Stratose</u> <u>Intermediate</u>							
Holdings, II,				Atlanta, GA			
LLC et al	Second	1 000 10 700			4. 2. 0. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2.		
Term Loan (3)	Lien L+9.50%	1.00% 10.50%	7/26/2022	Services: Business	\$15,000,000	14,696,437	7 15,00
Atmosphere Aggregator							
Holdings, LP (4)	Equity				750,000 units	750,000	1,798
Common Units Atmosphere							
Aggregator Holdings II,					254,250		
LP (4)	Equity				units	254,250	609,5
Common Units							
Total						15,700,687	717,40
360 Holdings III				Irvine, CA			
<u>Holdings 111</u> <u>Corp</u>				n vine, 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

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
U.S. Auto								
Sales, Inc. et	<u>t</u>				Lawrenceville, GA			
<u>al</u>								
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
USASF								
Blocker II,								
LLC	(4)(5)	Equity				441 units	441,000	495,2
Common								
Units								
USASF								
Blocker								
LLC	(4)(5)	Equity				9,000 units	9,000	10,10
Common								
Units								
Total							4,914,554	4,970

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Consolidated Schedule of Investments – (unaudited)

September 30, 2016

Vandelay Industries Finance, LLC, et al Term Loan Vision Media Managem	(6) ent	Second Lien	11.75%	10.75%	% 1.00% 11		La Vergne, TN Construction & Building Valencia, CA		02,484,313	2,500,000
<u>Fulfillmen</u> <u>LLC</u>	<u>ıt,</u>						Media:			
Term Loan (SBIC)	(2)(3)(14))First Lien	L+8.50% 1	.00% 10.36%	% 1/	27/2021	Broadcasting & Subscription	\$1,585,374	1,555,049	1,585,374
<u>Wise</u> <u>Holding</u> <u>Corporati</u>	<u>on</u>						Salt Lake City, UT			
Term Loan	(3)(14)	Unsecured	1L+10.00% 1	.00% 11.00%	% 12	2/31/2021	Beverage, Food, & Tobacco	\$1,250,000	01,231,861	1,250,000
WCI Holdings, LLC Class A Preferred LP/LLC Units WCI	(4)	Equity						55 units	55,550	69,102
Holdings, LLC Class B LP/LLC Common Units	(4)	Equity						3,044 units		3,786
Total									1,290,455	1,322,888

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Zemax, LLC					Redmond, WA			
Term Loan (SBIC) Zemax	(2)(3)	Second Lien	L+10.00% 1.00% 11.00%	4/23/2020	Software	\$3,962,50	03,905,428	3,902,403
Software Holdings, LLC Preferred LP/LLC Units (SBIC) Zemax	(2)(4)	Equity				24,500 units	245,000	236,377
Software Holdings, LLC Common LP/LLC Units (SBIC)	(2)(4)	Equity				5,000 shares	5,000	4,824
Total							4,155,428	4,143,604
Total Non-contr non-affilia investmen	ited						362,534,22	5352,701,256
Net Investmen LIABILIT	nts						362,534,22	5352,701,256
IN EXCESS OF OTHER ASSETS								(183,295,220
NET ASSETS								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.

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.

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.

The investment is not a qualifying asset under the Investment Company Act of 1940, as amended. The Company (5) 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.

Excluded from the investment is an undrawn commitment in an amount not to exceed \$875,000, with an interest (9) 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.

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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 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.
- 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.
- 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

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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</u> <u>& Equipment, LLC, et al</u>	(2)							Deer Park, TX	Shares	
Term Loan (SBIC)	(2)(3)	Second Lien	L+10.50%	61.00%	11.50%)	3/5/2020	Chemicals, Plastics, & Rubber	\$4,507,500	\$4,
APE Holdings, LLC Class A Units Total	(4)	Equity							375,000 units	37. 4,8
PE II Apex Environmental, LLC								Amsterdam, OH		
Term Loan	(3)	First Lien	L+9.50%	0.50%	10.00%)	10/30/2020	Environmental Industries	\$750,000	73
* *	(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	29:
Apex Environmental Resources Holdings, LLC Preferred Units		Equity							295 shares	29:
Total Atkins Nutritionals										10,
Holdings II, Inc.								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
Binder & Binder National Social Security Disability Advocates, LLC								Hauppauge, NY		
Debtor-In-Possession Loan	¹ (15)	First Lien	12.00%		12.00%)	3/31/2016	Services: Consumer	\$4,500,000	4,4
Term Loan Total	(4)(6)(7)	Unsecured	117.00%		15.00%	2.00%	2/27/2016		\$13,200,354	113, 17,

Blackhawk Mining,							Lexington, KY		
<u>LLC</u> Term Loan		First Lien	13.50%		13.50%	10/28/2020	OMetals & Mining	\$4,474,770	4.2
Blackhawk Mining, LLC Class B Units	(4)	Equity						36 units	214
Total <u>Calero Software,</u> <u>LLC et al</u>							Rochester, NY		4,4
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	6/5/2019	Telecommunication	s\$7,500,000	7,3
Managed Mobility Holdings, LLC Partnership Units	(4)	Equity						8,932 units	525
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	122
Term Loan (SBIC)	(2)(14)	First Lien	L+8.50%	0.50%	9.11%	12/31/2020		\$9,750,000	9,5
CPP Holdings LLC Common Shares, Class A	(4)	Equity						149,828 shares	149
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	\$12,500,00	012,
Colford Capital Holdings, LLC							New York, NY		
Delay Draw Term Loan #1	(5)	Unsecured	112.00%		12.00%	5/31/2018	Finance	\$12,500,00	012,
Delay Draw Term Loan #2	(5)	Unsecured	112.00%		12.00%	5/31/2018		\$2,000,000	1,9
Delay Draw Term Loan #4	(5)	Unsecured	d12.00%		12.00%	5/31/2018		\$5,000,000	4,9
Colford Capital Holding, LLC Preferred Units	(4)(5)	Equity						35,945 unit	s 557

Total

19,

Consolidated Schedule of Investments December 31, 2015

(2)(3)

Doskocil Manufacturing Company, Inc. (Petmate)					Arlington, TX			
Term Loan (2)(3)(16 (SBIC))First Lien	L+6.00%	1.00% 9.50%	11/10/2020	Consumer Ogoods: non-durable	\$8,750,000	8,600,852	8,600,85
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	8,658,00
Fumigation Holdings, Inc. Class A Common Stock Total	Equity				Raddel	250 shares	250,000 9,103,102	334,846 8 992 85
Eating Recovery Center, LLC					Denver, CO		3,103,102	0,552,00
Term Loan (6)	Unsecured	d13.00%	12.00% 1	1.00% 6/28/2018	Healthcare & Pharmaceuticals	\$18,400,000	18,199,005	5 17,924,0
ERC Group Holdings (4) LLC Class A Units	Equity					17,820 units	s 1,674,649	2,795,03
Total <u>Empirix</u>					Billerica, MA		19,873,654	420,719,0
Inc. Term Loan (3)	Second Lien	L+9.50%	1.00% 10.50%	5/1/2020	Software	\$11,657,850)11,484,965	511,336,3

5/1/2020

L+9.50% 1.00% 10.50%

\$9,750,000 9,604,846 9,481,12

	Eugai Filling. S	Stellus Capital Ilives	ment corp	יייייייייייייייייייייייייייייייייייייי			ļ
Term Loan (SBIC) Empirix Holdings I,	Second Lien						
Inc. Common Shares, Class A Empirix Holdings I,	Equity				1,304 shares	;1,304,232	540,667
Inc. Common Shares, Class B	Equity				1,317,406 shares	13,174	5,461
Total EOS Fitness						22,407,217	721,363,6
OPCO Holdings, LLC				Phoenix, AZ			
Term Loan (2)(3) (SBIC) EOS Fitness Holdings,	First Lien L+8.75%	0.75%9.50%	12/30/2019	9 Hotel, Gaming, & Leisure	\$3,465,000	3,407,044	3,348,42
Holdings, LLC Class (4) A Preferred Units EOS Fitness Holdings,	Equity				118 shares	117,670	83,596
LLC Class (4) B Common Units	Equity				3,017 shares	;3,020	2,144
Total <u>GK</u> <u>Holdings</u>				Cary, NC		3,527,734	3,434,16
Inc. 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
Glori Energy Production Inc.				Houston, TX			
Term Loan (3) Grupo	First Lien L+10.00%	% 1.00% 11.00%	3/14/2017	Energy: Oil & Gas San Juan, PR	\$1,741,917	1,726,895	1,467,3
<u>HIMA San</u> Pablo Inc							

Pablo, Inc.,

<u>et al</u>								
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
<u>Hollander</u>								
<u>Sleep</u> Products,					Boca Raton, FL			
LLC								
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 (4)	Equity					250,000 units	242,304	259,346
A Units						uiiits		
Total							7,592,824	7,390,24
Hostway Correction					Chicago, IL			
<u>Corporation</u>	Second				High Tech			
Term Loan (3)	Lien	L+8.75%	1.25% 10.00%	12/13/2020	Industries	\$6,750,000	6,644,181	6,581,98
HUF Worldwide,(9)					Los Angeles, CA			
LLC 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

Consolidated Schedule of Investments December 31, 2015

Term Loan (2)(3) (SBIC) HUF		First Lien L+9.00% 0.50% 9.50%		10/22/2019		\$8,133,7268,004,462		8,044,826	
Holdings, LLC Common Class A Units	(4)	Equity					556,948 units	556,090	384,110
Total								13,320,633	313,214,576
Livingston						T		,,	,,- , .
Internation Inc.	al,					Toronto, Ontario			
Term Loan		Second Lien	L+7.75%	1.25% 9.00%	4/18/2020	Transportation Cargo	: \$6,841,739	6,746,827	5,660,744
Momentum Telecom	<u>l</u>					Birmingham, AL			
Inc., et al						Media:			
Term Loan	(3)	First Lien	L+8.50%	1.00% 9.50%	3/10/2019		\$7,702,069	7,584,195	7,464,720
Term Loan (SBIC) MBS	(2)(3)	First Lien	L+8.50%	1.00%9.50%	3/10/2019	·	\$9,684,225	9,540,113	9,385,794
E Preferred Stock	` /	Equity					2,774,695 shares	1,000,000	1,095,986
MBS Holdings, Inc. Series Preferred Stock	F(4)	Equity					399,308 shares	206,682	206,682
Total								18,330,990	18,153,182
MTC	4					Oals Decision			
Intermedia Holdco, Inc						Oak Brook, IL			
Term Loan		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

MTC Parent, LP Class A-2 Common Units Total NetMotion Wireless, Inc., et al	(4)	Equity					Milpitas, CA	750,000 shares	750,000 10,870,329	750,000 010,870,329
Term Loan	(3)	Second Lien	L+10.50% 1.00	% 11.50%	D	8/19/2020	Services: Business	\$9,000,000	08,842,425	8,755,915
Term Loan (SBIC) Endpoint	(2)(3)	Second Lien	L+10.50% 1.00	% 11.50%	2	8/19/2020	Dusiness	\$1,000,000	0982,492	972,879
Security Holdings, LLC	(6)	Unsecured	d15.00%		15.00%	6 10/3/2016		\$105,501	103,885	103,391
Endpoint Security Holdings, LLC Class A Common	(4)	Equity						9,174 shares	293,103	281,233
Stock Endpoint Security Holdings, LLC Class B Common Stock	(4)	Equity						9,174 shares	706,897	678,268
Total OG							CI		10,928,802	210,791,686
Systems, LLC							Chantilly, Virginia			
Term Loan OGS	(3)(6)	Unsecured	dL+11.00% 1.00	% 11.00%	1.00%	1/22/2020	Services: Government	\$4,028,288	83,966,918	3,913,652
Holdings, Inc. Series A Convertible Preferred Stock	(4)	Equity						11,521 shares	50,000	49,253
Total <u>Refac</u> <u>Optical</u>							Blackwood,		4,016,918	3,962,905
Group, et al Revolver		First I ion	L+7.50%	7.92%		9/30/2018	NJ Retail	\$400,000	400,000	398,270
Term A	(10)(11)		L+7.50%	7.92%		9/30/2018	Retail	•	72,159,427	
Loan Term B Loan			L+10.25%		1.75%	9/30/2018			06,342,590	

Total 8,902,017 8,862,812

Securus

Technologies
Holdings,
Dallas, TX

Inc.