

Stellus Capital Investment Corp  
Form 10-Q  
August 04, 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) OF THE SECURITIES EXCHANGE  
 ACT OF 1934

For the quarterly period ended June 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 Incorporation or Organization) (I.R.S. Employer 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 August 3, 2016 was 12,479,959.



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

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Non-controlled, non-affiliated investments, at fair value (amortized cost of \$366,819,533 and \$364,212,459, respectively)	\$350,809,617	\$349,017,697
Cash and cash equivalents	10,834,194	10,875,790
Receivable for sales and repayments of investments	—	10,000
Interest receivable	4,197,307	4,720,031
Deferred offering costs	—	261,761
Accounts receivable	—	7,684
Prepaid expenses	297,699	475,449
<b>Total Assets</b>	<b>\$366,138,817</b>	<b>\$365,368,412</b>
<b>LIABILITIES</b>		
Notes Payable, net of deferred financing costs	\$24,469,817	\$24,381,108
Credit facility payable, net of prepaid loan structure fees	108,958,219	108,197,373
SBA Debentures, net of prepaid loan fees	63,178,049	63,015,846
Dividends payable	1,413,982	1,413,982
Base management fees payable	1,550,841	1,518,779
Incentive fees payable	1,319,029	607,956
Interest payable	842,369	570,189
Directors' fees payable	86,000	—
Unearned revenue	23,593	36,877
Administrative services payable	234,248	397,799
Deferred tax liability	59,572	381,723
Other accrued expenses and liabilities	282,597	195,676
<b>Total Liabilities</b>	<b>\$202,418,316</b>	<b>\$200,717,308</b>
Commitments and contingencies (Note 5)		
<b>Net Assets</b>	<b>\$163,720,501</b>	<b>\$164,651,104</b>
<b>NET ASSETS</b>		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,479,959 and 12,479,960 shares issued and outstanding, respectively)	\$12,480	\$12,480
Paid-in capital	180,994,749	180,994,752
Accumulated undistributed net realized gain	2,380	—
Distributions in excess of net investment income	(1,219,620 )	(779,643 )

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Net unrealized depreciation on investments and cash equivalents, net of provision for taxes of \$59,572 and \$381,723, respectively.	(16,069,488 )	(15,576,485 )
Net Assets	\$163,720,501	\$164,651,104
<b>Total Liabilities and Net Assets</b>	<b>\$366,138,817</b>	<b>\$365,368,412</b>
<b>Net Asset Value Per Share</b>	<b>\$13.12</b>	<b>\$13.19</b>

## STELLUS CAPITAL INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
<b>INVESTMENT INCOME</b>				
Interest income	\$9,328,416	\$8,635,047	\$18,703,153	\$17,266,343
Other income	294,753	55,415	387,849	138,210
Total Investment Income	\$9,623,169	\$8,690,462	\$19,091,002	\$17,404,553
<b>OPERATING EXPENSES</b>				
Management fees	\$1,550,841	\$1,446,330	\$3,099,214	\$2,860,464
Valuation fees	67,701	41,324	200,167	188,799
Administrative services expenses	250,627	296,827	537,927	576,027
Incentive fees	986,276	998,871	2,011,098	1,959,725
Professional fees	195,203	67,794	387,314	362,355
Directors' fees	86,000	95,000	178,000	184,000
Insurance expense	118,027	118,242	236,053	235,186
Interest expense and other fees	2,015,189	1,514,055	3,895,032	2,964,547
Deferred offering costs	261,761	—	261,761	—
Other general and administrative expenses	146,442	116,532	240,044	234,548
Total Operating Expenses	\$5,678,067	\$4,694,975	\$11,046,610	\$9,565,651
Net Investment Income	\$3,945,102	\$3,995,487	\$8,044,392	\$7,838,902
Net Realized Gain on Investments and Cash Equivalents	\$1,486	\$289,548	\$2,380	\$292,717
Net Change in Unrealized Appreciation (Depreciation) on Investments and Cash Equivalents	\$928,520	\$(236,062)	\$(815,154)	\$1,377,006
Benefit (provision) for taxes on unrealized gain on investments	\$154,812	\$(47,980)	\$322,151	\$(114,258)
Net Increase in Net Assets Resulting from Operations	\$5,029,920	\$4,000,993	\$7,553,769	\$9,394,367
Net Investment Income Per Share	\$0.32	\$0.32	\$0.64	\$0.63
Net Increase (Decrease) in Net Assets Resulting from Operations Per Share	\$0.41	\$0.32	\$0.61	\$0.75
Weighted Average Shares of Common Stock Outstanding	12,479,959	12,479,962	12,479,959	12,479,962
Distributions Per Share	\$0.34	\$0.34	\$0.68	\$0.68

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

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Increase in Net Assets Resulting from Operations		
Net investment income	\$8,044,392	\$7,838,902
Net realized gain on investments and cash equivalents	2,380	292,717
Net change in unrealized appreciation (depreciation) on investments and cash equivalents	(815,154 )	1,377,006
Benefit (provision) for taxes on unrealized appreciation on investments	322,151	(114,258 )
Net Increase in Net Assets Resulting from Operations	\$7,553,769	\$9,394,367
Stockholder distributions from:		
Net investment income	(8,484,372 )	(8,484,513 )
Total Distributions	\$(8,484,372 )	\$(8,484,513 )
Total increase (decrease) in net assets	\$(930,603 )	\$909,854
Net assets at beginning of period	\$164,651,104	\$173,949,452
Net assets at end of period (includes \$1,219,620 and \$1,425,235 of distributions in excess of net investment income, respectively)	\$163,720,501	\$174,859,306



## STELLUS CAPITAL INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$7,553,769	\$9,394,367
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments	(17,899,868 )	(59,970,381 )
Proceeds from sales and repayments of investments	15,972,633	53,942,696
Net change in unrealized depreciation (appreciation) on investments	815,154	(1,377,006 )
Deferred tax provision (benefit)	(322,151 )	114,258
Increase in investments due to PIK	(109,619 )	(337,295 )
Amortization of premium and accretion of discount, net	(557,840 )	(469,646 )
Amortization of loan structure fees	260,846	260,094
Amortization of deferred financing costs	162,203	117,173
Amortization of loan fees on SBIC debentures	88,709	77,851
Net realized gain on investments	(2,380 )	(292,717 )
Deferred offering costs	261,761	—
Changes in other assets and liabilities		
Increase (decrease) in interest receivable	522,724	989,471
Increase in accounts receivable	7,684	(185,336 )
Decrease in prepaid expenses and fees	177,750	136,169
Increase in management fees payable	32,062	86,311
Increase in directors' fees payable	86,000	184,000
Increase (decrease) in incentive fees payable	711,073	107,295
Increase (decrease) in administrative services payable	(163,551 )	(220,417 )
Increase in interest payable	272,180	43,227
Decrease in unearned revenue	(13,284 )	(113,213 )
Increase (decrease) in other accrued expenses and liabilities	86,921	92,185
Net cash provided by operating activities	\$7,942,776	\$2,579,086
Cash flows from financing activities		
Proceeds from SBA Debentures	—	9,750,000
Financing costs paid on SBA Debentures	—	(561,438 )
Stockholder distributions paid	(8,484,372 )	(8,484,513 )
Borrowings under credit facility	18,500,000	53,750,000
Repayments of credit facility	(18,000,000 )	(53,250,000 )
Net cash provided (used) by financing activities	\$(7,984,372 )	\$1,204,049
Net increase (decrease) in cash and cash equivalents	(41,596 )	3,783,135

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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	\$ 10,834,194	\$ 5,829,698
Supplemental and non-cash financing activities		
Interest expense paid	\$ 3,106,094	\$ 2,461,204

## Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)  
June 30, 2016

Investments	Footnotes	Lien	Coupon	LIBOR floor	Cash	PIK	Maturity	Headquarters/ Industry	Principal Amount/ Shares	Amortize Cost
<b>Non-controlled, non-affiliated investments</b>										
<b><u>Abrasive Products &amp; Equipment, LLC, et al</u></b>										
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	\$5,243,301
APE Holdings, LLC Class A Units	(4)	Equity							375,000 units	375,000
Total										5,618,301
<b><u>PE II Apex Environmental, LLC</u></b>										
Term Loan (SBIC)	(3)	First Lien	L+9.50%	0.50%	10.00%		10/30/2020	Amsterdam, OH Environmental Industries	\$750,000	736,781
Term Loan (SBIC)	(2)(3)	First Lien	L+9.50%	0.50%	10.00%		10/30/2020		\$9,750,000	9,578,156
Apex Environmental Resources Holdings, LLC Common Units	(4)	Equity							295 shares	295
Apex Environmental Resources Holdings, LLC Preferred Units	(4)	Equity							295 shares	295,017
Total										10,610,241
<b><u>Atkins Nutritionals Holdings II, Inc.</u></b>										
Term Loan	(3)		L+8.50%	1.25%	9.75%		4/3/2019	Denver, CO	\$8,000,000	7,914,558

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Second Lien Beverage, Food, & Tobacco

**Binder & Binder National Social Security Disability Advocates, LLC**

Hauppauge, NY

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

**Blackhawk Mining, LLC**

Lexington, KY

Term Loan First Lien 13.50% 13.50% 10/28/2020 Metals & Mining \$4,452,397 4,253,604

Blackhawk Mining, LLC (4) Equity 36 units 214,286

Class B Units Total 4,467,890

**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 7,409,370

Managed Mobility Holdings, LLC (4) Equity 8,932 units 525,000

Partnership Units Total 7,934,370

**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 \$124,375 122,087

Term Loan (SBIC) (2)(3) First Lien L+8.50% 0.50% 9.00% 12/31/2020 \$9,701,250 9,514,553

CPP Holdings LLC Common Shares, Class A (4) Equity 149,828 shares 149,828

Total 9,786,468

**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 12,393,780

**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 12,370,710

Delay Draw Term Loan #2 (5) Unsecured 12.00% 12.00% 5/31/2018 \$2,000,000 1,973,999

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Delay Draw Term Loan #4 (5)	Unsecured 12.00%	12.00%	5/31/2018	\$5,000,000	4,947,688
Colford Capital Holding, LLC (4)(5) Preferred Units	Equity			38,893 units	557,143
Total					19,849,54

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## Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)  
June 30, 2016**Doskocil  
Manufacturing  
Company,  
Inc.  
(Petmate)**

Arlington, TX

Term Loan (2)(3)(14) (SBIC)	First Lien	L+6.00%	1.00%	9.45%	11/10/2020	Consumer goods: non-durable	\$8,750,000	8,613,185	8,600,3
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**Douglas  
Products &  
Packaging  
Company,  
LLC**

Liberty, MO

Term Loan (2)(12) (SBIC)	Second Lien	L+10.50%	0.50%	11.14%	12/31/2020	Chemicals, Plastics, & Rubber	\$9,000,000	8,864,324	9,000,0
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Fumigation Holdings, Inc. Class A Common Stock	(4)	Equity					250 shares	250,000	552,48
Total								9,114,324	9,552,4

**Eating  
Recovery  
Center,  
LLC**

Denver, CO

Term Loan (6)	Unsecured	13.00%	12.00%	1.00%	6/28/2018	Healthcare & Pharmaceuticals	\$18,400,000	18,233,988	18,203
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ERC Group Holdings LLC Class A Units	(4)	Equity					17,820 units	1,655,274	2,551,2
Total								19,889,262	20,754

**Empirix  
Inc.**

Billerica, MA

Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	5/1/2020	Software	\$11,657,850	11,501,011	11,258
(2)(3)		L+9.50%	1.00%	10.50%	5/1/2020		\$9,750,000	9,618,003	9,416,3

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Term Loan (SBIC) Empirix Holdings I, Inc. Common Shares, Class A	(4)	Second Lien								
Empirix Holdings I, Inc. Common Shares, Class B	(4)	Equity								
Total										22,436,420
<b><u>EOS</u></b>										
<b><u>Fitness</u></b>										
<b><u>OPCO</u></b>										
<b><u>Holdings,</u></b>										
<b><u>LLC</u></b>										
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	\$3,374,934	3,324,386	3,304,2
EOS Fitness Holdings, LLC Class A Preferred Units	(4)	Equity								
EOS Fitness Holdings, LLC Class B Common Units	(4)	Equity								
Total										3,445,076
<b><u>Furniture</u></b>										
<b><u>Factory</u></b>										
<b><u>Outlet,</u></b>										
<b><u>LLC</u></b>										
Term Loan	(12)	First Lien	L+9.00%	0.50%	9.66%	6/10/2021	Consumer goods: non-durable	\$10,000,000	9,802,529	9,802,5
Furniture Factory Holdings, LLC Term Loan	(6)	Unsecured	11.00%		11.00%	2/3/2021		\$122,823	122,823	122,82
Sun Furniture	(4)	Equity						13,445	94,569	94,569
								Shares		

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Factory,  
LP  
Common  
LP/LLC  
Units  
Total

10,019,921 10,019

**GK**

**Holdings,**

**Inc.**

Cary, NC

Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	1/30/2022	Services: Business	\$5,000,000	4,914,605	4,890,000
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**Glori**

**Energy**

**Production**

**Inc.**

Houston, TX

Term Loan (3)	First Lien	L+10.00%	1.00%	11.00%	3/14/2017	Energy: Oil & Gas	\$1,691,917	1,683,336	1,536,300
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**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	\$4,837,500	4,801,942	4,774,000
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Term Loan	Second Lien	13.75%		13.75%	7/31/2018		\$4,000,000	3,904,450	3,839,900
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Total								8,706,392	8,614,500
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**Stellus Capital Investment Corporation****Consolidated Schedule of Investments – (unaudited)  
June 30, 2016****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	7,203,348	7,087,800
Dream II Holdings, LP Class A (4) LP/LLC Units Total	Equity						250,000 units	242,304	117,743
								7,445,652	7,205,550

**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	6,652,471	5,535,000
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**HUF  
Worldwide, (9)  
LLC**Los Angeles,  
CA

Term Loan (12)	First Lien	L+9.00%	0.50%	9.63%	10/22/2019	Retail	\$4,782,057	4,712,137	4,670,590
Term Loan (SBIC) (2)(12)	First Lien	L+9.00%	0.50%	9.63%	10/22/2019		\$8,038,802	7,925,451	7,851,420
HUF Holdings, LLC Common Class A Units Total	Equity						556,948 units	556,090	600,296
								13,193,678	13,122,300

**Keais  
Records  
Service,  
LLC**

Houston, TX

Term Loan (3)	Second Lien	L+10.25%	0.50%	10.75%	12/30/2021	Services: Business	\$1,250,000	1,225,000	1,225,000
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**Livingston  
International,  
Inc.**Toronto,  
Ontario

Term Loan (3)(5)	Second Lien	L+7.75%	1.25%	9.00%	4/18/2020	Transportation: Cargo	\$6,841,739	6,755,920	6,239,630
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**Momentum  
Telecom  
Inc., et al**

Birmingham,  
AL

Media:

Term Loan (3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019	Broadcasting & Subscription	\$7,548,474	7,448,543	7,298,923
Term Loan (SBIC) (2)(3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019		\$9,491,102	9,369,212	9,177,333
MBS Holdings, Inc. Series E Preferred Stock (4)	Equity						2,774,695 shares	1,000,000	1,264,695
MBS Holdings, Inc. Series F Preferred Stock (4)	Equity						399,308 shares	206,682	261,389
Total								18,024,437	18,002,339

**MTC**

**Intermediate  
Holdco, Inc.**

Oak Brook, IL

Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	5/31/2022	Finance	\$575,000	564,234	575,000
Term Loan (SBIC) (2)(3)	Second Lien	L+9.50%	1.00%	10.50%	5/31/2022		\$9,750,000	9,567,425	9,750,000
MTC Parent, LP Class A-2 Common Units (4)	Equity						750,000 shares	750,000	1,023,150
Total								10,881,659	11,348,115

**NetMotion**

**Wireless,  
Inc., et al**

Milpitas, CA

Term Loan (3)(13)	Second Lien	L+12.50%	1.00%	13.50%	8/19/2020	Services: Business	\$9,000,000	8,855,732	8,744,144
Term Loan (SBIC) (2)(3)(13)	Second Lien	L+12.50%	1.00%	13.50%	8/19/2020		\$1,000,000	983,970	971,572
Endpoint Security Holdings, LLC (6)	Unsecured	15.00%		15.00%	10/3/2016		\$113,405	112,843	112,305
Endpoint Security Holdings, LLC Class A Common Stock (4)	Equity						9,174 shares	293,103	113,399
Endpoint Security (4)	Equity						9,174 shares	706,897	273,494

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Holdings,  
LLC Class  
B Common  
Stock  
Total

10,952,545 10,214,9

**OG**  
**Systems,**  
**LLC**

Chantilly,  
Virginia

Term Loan (3)(6) Unsecured L+11.00% 1.00% 11.00% 1.00% 1/22/2020

Services:  
Government

\$4,028,288 3,973,028 3,886,94

OGS  
Holdings,  
Inc. Series  
A (4)  
Convertible  
Preferred  
Stock  
Total

Equity

11,521  
shares 50,000 49,606

4,023,028 3,936,54

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

Blackwood, NJ

**Group, et al**

Revolver	(10)(11)	First Lien	L+7.50%	7.97%	9/30/2018	Retail	\$400,000	400,000	399,4
Term A Loan	(11)	First Lien	L+7.50%	7.97%	9/30/2018		\$1,799,966	1,799,966	1,799
Term B Loan	(6)(11)	First Lien	L+10.25%	8.97%	1.75% 9/30/2018		\$6,372,639	6,372,639	6,314
Total								8,572,605	8,510

**Securus****Technologies**

Dallas, TX

**Holdings,****Inc.**

Term Loan	(3)	Second Lien	L+7.75	1.25% 9.00%	4/30/2021	Telecommunications	\$8,500,000	8,451,805	7,664
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**Sitel****Worldwide**

Nashville, TN

**Corporation**

Term Loan	(3)	Second Lien	L+9.50	1.00% 10.50%	9/18/2022	Services: Business	\$10,000,000	9,814,904	9,860
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**Skopos****Financial,**

Irving, TX

**LLC**

Term Loan	(5)	Unsecured	12.00%	12.00%	1/31/2019	Finance	\$20,000,000	19,748,985	19,400
Skopos Financial Group, LLC Class A Units	(4)(5)	Equity					1,120,684 units	1,162,544	934,9
Total								20,911,529	20,335

**SPM****Capital,**

Bloomington, MN

**LLC**

Term Loan	(3)	First Lien	L+5.50	1.50% 7.00%	10/31/2017	Healthcare & Pharmaceuticals	\$6,421,391	6,381,785	6,340
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**SQAD,****LLC**

Tarrytown, NY

Term Loan (SBIC)	(2)(6)	Unsecured	12.25%	11.00% 1.25%	4/30/2019	Media: Broadcasting & Subscription	\$7,199,422	7,123,181	7,120
	(2)(4)	Equity					5,624 shares	562,368	718,8

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SQAD Holdco, Inc. Preferred Shares, Series A (SBIC) SQAD Holdco, Inc. Common Shares (SBIC) Total	(2)(4)	Equity					5,800 shares	62,485	79,8			7,748,034	7,923
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**Stratose  
Intermediate  
Holdings,  
II, LLC et  
al**

Atlanta, GA

Term Loan (3)	Second Lien	L+9.50%	1.00%	10.50%	7/26/2022	Services: Business	\$15,000,000	14,687,164	15,000,000				
Atmosphere Aggregator Holdings, LP Common Units	(4)	Equity					750,000 units	750,000	1,560,000				
Atmosphere Aggregator Holdings II, LP Common Units Total	(4)	Equity					254,250 units	254,250	529,400			15,691,414	17,090,000

**360  
Holdings  
III Corp**

Irvine, CA

Term Loan (3)	First Lien	L+9.00%	1.00%	10.00%	10/1/2021	Consumer goods: non-durable	\$3,970,000	3,820,769	3,940,000				
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**T2 Systems,  
Inc.**

Indianapolis, IN

Term Loan (3)(8)	First Lien	L+9.50%	1.00%	10.50%	1/31/2019	Transportation & Logistics	\$4,688,301	4,629,593	4,650,000				
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**T2 Systems  
Canada,  
Inc.**

Burnaby, British  
Columbia

Term Loan (3)(5)(8)	First Lien	L+9.50%	1.00%	10.50%	1/31/2019	Transportation & Logistics	\$2,624,199	2,601,461	2,600,000				
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**Telecommunications  
Management,  
LLC**

Sikeston, MO

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Term Loan (3)	Second Lien	L+8.00%	1.00%	9.00%	10/30/2020	Media: Broadcasting & Subscription Lawrenceville, GA	\$5,000,000	4,967,302	4,688,000	
<b><u>U.S. Auto Sales, Inc. et al</u></b>										
Term Loan (3)(5)	Second Lien	L+10.50%	1.00%	11.50%	6/8/2020	Finance	\$4,500,000	4,462,648	4,390,000	
USASF Blocker II, LLC (4)(5)	Equity						441 units	441,000	483,000	
USASF Blocker LLC (4)(5)	Equity						9,000 units	9,000	9,875,000	
Common Units										
Total									4,912,648	4,888,000

## Stellus Capital Investment Corporation

Consolidated Schedule of Investments – (unaudited)  
June 30, 2016**Vandelay  
Industries  
Finance,  
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	2,483,308	2,489,478
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**Vision  
Media  
Management  
&  
Fulfillment,  
LLC**

Term Loan (SBIC)	(2)(3)(14)	First Lien	L+8.50%	1.00%	10.47%	1/27/2021	Valencia, CA Media: Broadcasting & Subscription	\$650,000	637,853	650,000
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**Wise  
Holding  
Corporation**

Term Loan (SBIC)	(2)(3)	Unsecured	L+10.00%	1.00%	11.00%	12/31/2021	Salt Lake City, UT Beverage, Food, & Tobacco	\$1,250,000	1,231,250	1,231,250
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**WCI  
Holdings,  
LLC**

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

Class B LP/LLC Common Units	(4)	Equity						3,044 units	3,044	3,044
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**Total**

									1,289,844	1,289,844
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**Zemax,  
LLC**

	(2)(3)		L+10.00%	1.00%	11.00%	4/23/2020	Redmond, WA Software	\$3,962,500	3,902,252	3,841,026
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Term Loan (SBIC) Zemax Software Holdings, LLC Preferred LP/LLC Units (SBIC) Zemax Software Holdings, LLC Common LP/LLC Units (SBIC) Total	(2)(4)	Second Lien  Equity  Equity	24,500 units           5,000 shares	245,000           5,000	213,746           4,152,252
<b>Total Non-controlled, non-affiliated investments</b>					\$366,819,533
<b>Net Investments</b>					\$350,809,600
<b>LIABILITIES IN EXCESS OF OTHER NET ASSETS</b>					
					\$(187,089,000)
					\$163,720,500

(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 \$2,801,078 of cash and \$96,618,101 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.

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) T2 Systems Canada, Inc. is the Canadian co-borrower of the term loan of T2 Systems, Inc.

Excluded from the investment is an undrawn commitment in an amount not to exceed \$1,250,000, with an interest  
(9) rate of LIBOR plus 9.00% (0.50% LIBOR floor) and a maturity of October 22, 2019. This investment is accruing an unused commitment fee of 0.50% per annum.

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.

**Stellus Capital Investment Corporation**

**Consolidated Schedule of Investments – (unaudited)  
June 30, 2016**

(11) 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.

(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
<b>Non-controlled, non-affiliated investments</b>	(2)									
<b><u>Abrasive Products &amp; Equipment, LLC, et al</u></b>								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
<b><u>PE II Apex Environmental, LLC</u></b>								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,
<b><u>Atkins Nutritionals Holdings II, Inc.</u></b>								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
<b><u>Binder &amp; Binder National Social Security Disability Advocates, LLC</u></b>								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 Common Shares, Class A	(2)(14)	First Lien	L+8.50%	0.50%	9.11%	12/31/2020		\$9,750,000	9,5
Total	(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) (SBIC)	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) (SBIC)	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	
<b><u>EOS</u></b>										
<b><u>Fitness</u></b>										
<b><u>OPCO</u></b>										
<b><u>Holdings,</u></b>										
<b><u>LLC</u></b>										
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	
<b><u>GK</u></b>										
<b><u>Holdings,</u></b>										
<b><u>Inc.</u></b>										
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
<b><u>Glori</u></b>										
<b><u>Energy</u></b>										
<b><u>Production</u></b>										
<b><u>Inc.</u></b>										
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
<b><u>Grupo</u></b>										
<b><u>HIMA San</u></b>										
<b><u>Pablo, Inc.,</u></b>										

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<b>et al</b>									
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
<b>Hollander Sleep Products, LLC</b>									
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 Total	Equity						250,000 units	242,304	259,346
Total								7,592,824	7,390,24
<b>Hostway Corporation</b>									
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
<b>HUF Worldwide,(9) LLC</b>									
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	8,004,462	
HUF Holdings, LLC	(4)	Equity						556,948 units	556,090	384,000	
Common Class A Units											
Total									13,320,633	13,320,633	
<b><u>Livingston International, Inc.</u></b>							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	5,600,000	
<b><u>Momentum Telecom Inc., et al</u></b>							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	7,400,000	
Term Loan (SBIC)	(2)(3)	First Lien	L+8.50%	1.00%	9.50%	3/10/2019		\$9,684,225	9,540,113	9,300,000	
MBS Holdings, Inc. Series E Preferred Stock	(4)	Equity						2,774,695 shares	1,000,000	1,000,000	
MBS Holdings, Inc. Series F Preferred Stock	(4)	Equity						399,308 shares	206,682	206,682	
Total									18,330,990	18,330,990	
<b><u>MTC Intermediate Holdco, Inc.</u></b>							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	
	(4)	Equity							750,000	750,000	



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

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Total								8,902,017	8,8
<b><u>Securus Technologies Holdings, Inc.</u></b>									
						Dallas, TX			
Term Loan (3)	Second Lien	L+7.75	1.25%	9.00%	4/30/2021	Telecommunications	\$8,500,000	8,447,929	6,7
<b><u>Sitel Worldwide Corporation</u></b>									
						Nashville, TN			
Term Loan (3)	Second Lien	L+9.50	1.00%	10.50%	9/18/2022	Services: Business	\$10,000,000	9,804,834	9,5
<b><u>Skopos Financial, LLC</u></b>									
						Irving, TX			
Term Loan (5)	Unsecured	12.00%		12.00%	1/31/2019	Finance	\$20,000,000	19,708,633	19,6
Skopos Financial Group, LLC (4)(5) Class A Units	Equity						1,120,684 units	1,162,544	1,0
Total								20,871,177	20,6
<b><u>Software Paradigms International Group, LLC</u></b>									
						Atlanta, GA			
Term Loan (3)	First Lien	L+8.00%	1.00%	9.00%	5/22/2020	Retail	\$7,175,141	7,063,528	6,9

## Stellus Capital Investment Corporation

## Consolidated Schedule of Investments

December 31, 2015

Term Loan	(3)(12)	Delay Draw	L+8.00%	1.00%	9.00%	5/22/2020		\$2,417,454	2,383,713	2,347,	
Total									9,447,241	9,313,	
<b><u>SPM Capital, LLC</u></b>							Bloomington, MN				
Term Loan	(3)	First Lien	L+5.50	1.50%	7.00%	10/31/2017	Healthcare & Pharmaceuticals	\$6,939,068	6,881,287	6,839,	
<b><u>SQAD, LLC</u></b>							Tarrytown, NY				
Term Loan (SBIC)	(2)(6)	Unsecured	12.25%		11.00%	1.25%	4/30/2019	Media: Broadcasting & Subscription	\$7,153,893	7,067,346	6,973,
SQAD Holdco, Inc.											
Preferred Shares, Series A (SBIC)	(2)(4)	Equity						5,624 shares	562,368	646,19	
SQAD Holdco, Inc.											
Common Shares (SBIC)	(2)(4)	Equity						5,800 shares	62,485	71,799	
Total									7,692,199	7,691,	
<b><u>Stratose Intermediate Holdings, II, LLC</u></b>							Atlanta, GA				
Term Loan	(3)	Second Lien	L+9.50%	1.00%	10.50%	12/30/2021	Services: Business	\$11,250,000	10,994,047	10,736	
Atmosphere Aggregator Holdings, LP											
Common Units	(4)	Equity						750,000 units	750,000	946,96	
Total									11,744,047	11,683	

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<b>360</b>						Irvine, CA				
<b><u>Holdings</u></b>										
<b><u>III Corp</u></b>										
Term Loan (13)	First Lien	P+8.00%	2.00%	11.50%	10/1/2021	Consumer goods: non-durable	\$3,990,000	3,830,000	3,830,000	
<b><u>T2 Systems, Inc.</u></b>						Indianapolis, IN				
Term Loan (3)(8)	First Lien	L+9.50%	1.00%	10.50%	1/31/2019	Transportation & Logistics	\$4,808,514	4,739,046	4,715,000	
<b><u>T2 Systems Canada, Inc.</u></b>						Burnaby, British Columbia				
Term Loan (3)(5)(8)	First Lien	L+9.50%	1.00%	10.50%	1/31/2019	Transportation & Logistics	\$2,691,486	2,664,358	2,639,000	
<b><u>Telecommunications Management, LLC</u></b>						Sikeston, MO				
Term Loan (3)	Second Lien	L+8.00%	1.00%	9.00%	10/30/2020	Media: Broadcasting & Subscription	\$5,000,000	4,964,227	4,376,000	
<b><u>U.S. Auto Sales, Inc. et al</u></b>						Lawrenceville, GA				
Term Loan (3)(5)	Second Lien	L+10.50%	1.00%	11.50%	6/8/2020	Finance	\$4,500,000	4,458,997	4,375,000	
USASF Blocker II, LLC	(4)(5)	Equity					441 units	441,000	464,000	
USASF Blocker LLC	(4)(5)	Equity					9,000 units	9,000	9,471,000	
<b><u>Vandelay Industries Finance, LLC, et al</u></b>						La Vergne, TN				
Term Loan (6)	Second Lien	11.75%		10.75%	1.00%	11/12/2019	Construction & Building	\$2,500,000	2,481,388	2,455,000
<b><u>Zemax, LLC</u></b>						Redmond, WA				
Term Loan (SBIC)	(2)(3)	Second Lien	L+10.00%	1.00%	11.00%	4/23/2020	Software	\$3,962,500	3,896,167	3,821,000
Zemax Software Holdings, LLC	(2)(4)	Equity					24,500 units	245,000	257,350,000	

Preferred Units (SBIC) Zemax Software Holdings, LLC (2)(4) Equity Common Units (SBIC) Total			5,000 shares	5,000	5,252
<b>Total Non-controlled, non-affiliated investments</b>					4,146,167 4,083,
<b>Net Investments</b>					\$364,212,459 \$349,0
<b>LIABILITIES IN EXCESS OF OTHER ASSETS</b>					\$364,212,459 \$349,0
<b>NET ASSETS</b>					\$(184,000) \$164,000

**Stellus Capital Investment Corporation**

**Consolidated Schedule of Investments**

**December 31, 2015**

(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 nonaffiliated investments and cash, but exclude \$3,012,259 of cash and \$95,531,697 of investments (at par) that are held by Stellus Capital SBIC LP. See Note 1 of the Notes to the Consolidated Financial Statements for 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 83% 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) Digital Payment Technologies Corp. amended its name to T2 Systems Canada, Inc. and is the Canadian co-borrower of the term loan of T2 Systems, Inc.

(9) Excluded from the investment is an undrawn revolver commitment in an amount not to exceed \$1,250,000, with an interest rate of LIBOR plus 9.00% (0.50% LIBOR floor) and a maturity of October 22, 2019. This investment is accruing an unused commitment fee of 0.50% per annum.

(10)

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Excluded from the investment is an undrawn commitment in an amount not to exceed \$1,600,000, with an interest 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.

- (11) 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.
- (12) Excluded from the investment is an undrawn commitment in an amount not to exceed \$407,405, an interest rate of LIBOR Plus 8.00% and a maturity of May 22, 2020.
- (13) This loan has a Prime floor of 2.00% which is lower than the current applicable Prime rate.
- (14) These loans have LIBOR floors which are lower than the applicable LIBOR rates; therefore, the floors are not in effect.
- (15) The coupon rate on this investment includes 2% default interest.
- (16) 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

PIK — Payment-In-Kind

L — LIBOR

Euro — Euro Dollar

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

**NOTE 1 — NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Stellus Capital Investment Corporation (“we”, “us”, “our” and the “Company”) was formed as a Maryland corporation on May 18, 2012 (“Inception”) and is an externally managed, closed-end, non-diversified investment management company. The Company is applying the guidance of Accounting Standards Codification (“ASC”) Topic 946, *Financial Services Investment Companies*. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”) and treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”) for U.S. federal income tax purposes. The Company’s investment activities are managed by our investment adviser, Stellus Capital Management, LLC (“Stellus Capital” or the “Advisor”).

On November 7, 2012, the Company priced its initial public offering (the “Offering”), at a price of \$15.00 per share. In connection with the Offering, the Company sold 9,200,000 shares (including 1,200,000 shares pursuant to the underwriters’ exercise of the overallotment option) for gross proceeds of \$138,000,000. Since Inception, the Company has raised \$151,250,000 including (i) \$500,010 of seed capital contributed by Stellus Capital, (ii) \$12,749,990 in a private placement to certain purchasers, including persons and entities associated with Stellus Capital, and (iii) \$138,000,000 in the Offering. In addition, in connection with the acquisition of the Company’s initial portfolio, the Company issued \$29,159,145 in shares of the Company’s common stock. The Company’s shares are currently listed on the New York Stock Exchange under the symbol “SCM”.

The Company has established the following wholly owned subsidiaries: SCIC — Consolidated Blocker 1, Inc., SCIC — ERC Blocker 1, Inc., SCIC — SKP Blocker 1, Inc. and SCIC — APE Blocker 1, Inc., and SCIC — HUF Blocker 1, Inc., which are structured as Delaware entities, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities) (collectively, the “Taxable Subsidiaries”). The Taxable Subsidiaries are consolidated for U.S. generally accepted accounting principles (“U.S. GAAP”) reporting purposes, and the portfolio investments held by them are included in the consolidated financial statements.



On June 14, 2013, we formed Stellus Capital SBIC, LP (the “SBIC subsidiary”), a Delaware limited partnership, and its general partner, Stellus Capital SBIC GP, LLC, a Delaware limited liability company, as wholly owned subsidiaries of the Company. On June 20, 2014, the SBIC subsidiary received a license from the U.S. Small Business Administration (“SBA”) to operate as a Small Business Investment Company (“SBIC”) under Section 301(c) of the Small Business Investment Company Act of 1958. The SBIC subsidiary and its general partner are consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements.

The SBIC license allows the SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures (“SBA Debentures”), subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA Debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA Debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA Debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities. The SBA, as a creditor, will have a superior claim to the SBIC’s assets over the Company’s stockholders in the event the Company liquidates the SBIC subsidiary or the SBA exercises its remedies under the SBA Debentures issued by the SBIC subsidiary upon an event of default. See footnote (2) of the Consolidated Schedule of Investments. SBA regulations currently limit the amount that an SBIC may borrow to a maximum of \$150 million when it has at least \$75 million in regulatory capital, as such term is defined by the SBA, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of June 30, 2016 and December 31, 2015, the SBIC subsidiary had \$32.5 million of regulatory capital, as such term is defined by the SBA, and has received commitments from the SBA of \$65.0 million. As of both June 30, 2016 and December 31, 2015, the SBIC subsidiary had \$65.0 million of SBA Debentures outstanding.

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

The Company's investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation through debt and related equity investments in middle-market companies. The Company seeks to achieve its investment objective by originating and investing primarily in private U.S. 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, with corresponding equity co-investments. The Company sources investments primarily through the extensive network of relationships that the principals of Stellus Capital have developed with financial sponsor firms, financial institutions, middle-market companies, management teams and other professional intermediaries.

**Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, certain disclosures accompanying the annual financial statements prepared in accordance with U.S. GAAP are omitted. The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of the financial statements for the interim periods included herein. The results of operations for the three and six months ended June 30, 2016 and June 30, 2015 are not necessarily indicative of the operating results to be expected for the full year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015. Certain reclassifications have been made to certain prior period balances to conform with current presentation. In accordance with Regulation S-X under the

Securities Act of 1933, as amended, and the Exchange Act, the Company does not consolidate portfolio company investments. The accounting records of the Company are maintained in U.S. dollars.

### ***Portfolio Investment Classification***

The Company classifies its portfolio investments in accordance with the requirements of the 1940 Act as follows: (a) “Control Investments” are defined as investments in which the Company owns more than 25% of the voting securities or has rights to maintain greater than 50% of the board representation, (b) “Affiliate Investments” are defined as investments in which the Company owns between 5% and 25% of the voting securities and does not have rights to maintain greater than 50% of the board representation, and (c) “Non-controlled, non-affiliate investments” are defined as investments that are neither Control Investments or Affiliate Investments.

### ***Cash and Cash Equivalents***

At June 30, 2016, cash balances totaling \$10,834,194 exceeded FDIC insurance protection levels of \$250,000 by \$10,584,194, subjecting the Company to risk related to the uninsured balance. All of the Company’s cash deposits are held at large established high credit quality financial institutions and management believes that risk of loss associated with any uninsured balances is remote.

Cash consists of bank demand deposits. We deem certain U.S. Treasury Bills and other high-quality, short-term debt securities as cash equivalents. At the end of each fiscal quarter, we may take proactive steps to ensure we are in compliance with the RIC diversification requirements under Subchapter M of the Code, which are dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions after quarter-end or temporarily drawing down on the Credit Facility (see Note 7). On June 30, 2016 and December 31, 2015, we held no U.S. Treasury Bills.

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

*Use of Estimates*

The preparation of the consolidated statements of assets and liabilities in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

*Deferred Financing Costs, Prepaid Loan Fees on SBA Debentures and Prepaid Loan Structure Fees*

Deferred financing costs, prepaid loan fees on SBA Debentures and prepaid loan structure fees consist of fees and expenses paid in connection with the closing of our Credit Facility, the Notes (See Note 8) and SBA Debentures and are capitalized at the time of payment. These are costs are presented as a direct deduction to the carrying amount of the respective liability and amortized using the straight line method over the term of the respective instrument.

*Deferred Offering Costs*

Deferred offering costs consist of fees and expenses incurred in connection with the offer and sale of the Company's common stock and bonds, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement. These costs are capitalized when incurred and recognized as a reduction of offering proceeds when the offering becomes effective. During the quarter ended June 30, 2016, the Company determined that it was no longer likely to issue shares under its current shelf registration statement. As a result, as of June 30, 2016, the Company has expensed \$261,761 of previously capitalized deferred offering costs.

## *Investments*

As a BDC, the Company will generally invest in illiquid loans and securities including debt and equity securities of middle-market companies. Under procedures established by our board of directors, the Company intends to value investments for which market quotations are readily available at such market quotations. The Company will value these investments based on these market values from an independent pricing service or at the median between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available will be valued at fair value as determined in good faith by our board of directors. Such determination of fair values may involve subjective judgments and estimates. The Company also engages independent third-party valuation providers to review the valuation of each portfolio investment that does not have a readily available market quotation at least twice annually.

Investments purchased within 90 days of the valuation date will be valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted securities, our board of directors, will value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the board of directors will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because the Company expects that there will not be a readily available market for many of the investments in its portfolio, the Company expects to value most of its portfolio investments at fair value as determined in good faith by the board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

In following these approaches, the types of factors that will be taken into account in fair value pricing investments will include, as relevant, but not be limited to:

- available current market data, including relevant and applicable market trading and transaction comparables;

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

• applicable market yields and multiples;

• security covenants;

• call protection provisions;

• information rights;

• the nature and realizable value of any collateral;

• the portfolio company's ability to make payments, its earnings and discounted cash flows and the

• markets in which it does business;

• comparisons of financial ratios of peer companies that are public;

• comparable merger and acquisition transactions; and

• the principal market and enterprise values.

***Revenue Recognition***

We record interest income on an accrual basis to the extent such interest is deemed collectible. We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest. Loan origination

fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. Upon the prepayment of a loan or debt security, any unamortized loan origination fee is recorded as interest income. We record prepayment premiums on loans and debt securities as other income. Dividend income, if any, will be recognized on the ex-dividend date.

***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

***Payment-in-Kind Interest***

We have investments in our portfolio that contain a payment-in-kind (“PIK”) interest provision. Any PIK interest is added to the principal balance of such investments and is recorded as income, if the portfolio company valuation indicates that such PIK interest is collectible. In order to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even if we have not collected any cash.

***Investment Transaction Costs***

Costs that are material associated with an investment transaction, including legal expenses, are included in the cost basis of purchases and deducted from the proceeds of sales unless such costs are reimbursed by the borrower.

***Receivables and Payables for Unsettled Securities Transaction***

The Company records all investments on a trade date basis.

***U.S. Federal Income Taxes***

The Company has elected to be treated as a RIC under Subchapter M of the Code, and to operate in a manner so as to continue to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. So long as the Company maintains its status as a RIC, it generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes at least annually to its stockholders as dividends. Rather, any tax liability related to income earned by the Company represents obligations of the Company's stockholders and will not be reflected in the consolidated financial statements of the Company.



**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

To avoid a 4% U.S. federal excise tax on undistributed earnings, the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending October 31 of that calendar year (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no federal income tax. The Company, at its discretion, may choose not to distribute all of its taxable income for the calendar year and pay a non-deductible 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned. The Company incurred no excise tax expense for the three and six months ended June 30, 2016 and 2015.

The Company evaluates tax positions taken or expected to be taken in the course of preparing its tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet a “more-likely-than-not” threshold would be recorded as a tax benefit or expense in the applicable period. Although the Company files U.S. federal and state tax returns, its major tax jurisdiction is U.S. federal. The 2012, 2013 and 2014 federal tax years for the Company remain subject to examination by the Internal Revenue Service.

As of June 30, 2016 and December 31, 2015, the Company had not recorded a liability for any unrecognized tax positions. Management’s evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. The Company’s policy is to include interest and penalties related to income taxes, if applicable, in general and administrative expenses. There were no such expenses for the three and six months ended June 30, 2016 and 2015, respectively.

The Taxable Subsidiaries are direct wholly owned subsidiaries of the Company that have elected to be taxable entities. The Taxable Subsidiaries permit the Company to hold equity investments in portfolio companies, which are “pass through” entities for tax purposes and continue to comply with the “source income” requirements contained in RIC tax provisions of the Code. The Taxable Subsidiaries are not consolidated with the Company for income tax purposes, and

may generate income tax expense, benefit, and the related tax assets and liabilities, as a result of their ownership of certain portfolio investments. The income tax expense, or benefit, if any, and related tax assets and liabilities are reflected in the Company's consolidated financial statements.

The Taxable Subsidiaries use the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the temporary differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Taxable income generally excludes net unrealized appreciation or depreciation, as investment gains or losses are not included in taxable income until they are realized.

For the three and six months ended June 30, 2016, the Company recorded deferred income tax benefit of \$154,812 and \$322,151, respectively, related to the Taxable Subsidiaries. For the three and six months ended June 30, 2015, the Company recorded deferred income tax provision of (\$47,980) and (\$114,258), respectively, related to the Taxable Subsidiaries. In addition, as of June 30, 2016 and December 31, 2015, the Company had a deferred tax liability of \$59,572 and \$381,723, respectively.

### *Earnings per Share*

Basic per share calculations are computed utilizing the weighted average number of shares of common stock outstanding for the period. The Company has no common stock equivalents. As a result, there is no difference between diluted earnings per share and basic per share amounts. The individual quarters may not add to the cumulative year to date amount due to rounding.

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited)**

*Paid In Capital*

The Company records the proceeds from the sale of its common stock on a net basis to (i) capital stock and (ii) paid in capital in excess of par value, excluding all commissions and marketing support fees.

*Recently Issued Accounting Standards*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standards setting bodies that are adopted by the Company as of the specified effective date.

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires entities to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The update is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17 - Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. It simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current or noncurrent in a classified balance sheet. The update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. Entities are permitted to apply the amendments either prospectively or retrospectively. The Company believes that this guidance will not have an impact on its consolidated financial statements.

ASU No. 2015-03 - Simplifying the Presentation of Debt Issuance Costs was effective for the quarter ended March 31, 2016. The new guidance requires that debt issuance costs related to a recognized debt liability be presented as a deduction from the debt liability rather than as an asset. Accordingly, the Company has adopted the guidance as of January 1, 2016. Certain reclassifications have been made to prior period line items on the Company's Consolidated Statement of Assets and Liabilities as the new guidance requires retrospective application. Therefore, the December 31, 2015 Consolidated Statement of Assets and Liabilities including the reclassifications must be presented as unaudited in this filing.

In August 2014, the FASB issued ASU No. 2014-15 - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. In connection with the preparation of interim and annual reports, the Company's management will evaluate whether conditions or events exist that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date the financial statements are available to be issued, when applicable), and, if so, disclose that fact. Additionally, the Company's management must evaluate and disclose whether its plans will alleviate that doubt. The guidance was effective for the Company beginning January 1, 2016. The Company has adopted the guidance as of January 1, 2016 and there is no impact on its consolidated financial statement.

## **NOTE 2 — RELATED PARTY ARRANGEMENTS**

### **Investment Advisory Agreement**

The Company has entered into an investment advisory agreement with Stellus Capital under which they serve as our investment advisor. Pursuant to this agreement, the Company has agreed to pay to Stellus Capital an annual base management fee of 1.75% of gross assets, including assets purchased with borrowed funds or other forms of leverage and excluding cash and cash equivalents, and an annual incentive fee.

For the three and six months ended June 30, 2016, the Company recorded an expense for base management fees of \$1,550,841 and \$3,099,214, respectively. For the three and six months ended June 30, 2015, the Company recorded an expense for base management fees of \$1,446,330 and \$2,860,464, respectively. As of June 30, 2016 and December 31, 2015, \$1,550,841 and \$1,518,779, respectively, were payable to Stellus Capital.

The incentive fee has two components, investment income and capital gains, as follows:

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

***Investment Income Incentive Fee***

The investment income component (“Investment Income Incentive Fee”) is calculated, and payable, quarterly in arrears based on the Company’s pre-incentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The pre-incentive fee net investment income, which is expressed as a rate of return on the value of the Company’s net assets attributable to the Company’s common stock, for the immediately preceding calendar quarter, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as the “Hurdle”). Pre-incentive fee net investment income means interest income, dividend income and any other income accrued during the calendar quarter, minus the Company’s operating expenses for the quarter excluding the incentive fee. Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. The Advisor receives no incentive fee for any calendar quarter in which the Company’s pre-incentive fee net investment income does not exceed the Hurdle. Subject to the cumulative total return requirement described below, the Advisor receives 100% of the Company’s pre-incentive fee net investment income for any calendar quarter with respect to that portion of the pre-incentive net investment income for such quarter, if any, that exceeds the Hurdle but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the “Catch-up”) and 20.0% of the Company’s pre-incentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets.

The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of the Company’s pre-incentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any Investment Income Incentive Fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which the Company’s pre-incentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the Catch-up, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the “cumulative net increase in net assets resulting from operations” is the amount, if positive, of the sum of pre-incentive fee net investment income, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such incentive fee that is attributable to deferred interest until the Company actually

receives such interest in cash.

For the three and six months ended June 30, 2016, the Company incurred \$986,276 and \$2,011,098, respectively, of Investment Income Incentive Fees. For the three and six months ended June 30, 2015, the Company incurred \$998,871 and \$1,959,725, respectively, of Investment Income Incentive Fees. As of June 30, 2016 and December 31, 2015, \$1,319,029 and \$607,956, respectively, of such Investment Income Incentive Fees were payable to the Advisor, of which \$1,095,660 and \$401,573, respectively, were currently payable (as explained below). As of June 30, 2016 and December 31, 2015, \$223,369 and \$206,383, respectively, of Investment Income Incentive Fees incurred but not paid by the Company were generated from deferred interest (i.e. PIK, certain discount accretion and deferred interest) and are not payable until such deferred amounts are received in cash. As of June 30, 2016, \$103,365 of the currently payable Investment Income Incentive Fee of \$1,095,660 is further deferred due to the current and 11 preceding calendar quarter return requirement noted above. As of December 31, 2015, none of the currently payable fee of \$401,573 was deferred due to the current and 11 preceding calendar quarter return requirement.

### ***Capital Gains Incentive Fee***

The Company also pays the Advisor an incentive fee based on capital gains (the “Capital Gains Incentive Fee”). The Capital Gains Incentive Fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date). The Capital Gains Incentive Fee is equal to 20.0% of the Company’s cumulative aggregate realized capital gains from inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid Capital Gains Incentive Fees is subtracted from such Capital Gains Incentive Fee calculated.

## STELLUS CAPITAL INVESTMENT CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

U.S. GAAP requires that the incentive fee accrual considers the cumulative aggregate realized gains and losses and unrealized capital appreciation or depreciation of investments or other financial instruments in the calculation, as an incentive fee would be payable if such realized gains and losses and unrealized capital appreciation or depreciation were realized, even though such realized gains and losses and unrealized capital appreciation or depreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory agreement. There can be no assurance that unrealized appreciation or depreciation will be realized in the future. Accordingly, such fees, as calculated and accrued, would not necessarily be payable under the investment advisory agreement, and may never be paid based upon the computation of incentive fees in subsequent periods. For the three and six months ended June 30, 2016 and 2015, the Company incurred no Capital Gains Incentive Fee. As of June 30, 2016 and December 31, 2015, no Capital Gains Incentive Fees were payable to the Advisor, subject to the limitations set forth below.

The following tables summarize the components of the incentive fees discussed above:

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Investment Income Incentive Fees Incurred	\$986,276	\$998,871	\$2,011,098	\$1,959,725
Capital Gains Incentive Fee Incurred	—	—	—	—
Incentive Fee Expense	\$986,276	\$998,871	\$2,011,098	\$1,959,725

	June 30, 2016	December 31, 2015
Investment Income Incentive Fee Currently Payable <sup>(a)</sup>	\$1,095,660	\$ 401,573
Investment Income Incentive Fee Deferred	223,369	206,383
Incentive Fee Payable	\$1,319,029	\$ 607,956

(a) Included in the Investment Income Incentive Fee Currently Payable at June 30, 2016 and December 31, 2015 is \$103,365 and \$0, respectively, that is not owed currently due to the current and 11 preceding calendar quarter

return requirements.

### **Director Fees**

For the three and six months ended June 30, 2016, the Company recorded an expense relating to director fees of \$86,000 and \$178,000, respectively. For the three and six months ended June 30, 2015, the Company recorded an expense relating to director fees of \$95,000 and \$184,000, respectively. As of June 30, 2016 and December 31, 2015, \$86,000 and \$0 fees were payable relating to director fees.

### **Co-Investments**

We received exemptive relief from the SEC to co-invest with investment funds managed by Stellus Capital where doing so is consistent with our investment strategy as well as applicable law (including the terms and conditions of the exemptive order issued by the SEC). Under the terms of the relief permitting us to co-invest with other funds managed by Stellus Capital, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objectives and strategies. We intend to co-invest, subject to the conditions included in the exemptive order we received from the SEC, with private credit funds managed by Stellus Capital that has an investment strategy that is identical to our investment strategy. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.



**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited)**

**License Agreement**

We have entered into a license agreement with Stellus Capital under which Stellus Capital has agreed to grant us a non-exclusive, royalty-free license to use the name “Stellus Capital.” Under this agreement, we have a right to use the “Stellus Capital” name for so long as Stellus Capital or one of its affiliates remains our investment advisor. Other than with respect to this limited license, we have no legal right to the “Stellus Capital” name. This license agreement will remain in effect for so long as the investment advisory agreement with Stellus Capital is in effect.

**Administration Agreement**

We have entered into an administration agreement with Stellus Capital pursuant to which Stellus Capital will furnish us with office facilities and equipment and will provide us with the clerical, bookkeeping, recordkeeping and other administrative services necessary to conduct day-to-day operations. Under this administration agreement, Stellus Capital will perform, or oversee the performance of, our required administrative services, which includes, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC.

For the three and six months ended June 30, 2016, the Company recorded expenses of \$221,755 and \$475,908, respectively, relating to the administration agreement, which are included in administrative services expenses on the consolidated statement of operations. For the three and six months ended June 30, 2015, the Company recorded expenses of \$187,125 and \$357,884, respectively, relating to the administration agreement. As of June 30, 2015 and December 31, 2015, \$221,755 and \$195,221, respectively, remained payable to Stellus Capital relating to the administration agreement.

**Indemnifications**

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations under the investment advisory agreement, Stellus Capital and its officers, managers, partners, agents, employees, controlling persons and members, and any other person or entity affiliated with it, are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Stellus Capital's services under the investment advisory agreement or otherwise as our investment adviser.

**STELLUS CAPITAL INVESTMENT CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2016****(Unaudited)****NOTE 3 — DISTRIBUTIONS**

Distributions are generally declared by the Company's board of directors each calendar quarter and recognized as distribution liabilities on the ex-dividend date. The Company intends to distribute net realized gains (*i.e.*, net capital gains in excess of net capital losses), if any, at least annually. The stockholder distributions, if any, will be determined by the board of directors. Any distribution to stockholders will be declared out of assets legally available for distribution.

The following table reflects the Company's dividends declared and paid or to be paid on its common stock:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Per Share</b>
January 22, 2015	February 02, 2015	February 13, 2015	\$ 0.1133
January 22, 2015	February 27, 2015	March 13, 2015	\$ 0.1133
January 22, 2015	March 31, 2015	April 15, 2015	\$ 0.1133
April 15, 2015	April 30, 2015	May 15, 2015	\$ 0.1133
April 15, 2015	May 29, 2015	June 15, 2015	\$ 0.1133
April 15, 2015	June 30, 2015	July 15, 2015	\$ 0.1133
July 08, 2015	July 31, 2015	August 14, 2015	\$ 0.1133
July 08, 2015	August 31, 2015	September 15, 2015	\$ 0.1133
July 08, 2015	September 30, 2015	October 15, 2015	\$ 0.1133
October 14, 2015	October 30, 2015	November 13, 2015	\$ 0.1133
October 14, 2015	November 30, 2015	December 15, 2015	\$ 0.1133
October 14, 2015	December 31, 2015	January 15, 2016	\$ 0.1133
January 13, 2016	January 29, 2016	February 12, 2016	\$ 0.1133
January 13, 2016	February 29, 2016	March 15, 2016	\$ 0.1133
January 13, 2016	March 31, 2016	April 15, 2016	\$ 0.1133
April 15, 2016	April 29, 2016	May 13, 2016	\$ 0.1133

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April 15, 2016	May 31, 2016	June 15, 2016	\$ 0.1133
April 15, 2016	June 30, 2016	July 15, 2016	\$ 0.1133

Unless the stockholder elects to receive its distributions in cash, the Company intends to make such distributions in additional shares of the Company's common stock under the Company's dividend reinvestment plan. Although distributions paid in the form of additional shares of the Company's common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in the Company's dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. Any distributions reinvested through the issuance of shares through the Company's dividend reinvestment plan will increase the Company's gross assets on which the base management fee and the incentive fee are determined and paid to Stellus Capital. No new shares were issued in connection with the distributions made during the three and six months ended June 30, 2016 and 2015.

### **NOTE 4 — PORTFOLIO INVESTMENTS AND FAIR VALUE**

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which significant inputs are observable, either directly or indirectly;

**STELLUS CAPITAL INVESTMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by management.

The Company considers whether the volume and level of activity for the asset or liability have significantly decreased and identifies transactions that are not orderly in determining fair value. Accordingly, if the Company determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to supplement or replace a market approach in those circumstances.

At June 30, 2016, the Company had investments in 42 portfolio companies. The composition of our investments as of June 30, 2016 is as follows:

	Cost	Fair Value
Senior Secured – First Lien	\$ 128,127,098	\$ 126,745,063
Senior Secured – Second Lien	142,743,757	139,760,279
Unsecured Debt	83,038,853	70,088,105
Equity	12,909,825	14,216,170
Total Investments	\$ 366,819,533	\$ 350,809,617

At December 31, 2015, the Company had investments in 39 portfolio companies. The composition of our investments as of December 31, 2015 was as follows:

	Cost	Fair Value
Senior Secured – First Lien	\$ 133,344,891	\$ 131,908,961
Senior Secured – Second Lien	136,853,644	131,972,581
Unsecured Debt	81,492,139	72,212,282
Equity	12,521,785	12,923,873
Total Investments	\$ 364,212,459	\$ 349,017,697

## STELLUS CAPITAL INVESTMENT CORPORATION

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The Company's investment portfolio may contain loans that are in the form of lines of credit or revolving credit facilities, which require the Company to provide funding when requested by portfolio companies in accordance with the terms and conditions of the underlying loan agreements. As of June 30, 2016 and December 31, 2015, the Company had two and three such investments with aggregate unfunded commitments of \$2,850,000 and \$3,257,405, respectively. The Company maintains sufficient liquidity to fund such unfunded loan commitments should the need arise.

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of June 30, 2016 are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	\$	—	\$ —		\$ 126,745,063	\$ 126,745,063
Senior Secured – Second Lien		—	7,664,153		132,096,126	139,760,279
Unsecured Debt		—	—		70,088,105	70,088,105
Equity		—	—		14,216,170	14,216,170
Total Investments	\$	—	\$ 7,664,153		\$ 343,145,464	\$ 350,809,617

The fair values of our investments disaggregated into the three levels of the fair value hierarchy based upon the lowest level of significant input used in the valuation as of December 31, 2015 are as follows:

Quoted Prices  
in Active

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	Markets for Identical Securities (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total
Senior Secured – First Lien	\$ —	\$ —	\$ 131,908,961	\$ 131,908,961
Senior Secured – Second Lien	—	—	131,972,581	131,972,581
Unsecured Debt	—	—	72,212,282	72,212,282
Equity	—	—	12,923,873	12,923,873
Total Investments	\$ —	\$ —	\$ 349,017,697	\$ 349,017,697



## STELLUS CAPITAL INVESTMENT CORPORATION

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The aggregate values of Level 3 portfolio investments changed during the three and six months ended June 30, 2016 are as follows:

	Senior Secured Loans-First Lien	Senior Secured Loans-Second Lien	Unsecured Debt	Equity	Total
Fair value at beginning of period	\$ 131,908,963	\$ 131,972,581	\$72,212,282	\$12,923,871	\$349,017,697
Purchases of investments	10,437,000	5,701,383	1,354,073	407,412	17,899,868
Payment-in-kind interest	56,187	—	53,432	—	109,619
Sales and Redemptions	(15,943,258 )	—	—	(19,375 )	(15,962,633 )
Realized Gains	2,380	—	—	—	2,380
Change in unrealized depreciation included in earnings	53,891	1,007,208	(3,670,891 )	904,262	(1,705,530 )
Amortization of premium and accretion of discount, net	229,900	184,853	139,209	—	553,962
Transfer to Level 2	—	(6,769,899 )	—	—	(6,769,899 )
Fair value at end of period	\$ 126,745,063	\$ 132,096,126	\$70,088,105	\$14,216,170	\$343,145,464
Change in unrealized depreciation on Level 3 investments still held as of June 30, 2016	\$(79,785 )	\$ 1,007,208	\$(3,670,891 )	\$904,261	\$(1,839,207 )

The aggregate values of Level 3 portfolio investments changed during the year ended December 31, 2015 are as follows:

Senior Secured    Senior Secured    Unsecure